

# **Corporate Taxation of Dividends: A Comparison between the Japanese and the German System**

*Miyuki Ueda* \*

- I. Introduction
- II. The Japanese System
  - 1. Background
  - 2. New Rules
- III. The German System
  - 1. Background
  - 2. Current Rules
- IV. Some Observations

[p. 197-203]

## SUMMARY

International double taxation arises in cross-border investments because income arising from such investments is normally taxed not only in a country of source, but also in the country of residence of the recipient. In order to relieve double taxation, some countries operate a credit system, while others operate an exemption system. Under a credit system, domestic parent companies are taxed on their worldwide income, including dividends (gross of foreign taxes) received from their foreign subsidiaries, but the parent companies are allowed to credit foreign taxes against their domestic tax liabilities. Under an exemption system, dividends received from foreign subsidiaries are simply exempt from taxable income of domestic parent companies, and thus profits earned by foreign subsidiaries are only taxed in their foreign source country.

Japan so far has operated a credit system, but partially replaced the credit system with an exemption system under the 2009 Tax Reform. After the Reform, 95% of qualifying foreign dividends is treated as non-taxable income for Japanese corporation tax purposes. Such treatment appears similar to that of Germany at a glance, but there exists a fundamental difference in the conceptual basis because each country has differing tax policies affected by their individual tax history, philosophies, political situation, and geographical location. This article discusses the national corporate taxation of dividends in both countries, focusing due to the space limitation solely on the double taxation relief system.

---

\* My special appreciation goes to Michael H. Shikuma of the Tokyo office of White & Case LLP, and Takeo Mizutani of White & Case International Tax Office, who have provided valuable information and comments for this article.

## ZUSAMMENFASSUNG

*Das Einkommen einer Körperschaft unterliegt bei ihr selbst der Körperschaftsteuer, die von ihr an ihre Anteilseigner ausgeschütteten Gewinne werden ebenfalls der Besteuerung unterworfen. Daher entsteht die sog. internationale körperschaftsteuerliche Doppelbesteuerung, wenn eine Körperschaft ihre Tochtergesellschaft im Ausland hat. Bisher entlastete Japan von einer solchen internationalen körperschaftsteuerlichen Doppelbesteuerung durch die Anrechnungsmethode, im Rahmen der Unternehmensteuerreform 2009 wurde nunmehr aber ein Freistellungssystem eingeführt. Der Aufsatz vergleicht die unterschiedlichen Methoden der Entlastung von internationaler körperschaftsteuerlicher Doppelbesteuerung im Falle von Dividenden in Japan und Deutschland. Dabei werden die unterschiedliche Steuerpolitik und die jeweilige geschichtliche Entwicklungen in den beiden Staaten diskutiert.*