

STRATEGIC M&A TAX ADVICE**Tax Avoidance Strategies Involving M&A: Not Allowing the Intentional Creation of Losses****December 13, 2019**

SoftBank Group (SBG) carried out a strategy to take advantage of large tax savings, through an M&A (merger; purchase) transaction with Arm Holdings (Arm HD) regarding the carrying out of its core business “Arm Limited”.

SBG achieved tax savings by releasing the core business from the subsidiary and selling off the subsidiary (Arm HD) whose enterprise value had declined, so as to have, as a result of the difference between the share book value and sale price, a loss for tax purposes.

According to disclosed materials, in March 2018, SBG received, from Arm HD, a 3/4ths stake in Arm Limited in the form of “dividends”. As a result, SBG caused the actual value of Arm HD to decrease significantly.

Immediately afterwards, SBG sold, to the SoftBank Vision Fund, and others, which are under the SBG group umbrella, nearly 80% of the shareholdings in Arm HD, the value thereof having greatly fallen since the time of purchase, and as a result SBG incurred a loss.

Setting off this loss with profits that arose in other businesses, SBG’s corporate tax burden became zero. While its tax burden changed significantly, even though the parent company had undergone change with respect to the core business Arm Limited, Arm Limited remained as a part of the SBG group and the actual state of the business as a group did not change.

Although none of these transactions itself was illegal, SBG took advantage of certain loopholes within the law. The National Tax Agency of Japan at first had set about to apply rules, relating to corporate tax laws, which comprehensively close the loopholes that otherwise allowed for tax avoidance. However, because it was not the case that SBG “unfairly” reduced its tax burden, the National Tax Agency has held off on applying

Briefing

such rules, and, since around the summer, has been moving forward with adjustments behind the scenes with the Ministry of Finance, under a policy of closing loopholes ex post facto.

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