

point of localities, individual taxpayers and ordinary people (*seikatsusha*). Issues addressed will include: advancement of the country's economic growth and soundness of the financial system; demands created by global warming; and, in light of the ageing society, problems surrounding social security and the consumption tax. The administration and ruling party will examine these problems anew and opposition parties will be called upon to join in the discussions leading to a reform proposal by mid-2011.

### Economic activation to increase employment and eliminate deflation

It is necessary to energize industries in order to produce employment. Foreign investment should be welcomed and domestic investment increased to boost employment. In the current tax reform, the effective rate of national and local tax on corporations is reduced by 5%. Steps are included to provide advantageous increases in employment by industry and meet environmental challenges, increase investment in facilities, integrate the district system, and improve Japan's positioning in Asia. The Government will make efforts to promote employment by industry so that the effects of increased employment may be effectively enjoyed by all citizens. Deflation will be eliminated through the combined effects of expansion of employment and domestic investment and stimulation of consumption.

### Moving from a disparate to a mutually supportive society

Recently, there is a perception that Japan has become more and more of a disparate society. Originally, the tax system had a series of mechanisms whereby richer persons bore a comparatively heavier tax burden, but it appears that these mechanisms are unravelling. For example, the tax burden of an individual with an annual income of ¥20 million has fallen to about three-fourths that of 20 years ago.

In the 2011 tax reform, the income tax and inheritance tax will be reviewed so as to activate the economy and increase the income of the ordinary people. Certain increases in the tax burden will also be sought to boost employment and child care allowances.

### Local perspective – social services for residents

The amount of social services provided by local governments, including day care and nursing services, has been growing. Local tax revenue must be sufficient to provide security to residents through the provision of these services. In the 2011 tax reform, a certain burden level of taxation will be sought through the review of deductions available in the individual inhabitant's tax. Additional means of examination and execution of reform will be based on the knowledge and experience derived from local regions.

### Going back to the basics – Taxpayers' Charter

The tax system needs to return to the basics, where importance is placed on the neglected perspective of individual taxpayers and the common people. In Japan, regions and communities are supported by a vital society of mutual support. To foster the development of a mature donative society, a system of tax deductions

for contributions exists, effectively allowing citizens a choice in the beneficial use of tax monies. Taxes are unavoidably the price citizens are asked to pay for participation in society. Therefore, from the point of view of the taxpayers, the tax system should always be viewed as fair and transparent. From this standpoint, dishonesty should be dealt with strictly, while preserving the rights of honest taxpayers. To promote this concept, a "Taxpayers' Charter" is being introduced for the first time in Japan.

### Responsibility toward global warming

Global warming is a high priority issue for all humanity. While not an exclusive solution, new taxes are being introduced to address the global warming problem. These taxes are not limited in scope to addressing global warming, but are also directed toward valuing the environment in general through the promotion of technology tied to "green innovation". This will also promote increased growth in the economy and employment.

## ¶1-130 The Tax Commission's 2012 Tax Reform Report

The Tax Commission's 2012 Tax Reform Report was issued in December 2011 and the main points of the report are summarised below.

### General tax reform principles

Following the change of government 2 years ago, tax reform has proceeded based on principles of "fairness (公平 – *kohei*), transparency (透明 – *tomei*), and confidence (納得 – *nattoku*)". In 2010, tax changes included shifting the focus of support for dependants from deductions to allowances. The 2010 tax reforms revised the deduction for dependants in order to shift from an emphasis on deductions to allowances. An increase in the tobacco tax reflected an interest in the health of the people. In 2011, the corporation tax rate was reduced by 5% in order to promote international competitiveness and employment by, and investment in domestic corporations. Citizens' public interest taxation was also expanded to support the "new community" and taxpayers' interests were reflected in administrative changes, including clarifying and extending the period for a taxpayer to request a correction of taxes (更正の請求 – *kosei no seikyu*) and introducing procedures to clarify investigative procedures by the tax office.

Beginning in December 2010 and proceeding through 2011, the Government and ruling party has been engaged in developing a proposal for functional enhancement of the social security system while strengthening public finance.

### Taxation measures for realizing a new growth strategy

Tax measures are needed to implement the "new growth strategy" announced by the Cabinet on 18 June 2010, involving the promotion of environmental issues and demand for innovation to provide for a strong future and also to address the historically high level of the yen, the hollowing out of Japan's industry, promotion of domestic employment and revival from the earthquake disaster.



It is proposed that the temporary rate reductions for “eco-cars” in the Motor Vehicle Tonnage Tax (see ¶5-540) be continued and expanded for automobiles meeting environmentally friendly standards. Similarly, the research and development tax system’s special provisions should be continued and tax incentives for environmentally related investments, such as renewable energy, should be expanded.

Incentives should be provided to promote the expansion of investment by medium- and small-sized companies that provide over half of the employment in Japan. Promotion of high quality housing stocks should be encouraged though the expansion and extension of gift tax exemptions for transfers of housing assets from older to younger persons and gift tax provisions for home acquisition funds related to energy saving and earthquake resistant housing.

### Securing an equitable tax system with a fair base though a review special tax measures

The trust of the people is important to the work of making major reforms in the tax system. In reviewing the special measures tax system, any “skewness” must be corrected and international consistency considered. Above all, special taxation measures and policy-based reductions in the tax burden are exceptions from the basic principle of tax equity and must be constantly reviewed in light of the changing times. These measures must be reviewed from the point of view of the current rationality of the underlying policies, their effectiveness in achieving the policy purpose and the equivalence of alternative measures such as subsidies. In addition, advances in global tax collection should be pursued, including seeking international mutual assistance in tax collection and reaching assets located abroad. There also remains work to be done in resolving various issues arising under the new taxpayers’ charter and the need for a common taxpayer identification number for the social security and tax systems.

### Improving the local tax system and promoting local autonomy

By promoting local autonomy, unevenness in sources of tax revenue should be reduced and tax collections should become more stable. In the 2012 tax reform proposals, under the rubric “Our Town’s Exception”, special provisions should be considered to implement local determination and tax burden reduction measures for the local tax system.

### Remaining items from the 2011 tax reform

The social security system needs functional enhancement and financial strengthening and, at the same time, the entire tax system, including income tax, corporation tax, consumption tax and fixed assets tax, needs to undergo a thorough reform-based examination. The 2011 tax reform legislation addressed the need for a corporation tax rate reduction (the effect of which was reduced for 3 years by a corporation income tax surtax to finance reconstruction following the Great Eastern Japan Earthquake), but other important tax reform issues were deferred. Tax reform in 2012 will have to take into consideration the adequacy of taxation in light of the severe financial circumstances facing Japan. One such issue is the need to limit the maximum amount of employment income deduction. Tax reform in 2012 should also consider taxes that address the problem of global warming in order to promote a livable environment for future generations.

## 2012 tax reform

Social security is the largest fiscal expenditure item in the Japanese budget (social security represents 29.2% of budgeted 2012 expenditures while debt service, the second largest expenditure item, constitutes 24% of the proposed budget) and is increasingly important due to anticipated growth in this expenditure due to further ageing of the population in the future. By establishing trust in the social security system, it will be possible to expand consumption by the people. However, it is not sustainable to continue shifting the burdens of the social security system to future generations.

Market concerns have been raised due to financial risks associated with the European debt crisis, so governmental financial strictness and financial strengthening in Japan are unavoidable. In these circumstances, a definite plan was drawn up in June 2011 to address a joint reform of the taxation and social security systems, and was followed up by cabinet decisions setting out policy in this area later in 2011. Tax reform proposals for 2012 reflect an effort to realize the goal of a significant reform of the tax system in combination with these overall issues.

## ¶1-131 The Tax Commission's 2013 Tax Reform Report

The Tax Commission’s 2013 Tax Reform Report was issued in January 2013 and the main points of the report are summarised below.

### General 2013 tax reform principles

Japan’s economy is suffering from a strong yen and prolonged deflation-led recession. The trade deficit is expanding while domestic growth and employment opportunities for young people are decreasing. A delay in recovery is giving rise to a feeling of frustration. This situation is to be addressed through the “Three Arrows” policies of bold monetary policy, flexible fiscal policy and strengthening growth through the stimulation of private investment. A strong economy will be restored by moving from economy shrinking wealth redistribution policies to policies that create a positive cycle of growth and wealth creation. 2013 tax reform should depart from convention and take bold steps to promote private investment and employment that will enable sustained growth.

Decentralization will be promoted to enhance local tax bases because “without robust localities there is no robust nation”. Furthermore, steps are needed to address the impact of the first sales tax rate increase in 17 years that is scheduled to take effect beginning in April 2014 and to provide tax relief to assist in the recovery from the Great Eastern Japan Earthquake. At the same time, the tax system must also address the medium- and long-term problems of strengthening the economy while reducing disparities and supporting adequate financing for the social security system at a time of population aging and declining birthrates.

### Strengthening growth through the stimulation of private investment

In order to achieve a positive cycle of growth and wealth creation, the cautious approach toward capital spending needs to be reversed and replaced with a



deflation and revitalizing the economy. The employment income environment has greatly improved. Employment has increased by nearly 2 million and the ratio of regular staff job offerings to job seekers has exceeded 1 to 1 for the first time since the Ministry of Health, Labor and Welfare began compiling these statistics in 2004 and wage increases have averaged above 2% for 4 consecutive years.

In order to maintain this growth track, the Abe cabinet aims to overcome the problem of low birthrates and an aging society by carrying out a “revolution in productivity” and a “revolution in human resource development”. The cabinet will move to boost productivity greatly, further strengthen the momentum of wage increases for the fourth consecutive year, and aim for a departure from deflation.

With the 100-year life era in view, the ruling coalition believes that Japan is being challenged with the need to shake up its economic and social system to know where each person can help create a “100 million totally active society”. Reforms in the taxation system will be used to support the overall program of “working way reform”. In the individual income tax these include changes in the employment income deduction, the public pension deduction and the basic deduction. Tax measures will be implemented with a view towards stimulating productivity, improving capital spending and sustained wage increases, including tax measures directed towards local medium- and small-sized companies.

To facilitate the inter-generational transfers of medium- and small-sized companies, the ruling coalition will seek to implement a special tax measure expanding the business succession tax system for a 10-year period.

In order to provide funding for the expansion of tourism in Japan, an international tourist traveler tax will be established. Measures will also be taken to stabilize the tax base of local rural areas as part of an overall plan to regain the vitality and decrease population decline in rural areas.

A forest environment tax will be established to fund planning for the meeting of Japan's greenhouse gas reduction targets under the Paris Agreement and for disaster prevention.

For sustainable economic growth it will be important to promote the development of Japanese enterprises overseas and a virtuous cycle of returning the results of that activity to the domestic economy. An international tax system that secures conditions of fair competition and effectively deals with tax evasion will provide important infrastructure to achieve this purpose. Japan has been playing a leading role in the “BEPS (Base Erosion and Profit Shifting) Project”, and will continue to actively participate in international rules making and advance the system taking into consideration changing economic situations and efforts of other countries.

In recent years, there has been a rapid progression in the transformation of economic society by ICT (Information and communication technology) and active use of this technology in the tax field is needed. Therefore, expansion of electronic tax filing and payment, etc, will be promoted.

The ruling coalition will also continue to consider new tax measures affecting the tax burden based on changing economic and social conditions in Japan and

developments in the international area. While immediate economic concerns are important, tax reforms must also take into consideration medium- and long-term factors. The tax system is tightly connected to the economic society as a whole and a simply constructed system that does not hinder opportunity and provides fairness between generations will continue to be considered.

The goal of balancing governmental revenues and expenditures by 2020 making the basic fiscal balance surplus in 2020 appears unavoidable to the ruling coalition through the decisive implementation of the “revolution in human resource development”, but Japan will continue to deal with the important issues of balancing economic revitalization and fiscal consolidation. Therefore, while aiming for a budget surplus the ruling coalition will also seek a reduction in the ratio of government debt to GDP and need to incorporate concrete plans to achieve this in the “Basic Policy on Economic Fiscal Management and Reform” for the upcoming year. In view of the current severe financial circumstances confronting the government, and considering the nature of tobacco, the ruling coalition will seek to raise the rate of tax on tobacco products.

The increase in the rate of Consumption Tax to 10% will take place as scheduled on October 1, 2019, but considering the needs of low-income persons the ruling coalition will seek to establish measures to secure stable resources to support the system of reduced rates (on necessities).

## ¶1-137 2019 Tax Reform Report (平成31年度税制改正の基本的考え方)

Unofficial summary of the Liberal Democratic Party and Komeito Outline of 2019 Fiscal Year Tax Reform (14 December 2018)

The greatest challenges to the Abe administration have been coming to grips with the problems of overcoming deflation and economic recovery. Under the Abenomics programme while the working-age population has decreased by 4.5 million persons, the economy has grown by more than 10% and employment has increased by 2.5 million. Wages have increased by about 2% for 5 consecutive years, and the hiring and income environments have substantially changed for the better.

Under these economic circumstances, it is now the time to move forward and address the structural challenge raised by Japan's decreasing birthrate and ageing population. Along with providing security to all generations, including the elderly and young, through reform of the social security system to address the needs of all generations, and to put public finance on a sound footing, the Consumption Tax rate increase to 10% must be implemented in October 2019.

In order to sustain the trend of the present economic recovery, and to ensure the reduction of the deficit and economic revitalisation, it is important for companies to tie increased profitability with wage increases, expanded employment and additional capital investment. It is anticipated that management will adopt a new mindset which includes actively coming to grips with this situation through increases in wages and use of funds on hand for increased capital investment. In addition, demand harmonisation measures will be needed to avoid the weakening strength of the economic recovery



impact on economic activity so it is important that fair rules based on international agreements be established. Currently, discussions in this area are centered around OECD activities, but Japan will be taking a leading role in these discussions and will examine its systems in light of international agreements.

