NISA Expanded:
Japan's tax exemption scheme evolving to further encourage investment by individuals

Japan Securities Dealers Association

*NISA, which stands for Nippon (Japan) Individual Savings Account, a tax exemption program for small investments by individuals was launched in Japan in January 2014. Building upon the successful outcome so far, the scheme is about to be expanded and become a more effective and easier-to-use tool to support asset building by individuals as well as asset transfer from elder to younger generations.*

In Japan, the population aged 65 and over has already exceeded 25% of the total population. The United Nations has projected the aging of the world’s population using the Old-age Dependency Ratio which indicates the number of retirees or people aged 65 years or over per 100 people of working age from 20 to 64 by country and by region. According to this estimate, in 2050, Japan will have 77 retirees per 100 working-age people, which is a much higher ratio than the whole of Asia as well as the United States, and Europe.

Facing such demographic change, people cannot expect an adequate level of income just from the social security framework including public pension schemes. Asset building through self-reliant efforts has become crucial for individuals to secure a stable and affluent life over their lifetime. Against this backdrop, the NISA, the Japanese version of the Individual Savings Account, was introduced in January 2014 to encourage asset formation by individuals. With the NISA account, any residents of Japan aged 20 or more are eligible for an exemption of the 20% levy on income from capital gains and dividends derived from annual investment of up to one million yen (approximately US$8,000) over a five-year period. Under the current legislation, tax-exempt investment through NISA can be made up to ten years starting in 2014 for a cumulative investment of 5 million yen (approximately US$40,000). For more details of the current NISA, please visit JSDA's website:


During only one and half years since its launch, more than 9 million NISA accounts have been already opened and almost 5.2 trillion yen or 43 billion dollars have been invested through NISA accounts as of the end of June 2015, signaling a big step toward broadening the investor base. Engaging in the NISA promotion, securities firms, banks
and investment advisors have been offering various kinds of investment strategies and tools using NISA. Many seminars have been also conducted to disseminate the financial knowledge necessary to efficiently and effectively use NISA. Through these promotions and opportunities, individuals’ awareness and consciousness of proper asset management have been heightened in recent years.

Based on these results, some measures to expand the current NISA scheme and make it easier to use are scheduled to be introduced in the near future. First, a considerable number (some 40%) of NISA users wish to invest a fixed amount through NISA every month. To enable them to invest a round figure (100,000 yen each month), the upper limit will be raised to some degree. From the beginning of next year, the maximum annual investment amount allowed under NISA will be increased from the current 1 million yen to 1.2 million yen or 10,000 dollars. This is expected to encourage fixed amount investment on a monthly basis, which is particularly preferred by the younger generations. Second, to simplify and expedite the account opening procedure, a newly introduced “Social Security and Tax Number” is expected to be used for NISA data processing. At the same time, the NISA approval process by tax authorities will also be streamlined.

Another important system change is the introduction of Junior NISA, which is modeled after the Junior ISA scheme in the United Kingdom. While household financial assets amounting to more than 1,700 trillion yen (approximately US$14 trillion) exist in Japan, 60% or more of these financial assets are estimated to be possessed by people aged 60 or over. Accordingly, long-term investment in risk assets has not spread among young people despite the general perception that the younger generations are better suited for such investment. To address this situation, the Junior NISA is being launched with the goal of facilitating asset transfer from the elder to younger generations and promoting investment by the young.

Through the Junior NISA, minors who are under 20 years old can open a tax-exempt investment account at financial institutions including securities firms and banks. As a rule, parents or grandparents manage the assets pooled in Junior NISA accounts on behalf of their children or grandchildren. The tax-exemption under the Junior NISA is similar to the original NISA. Income from capital gains and dividends derived from a certain amount of annual investment is exempt from the 20% levy over a five-year period. Under the scheme, the annual investment limit is 800,000 yen or some 7,000 dollars. Since the Junior NISA is a scheme for long-term investment by people underage,
account holders are not permitted in principle to withdraw funds before they become 18 years old.

