

STRATEGIC M&A TAX ADVICE**Stock-for-Stock M&A to Be More Deregulated in Japan****February 1, 2021**

In the event cash and cash-equivalents constitute "20 % or less" of the purchase price, the transaction will be treated as a tax-qualified transaction for the purpose of shareholders of the target company having benefits of deferring the recognition of capital gain until the relevant treasury shares received by such shareholders are sold to third parties.

Due to the consistency with the reorganization tax system, these measures based on the Corporation Tax Law itself were regarded as difficult, but they were "made permanent" as special tax measures.

Accordingly, special measures under the existing Act on Strengthening Industrial Competitiveness will be abolished upon the expiration of the applicable time limit. In addition, under this new special exception, there is no need to obtain any governmental approval of the Realignment Plan based on the Act on Strengthening Industrial Competitiveness. This will greatly improve the usability of stock-for-stock M&A.

The basis of stock-for-stock M&A is the stock delivery (*kabushiki-kofu*) system to be introduced in the revised Companies Act. Therefore, as with stock delivery (*kabushiki-kofu*), it is not available for the purchase of additional shares of an existing subsidiary, and it applies only to acquisitions that make "something that is not a subsidiary" a subsidiary. In the case of stock delivery (*kabushiki-kofu*), not only the company's treasury shares but also cash and cash equivalents can be mixed as consideration. In line with this concept, cash and cash equivalents will be regarded as tax-qualified consideration if the amount thereof remains within 20% of the amount of the aggregate consideration, under this new tax system.

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