Beginning an era of 100-year life expectancies, it will be necessary to deal with the expansion of employment and diversification of work styles in the elderly, work to raise the age at which persons may enroll in private pensions and enlarge and increase the corporate pensions available at small- and medium-sized enterprises. In order to stimulate the supply of funds for growth and to encourage stable asset formation by households through savings and diversified investments in small amounts, there will be a complete review of the NISA (Nippon Individual Savings Account) system.

A sustainable local tax base is needed in order to promote local revitalisation, stabilise local population sizes and provide services to support local communities in the face socio-economic changes including declining populations and the rapid aging of society. To this end, we will try to strengthen and stabilise the local tax system by stabilising and reducing disparities in local tax revenues.

To extend the “virtuous cycle” (a government initiative to increase business profits leading to higher wages, greater consumer spending and meeting inflation targets) to localities and increase local revitalisation, it will be necessary to support local initiatives. The tax system can assist this through strengthening of the local tax base and expanding the “furusato” tax payment system (which allows taxpayers in urban areas shift some tax payments to rural areas). In addition, Japan will examine new tax measures based on tax paying capability in order to adapt to changes in the socio-economic environment and international developments.

A simplified and rational tax system using ICT will be utilised for tax filing and payments in order to make the tax system more convenient for taxpayer and to improve administrative efficiency and coordination between the national and local governments. It is also intended to improve the tax environment to strengthen voluntary compliance and accuracy of tax filings.

## ¶1-139 2020 Tax Reform Report (令和3年度税制改正の基本的考え方)

COVID-19 has resulted in the largest economic downturn in the postwar era, which has seriously impacted taxpayers. In these circumstances the government is also addressing problems of economic revitalisation and population decline along with overcoming deflation.

Although progress has been slowed by the spread of infectious disease, the current administration is committed to expansion of the digitisation of government and unification of the system of local governments in the next 5 years. From the perspective of improving convenience and productivity, an overall digital transformation (DX) of Japanese society will also be pursued. Also, the Suga Cabinet has set a goal to realise a green society reducing greenhouse gas emissions to zero by 2050. The necessary support for these initiatives will be provided in the tax system.

To support sustainable and vibrant local regions, uneven distribution of tax sources should be minimised and tax revenues should be stabilised.

The current administration will continue to consider personal income taxation from the perspective of responding to structural changes in the economy and society, including diversification of working styles, and restoring the income redistribution function. Regarding the tax treatment of corporate pensions and individual pensions, the current administration will work to build a fair tax system that does not cause advantages or disadvantages depending on the working style. Necessary measures will be implemented by the national and local governments to provide support and subsidies for child rearing.

As the use of cloud accounting software has become more popular, measures will be considered to ensure proper bookkeeping.

For sustainable economic growth, a virtuous cycle of promoting the sound overseas expansion of Japanese companies with benefits returning to the domestic market is also important. Part of the infrastructure needed for that purpose is an international taxation system that ensures fair competitive conditions and effectively responds to tax evasion. To promote this Japan has played a leading role in the “BEPS (Base Erosion and Profit Shifting) Project” sponsored by the OECD and G20 countries. Japan will also continue to actively lead in developing fair rules based on international agreements to reduce uncertainty and respond to changes in economic conditions, including digitalisation.

The main items included in proposed tax reform legislation for 2021 are discussed below.

**Individual Income Tax.** In the area of individual income taxation, provisions for special home mortgages will be extended and requirements to qualify will be relaxed (see ¶3-293). Tax exemption measures will be provided for various child-rearing subsidies implemented by the national and local governments such as those provided for babysitters and usage fees for day care facilities, etc (see ¶3-230). The retirement income reduction disallowance will be extended to persons other than officers for retirement income in excess of ¥3 million arising from an employment period lasting 5 years or less (see ¶3-240).

**Corporation Tax.** A DX investment promotion tax system will be established to provide incentives for corporations to build a connected digital environment (see ¶4-643C). Incentives to provide carbon neutrality will also be enacted (see ¶4-643D). Research and development incentives will be increased and expanded to include costs to acquire internal use software (see ¶4-641). Tax incentives focusing on new employment expansion and education and training support will be revised to respond to the deterioration of the employment environment resulting from COVID-19 (see ¶4-644B). During COVID-19 net operating loss limitations will be relaxed for corporations making certain investments, such as for DX and carbon neutrality (see ¶4-460). Measures will be created to defer tax consequences when stock is used as consideration in merger and acquisition transactions (see ¶4-750).

**Tax administration.** The requirement of affixing a seal to tax documents will generally be eliminated except for documents requiring a registered seal (see



Diagram 4: Taxable income of non-residents of Japan without a permanent establishment

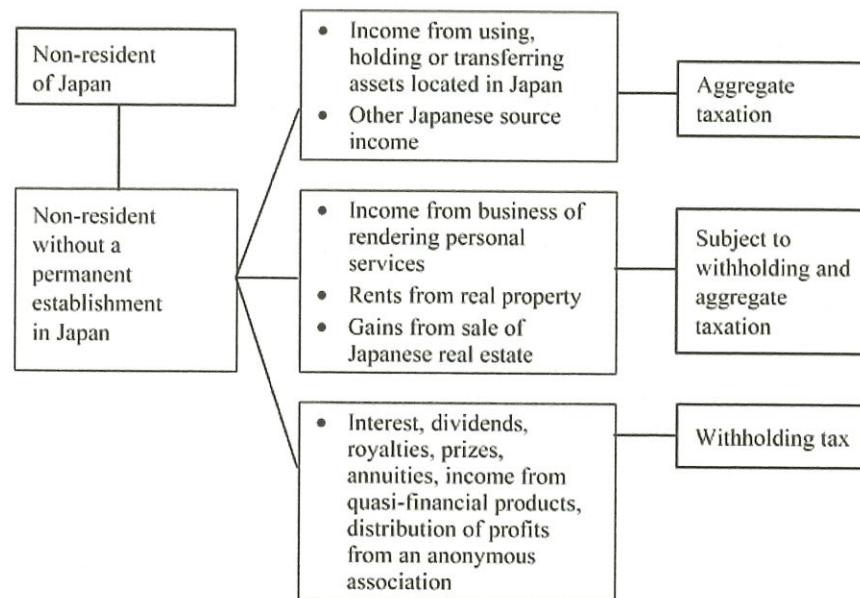


Table 9A: Tax rate table for calculation of tax on income of residents of Japan, except for forestry income (for 2007 and after) (ITL Art 89(1); Tax Reduction Law Art 4, Art 5)

Taxable income		Amount payable	Plus % of the excess	of the amount over
Over	But not exceeding			
–	¥1.95m	–	5%	–
¥1.95m	¥3.3m	¥97,500	10%	¥1.95m
¥3.3m	¥6.95m	¥232,500	20%	¥3.3m
¥6.95m	¥9m	¥962,500	23%	¥6.95m
¥9m	¥18m	¥1,434m	33%	¥9m
Over ¥18m		¥4,404m	40%	¥18m

Table 9B: Tax rate table for calculation of tax on income of residents of Japan after 2014 (Law to Partially Revise the Income Tax Law, etc, Law No 5 of 2013, 30 March 2013, Art 1 – 所得税法等の一部を改正する法律)

Taxable income		Pay	Plus % of the excess	of the amount over
Over	But not over			
–	¥1.95m	–	5%	–
¥1.95m	¥3.3m	¥97,500	10%	¥1.95m

Taxable income		Pay	Plus % of the excess	of the amount over
Over	But not over			
¥3.3m	¥6.95m	¥232,500	20%	¥3.3m
¥6.95m	¥9m	¥962,500	23%	¥6.95m
¥9m	¥18m	¥1,434m	33%	¥9m
¥18m	¥40m	¥4,404m	40%	¥18m
Over ¥40m		¥13,204m	45%	¥40m

The tax liability is computed by multiplying the taxable income by the tax rate for the tax bracket, which includes the amount of the income and subtracting the appropriate deduction from the result.

#### Example 1: Calculation of income tax

A taxpayer has taxable income of ¥6.5 million. His/her tax is ¥872,500.

$$¥232,500 + 20\% \text{ of } (¥6.5 \text{ million} - ¥3.3 \text{ million}) = ¥872,500$$

⇒ Detailed discussion of the Income Tax is contained in Chapter 2 (Taxable Persons) and Chapter 4 (Corporation Tax).

Law: Art 68 and Art 144 of the *Corporation Tax Law*; Art 89(1) of the *Income Tax Law*; Art 4 and Art 5 of the *Tax Reduction Law*

## ¶1-211 Special Reconstruction Income Tax (*Fukko Tokubetsu Shotokuzei* – 復興特別所得税)

From 1 January 2013 through 31 December 2037, a surtax known as the Special Reconstruction Income Tax applies to domestic and foreign individuals and companies subject to Japanese Income Tax, either by assessment or through withholding (*Restoration Funding Act*, Law No 117, 2 December 2011, Art 8, Art 9 – 復興財源確保法). The surtax is computed as 2.1% of the standard Income Tax amount (*kijun shotoku zeigaku* – 基準所得税額) (*Restoration Funding Act* Art 13). The original 2011 proposal was for a surtax rate of 4% for 10 years, from 2013 through 2022, but the surtax rate as enacted was reduced to 2.1% and the period extended to 35 years in an amendment to the legislation on 24 November 2011.

## ¶1-220 Corporation Tax (*Hojinzei* – 法人税)

Corporation Tax is a direct tax on the net income of corporations, which provides a little over 20% of Japan's national tax revenue. Taxpayers subject to Japanese corporation tax include Japanese domestic corporations (*naikoku hojin*), foreign corporations (*gaikoku hojin*), non-juridical organizations (*jinkaku no nai shadan*), cooperatives and public interest corporations (CTL Art 2). Before the fiscal year 1998 and 1999 tax reforms, the effective rate of national and local tax for Japanese corporations was 49.98%. However, the effective rate had dropped to 40.69% before the enactment of corporation tax rate changes in 2011.



*chūkan hōjin* must be funded with at least ¥3 million at the time it is established (*Chūkan Hōjin Law* Art 12).

A *chūkan hōjin* is subject to Japanese Corporation Tax on all income, including income from not-for-profit activities, in the same manner as an ordinary corporation (CTL Basic Circular 1-1-8).

Despite their origin as vehicles for small not-for-profit organizations, *chūkan hōjin* have been widely used as the parent company of SPCs used as securitization vehicles because the *chūkan hōjin* adds additional bankruptcy remoteness to the arrangement.

### Abolition of the *Chūkan Hōjin Law*

On 2 June 2006, a law relating to *ippan shadan/zaidan hōjin* entities (*Law Relating to Ippan Shadan Hōjin and Ippan Zaidan Hōjin* 一般社団法人及び一般財団法人に関する法律, Law No 48, 2006) was enacted and the *Chūkan Hōjin Law* was abolished on the date the new law came into force, ie 1 December 2008. Existing limited liability *chūkan hōjin* automatically became general incorporated associations (*ippan shadan hōjin*) at that time. The articles of incorporation of an existing limited liability *chūkan hōjin* must be amended to add "*ippan shadan hōjin*" to the company name by a resolution passed at a general meeting of the members by the time of the first general meeting after the end of the year the new law comes into force.

An unlimited liability *chūkan hōjin* may continue as a special unlimited liability *chūkan hōjin* for up to one year after the date the new law becomes effective, during which time it must fulfil the procedures to convert to an *ippan shadan hōjin*. If the conversion procedures are not performed during the one year grace period, the unlimited liability *chūkan hōjin* will be dissolved. Required procedures for conversion from an unlimited liability *chūkan hōjin* to an *ippan shadan hōjin* are set out in the *Law Relating to Consolidation of the Execution of the Law Relating to Ippan Shadan Hōjin and Ippan Zaidan Hōjin and the Law Relating to Kōeki Shadan Hōjin and Kōeki Zaidan Hōjin* 一般社団法人及び一般財団法人に関する法律及び公益社団法人及び公益財団法人の認定等に関する法律の施行に伴う関係法律の整備等に関する法律, Law No 50, 2006). The procedures are as follows:

- (1) By agreement of the members, the purpose of the *ippan shadan hōjin*, its name and place of its main office, etc, must be recorded in the articles of incorporation and directors' names should be determined.
- (2) Within 2 weeks from the time the determinations in (1) above are made, a notice must be given in an official gazette to creditors of the proposed conversion and a period of at least one month is allowed for objections to be received. Actual notice must be given to all known creditors. Response to creditors' objections may include payment of the debt, offering of collateral or placement of property in trust to secure the debt.
- (3) After the creditors' procedures are completed, the dissolution of the unlimited liability *chūkan hōjin* and the establishment of the *ippan shadan hōjin* should be officially recorded.

Law: Art 12 of the *Chūkan Hōjin Law* (repealed); *Law Relating to Ippan Shadan Hōjin and Ippan Zaidan Hōjin*; *Consolidation Law Accompanying the Law Relating to Ippan Shadan Hōjin and Ippan Zaidan Hōjin*

## 12-343 General incorporated associations/ foundations (*Ippan Shadan/Zaidan Hōjin* — 一般社団・財団法人)

On 2 June 2006, 3 laws were enacted relating to *ippan shadan hōjin* (general incorporated association) and *ippan zaidan hōjin* (general incorporated foundation) entities. The laws came into force on 1 December 2008.