With respect to donation tax, asset transfer through Junior NISA from elder to younger generations is covered by a yearly basic exemption of up to 1.1 million yen (approximately US$9,200) per donee. Accordingly, if the total amount of asset transfer through Junior NISA and other donations to a donee does not exceed 1.1 million yen, there is no donation tax. Furthermore, the assets accumulated in Junior NISA accounts can be transferred to normal NISA accounts when the Junior NISA account holders attain the age of 20, which enables them to build assets throughout their lifetime.

At this stage, the Junior NISA is time-limited scheme where tax-exempt investment can be made from April 2016 to December 2023. From 2024 onward, plans provide for assets in the accounts to be deposited in continued management accounts under the current legislation. In those accounts, income derived from the assets remains tax-exempt until the account holders become 20 years old. However, new investment is not allowed. Another point deserving attention is that a Junior NISA account once opened cannot be transferred to another financial institution, which is a major difference from the original NISA.

In the United Kingdom, after which Japan’s scheme is modeled, the Junior ISA was launched in November 2011 and has recorded steady growth. More than 510,000 Junior ISA accounts have already been opened and the amount of pooled assets reached some 1,600 million pounds (approximately 2,500 million dollars) (as of April 2015). Furthermore, since April 2015, assets accumulated in Child Trust Funds can be transferred to Junior ISA accounts, which is anticipated to further facilitate the increase in ISA accounts and assets. Looking at Japan’s demographic composition, the population under 20 is now more than 2.2 million and accounts for 17.5% of the total population. With such a huge scale of potential users, the Junior NISA is expected to grow steadily as in the United Kingdom.

In order to firmly set in place and further encourage the use of NISA and Junior NISA, some important lessons can be learnt from the UK precedent. First, it is imperative to perpetuate the tax-exemption period (currently 5 years) and account opening period (currently until 2023). Second, along with this action, NISA and Junior NISA account holders should be allowed to sell the assets including listed stocks acquired in their accounts and buy other assets within the amount of sales proceeds of the original assets.
These amendments are essential for effective long-term portfolio management. In parallel, to support individuals’ self-reliant efforts for asset building, both public and private sectors should further work on raising financial literacy so that people can properly absorb and comprehend knowledge and information about financial products and transactions and make an appropriate investment decision balancing involved risks and expected returns. With these further scheme alterations and efforts, the NISA and Junior NISA are expected to effectively support asset building by individuals and facilitate intergenerational asset transfer.

(Please note that views expressed here are personal.)

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Outline of Junior NISA

(Source) FSA, NISA Promoting Council
Comparison between Japan’s and the UK’s schemes

<table>
<thead>
<tr>
<th>Scheme establishment</th>
<th>Junior NISA (Japan)</th>
<th>Junior ISA (United Kingdom)</th>
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<tbody>
<tr>
<td></td>
<td>Will launch in April 2016</td>
<td>Started in November 2011</td>
</tr>
<tr>
<td>Who may open the account</td>
<td>Minors who live in Japan (under 20 years old)</td>
<td>Parents or guardians of UK residents under 16 years old</td>
</tr>
<tr>
<td>Who may donate money</td>
<td>Anyone</td>
<td>Anyone</td>
</tr>
<tr>
<td>Who the money belongs to</td>
<td>Donee</td>
<td>Donee</td>
</tr>
<tr>
<td>Who manages the account</td>
<td>Parents, grandparents or guardians</td>
<td>Parents or guardians who open the accounts</td>
</tr>
<tr>
<td>Account providers</td>
<td>Securities firms, banks, post offices</td>
<td>Banks, building societies, credit unions, friendly societies and stock brokers</td>
</tr>
<tr>
<td>Products eligible for tax exemption</td>
<td>Listed shares, listed corporate bonds with equity-purchase warrants, stock investment trusts, ETFs, listed REITs, etc.</td>
<td>Cash, shares, bonds, investment trusts, insurance plans, etc.</td>
</tr>
<tr>
<td>Maximum amount of tax-exempt annual investment</td>
<td>800,000 yen (approximately US$6,700)</td>
<td>4,080 pounds (approximately US$6,120) in 2015-16 tax year</td>
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(Source) Compiled by JSDA based on the data published by GOV.UK

(https://www.gov.uk/junior-individual-savings-accounts)