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Japan tax alert

Ernst & Young Tax Co.

Japan government COVID-19 tax measures

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On 7 April 2020, the Japanese Government made a cabinet decision to approve the emergency economic package in response to COVID-19. The size of the emergency economic package is estimated to be around 108 trillion JPY. The emergency economic package includes specific tax measures as well.

This summary provides an outline of these tax measures. It is important to note that these measures will come into force only when the Diet passes the necessary legislative acts. It is therefore possible that the details of some of these tax measures may change during the legislative process.

1. Measures related to national taxes

The legislation awaiting passage by the Diet contains the following tax measures:

(1) Special measures on the deferral of tax payments

Considering the disruptive impact of COVID-19 on businesses, a special measure will allow the taxpayer to delay the payment of taxes without providing collateral and without incurring delinquent tax for one year. If the taxpayer suffers a substantial decrease in revenues (an approximately 20% or more decrease in revenues for at least one month from February 2020 in comparison with the same period of time in the previous financial year) and the taxpayer has difficulties in settling tax liabilities, this measure will provide relief to the taxpayer. This measure applies to all taxes including local taxes and social security contributions.

This measure applies to national taxes becoming due between 1 February 2020 to 31 January 2021. However, it is may be possible to apply this measure retroactively to tax payments which become due before the special rule takes legal effect.

Under the existing tax legislation, the taxpayer can ask for a deferral of tax payments. However, in principle, the taxpayer is required to provide collateral and delinquent tax also applies to the delayed payment of taxes. This new measure aims to provide relief to taxpayers to alleviate cash flow difficulties.

(2) Special measure for tax loss carry-back

Under the existing rules, a small sized company with a share capital of 100million JPY or less can carry forward tax losses and carry back tax losses to offset them against taxable income of the previous fiscal year (FY).

The planned special measure allows medium sized companies (with share capital between 100million JPY and 1billion JPY, but excluding subsidiaries of large companies) to carry back tax losses to offset against taxable income of the previous FY. The tax losses under this special measure should arise in FYs ending between 1 February 2020 and 31 January 2022.

The inclusion of medium sized companies aims to provide cash flow support to companies experiencing deterioration in their

performance. It is important to note that the tax loss carry-back rules apply for national tax purposes but does not apply for local corporate taxes such as inhabitant tax and enterprise tax.

(3) Special measure for the selection of consumption taxpayer status

Under the current rules, if a taxpayer makes a selection to become a consumption taxpayer (or a selection to stop being a consumption taxpayer), the taxpayer is required to file an application with the tax authorities prior to the first day of the consumption tax reporting period to which the selection applies.

Under the proposed new measure, if the taxpayer experiences a substantial drop in sales revenues (approximately a 50% or more decrease in sales revenues for at least one month from February 2020 in comparison with the same period of time in the previous consumption tax reporting period), the taxpayer will reverse (select) the consumption taxpayer status even after the first day of tax reporting period.

The special measure applies to consumption tax reporting periods with tax return filing due dates after the special rule takes legal effect. The taxpayer is required to file an application to reverse the selection before the tax return filing due date.

(4) Telework investment incentives

Telework-related investments will be added to the scope of the existing tax incentive regime for qualified small and medium-sized enterprises (SMEs). New scope will cover remote control, visualization and automatization related investments.

(5) Deduction/tax credit for cancelled event tickets

If a sport or cultural event is cancelled and the buyers of the tickets give up their rights to claim a refund from the organizers, the buyers will claim a donation deduction in the form of deduction from taxable income or as a tax credit against the tax liability.

(6) Relaxed conditions for housing loan-related tax credit

If the individual has acquired a housing loan to buy a house but it is not possible to move into the new house by December 2020 because of construction delays caused by COVID-19, the individual

will be allowed to utilize housing loan-related tax credit over 13 year period under the existing current rules.

(7) Exemption of stamp duty for contracts on special loans

Stamp duty will be exempted for contractual documents on preferential loans (i.e. loans with terms more preferential than in case of regular loans) by financial institutions to business entities affected by COVID-19.

2. Local tax related measures

(1) Property tax and city planning tax relief

With respect to the 2021 property tax and city planning tax on depreciable assets and buildings for business owned by SMEs, if the turnover of an SME decreases by 30-50% for a three-month period between February 2020 and October 2020 in comparison with the corresponding period in the previous year, the tax base will be halved for 2021. If the turnover decreases by 50% or more in the aforementioned period, the tax base will be nil for 2021.

(2) Property tax for productivity enhancement

To support SMEs which continue to invest despite the disruptive impact of COVID-19, buildings and structures for business purposes will be added to the scope of depreciable assets (i.e. assets for productivity enhancement) which enjoy special reduced tax rates for property tax purposes. The applicable period of the special

measures for productivity enhancement will also be extended for two years until March 2023.

Support to maintain employment and business continuation (Financial measures)

Business continuation and maintaining employment are key considerations in the current disruptive economic environment. There will be financial measures as well to support SME and individuals as part of the emergency economic package.

- ▶ Under the current rules, employment adjustment subsidies are available for companies which are forced to send their employees on temporary leave because of worsening economic conditions. The amount of available subsidies will be increased for both large companies and SMEs. The scope of these subsidies will also be expanded.
- ▶ Non-interest bearing and/or non-collateral loans will be made available to private entrepreneurs and SMEs experiencing a substantial sales decrease.
- ▶ The Development Bank of Japan will make funds accessible to provide cash flow support to medium and large companies.
- ▶ If revenues decrease more than 50% in comparison with the same month in the previous year, small and medium sized companies can get a cash benefit up to a maximum of 2m JPY and private entrepreneurs can get a cash benefit up to 1m JPY.



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