The 3 laws are:

- (1) *Law Relating to Ippan Shadan Hōjin and Ippan Zaidan Hōjin* (*Ippan Shadan Hōjin oyobi Ippan Zaidan Hōjin nikansuru Hō*, Law No 48, 2006)
- (2) *Law Relating to Kōeki Shadan Hōjin and Kōeki Zaidan Hōjin* (*Kōeki Shadan Hōjin oyobi Kōeki Zaidan Hōjin no Nintei nikansuru Hō*, Law No 49, 2006)
- (3) *Law Relating to Consolidation of the Execution of the (above 2 laws)* (*Ippan Shadan Hōjin oyobi Ippan Zaidan Hōjin nikansuru Hō oyobi Kōeki Shadan Hōjin oyobi Kōeki Zaidan Hōjin no Nintei nikansuru Hō no Shiko ni Tomonau Kankei Hō no Seibi nado nikansuru Hō*).

Before the reforms, the acquisition of corporate status and the determination of a public purpose were part of a single process requiring the permission of the competent authorities having jurisdiction over the applicant's activities (the "licence principle" (*kyōka shugi* 許可主義)). Under the new system's "rule principle" (*junsoku shugi* 準則主義), an association (*shadan*) or foundation (*zaidan*) that does not intend to distribute its surplus may be established as an *ippan shadan hōjin* or *ippan zaidan hōjin* by registering the corporation without having to demonstrate a public purpose. An *ippan shadan hōjin* or *ippan zaidan hōjin* may apply for non-profit status as a *kōeki shadan hōjin* (public interest association) or *kōeki zaidan hōjin* (public interest foundation) through the office of the Prime Minister or a regional district governor (*todōfuken chiji* 都道府県知事). The Prime Minister and governors' offices will establish committees consisting of private sector specialists to determine the public interest character of the applicant.

### General requirements for an *ippan shadan hōjin* (general incorporated association)

- (1) An *ippan shadan hōjin* must have at least 2 members, but there are no minimum property requirements.
- (2) An *ippan shadan hōjin* must have a director and a general members' meeting.
- (3) A board of directors and independent auditor can be specified in the articles of incorporation.
- (4) A fund system may be established in order to collect funds and maintain property.



Name of cooperative	Governing statute
Production Forestry Cooperative (excluding those paying remuneration to members)	Law No 36, 1978
Shipowner Mutual Benefit Society	Law No 177, 1950
Tobacco Growers Association	Law No 135, 1958
Small and Medium-Sized Business Cooperative Association (excluding joint enterprise cooperatives)	Law No 181, 1949
Coastal Shipping Association	Law No 162, 1957
Federation of Coastal Shipping Associations	
Japan Agricultural Cooperative	Law No 132, 1947
Federation of Agricultural Cooperation Associations (excluding those designated by the Minister of Finance)	
Farming Affairs Union Corporation (excluding those carrying on designated businesses and paying remuneration to members)	
Norinchukin Bank	Law No 93, 2001
Export Association (limited to those requiring capital contributions from members)	Law No 299, 1952
Export Fishery Union	Law No 154, 1954
Import Association (limited to those requiring capital contributions from members)	Law No 299, 1952
Labour Credit Associations	Law No 227, 1953
National Federation of Labour Credit Associations	

Law: Art 2(1)(vii), Art 60-2, Art 66(3) and Separate Schedule 3 of the *Corporation Tax Law*; Art 42-3-2(1) of the *Special Taxation Measures Law*; *Forestry Cooperative Law*

## ¶2-360 Non-juridical organizations (*Jinkaku No Nai Shadan* — 人格のない社団)

A non-juridical organization (referred to in the *Standard Bilingual Dictionary* as an “association or foundation without juridical personality”) is an unincorporated association (*shadan*) or foundation (*zaidan*) that has appointed a representative or manager (CTL Art 2(1)(viii)). There are numerous kinds of non-juridical organizations, including labour unions, political parties and parent-teacher associations. Under the *Corporation Tax Law*, they are generally treated the same as ordinary corporations (CTL Art 3) but, like public interest corporations (*kōeki hōjin*), non-juridical organizations are liable for Corporation Tax only on income derived from for-profit activities (CTL Art 4(1)).

Law: Art 2(1)(viii), Art 3 and Art 4(1) of the *Corporation Tax Law*

## Unincorporated Associations (*Kumiai* — 組合)

### ¶2-400 Unincorporated associations (*Kumiai* — 組合)

There are 4 types of unincorporated associations (referred to in the *Standard Bilingual Dictionary* prepared by the Ministry of Justice as “partnerships” or “unions”) in Japan which are taxed at the member level rather than at the entity level. These are the Commercial Code anonymous association (*tokumei kumiai*), the Civil Code association (*nin-i kumiai*), the Japanese LLP (*yugen sekinin jigyo kumiai*) and the investment business limited partnership (*toshi jigyo yugen sekinin kumiai*).

#### Commercial Code anonymous association (*tokumei kumiai* — 匿名組合)

A Commercial Code anonymous association (referred to in the *Standard Bilingual Dictionary* as a “silent partnership”) is created when one or more parties agree, by separate contracts, to make a contribution to a business operated by a proprietor and to divide the profits arising from the business (Commercial Code Art 535). Only the proprietor takes part in the management of the business (Commercial Code Art 542) and no party other than the proprietor has legal rights or obligations arising from acts of the proprietor with regard to third parties (Commercial Code Art 536(2)). A Commercial Code anonymous association is not an incorporated entity and is not subject to the Corporation Tax. Income is allocated to each of the parties under the agreement and, as in the case of a Civil Code association, is included in the taxable income of the parties in the tax year, which includes the last day of the association's tax year, whether or not the income has been distributed (CTL Basic Circular 14-1-3).

Losses from a Commercial Code anonymous association attributable to real estate are not allowed to an individual member who does not participate in the management of the association (STML Art 41-4-2). A corporate member of a Commercial Code anonymous association (*tokumei kumiai*) that is not involved in an important part of the management of the association cannot take losses for tax purposes in excess of its capital contribution (or take any loss if the partnership cannot be expected to bear the losses arising from its activities) (STML Art 67-12).

Beginning 1 April 2002, all distributions of profits from a Commercial Code anonymous association (*tokumei kumiai*) to a non-resident individual or foreign corporation are subject to withholding at a rate of 20.42% (20% Income Tax plus Special Reconstruction Income Tax equal to 1.2% of the standard tax) regardless of the number of members (ITL Art 161(1)(xii), Art 164(2)(ii); ITL-EO Art 288 (as amended by Order 103, 2002); CTL-EO Art 184 (as amended by Order 104, 2004)).

#### Civil Code association (*nin-i kumiai* — 任意組合)

A Civil Code association (or voluntary association) is a contract between parties who agree to carry on a joint undertaking by making a contribution, which may include services (Civil Code Art 667). The contributions of the parties belong to



all of the parties jointly and the conduct of the affairs of the association is made by majority vote (Civil Code Art 668, Art 670). The association is not subject to the Corporation Tax. Unless the agreement states otherwise, profits and losses are allocated in proportion to the value of the contributions by each party (Civil Code Art 674). The allocable share of income from the association flows through to each party and is included in the tax return in the tax year, which includes the last day of the association's tax year, whether or not the income has been distributed to or losses have been separately assumed by the party (CTL Basic Circular 14-1-1).

Losses from a Civil Code association (*nin-i kumiai*) attributable to real estate are not allowed to an individual member who does not participate in the management of the association (STML Art 41-4-2). A corporate member of a Civil Code association (*nin-i kumiai*) that is not involved in an important part of the management of the association cannot take losses for tax purposes in excess of its capital contribution (or take any loss if the partnership cannot be expected to bear the losses arising from its activities) (STML Art 67-12).

Members of a Civil Code association are required to file a Japanese tax return to report their share of the income from the association. Withholding at a rate of 20.42% (20% Income Tax plus Special Reconstruction Income Tax equal to 1.2% of the standard tax) is required on the net income of the association arising from business in Japan allocated to a non-resident individual or foreign corporation without regard to whether the income is distributed to the partner (ITL Art 161(1)(i-ii), Art 212(5); ITL-EO Art 281-2(2)).

#### Japanese LLP (*yugen sekinin jigyo kumiai* – 有限責任事業組合)

The Japanese LLP was created by legislation in 2005 when the *Law Related to Limited Liability Partnership Agreements (Yūgen Sekinin Jigyō Kumiai Keiyaku ni kansuru Hōritsu 有限責任事業組合契約に関する法律, Law No 40, 2005)* was enacted. Members of an LLP are liable only to the extent of their capital contributions. Allocations of profits may be based on capital contributed or on factors such as services or know-how. All members of an LLP participate in its management. An LLP is not an incorporated entity and is not subject to Corporation Tax. Losses of an LLP generally flow through to the members, subject to limitations based on capital contributions. For corporate partners, any loss in excess of the amount calculated as the capital contribution for this purpose is not currently deductible, but may be carried over to future years. For individual partners, a loss arising from business, real estate or forestry in excess of the amount calculated as the capital contribution cannot be currently deducted and may not be carried over to future years. Withholding at a rate of 20.42% (20% Income Tax plus Special Reconstruction Income Tax equal to 1.2% of the standard tax) is required on the net income of the LLP arising from business in Japan allocated to a non-resident individual or foreign corporation without regard to whether the income is distributed to the partner (ITL Art 161(1)(i-ii), Art 212(5); ITL-EO Art 281-2(2)).

#### Investment business limited partnership (*tōshi jigyo yūgen sekinin kumiai* – 投資事業有限責任組合)

An investment business limited partnership ("investment LP") is a partnership of general and limited partners formed under the *Investment Business Limited*

*Partnership Act (Tōshi Jigyō Yūgen Sekinin Kumiai Keiyaku ni kansuru Hōritsu, Law No 90, 1998)*. The investment LP agreement may provide for the partnership to acquire and hold investments in companies and joint ventures, invest in stocks, bonds and warrants, make loans to businesses and hold interests in partnerships and trusts, including investments in foreign company shares and other securities issued by foreign companies. Investments by partners may be only in cash or other assets. Management of the investment LP is by majority vote of the general partners. General partners are jointly and severally liable for partnership debts, but limited partners are liable only to the extent of their investment. Distributions from an investment LP may not exceed the amount of net assets in the balance sheet. For tax purposes, an investment LP is treated as a pass-through entity subject to the same rules described above for a Civil Code association.

#### Foreign partnerships (*gaikoku pātonāshipu* – 外国パートナーシップ)

There is no tax person comparable to a US or UK-style partnership found in Japanese law. Under the Japanese Commercial Code, a foreign company is treated in the same way as a company formed in Japan of the same nature or kind as the Japanese company it most closely resembles (Commercial Code Art 485-2). Therefore, determination of the Japanese tax treatment of an interest in US or UK partnerships requires a case-by-case analysis of whether the specific partnership in question most closely resembles a Japanese unlimited partnership (*gōmei gaisha* 合名会社), limited partnership (*gōshi gaisha* 合資会社), Civil Code association (*nin-i kumiai* 任意組合), Commercial Code anonymous association (*tokumei kumiai* 匿名組合) or non-juridical organization (*jinkaku no nai shadan* 人格のない社団).

For Japanese tax purposes, if a partnership is determined to be "fiscally transparent", the separate existence of the partnership and the assets and liabilities of the partnership are considered to be held directly by the partners who are also considered to have earned or incurred the income or expenses of the partnership directly. On 17 July 2015, the Japanese Supreme Court held that a Delaware (US) limited partnership would not be considered to be fiscally transparent because the partners did not participate in its business operations. In response, on 9 February 2017, the Japanese National Tax Agency (NTA) issued a notice informing taxpayers that, provided the partnership has not elected to be treated as a corporation for US tax purposes, the NTA will no longer pursue challenges to the fiscal transparency of items of income derived from US limited partnerships and such income will be eligible for any applicable benefits under the Japan-US Income Tax Treaty ([www.nta.go.jp/foreign\\_language/tax\\_information.pdf](http://www.nta.go.jp/foreign_language/tax_information.pdf)).

Foreign partnerships similar to Civil Code associations and Japanese LLPs are subject to the income sourcing, withholding and permanent establishment rules for partners applicable to their Japanese counterparts (ITL Art 161(1)(i-ii), ITL-EO Art 281-2(1)(iii), ITL Basic Circular 164-7, 20 June 2005).

#### Partnership permanent establishments (*kōkyūteki shisetsu* – 恒久的施設)

Partners of Japanese partnerships are considered to be doing business in Japan directly through the Japanese partnership, which constitutes a permanent



establishment in Japan (ITL Basic Circular 164-7, 20 June 2005). Foreign partners are therefore required to file tax returns and pay tax in Japan.

*Exception for investment business limited partnerships.* Beginning 1 April 2009, a non-resident of Japan or foreign corporation will not be treated as having a permanent establishment in Japan as a result of an interest in an investment business limited partnership if (STML Art 41-21, Art 67-16):

- (1) the partner is a limited partner
- (2) the partner does not participate in partnership management
- (3) the partner's interest in partnership assets is less than 25% (for tax years ending on or after 31 March 2021, this percentage will be determined taking into consideration interests held directly and indirectly through other partnerships and related persons)
- (4) the partner does not have special dealings with the general partners, and
- (5) the partner does not have another permanent establishment in Japan.

