

Japan Tax Update for Covid-19 (vol.3)

2020/4/30

1. *Grace system to defer tax payment (general)*

As far as the tax payment due arrives for the period **between February 1, 2020 and January 31, 2021**, the grace system for national and local taxes (corporate income tax, local tax, consumption tax, etc.) has been introduced where the taxpayers will be granted grace of tax payment for **up to one year**. It must be applied to the tax office within 6 months from the due for payment if the taxpayers are in special circumstances such as they are likely face difficulty continuing business or maintaining standard of living by paying the tax in a lump sum or they have lost assets due to Covid-19. The indicated requirement is decrease of 20% or more in revenue from business for any period (more than one month) compared to the same period of the previous year. There will be no collateral required or delinquent tax imposed under the grace system.

2. *Loss carry-back system (corporate income tax)*

For the tax loss incurred for the periods ending **between February 1, 2020 and January 31, 2022, small and medium entities** which paid-in capital is JPY100 million or less (excluding the ones 100% owned directly or indirectly by the corporation which has the paid-in capital of JPY500 million or more), or more than JPY100 million and JPY1,000 million or less (excluding the ones 100% owned directly or indirectly by the corporation which has the paid-in capital of more than JPY1,000 million), loss carry-back is available where the tax paid in the previous fiscal year is reclaimable as far as the entities apply blue tax return.

For any corporations such as applying white tax return or non-SME's, loss carry-back may also be applied for the disaster loss at the interim or fiscal year-end within one year after the disaster is incurred due to Covid-19.

3. *Special depreciation or deduction of digital equipment for remote work (corporate and personal income tax)*

For **small and medium entities** applying blue tax return which paid-in capital is JPY100 million or less(*), digital equipment including machineries, tool, facilities and software which enable remote operation, visualization or automatic control are allowed to depreciate at a time or be deducted up to 7% of the invested amount (10% for the corporations which have paid-in capital of JPY30 million or less) in the fiscal year, once the entities are qualified for the management improvement plan by Minister of Economy, Trade and Industry.

*) excluding certain corporations such as;

- (a) average profit of JPY1,500 million or more within 3 years;
- (b) owned 50% or more of issued shares by the corporation with paid-in capital of more than JPY100 million, or by the corporation owned 100% directly or indirectly by the other corporation(s) with paid-in capital of JPY500 million or more;
- (c) owned two-thirds or more of issued shares by 2 or more corporations with paid-in capital of more than JPY100 million or by the corporations owned 100% directly or indirectly by the other corporation(s) with paid-in capital of JPY500 million or more.

4. Option of registered business for consumption tax purpose (VAT/GST)

Normally, business may opt to register with consumption tax unless it applies compulsorily before the fiscal year commences. However, for the periods filing due comes after April 30, 2020, the business may apply registered or non-registered consumption taxpayer for the fiscal year even after the fiscal year starts by approval of the tax office, as far as the revenue decreases approximately 50% or more from business for any period (but more than one month) between February 1, 2020 and January 31, 2021 compared to the same period of the previous year and the application is submitted by the filing due date.

It will be related to small businesses constantly with turnover of JPY10 million or less.

5. Filing extension (corporate, personal and consumption tax)

If and when the Annual General Shareholders' meeting where the financial statements are approved, based on which corporate tax returns are produced, is put off (usually due within 3 months after the fiscal year-end), corporate income tax filing due may be extended on request.

If and when the company has a difficulty in filing the corporate income tax returns in time (except above) due to infections or influences of Covid-19, corporate income tax filing due may be extended on request.

Consumption tax filing due (within 2 months after the fiscal year-end) may be extended on request due to the circumstances by infections or influences of Covid-19.

The national and local tax officers will treat such a delay **in more flexible manner**. Personal income tax and gift tax filing were due on April 16, 2020, however, now the tax office shall accept it anytime at convenience of taxpayers.

6. Exemption or reduction in fixed assets tax (local depreciable assets and city planning tax)

For **small and medium entities** which paid-in capital is JPY100 million or less (see (b) and (c) in #3 above for exclusions), as far as the revenue decreases 30% or more from business for any 3 months from February 1, 2020 through October 31, 2020 compared to the same period of the previous year, depreciable assets and city planning tax will be exempt if the decrease is 50% or more, or reduced by half if it is 30% or more and less than 50%. The application needs to be submitted with recognition of qualified CPA, CPTA, attorney, etc. by January 31, 2021. It applies to the fixed assets tax for the calendar year of 2021.