**Law:** Art 667, Art 668, Art 670 and Art 674 of the Civil Code; Art 485-2, Art 535, Art 536(2) and Art 542 of the Commercial Code; Art 161(1)(i), Art 161(1)(ii), Art 161(1)(xii), Art 164(2)(ii) and Art 212(5) of the *Income Tax Law*; *Law Related to Limited Liability Partnership Agreements*; Art 41-4-2 and Art 67-12 of the *Special Taxation Measures Law*; Art 184 of the *Corporation Tax Law Enforcement Order*; Art 281-2(1)(iii), Art 281-2(2) and Art 288 of the *Income Tax Law Enforcement Order*

## ¶2-420 Tax shelters (*Takkusu Shierutā* — タックス・シエルター)

The Japanese NTA is concerned with the increasing use of tax shelters by Japanese taxpayers. In particular, it is looking at the use of Japanese partnership associations (Civil Code associations (*nin-i kumiai*) and Commercial Code anonymous associations (*tokumei kumiai*)) as vehicles by which Japanese individuals and corporations are allocated tax shelter losses from investments in aircraft, motion pictures, container ships, and foreign residential and commercial real estate. Japanese partnership associations are also being used as receptacles (*ukezara* 受け皿) for investments in US limited partnerships. The US has implemented a number of limitations on tax shelters, including limitations on losses to the amount the investor has at risk in the activity, and limits on the use of net losses from passive activities to offset other income. The need for similar limitations in Japan has been raised in a report of the Tax Commission (14 July 2000) and is being considered by the NTA.

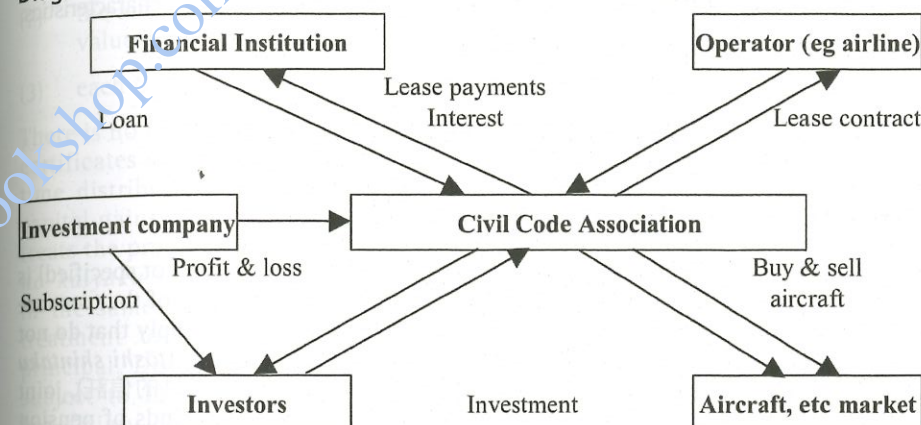
### Illustration of typical tax shelter using aircraft, etc, leveraged leasing

A typical tax shelter for the leasing of aircraft or other equipment may be organised and operated as follows:

- (1) An investment company organises the venture and solicits investors.
- (2) The investors and the investment company contribute capital and become members of a Civil Code association.

- (3) Additional capital is obtained from a financial institution. Interest payments on this loan make up part of the tax shelter losses.
- (4) The aircraft, etc, is purchased in the market.
- (5) The aircraft, etc, is leased to an operator and lease fees are received.
- (6) Depreciation on the aircraft, etc, is taken by the Civil Code association. Depreciation expenses make up a large part of the tax shelter losses (see limitations on accelerated depreciation when property is leased to a foreign person (CTL-EO Art 48(1)(vii)).
- (7) Profits and losses (ie lease receipts less interest, depreciation and other costs) are passed through the Civil Code association to the investors.
- (8) At the end of the lease term, the aircraft, etc, is sold in the market.

Diagram 6: Tax shelter structure using leveraged leasing



**Law:** Art 48(1)(vii) of the *Corporation Tax Law Enforcement Order*

## ¶2-430 Limited liability companies (*Beikoku No Rimiteddo Raiabiriti Kanpani* — 米国のリミテッド・ライアビリティ・カンパニー)

Limited liability companies (LLCs) are organizations created under laws of the 50 States and the District of Columbia in the United States. The limited liability company (LLC) business form has its origin in the 1892 German company law known as *Gesellschaft mit beschränkter Haftung* (GmbH). In 1977, Wyoming became the first American state to enact an LLC Act modelled after the 1892 German GmbH Code and the Panamanian LLC. LLCs generally require the use of the word "limited" in the company's name, they are given full juristic personality, the members are allowed to control the admission of new members to the company, the LLC must be dissolved by the death of a member,



Tax rates that are lower than the inheritance tax rate, the trustee will be subject to the inheritance tax (with the Corporation Tax allowed as a deduction). When beneficiaries are later named and are the trustor's grandchildren, etc, gift tax will be imposed on the beneficiaries.

*Serial beneficiary type trust (juekisha renzokugata shintaku)*  
— 受益者連続型信託

If the trust provides for changes in beneficiaries or for beneficial interests to pass in sequence among beneficiaries, the initial beneficiaries and each succeeding beneficiary will be treated as having received their beneficial interest from the trustor or the prior beneficiary, as appropriate, and will be subject to inheritance or gift tax (*Inheritance Tax Law* Art 9-3).

**Tax treatment of losses from trusts**

- **Individuals.** When trust income is taxed to the beneficiaries, no trust losses attributable to real estate income (*fudōsan shotoku* 不動産所得) may be taken by the beneficiary.
- **Corporations.** Corporate beneficiaries may not recognise losses in excess of their investment in the trust (*shintaku kingaku* 信託金額) or where it is evident that the corporation will not bear the loss (eg where there is an agreement to limit the losses of the corporation).

**Tax avoidance measures**

In order to prevent tax avoidance through the use of trusts, Corporation Tax will be imposed on the trustee for income of the trust in the following cases:

- All or a major part of the business of a company is transferred to a trust (limited to such transfers requiring a resolution described in Art 467 of the *Company Law*) and more than 50% of the beneficial interests are expected to be distributed to the transferring company's shareholders.
- The trustee is the same person as the transferring company, or is an individual or corporation that has a specified relationship with the transferring company, and the term of the trust is more than 20 years (except if the main assets of the trust are depreciable assets with useful lives greater than 20 years; or non-depreciable assets; or monetary claims with redemption periods exceeding 20 years).
- A trust where the trustee is the transferring company or a related person and part of the beneficial interests are owned by a related person, if the income distribution rates are changeable.

**Law:** Art 467 of the *Company Law*; Art 12(1), Art 2(29)(iii), Art 2(29-2), Art 4-6 and Art 4-7(1)(vi) of the *Corporation Tax Law*; Art 13(1) of the *Income Tax Law*; Art 9-3, Art 9-4 and Art 9-5 of the *Inheritance Tax Law*; *Investment Trusts and Investment Companies Law*; *Japanese Trust Law*; Art 9-4-2(1) of the *Special Taxation Measures Law*

## ¶2-510 General rules

The general rules for trusts in Japan are that the beneficiaries are considered to own the trust property and all revenues and expenses of the trust flow through to the beneficiaries (CTL Art 12(1)(a)). Under these general rules, the income of a trustee or trust company is usually limited to service fees (CTL Art 12(3)). No trust tax return or information return is required. If no beneficiary is specified, the grantor is considered the owner of the trust property (CTL Art 12(1)(b)). The identity or existence of a beneficiary is determined based on the circumstances at the time of the relevant item of income or expense (CTL-EO Art 15).

The flow-through rules do not apply to, and beneficiaries are not taxed on, the undistributed income of investment trusts (*tōshi shintaku*) (see ¶2-530), Special Purpose Trusts (*Tokutei Mokuteki Shintaku*) (see ¶2-620), joint operation trusts (*gōdō un'yō shintaku*) (see ¶2-520) and various types of pension trusts (ITL Art 13(1); CTL Art 12(1)).

### Types of trusts

Investment trusts (*tōshi shintaku*) in Japan are regulated under the *Investment Trusts and Investment Companies Law*, *Tōshi shintaku oyobi Tōshihōjin ni kansuru Hōritsu* (投資信託及び投資法人に関する法律, Law No 198, 1951). Investment trusts may invest in securities, bonds, real estate and other assets.

A trustor instruction trust (*itakusha sashizugata tōshi shintaku* 委託者指図型投資信託) is a trust where trust assets are transferred to a trust to be managed according to the instructions of the trustor, while a trustor non-instruction type trust (*itakusha hisashizukei tōshi shintaku* 委託者非指図型投資信託) is managed by the trustee.

A joint operation trust (*gōdō un'yō shintaku* 合同運用信託) is a monetary trust undertaken by a trust company in which the trust assets of a number of trustors not cooperating with each other are invested jointly (ITL Art 2(11)).

Securities investment trusts (*shōken tōshi shintaku* 証券投資信託) are used to collect and manage diversified funds of stocks and bonds (ITL Art 2(13)).

Bond investment trusts (*kōshasai tōshi shintaku* 公社債投資信託) are similar to securities investment trusts, but hold only bonds (ITL Art 2(1)(xv); CTL Art 2(1)(xxix)).

**Law:** Art 2(1)(xxix), 12(1), 12(1)(a), 12(1)(b) and 12(3) of the *Corporation Tax Law*; Art 2(1)(xv), 2(11) and 13(1) of the *Income Tax Law*; *Investment Trusts and Investment Companies Law*; *Law on Securities Investment Trusts and Companies*

## ¶2-520 Joint operation trusts (*Gōdō Un'yō Shintaku* — 合同運用信託)

A joint operation trust is a monetary trust, other than a trustor non-instruction type investor trust, undertaken by a trust company in which the trust assets



### Investment company (*tōshi hōjin* – 投資法人)

Investment companies handle sales of subscriptions, redemptions of interests and distributions of income to the investors.

Law: Art 8 of the *Investment Trusts and Investment Companies Law*

## ¶2-550 Types of investment trusts

The *Investment Trust Law* establishes 2 types of investment trusts: the contract type and the company type.

### Contract type investment trusts (*keiyakugata tōshi shintaku* – 契約型投資信託)

In a contract type investment trust (*tōshi shintaku*), an asset manager can either entrust management to a trust bank or manage assets on its own. Typically, this type of trust is formed pursuant to a contract between an investment trust management company as the trustor and a trust bank as the trustee. Investment rights in the form of beneficiary certificates are then sold to the investors (beneficiaries). Most investment trusts in Japan are of the contract type.

### Company type investment trusts (*kaishagata tōshi shintaku* – 会社投資信託)

This type of investment vehicle consists of an investment company (*tōshi hōjin*) established to manage the investments. Investors receive shares in the company in return for their investment and receive distributions of profits in the form of company dividends. Company type investment trusts have been permitted since November 1998.

### Special Purpose Trusts (*Tokutei Mokuteki Shintaku* – 特定目的信託)

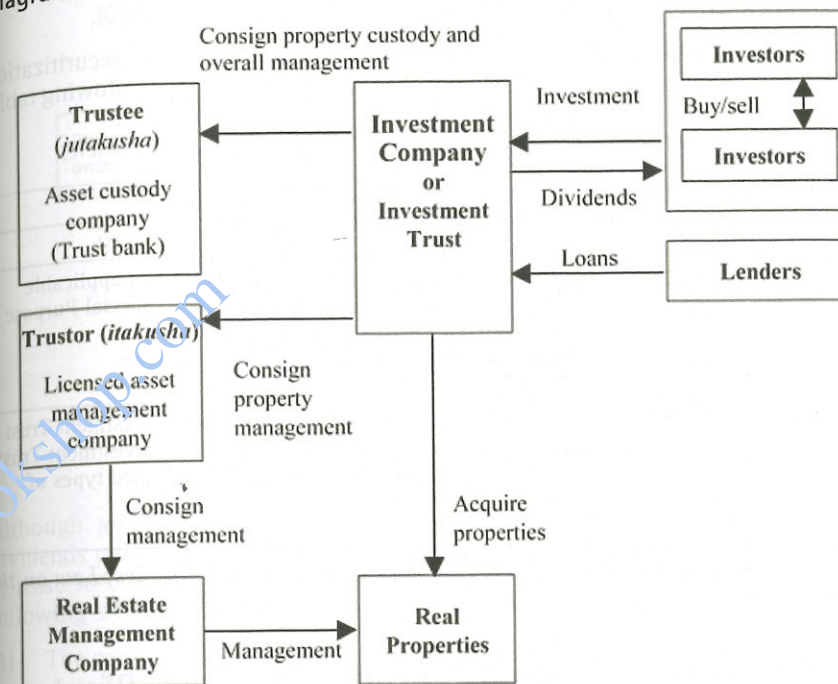
See Special Purposes Trusts discussed with asset securitization vehicles at ¶2-620 below.

### Real estate investment trusts (REIT or J-REIT)

Japan's REIT market began on 1 April 2001, based on amendments to the *Investment Trust Law* in November 2000. A REIT is a pool of funds collected from investors that makes diversified investments in real property. Legally, a REIT may be in the form of a contract or company type investment trust, but most of the REITs contemplated in Japan (J-REITs) are of the company type. 2013 tax legislation removes a provision in the J-REIT law that prevents a J-REIT from holding 50% or more of the stock or capital of a foreign company, provided the foreign investment is exclusively for the purpose of investment in foreign real estate (*Law to Partially Revise the Income Tax Law, etc.*, Law No 5 of 2013, 30 March 2013, Art 8 – 所得税法等の一部を改正する法律). The investors receive shares of stock of the investment company and are allocated the rents and profits from sales of fund properties in the form of company dividends. The REIT may avoid or reduce

Corporation Tax at the company level if it satisfies certain conditions, including distributing more than 90% of distributable profits to investors (STML Art 67-14(1)(ii)(e)).

Diagram 8: Basic scheme of REITs



⇒ See Chapter 4 for a detailed discussion on the taxation of trusts.

Law: *Investment Trust Law*; Art 67-14(1)(ii)(e) of the *Special Taxation Measures Law*

## Asset Securitization Vehicles

### ¶2-600 Asset securitization vehicles

Legislation in Japan has created or modified several vehicles suitable for the securitization of assets. Unlike the older stock and bond investment trusts, the new vehicles are not limited to stock and bond investments, but may invest in a variety of properties, most notably real property. The new vehicles are described in enabling legislation found in the *Law on Liquidation of Assets by Special Purpose Companies (Tokutei Mokuteki Gaisha ni yoru Tokutei Shisan no Ryūdōka ni kansuru Hōritsu, 特定目的会社による特定資産の流動化に関する法律* 15 June 1998, Law No 105, 1998) and the *Law on Investment Trusts and Investment Companies (Shōken Tōshi shintaku oyobi Shōken Tōshihōjin ni kansuru Hōritsu 証券投資信託及び証券投資法人に関する法律*, Law No 198 of 1951). The law



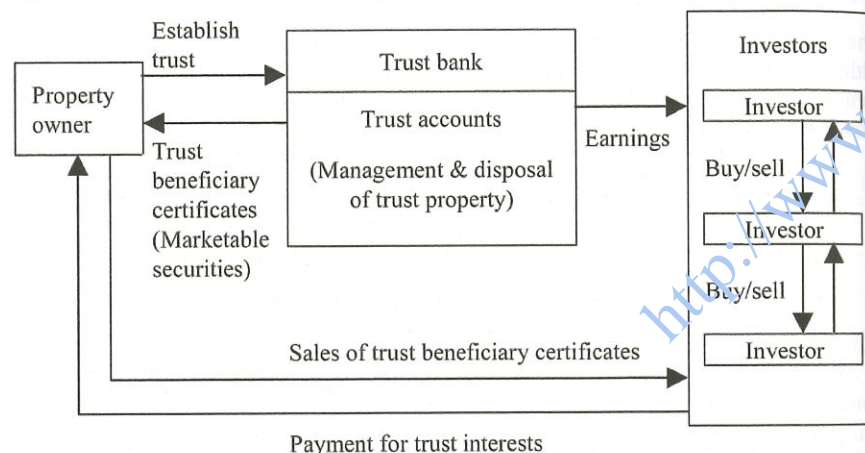
legislation in 2010 eliminates the limitation on the percentage of bonds issued outside of Japan, but adds an additional limitation that requires more than 50% of specified equity, including common shares, to be issued in Japan.

**Law:** Asset Liquidation Act; Art 8(1) of the Asset Liquidity Act; Art 67-14 and Art 67-14(1)(i)(c) of the Special Taxation Measures Law; Art 39-32-2 of the Special Taxation Measures Law Enforcement Order

## ¶2-620 Special Purpose Trusts (Tokutei Mokuteki Shintaku) – 特定目的信託

Revisions to the SPC Law on 31 May 2000 created a trust vehicle, the Special Purpose Trusts, which enables the types of securitization of property rights in general contemplated for SPCs, including bonds, real estate and intangible property rights, to be carried out using trusts (SPC Law Art 2(12)). The use of a special purpose trust structure enables an owner to securitise property by transferring it to a trust company in return for marketable asset-backed trust beneficiary certificates which can be sold to investors. The trust company manages and disposes of the trust property and distributes trust income to the investors. The trust company manages and disposes of the trust property and distributes trust income to the investors.

Diagram 10: Basic scheme of a Special Purpose Trust



**Law:** Art 2(12) of the Law on the Securitisation of Assets

## ¶2-700 Forms

Form 2: Ordinary Foreign Corporation Notification (Gaikoku futsū hōjin to natta mune no todokede-sho – 外国普通法人となった旨の届出書)

税務署受付印		外国普通法人となった旨の届出書		※整理番号	
2 通提出 (添付書類含む)	令和 年 月 日		納税地		〒
	本店又は主たる事務所の所在地		電話( )		-
	所 在 国				
	(フリガナ)				
	法 人 名 等				
	法 人 番 号				
	(フリガナ)				
	責任者氏名				Ⓐ
責任者住所		〒		電話( ) -	
新たに外国普通法人となったので届け出ます。					
法人税法第141条各号に定める国内源泉所得に係る事業	事業を開始した日又はその開始予定日	令和 年 月 日	法人税法第141条各号に定める国内源泉所得に係る資産	資産を有することとなった日	令和 年 月 日
事業年度	自 月 日 至 月 日	事業年度	自 月 日 至 月 日	事業年度	自 月 日 至 月 日
事業の目的及び種類			資産の種類及び所在地		
(備考)			1 定款等の和訳文 2 その他 ( )		
「給与支払事務所の開設届出書」の提出の有無			有 ・ 無		
税理士署名押印					
※税務署 知照欄	部 門	決 算 期	業 種 番 号	番 号	入 力 名 簿
		通 信 日付印	年 月 日	確 認 印	

02.06改正

(規格A4)



### Decrease in useful lives

Under the 2007 tax legislation, the designated useful lives for the following 3 types of assets have been shortened.

Table 21: Decreased useful lives

Asset	New useful life (2007 revision)	Former useful life
Flat panel display manufacturing equipment	5	10
Flat panel film materials manufacturing equipment	5	10
Photoresist equipment used in manufacturing of semiconductors	5	8

Law: Art 48-2(1)(ii)(a) of the Corporation Tax Law Enforcement Order

## ¶4-446 Change in depreciation method

To change the method of depreciation, an application (*gankashōkyakushisannoshōkyaku hōhō no hen sara shōnin shinsei-sho* – 減価償却資産の償却方法の変更承認申請書) must be filed with the tax office with jurisdiction over the corporation stating a reasonable reason for the change and approval must be received before the beginning of the tax year for which the change is to be effective (CTL-EO Art 52(2), Art 150-6; CTL-ER Art 15, Art 37). In the absence of extraordinary circumstances, such as a corporate merger, a request will not usually be approved unless a considerable period of time, generally at least 3 years, has passed since the current depreciation method was adopted (CTL Basic Circular 7-2-4).

### Change from straight-line to declining balance method

When a corporation changes from the straight-line method to the declining balance method, depreciation is based on the book value of the depreciable assets at the beginning of the change year and the declining balance rate corresponding to the legal life of the property.

### Change from the declining balance to the straight-line method

When a change from the declining balance method to the straight-line method occurs, the book value of the depreciable property at the beginning of the change year is deemed to be the acquisition cost of the property (for depreciable assets acquired before 1 April 2007 10% of the actual acquisition cost is considered salvage value). The corporation may use the depreciation rate corresponding to either of the following (CTL Basic Circular 7-4-4):

- the useful life of the property, or
- the useful life less the number of years represented by prior depreciation taken based on a table of declining balance method residual values (Circular Regarding the Application, etc., of Useful Lives, Attached Schedule 7).

### Example 4: Change from the declining balance method

A corporation has an asset with a legal life of 15 years which was acquired for ¥1,000,000. At the beginning of the current year, when the book value of the asset is ¥221,500, the corporation changes from the declining balance method to the straight-line method of depreciation. The corporation determines the useful life of the asset by subtracting the years representing prior depreciation from the legal life as follows:

Legal life of property	15 years
Acquisition cost	¥1,000,000
Book value	¥221,500
% remaining	¥221,500 / ¥1,000,000 × 100 = 22.2%

Per Attached Schedule 7 of the Useful Lives Circular, for an asset with a legal life of 15 years, the decimal .222 corresponds most closely to 10 years of prior depreciation (table value is .215). The remaining depreciable life of the property is therefore 5 years (15 minus 10).

## ¶4-447 Special depreciation

### Special first year depreciation

An SME (see ¶4-640) may during tax years beginning between 1 April 2006 and 31 March 2022 expense the cost of individual assets costing at least ¥100,000 but less than ¥300,000, limited to a total of ¥3 million per year (STML Art 28-2, Art 67-5, (former Art 68-102-2)). 2020 tax legislation limits this provision to SMEs whose administrative burden must be considered.

A corporation that files a blue tax return may take additional first year or accelerated depreciation for a variety of properties designated in the *Special Taxation Measures Law*. The additional first year depreciation accelerates the timing of depreciation charges, but does not increase the total amount of depreciation which may be taken over the life of the asset. For the various provisions, the first year rates vary depending on the types of assets, etc. The following table summarises some of the special first year and accelerated depreciation provisions and includes representative first year or accelerated rates for assets of the type covered by the provision.

Table 22: Special first year and accelerated depreciation provided in the STML

STML Article	Type	Representative rates
42-5	Equipment acquired between 1 December 2018 and 31 March 2022 to improve the energy supply structure ( <i>kōdo-shō enerugi zōshin setsubi</i> – 高度省エネルギー増進設備)	20% (an SME may alternatively elect a 7% credit)
42-6	Machines acquired by SMEs between 1 June 1998 and 31 March 2023 – ( <i>chūshōkigō-sha-tō ga kikainado o shutoku</i> – 中小企業者等が機械等を取得)	30%



STML Article	Type	Representative rates
42-9	Industrial machinery acquired in designated areas of Okinawa ( <i>Okinawa no tokutei chiiki ni oite kōgyō-yō kikai-tō o shutoku</i> – 沖縄の特定地域において工業用機械等を取得)	15% (8% for buildings)
42-10	Machinery and equipment for use in development and research acquired for use in special national strategic areas ( <i>kokka senryaku tokubetsu kuiki ni oite kikainado o shutoku</i> – 国家戦略特別区域において機械等を取得)	50% (25% for buildings)
42-11	Special depreciation for machinery and equipment in International Strategic Comprehensive Special Zone ( <i>kokusai senryaku sōgō tokubetsu kuiki ni oite kikainado o shutoku</i> – 国際戦略総合特別区域において機械等を取得)	40% (20% for buildings)
42-11-2	Special depreciation for machinery and equipment for use in areas of promotion of regional economic advancement ( <i>chiiki keizai ken'in jigyo no sokushin kuiki-nai ni oite tokutei jigyo-yō kikai-tō o shutoku</i> – 地域経済牽引事業の促進区域内において特定事業用機械等を取得)	40% (20% for buildings)
42-11-3	Special depreciation for buildings in local vitality improvement areas ( <i>chiho katsuryoku kōjō chiiki-tō ni oite tokutei tatemononado o shutoku</i> – 地方活力向上地域等において特定建物等を取得)	15%
42-12	Special credit for increase in number of employees in local vitality improvement areas ( <i>chiho katsuryoku kōjō chiiki-tō ni oite koyō-sha no kazu ga zōka</i> – 地方活力向上地域等において雇用者の数が増加)	¥300,000 per specified new employee, limited to 20% of Corporation Tax
42-12-3	Special depreciation for acquisition of management improvement facilities by an SME ( <i>tokutei chūshōkigō-sha-tō ga keiei kaizen setsubi o shutoku</i> – 特定中小企業者等が経営改善設備を取得)	30%
42-12-4	Special depreciation for acquisition of facilities for business enhancement by an SME ( <i>chūshōkigō-sha-tō ga tokutei keiei-ryoku kōjō setsubi-tō o shutoku</i> – 中小企業者等が特定経営力向上設備等を取得)	7%
43	Special depreciation for specified facilities ( <i>tokutei setsubi-tō no tokubetsu shōkyaku</i> – 特定設備等の特別償却)	14%

STML Article	Type	Representative rates
43-3	Special depreciation for replacement assets for those affected by disasters ( <i>hisai daitai shisan-tō no tokubetsu shōkyaku</i> – 被災代替資産等の特別償却)	36% (18% for buildings)
44	Cultural and science research facilities in the Kansai Cultural and Science District ( <i>kansai bunkagaku jutsu kenkyū tōshi no bunka gaku jutsu kenkyū chiku ni okeru bunka gaku jutsu kenkyū shisetsu no tokubetsu shōkyaku</i> – 関西文化学術研究都市の文化学術研究地区における文化学術研究施設の特別償却)	12% (6% for buildings)
44-2	Special depreciation for specified facilities for business continuity enhancement ( <i>tokutei jigyo keizoku-ryoku kyōka setsubi-tō no tokubetsu shōkyaku</i> – 特定事業継続力強化設備等の特別償却)	20%
44-3	Joint use facilities of hygiene associations ( <i>kyōdō riyō shisetsu no tokubetsu shōkyaku</i> – 共同利用施設の特別償却)	6%
45	Industrial machines in specific regions ( <i>tokutei chiiki ni okeru kōgyō-yō kikai-tō no tokubetsu shōkyaku</i> – 特定地域における工業用機械等の特別償却)	Varies
45-2	Medical use equipment ( <i>iryō-yō kiki-tō no tokubetsu shōkyaku</i> – 医療用機器等の特別償却)	12% (15% for equipment contributing to the security of medicine)
46	Additional depreciation for machinery and equipment acquired in connection with employment of disabled persons ( <i>shōgaimono o koyō suru baai no tokutei kikai sōchi no warimashi shōkyaku</i> – 障害者を雇用する場合の特定機械装置の割増償却)	12%
46-2	Additional depreciation for machinery and equipment acquired in connection with an approved business restructuring plan ( <i>jigyo saihen keikaku no nintei o uketa baai no jigyo saihen sokushin kikai-tō no warimashi shōkyaku</i> – 事業再編計画の認定を受けた場合の事業再編促進機械等の割増償却)	40% (45% for attached buildings)
47	Additional depreciation for specified buildings for urban renewal ( <i>tokutei toshi saisei kenchiku-mono no warimashi shōkyaku</i> – 特定都市再生建築物の割増償却)	25% (50% in specified urgent development areas)
48	Additional depreciation for buildings used as warehouses ( <i>sōko-yō tatemononado no warimashi shōkyaku</i> – 倉庫用建物等の割増償却)	10%



Tax measure promoting investments in facilities reforming energy supply or demand (*enerugi — jukyū kōzō kaikaku suishin tōshi sokushin zeisei — エネルギー — 需給構造改革推進投資促進税制*)

**Special 20% depreciation.** For tax years beginning between 1 April 2018 and 31 March 2022, a special 20% depreciation (30% for items acquired before 1 April 2020) is allowed for investments in facilities aimed at reforming the energy supply or demand structure, including equipment to reduce waste heat in manufacturing, equipment to recover wasted energy or efficiently use electricity, equipment to reduce fluctuations in power usage, CO2 emission reduction equipment, and biomass utilisation equipment, etc (STML Art 10-2-2, Art 42-5, Art 68-10). Alternatively, a credit of 7% of the acquisition cost of the investment may be taken against the Corporation Tax limited to 20% of the tax for the year.

### 2011 Great Eastern Japan Earthquake legislation

Special emergency legislation was promulgated on 27 April 2011 to provide relief for those affected by the Great Eastern Japan Earthquake.

**Additional first year depreciation.** Under the special emergency legislation, business assets acquired and put into service as replacement property for property damaged or destroyed due to the earthquake during the period from 11 March 2011 through 31 March 2016 may be eligible for additional first year depreciation as well as the depreciation normally allowed (*Special Tax Law for Those Affected by the Great Eastern Japan Earthquake* Art 11, Art 18, Art 26).

- (1) *Buildings and structures.* Buildings and structures acquired between 11 March 2011 and 31 March 2014 may be eligible for additional first year depreciation of 15% (18% for SMEs). Buildings and structures acquired between 1 April 2014 and 31 March 2016 may be eligible for additional first year depreciation of 10% (12% for SMEs). A similar rule applies to buildings and structures acquired and put into use in an area damaged by the Great Eastern Japan Earthquake not necessarily as replacements for damaged assets.
- (2) *Machinery, equipment and designated vessels, aircraft and vehicles.* Machinery, equipment, etc, acquired between 11 March 2011 and 31 March 2014 may be eligible for additional first year depreciation of 30% (36% for SMEs). Machinery, equipment, etc, acquired between 1 April 2014 and 31 March 2016 may be eligible for additional first year depreciation of 20% (24% for SMEs). A similar rule applies to machinery and equipment acquired and put into use in an area damaged by the Great Eastern Japan Earthquake not necessarily as replacements for damaged assets, but this similar rule does not apply to designated vessels, aircraft and vehicles.

**Area damaged by the Great Eastern Japan Earthquake.** For purposes of these rules, the area damaged by the Great Eastern Japan Earthquake is considered to be an area where earthquake-related damage occurred to buildings or structures used for business or to facilities used in conjunction with such buildings or structures.

**Law:** Art 42-5, Art 42-5(1), Art 42-5(6), Art 42-5-2, Art 42-6, Art 42-7, Art 42-10, Art 42-11, Art 43, Art 43-2, Art 44, Art 44-2, Art 44-3, Art 44-4, Art 44-5

Art 45, Art 45-2(1), Art 46, Art 46-2, Art 46-3, Art 46-4, Art 47, Art 47-2 and Art 48 of the *Special Taxation Measures Law*; Art 2(4) of the *Large-Scale Earthquake Measures Special Measures Law*; Art 11, Art 18 and Art 26 of the *Special Tax Law for Those Affected by the Great Eastern Japan Earthquake*

## ¶4-448 Amortisation of deferred assets (*Kurinobe shisan no shōkyakuhi — 繰延資産の償却費*)

Deferred assets are costs expended by a corporation whose usefulness extends a year or more after the time of payment, including (CTL-EO Art 14):

- corporation organisation costs
- construction period interest
- opening costs (costs to begin business after the corporation is established)
- research and development costs
- costs to issue new stocks and bonds
- costs paid to public organisations for new or improved common facilities (such as road costs)
- premiums paid to rent assets (such as key money)
- premiums paid for services (such as a down payment for know-how)
- costs of property supplied for advertising purposes, and
- other costs for future services (such as athletes contract costs).

### Amortisation

Deferred assets are amortised over their useful lives using the straight-line method:

$$\text{Annual amortisation limit} = \text{Cost} \times \frac{\text{Number of months in the tax year}}{\text{Months in the useful life}}$$

⇒ CTL Basic Circular 8-2-3 contains a table of useful lives of deferred assets. Examples include:

- know-how down payments: 5 years
- development costs for software: 5 years
- costs of property supplied for advertising: 7/10 of the properties useful life (if useful life is greater than 5 years: 5 years)
- costs to establish a copyright: period provided in contract (3 years if no period provided)
- athletes contracts: term of contract (3 years if no term provided in contract).

**Law:** Art 14 of the Corporation Tax Law Enforcement Order; CTL Basic Circular 8-2-3



Deduction limit = [Capital basis + Income basis]  $\times$  1/2

Effective for tax years beginning on or after 1 April 2012, the deduction limit is reduced to one-quarter of the capital and income bases:

Deduction limit = [Capital basis + Income basis]  $\times$  1/4

Capital basis = Capital at year end  $\times \frac{2.5}{1,000} \times \frac{\text{Number of months in tax year}}{12}$

Income basis = Income for the year  $\times \frac{2.5}{100}$

If the corporation, etc, does not have capital, the deduction limit is 2.5% of income for the year. Effective for tax years beginning on or after 1 April 2012, the deduction limit for a corporation, etc, without capital is 1.25% of the taxable income for the year (CTL-EO Art 73(1)).

For purposes of the donation deduction limit calculation, income for the year means tentative taxable income (*kari keisan*) before the donation deduction and various tax provisions and carryovers as calculated on attached Schedule 4 of the Corporation Tax return.

Donations by public interest corporations, NPOs and non-profit mutual benefit corporations are computed as follows:

Deduction limit = Income for the year  $\times$  20%

#### Deduction limits for donations to public interest organisations (*koeki hojin* – 公益法人)

The deduction limit for donations to organisations promoting the public interest, such as those promoting education, science and culture uses the following capital and income bases.

Capital basis = Capital at year end  $\times \frac{2.5}{1,000} \times \frac{\text{Number of months in tax year}}{12}$

Income basis = Income for the year  $\times \frac{5}{100}$

Under legislation effective for tax years beginning on or after 1 April 2012, the deduction limit for donations to organisations promoting the public interest, etc, is increased by the same amount that the 2012 legislation reduces the regular contributions deduction, resulting in the following capital and income bases.

Capital basis = Capital at year end  $\times \frac{3.75}{1,000} \times \frac{\text{Number of months in tax year}}{12}$

Income basis = Income for the year  $\times \frac{6.25}{100}$

Deduction limit = [Capital basis + Income basis]  $\times$  1/2

#### "Hometown" tax credits (for companies) (*Furusato nōzei (kigyōban)* – ふるさと納税 (企業版))

Companies filing a blue tax return that are approved under the *Local Revitalization Law* (*Chiiki Saisei-hō* – 地域再生法, Law No 24 of 2005) may during the period from 1 April 2016 through 31 March 2025 take tax credits against their Corporation Tax, Enterprise Tax and local inhabitants tax for contributions made to local governments subject to the following limits (STML Art 42-12-2, Art 68-15-3).

Table 23: Limits for "hometown" tax credits

	Tax years beginning on or after 1 April 2016 but before 1 April 2017	Tax years beginning on or after 1 April 2017 but not after 31 March 2025 (rates as revised by 2020 legislation are in brackets [])
Corporation Tax	The lesser of (limited to 5% of Corporation Tax):	
	(a) 20% [40%] of contribution reduced by the credit allowed for Prefectural and Municipal Inhabitants Taxes, or	
	(b) 10% of contribution	
Prefectural Inhabitants Tax	5% of contribution limited to 20% of Prefectural Inhabitants Tax	2.9% [5.7%] of contribution limited to 20% of Prefectural Inhabitants Tax
Municipal Inhabitants Tax	15% of contribution limited to 20% of Municipal Inhabitants Tax	17.1% [34.3%] of contribution limited to 20% of Municipal Inhabitants Tax
Enterprise Tax	10% of contribution limited to 20% of Enterprise Tax	10% [20%] of contribution limited to 20% of Enterprise Tax

Law: Art 22(2), Art 37, Art 37(4) and Art 37(7) of the *Corporation Tax Law*; Art 66-4(3) of the *Special Taxation Measures Law*; Art 73, Art 73(1) and Art 73(1)(i) of the *Corporation Tax Law Enforcement Order*; CTL Basic Circular 9-4-2-2

#### ¶4-452 Taxes (*Sozei kōka* – 租税公課)

##### Taxes not deductible by a corporation (CTL Art 38)

- Corporation Tax
- Additional tax
- Delinquency tax and lateness tax
- Income Tax deducted from the Corporation Tax
- Local Inhabitants Taxes
- Local additional and delinquency taxes
- Penalties, fines, etc



## Taxes deductible by a corporation

- Consumption tax
- Stamp tax
- Liquor tax and other indirect taxes
- Interest tax
- Income Tax not deducted from the Corporation Tax
- Local Enterprise Tax
- Fixed Assets Tax
- Foreign taxes not subject to the foreign tax credit

Law: Art 38 of the *Corporation Tax Law*

#### ¶4-453 Appraisal loss (*Shisan No hyōkazon* – 資産の評価損)

Losses from the revaluation of assets resulting in a decreased book value are not deductible for Corporation Tax purposes except in connection with corporate reorganisations and mergers (CTL Art 33). Exceptions exist for several classes of assets as summarised in the following table (CTL-EO 68).

Table 24: Assets for which appraisal loss allowed

Class of asset	When appraisal loss is allowed
Inventory	• Inventory damaged by natural disaster
	• Inventory substantially obsolete
	• Inventory devalued under provisions of the <i>Corporate Reorganisation Law</i> or the Commercial Code
	• Other similar circumstances
Fixed assets	• Fixed assets damaged by natural disaster
	• Assets unused for a year or more
	• Assets no longer used for their original purpose
	• Change in the circumstances where the assets are used
	• Assets devalued under provisions of the <i>Corporate Reorganisation Law</i> or the Commercial Code
	• Other similar circumstances
Securities	• If listed securities held for investment have significantly fallen in value
	• If the value of other securities has significantly fallen due to the substantial worsening of the financial condition of the issuer
	• Securities devalued under provisions of the <i>Corporate Reorganisation Law</i> or the Commercial Code
	• Other similar circumstances

The 2005 tax legislation liberalises the rules for appraisal gains and losses. If a company revalues its assets under either a legal proceeding, such as the *Corporate Reorganisation Law* (*Kaisha Kosei Ho*, Law No 172, 1952 – 会社更生法) or the *Civil Rehabilitation Law* (*Minji Minji Saisei-hō* – 民事再生法, Law No 225 of 1999), or a private arrangement, revaluation gains and losses may be recognised for tax purposes. In addition, gains from the forgiveness of debts may be offset against expired net operating loss carryovers before applying them against current net operating losses.

Law: Art 33 of the *Corporation Tax Law*; Art 68 of the *Corporation Tax Law Enforcement Order*; *Civil Rehabilitation Law*; Commercial Code; *Corporate Reorganisation Law*

#### ¶4-454 Deferred gain and reduced basis transactions (*Asshuku kichō* – 圧縮記帳)

When a corporation receives a grant from the national or local government to obtain assets, or when corporation property is damaged and insurance compensation is received, the amount received by the corporation is included in its income. In addition, when a corporation engages in a like-kind exchange of property, the value of the property received is included in income and the book value of the property exchanged is recorded as a cost. In cases of these types, imposition of Corporation Tax on the transaction hinders social and industrial policy goals. The reduction entry system defers the Corporation Tax on specified transactions by reducing the basis of property received by the corporation and allowing the amount of the basis reduction as an expense.

Examples of transactions qualifying for deferred gain and reduced basis are:

- Fixed assets acquired with funds from a national or local government subsidy (CTL Art 42– Art 44).
- Fixed assets acquired by a non-investment association using contributions from members (CTL Art 46).
- Fixed assets acquired by use of insurance compensation for loss or destruction of property (CTL Art 47– Art 49).
- Like-kind exchanges of business property (CTL Art 50).
- Like-kind property acquired to replace expropriated property (STML Art 64, Art 65).
- Land and buildings transferred from an area specified in various laws relating to the rationalisation of property use in urban areas, rural areas, industrial development zones, air, water, and noise pollution control areas, etc, and replaced with specified properties between 1 April 1970 and 31 March 2023 (STML Art 65-7).
- Land, buildings or structures that have been owned for at least 10 years and replaced with land, buildings or structures during a tax year beginning



In a like-kind exchange with no boot given or received, the deferred gain and limit of basis reduction is computed as follows:

$$\begin{array}{rclcl} \text{Deferred gain} & & & & \\ \text{and limit of} & = & \text{Value of like-kind} & - & \text{Book value of the} & - & \text{Expenses paid} \\ \text{basis reduction} & & \text{property received} & - & \text{like-kind property} & - & \text{in connection} \\ & & \text{("FMV received")} & & \text{transferred ("BV} & & \text{with the transfer} \\ & & & & \text{given")} & & \text{("expenses")} \end{array}$$

In a like-kind exchange with boot received, the deferred gain and limit of basis reduction is computed as follows:

$$\begin{array}{rclcl} \text{Deferred gain} & & & & \\ \text{and limit of} & = & \text{FMV received} & - & (\text{BV given} + & \times & (\text{FMV received} \\ \text{basis reduction} & & & & \text{expenses}) & & \text{FMV received} \\ & & & & & & \text{+ boot}) \end{array}$$

In a like-kind exchange with boot given, the deferred gain and limit of basis reduction is computed as follows:

$$\begin{array}{rclcl} \text{Deferred gain} & & & & \\ \text{and limit of} & = & \text{FMV received} & - & \text{BV given} & - & \text{Expenses} & - & \text{Boot given} \\ \text{basis reduction} & & & & & & & & \end{array}$$

#### Deferred tax for prior acquisition transactions involving land used in business (*tochi-tō no senkō shutoku* — 土地等の先行取得)

Deferral of the gain from certain transfers of land used in business by an individual or corporation is allowed where land in Japan (parcel 1) is acquired during the period 1 January 2009 through 31 December 2010 and another piece of land (parcel 2) is sold within 10 years from the end of the year parcel 1 was acquired (in 2009 or 2010) (STML Art 66-2). The gain on the sale of the other piece of land (parcel 2) will not be recognised and will reduce the basis in parcel 1 acquired during 2009 or 2010. Deferral of gain is not allowed for land held as inventory. A request to be eligible for the deferral must be filed by the due date of the tax return for the year parcel 1 was acquired (in 2009 or 2010).

Table 25: Gain deferral allowed for certain transfers of land

Year parcel 1 acquired	Amount of gain deferral allowed
2009	80%
2010	60%

#### 2011 Great Eastern Japan Earthquake legislation

Special legislation was promulgated on 27 April 2011 to provide relief for those affected by the Great Eastern Japan Earthquake.

##### Deferred gain on replacement of property

Under the special legislation, deferred gain treatment may apply if business assets are transferred under the circumstances described in (a) or (b) below during the period from 11 March 2011 through 31 March 2016 and replacement property is acquired during that year of transfer and put into service within one year from the

date of acquisition of the replacement property (*Special Tax Law for Those Affected by the Great Eastern Japan Earthquake* Art 12, Art 19, Art 21, Art 27 to 29).

- Land, or buildings or structures transferred with land, located in an area affected by the earthquake and acquired before 11 March 2011, is replaced by land in Japan or depreciable property for use within Japan not limited to the area affected by the earthquake.
- Land, or buildings or structures, located outside of an area affected by the earthquake, is replaced by land or depreciable property for use within the area affected by the earthquake.

If the full amount of the proceeds of disposition of the old property is reinvested, all of the gain is deferred on the transfer of the old property. If less than the full amount received on the disposition of assets is reinvested in replacement assets, the amount of non-recognised gain is equal to the acquisition cost of the new property multiplied by the ratio of the gain on the sale of the property (the sale price of the transferred property less the total of the book value of the transferred property increased by any selling costs) divided by the sale price of the disposed property (*Special Tax Law for Those Affected by the Great Eastern Japan Earthquake* Art 19(1)(xiii), Art 27(1)(xiii)).

$$\text{Deferred gain} = \text{Purchase price of new property} \times \frac{\text{Gain on disposition of old property}}{\text{Sale price of old property}}$$

In cases where replacement of property subject to deferred taxation, under the rules for expropriated property or deferral of gains, is hindered by the Great Eastern Japan Earthquake, the replacement period may be extended by up to 2 years (*Special Tax Law for Those Affected by the Great Eastern Japan Earthquake* Art 22, Art 30).

##### Example 6:

A business building outside of the area affected by the earthquake has a book value of ¥500x and is sold by a company between 11 March 2011 through 31 March 2016 for ¥3000x. During the same period, the ¥3000x proceeds are used to purchase a new business building which is put into service within the area affected by the earthquake. No taxable gain is reported on the sale of the first building and the second building takes a tax basis of ¥500x.

Law: Art 42, Art 43, Art 44, Art 46, Art 47 Art 47(1), Art 48, Art 49 and Art 50 of the *Corporation Tax Law*; Art 66-2, Art 64, Art 65 and Art 65-7 of the *Special Taxation Measures Law*; Art 12, Art 19, Art 21, Art 22, Art 27 to 30 of the *Special Tax Law for Those Affected by the Great Eastern Japan Earthquake*; Art 84 and Art 92 of the *Corporation Tax Law Enforcement Order*

#### ¶4-460 Carryover of losses (*Kurikoshi Kesson Kin* — 繰越欠損金)

A net loss from a prior tax year may be carried over to reduce income if certain conditions are satisfied (CTL Art 57).



- (2) The loss corporation ceases or is expected to cease its old business that it carried on before the date of acquisition of control and it receives loans or investments in excess of 5 times the scale of the old business (eg sales for a business selling assets or services income for a service company).
- (3) Specified shareholders or related persons have acquired claims against the loss corporation from other persons and the loss corporation receives loans or investments that exceed 5 times the scale of business of the loss corporation before the date of acquisition of control.
- (4) If the events in (1) or (2) above have occurred or the claims in item (3) have been acquired and the loss corporation becomes a merged corporation in a merger or the company being divided in a corporation division.
- (5) As a result of the acquisition of control, the directors of the loss corporation resign and fewer than 20% of the employees of the loss corporation continue employment after the date of acquisition of control and the scale of the new business of the loss corporation that former employees are not essentially engaged in is 5 times or more its scale before the date of acquisition of control.
- (6) Events similar to items (1) through (5) above.

#### Example 7: Carryover of losses

A corporation has filed blue tax returns continuously for the last 7 years. It has losses for 3 years followed by 4 profitable years. Before the amendment of the carryover rules in 2004, losses from the first loss year could be carried over for 5 years (Years 2 through 6), but the remaining balance of loss from Year 1 not used in Year 6 (¥800,000) could not be carried over to Year 7. However, under current rules, the remainder of the unused loss from Year 1 may be carried over for 2 additional years.

Tax year	Current income (loss)	Carryover from Year 1	Carryover from Years 2 and 3	Income after carryover
1	(¥3,000,000)			
2	(¥1,000,000)			
3	(¥200,000)			
4	¥400,000	¥400,000		0
5	¥600,000	¥600,000		0
6	¥1,200,000	¥1,200,000		0
7 (before amendment)	¥3,600,000	0	¥1,200,000	¥2,400,000
7 (after amendment)	¥3,600,000	¥800,000	¥1,200,000	¥1,600,000

#### Special exception for the deduction limit for loss carryforwards during the COVID-19 crisis

A company that makes a significant investment during the severe business environment of the COVID-19 disaster even if it is in a loss position, may be eligible for an exception from the deduction limits for loss carryforwards.

Eligible companies include companies filing a blue tax return which have a plan certified under the revised *Industrial Competitiveness Enhancement Act* (ICE Act) (*Sangyō Kyōsō-ryoku Kyōka-hō-tō no Ichibu o Kaisei suru Hitoshi no Hōritsu* – 産業競争力強化法等の一部を改正する等の法律) during the one year period beginning from the date of enactment of the ICE which provides for digital transformation (DX) (see ¶4-643C), promotion of carbon neutrality (see ¶4-643D), business restructuring or reorganization, etc (STML Art 66-11-4, Art 68-96-2).

Eligible companies may deduct 100% of losses incurred during tax years which include a date between 1 February 2020 and 1 April 2021 up to the amount of the cumulative investment balance (*ruiseki tōshi zangaku* – 累積投資残額, which is the amount of the qualified investment reduced by the loss carryforwards used under this provision in excess of the regular 50% loss carryforward limit. The excess carryover (100% less the regular 50% carryover limit) may be used during an applicable business year which is a business year that is:

- Within 5 years from the start date of the base tax year (the first tax year in which amount of income is generated after the earliest tax year in which qualified losses arose)
- A tax year included in the ICE Act certified plan, and
- Is a tax year beginning before 1 April 2026?

Law: Art 57, Art 57(1), Art 57(10), Art 57-2, Art 57-2(1), Art 58, Art 58(5), Art 80 and Art 81-9(7) of the *Corporation Tax Law*; Art 66-12 of the *Special Taxation Measures Law*; Art 15, Art 16, Art 23 and Art 24 of the *Special Tax Law for Those Affected by the Great Eastern Japan Earthquake*; Art 113-2(7) of the *Corporation Tax Law Enforcement Order*; Art 39-24 of the *Special Taxation Measures Law Enforcement Order*; Art 17(2) and Art 22(2) of the *Special Tax Law for Those Affected by the Great Eastern Japan Earthquake Enforcement Order*; Art 23(1) and Art 70(2) of the *General Law of National Tax*

## Reserves (*Hikiatate Kin* – 引当金)

### ¶4-470 Reserves (*Hikiatate Kin* – 引当金)

In order to properly match revenues with their associated costs, the *Corporation Tax Law* allows deductions in the current year as reserves for certain kinds of losses which will not occur until some future year. Several of the most important of these reserves are described in this section.

Law: *Corporation Tax Law*

### ¶4-471 Reserve for bad debts (*Kashidaore Hikiatate Kin* – 貸倒引当金)

Bad debts represent amounts that will not be received by a corporation when monetary claims become uncollectable. The allowance for bad debts is an estimate of the current accounts that will become uncollectable based on the history of



### Natural resources development investment company

A natural resources development investment company is a company whose sole purpose is to make loans to a natural resources development company.

### Natural resources prospecting company

A natural resources prospecting company is a natural resources development company whose current business is limited to prospecting for natural resources, including raising seedlings and performing related land surveys, or a foreign government or corporation owned by a foreign government that is engaged in such activities.

### Natural resources prospecting investment company

A natural resources prospecting investment company is a natural resources development investment company whose main business is making investments of loans to a natural resources prospecting company or making such investments to prospect for natural resources.

Law: Art 55 of the *Special Taxation Measures Law*

## ¶4-475 Reserve for losses from investment in specified business reorganisations (*Tokutei Jigyo Saihen Toshi Sonshitsu Junbi Kin* – 特定事業再編投資損失準備金) (Expired 31 March 2017)

During the period from 20 January 2014 (the effective date of the ICE Act (*Seisan Kyosoryoku Kyoka Ho* – 産業競争力強化法, Law No 98, 11 December 2013)) through 31 March 2017, a company filing a blue tax return that implements an approved plan of reorganisation that joins the resources of companies and receives authorisation as specified in that law, may establish a reserve for losses of investment or loans. The reserve may be no more than 70% of the investment or loans and must be amortised back into income in 5 equal annual amounts beginning at the earlier of ten years after the establishment of the reserve or after 3 consecutive profit years (STML Art 55-3, Art 68-43-3).

## ¶4-476 Financing leases (*Fuainansu risu* – ファイナンスリース)

A finance lease transaction is treated as a sale of the leased property to the lessee, although the title to the property may be retained by the lessor if any of the following conditions apply to the transaction (CTL Art 64-2; CTL-EO Art 131-2):

- (1) During the lease term, or at its conclusion, the leased property is transferred to the lessee for no or nominal consideration.
- (2) At the end of the lease term, the property may be leased again at a nominal fee.

- (3) During the lease term, or at its conclusion, a right to purchase the leased property for an unusually low price is transferred to the lessee.
- (4) The type, use, set-up, or other factors regarding the leased property indicate that only the lessee may be reasonably expected to use the property during its useful life, or the property is unidentifiable.
- (5) The lessor has received financing to acquire the leased property from a financial institution, etc, which has received funds from the lessee which correspond to the principle and interest due under the lease contract.
- (6) The lease term and the useful life of the leased property for depreciation purposes are different with the result that the Japanese income or Corporation Tax of either the lessor or lessee is significantly reduced.

Tax legislation enacted in 2007 provides that where a finance lease entered into on or after 1 April 2008 does not provide for the title to pass to the lessee at the end of the lease term (*shoyuken iten gai fuainansu risu* – 所有権移転外ファイナンスリース), the following treatment applies:

- (1) The lease is treated as a sale rather than a lease.
- (2) The lessee depreciates the property using the straight-line method over the term of the lease.
- (3) The lessor recognises profit from the lease in 2 components:
  - (a) 20% of the profit is allocated over the term of the lease using the interest method.
  - (b) The balance is recognised over the term of the lease using the straight-line method.
- (4) Lessees entering into leases before 1 April 2008 may depreciate the property over the term of the lease using the straight-line method in years ending on or after 1 April 2008.

Law: Art 64-2 of the *Corporation Tax Law*; Art 131-2 of the *Corporation Tax Law Enforcement Order*

## Real Property Capital Gains (*Tochi Nado No Jotoeki* – 土地等の譲渡益)

## ¶4-480 Real property capital gains (*Tochi Nado No Jotoeki* – 土地等の譲渡益)

### Surtax on capital gains from land (suspended)

As part of the effort to control rising land prices in Japan, beginning in 1991, a series of additional taxes were imposed on land sales by corporations based on the



Securities held for trading purposes are valued at market value at the end of the tax year. Other securities are valued using one of 2 cost methods: the moving average method or the periodic average method.

### Market value method

Securities held for trading must be marked-to-market at the end of the tax year and any gain or loss taken into income or loss (CTL Art 61-3(2)). Similar rules apply to financial derivatives that have not been settled by year end (CTL Art 61-7).

### Moving average method

Valuation under the moving average method is performed each time a security of a given class and name is acquired. The unit cost is the total costs of those securities as of the date of the new acquisition divided by the total number of those securities held after the new acquisition.

$$\text{Moving average unit cost} = \frac{\text{Prior cost balance} + \text{new acquisition cost}}{\text{Number of securities after new acquisition}}$$

### Periodic average method

Valuation under the moving average method is performed at the end of the tax year. The unit cost is the total costs of those securities divided by the total number of those securities held.

$$\text{Periodic average unit cost} = \frac{\text{Beginning cost balance} + \text{period acquisition cost}}{\text{Number of securities at end of period}}$$

### Derivatives

Financial derivatives must be marked-to-market at the end of the tax year and any gain or loss taken into income or loss (CTL Art 61-7).

### Hedges

The portion of a derivative or similar financial instrument which is effective as a hedge against possible loss is not taken into income under the mark-to-market rules (CTL Art 61-6).

### 2020 Revision of valuation of securities

On 4 July 2019, the Accounting Standards Board of Japan issued ASBJ Statement No 30 Accounting Standard for Fair Value Measurement. Corresponding tax legislation applies similar rules for tax purposes for tax years beginning on or after 1 April 2020, with a transition period applicable through 31 March 2021 for securities other than stock shares, equities or cryptocurrencies. In cases where a reasonable method is used to value securities, documentation must be kept describing the reason for adopting the method and facts regarding the basis for the calculation.

Item	Valuation method
(a) Securities held for trading (listed on an exchange, traded over the counter or having other public prices)	If there is no published price as of the end of the year, value using a reasonable method based on the closest published price to the end of the year
(b) Securities other than (a) above (not including stocks or contributed capital)	The value calculated using a reasonable method based on the final trading price or interest rate or other indicators at the end of the fiscal year for similar securities
(c) Short-term trading products	Value similar to (a) and (b), above
(d) Loss on devaluation of securities (see ¶4-513)	Revisions will be made to include securities described in (a) and (b) above in securities eligible for loss treatment when a considerable decline in value occurs
(e) Unrealised gain or loss attributable to derivative products	Documentation must be kept stating the reason for adopting the rational method used to calculate the deemed settlement gain (loss) of any unsettled derivative transactions (excluding the amount of the final market price for market derivative transactions) and other matters that served as the basis for the calculation
(f) Allowance for doubtful accounts	Bonds may not be included as monetary claims in the calculation of the allowance for doubtful accounts

Law: Art 61-3(2), Art 61-6 and Art 61-7 of the *Corporation Tax Law*; Art 119 of the *Corporation Tax Law Enforcement Order*

## ¶4-513 Devaluation of securities

Losses on devaluation of securities, other than securities held for trading purposes, are not generally recognised for Corporation Tax purposes. However, if a security loses at least half its value and the value is not expected to be recovered, the security may be devalued and a loss recognised (CTL Art 33(2); CTL-EO Art 68(1)(ii); CTL Basic Circular 9-1-7).

Law: Art 33(2) of the *Corporation Tax Law*; Art 68(1)(ii) of the *Corporation Tax Law Enforcement Order*; CTL Basic Circular 9-1-7

## ¶4-514 Redemptions

Proceeds from the repurchase of shares by a corporation (redemption) are divided into 2 components – proceeds from the sale of shares and a deemed dividend. The amount of the deemed dividend per share is equal to the lesser of (CTL Art 24):

- (1) the amount of money or fair market value of property received per share less the per share book value of the stock, or
- (2) the amount of money or fair market value of property received per share less the paying corporation's per share capital and capital surplus.

Law: Art 24 of the *Corporation Tax Law*



	Decision in favour of Government	Decision partially in favour of Government	Decision against Government	Referred for reconciliation	Total*	% of decisions against Government
Income Tax	40	1	7	3	56	12.50
Corporation Tax	48	2	6	2	58	10.34
Other taxes	54	0	2	1	64	3.13
Collection	21	2	1	4	37	2.70

\* Total includes cases withdrawn or dismissed.

Source: Japan National Tax Agency

Law: Art 17 and Art 32 of the *Constitution*

## ¶8-110 Basic procedural rules

The rules for calculation of time, delivery and submission of documents are discussed below.

## ¶8-111 Calculation of time (*Kikan no Keisan* — 期間の計算)

Times and dates when various actions must be performed are an integral part of the procedural rules governing Japanese tax administration.

### First day not included

When determining the time elapsed between 2 dates, the first day of the period is not counted but the last day is (GLNT Art 10(1)(i)).

#### Example 1: First day not included

A form due within 3 days of an action occurring on 1 September would be due on 4 September.

### Counting by months or years

If the time to perform an act is designated in months or years, the determination is based on calendar months and years (GLNT Art 10(1)(ii)). An action due within one month or one year of a certain date must be performed by the day before the day corresponding to the start date in the following month or year. When time is counted from the beginning of a month or year, the ending time is at midnight of the last day in the period of months or years. If a time period begins on other than the first day of a period of months or years, the ending date is the day before the date corresponding to the beginning day in the final month or year of the period but, if there is no such corresponding date, the last day of the final month or year is the ending date (GLNT Art 10(1)(iii)).

### Example 2: Counting by months or years

- A form due within one month of 10 March is due on the following 9 April, 30 days later.
- A form due within one month of 10 September is due on the following 9 October, 29 days later.
- A form due within one month of 31 January is due on 28 February (or 29 in a leap year), 28 days later (29 days in a leap year).

### "On or before" (*izen* — 以前)

An action that must be performed on or before a specified date is due on the date specified as the last date.

### "On or after" (*igo* — 以後)

An action that must be performed on or after a specified date is due on the date specified or any date thereafter.

### "Within" (*inai* — 以内)

An action that must be performed within a period of months or years of a date is due on the day before the date corresponding to the starting day in the final month or year of the period for performance.

### "Before" (*mae* — 前) or "after" (*ato* — 後)

Periods of time before or after a designated date are determined by not counting the starting date.

### Specific dates

If a specific date is designated for performance, the due date is that specified date.

### Holidays

If the due date for filing a return or notification or making payment, etc, falls on a Sunday or national holiday, the due date is the next day (GLNT Art 10(2); GLNT Basic Circular 10(4)).

Law: Art 10(1)(i), Art 10(1)(ii), Art 10(1)(iii) and Art 10(2) of the *General Law of National Tax*

## ¶8-112 Delivery of documents (*Shorui no sōtatsu* — 書類の送達)

### Person to whom delivered

Generally, a document is delivered to the person named in the document. But if a tax administrator (*nōzei kanrinin* — 納税管理人) is named for a taxpayer, the document will be delivered to the tax administrator (GLNT Art 12(1)).



Type of tax	Tax office with jurisdiction
Gift Tax	Taxpayer's residence or domicile ( <i>Inheritance Tax Law</i> Art 62)
Land Value Tax	Individuals: the place where the residence, domicile or business is located ( <i>Land Value Tax Law</i> Art 10). Corporations: The location of the head or main office ( <i>Land Value Tax Law</i> Art 12).
Consumption Tax	Individuals: the place where the residence, domicile or business is located ( <i>Consumption Tax Law</i> Art 20, Art 21). Corporations: The location of the head or main office ( <i>Consumption Tax Law</i> Art 22).

Law: Art 20, Art 21 and Art 22 of the *Consumption Tax Law*; Art 16 of the *Corporation Tax Law*; Art 15 and Art 17 of the *Income Tax Law*; Art 62 of the *Inheritance Tax Law*; Art 10 and Art 12 of the *Land Value Tax Law*

### ¶8-115 The "My Number" system of personal identification (マイナンバー)

Beginning in October 2015, all Japanese individuals are provided with a 12-digit identification number and corporations have a 13-digit identification number. This number is required for social security and tax purposes beginning in January 2016.

### ¶8-116 Electronic digitization of tax procedures (*zeimu tetsudzuki no denshi-ka* – 税務手続の電子化)

For tax years beginning on or after 1 April 2020, designated corporations are required to use electronic filing (e-Tax) of corporation tax returns and required attachments, etc. Designated corporations include:

1. Corporations with capital in excess of ¥100 million at the beginning of the tax year.
2. Mutual companies described in the Insurance Business Law (Law No 105, 1995).
3. Investment companies.
4. Special purpose companies (see ¶2-610).

These requirements apply to final, interim and amended Corporation Tax returns as well as to local Corporation Tax and Consumption Tax returns, including interim Consumption Tax returns. Attachments to tax returns must also be filed using electronic filing but submission of required attachments on optical disks and similar methods may also be permitted. In the event of a breakdown in telecommunications

or natural disaster, etc, paper filings are permitted. Failure to file using electronic filing for reasons other than breakdown in telecommunications or natural disaster, etc, will be treated as non-filing of the tax return. But if the majority of a required tax return is timely filed electronically, penalty taxes (*kasanzei* – 加算税, see ¶8-221) will not be applied.

### ¶8-117 Use of seals (*ōin gimu* – 押印義務)

Based on a policy of reviewing the obligation to use seals in administrative procedures throughout the Japanese government, the obligation to seal will generally be abolished for tax-related documents beginning 1 April 2021 (documents without seals will also be accepted before the effective date). The same policy will apply to tax documents submitted to local public bodies. For example, seals will not be required for final tax returns and dependent deduction statements for income earners. However, seals will continue to be required for procedures that require a registered seal and a seal stamp certificate in tax-related documents submitted to the head of the tax office such as documents related to collateral provisions and agreements regarding the division of inherited property and for questionnaires, etc, in the criminal investigation procedures regarding national taxes.

## The Tax Obligation

### ¶8-200 The tax obligation

The time obligation to pay taxes, assessment of taxes, procedure for corrections, penalty taxes, Delinquency Tax and Interest Tax are discussed below.

### ¶8-201 Time obligation to pay tax arises (*Nōzeigimu no seiritsu kikan* – 納税義務の成立期間)

The time the obligation to pay tax arises differs by the kind of tax.

Table 3: Different types of taxes and payment deadlines

Type of tax	Time obligation to pay tax arises (GLNT Art 15(2))
Income Tax, other than paid by withholding	At the end of the calendar year
Income Tax paid by withholding	At the time of the payment of the income subject to withholding
Corporation Tax	At the end of the corporation's fiscal (tax) year
Inheritance Tax	At the time property is received by succession or inheritance
Gift Tax	At the time the property is received



Table 4: Due dates for tax returns and payment of major Japanese taxes

Type of tax	Deadline to file tax return	Deadline to pay tax (hotei nokigen)
Income Tax, other than paid by withholding	15 March of the following year (ITL Art 120)	15 March of the following year (ITL Art 104)
Income Tax paid by withholding		10th day of the month following the withholding (ITL Art 183)
Corporation Tax	Within 2 months from the day after the end of the fiscal (tax) year (CTL Art 74)	Within 2 months from the day after the end of the fiscal (tax) year (CTL Art 77)
Inheritance Tax	Within 10 months after the day the taxpayer becomes aware of the opening of succession (Inheritance Tax Law Art 27)	Within 10 months after the day the taxpayer becomes aware of the opening of succession (Inheritance Tax Law Art 33)
Gift Tax	15 March of the following year (Inheritance Tax Law Art 28)	15 March of the following year (Inheritance Tax Law Art 33)
Land Value Tax	31 October (Land Value Tax Law Art 25)	Half of the tax on 31 October and the balance on 31 March of the following year (Land Value Tax Law Art 28)
Registration and Licence Tax		When registration or licence is received (Registration and Licence Tax Law Art 27)
Liquor Tax	The end of the following month (Liquor Tax Law Art 30-2)	The end of the second following month (Liquor Tax Law Art 30-4)
Consumption Tax	Transfers of taxable property by sole proprietors	31 March of the following year (STML Art 86-5)
	Transfers of taxable property by corporations	31 March of the following year (STML Art 86-5)
	Removal of taxable property from a bonded area	At the time the property is removed from the bonded area (Consumption Tax Law Art 45)
Stamp Tax	Differs based on the document (Stamp Tax Law Art 11 and Art 12)	At the time the property is removed from the bonded area (Consumption Tax Law Art 50)

Amended return (*shūsei shinkoku* – 修正申告)

Up until the time the head of the tax office issues a notice of correction for a final return, a taxpayer may submit an amended return to correct an error resulting in an understatement of tax, an overstatement of loss, an overstatement of refund or a failure to report the tax payable (GLNT Art 19). Filing a revised return does not affect an existing tax obligation (GLNT Art 20). The tax office will suggest that the taxpayer file an amended return if it finds an error during an audit. If the taxpayer does not do so, the tax office will proceed with the correction and determination processes described below.

Claim for correction (*kōsei no seikyū* – 更正の請求)

Amended returns are not used to claim an overpayment of tax due to an error on the original final return. Instead, a claim for correction is filed (GLNT Art 23).

Grace period for payment of taxes (*yūyo* – 猶予)

In some circumstances, including disasters, illness and business closures, the tax office may grant a grace period for payment of taxes, during which time demand (*tokusoku* – 督促) and other delinquency procedures will not be enforced (GLNT Art 46, Art 48). The grace period is up to a year depending on the circumstances of the case. An extension of the grace period may be granted, but the total grace period may not exceed 2 years.

Law: Art 45, Art 47, Art 49 and Art 50 of the *Consumption Tax Law*; Art 74 and Art 77 of the *Corporation Tax Law*; Art 19, Art 20, Art 23, Art 46 and Art 48 of the *General Law of National Tax*; Art 104, Art 120 and Art 183 of the *Income Tax Law*; Art 27, Art 28 and Art 33 of the *Inheritance Tax Law*; Art 25 and Art 28 of the *Land Value Tax Law*; Art 30-2 and Art 30-4 of the *Liquor Tax Law*; Art 27 of the *Registration and Licence Tax Law*; Art 86-5 of the *Special Taxation Measures Law*; Art 11 and Art 12 of the *Stamp Tax Law*

18-213 Correction (*kōsei* – 更正) and determination (*kettei* – 決定)Tax audit (*zeimu chōsa* – 税務調査)

The 2011 legislation effective beginning 1 January 2013 requires that advance notice and information be provided by the tax office to taxpayers before the commencement of a tax audit (GLNT Art 74-9). This is to improve the transparency of the process and help taxpayers to plan ahead. However, information will not be provided if it will impede the audit, including investigations regarding taxes of other countries and treaty partners, or facilitate wrongdoing.

Beginning 1 April 2018, the procedure for obtaining materials stored in electronic form in connection with an examination of violations of the national tax has been expanded to include procedures for copying and/or seizing electronic media (GLNT Art 132). Telecommunications services providers are required to maintain electronic records of communications for 30 days (which may be extended to 60 days if there is a special need) (GLNT Art 134).