

Japan Tax Bulletin

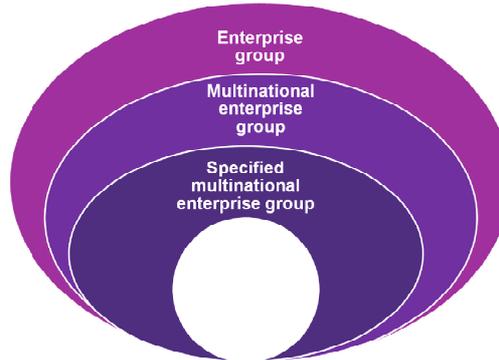
Filing requirements for the Country-by-Country report and Master File for a Specified Multinational Enterprise Group

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In response to BEPS Action 13, a three-tiered transfer pricing structure was introduced into domestic tax laws in the 2016 tax reform.

1. Specified Multinational Enterprise Group

A specified multinational enterprise group (“SMEG”) is required to prepare a country-by-country (“CbC”) report and a master file, and file them with the tax office. An SMEG is a multinational enterprise group whose gross consolidated revenue in the previous business year of its ultimate parent company is JPY100 billion or more. A multinational enterprise group is an enterprise group with entities located in two or more tax jurisdictions. An enterprise group is a group which is required to prepare consolidated financial statements in accordance with generally accepted accounting principles, or one that would be required to do so had its controlling entity’s stocks been listed on stock exchanges as defined by the financial instruments transaction law. Therefore, a private corporate group that is not required to prepare consolidated financial statements by law still needs to prepare and file a country-by-country report and master file if it is a multinational enterprise group with consolidated revenue of JPY100 billion or more.



Enterprise Group

Corporate group which is required to prepare consolidated financial statements

Multinational enterprise group

An enterprise group of which constituent entities are in two or more tax jurisdictions.

Specified multinational enterprise group

A multinational enterprise group of which gross consolidated revenue in the previous business year of an ultimate parent company of the group is JPY 100 billion or more

2. Country-by-Country Report

2.1 Constituent entities

Constituent entities included in a CbC report are entities controlled by the controlling entity of a specified multinational enterprise group through ownership of majority voting rights or for other reasons. Constituent entities include entities whose assets/liabilities and profits/losses are excluded from consolidated financial statements due to materiality. A controlling entity is an entity which is in control of decision making of other entities of a corporate group through ownership of majority voting rights or for other reasons. Therefore, all entities controlled by a controlling entity are constituent entities for the purpose of a CbC report regardless of whether or not they are consolidated in the consolidated financial statements.

2.2 Reporting entity

A reporting entity is a domestic entity which is the ultimate parent of an SMEG unless a surrogate entity is appointed.

Where the Japan tax authorities cannot request the tax authorities of a tax jurisdiction where the ultimate parent of an SMEG is resident to provide a CbC report, a domestic entity or a permanent establishment in Japan of a foreign entity which is a constituent entity of an SMEG becomes a reporting entity. Some of the reasons that the Japan tax authorities cannot request the tax authorities of a tax jurisdiction where an ultimate parent of SMEG is a resident to provide a CbC report include:

- Under a tax treaty or other international treaties Japan has concluded, there are no measures to request a CbC report or other equivalent information,
- There are no agreements between the Minister of Finance and the competent authorities of the tax jurisdiction where the ultimate parent entity of an SMEG is resident concerning the mutual exchange of a CbC report,
- The tax jurisdiction where the ultimate parent entity of an SMEG is a country or an area designated by the commissioner of National Tax Agency as one that cannot provide CbC reports or equivalent information to the Japan tax authorities.



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2.3 Others

A CbC report must be filed with the tax office electronically in English within 1 year from the end of the accounting period of the ultimate parent entity, applicable for accounting periods beginning after March 31, 2016. Non-compliance is subject to fine of up to JPY300,000.

3. Master File

A domestic entity or a permanent establishment in Japan of a foreign entity, which is a constituent entity of an SMEG is required to file a master file. Where there are two or more constituent entities in Japan, one entity can be designated as the reporting entity through a notification to the tax office. The other entities do not need to file the master file. It should be noted that the reporting requirement for the master file is different from that for the CbC report. An SMEG with a foreign

ultimate parent entity must file the master file in Japan as long as there is a constituent entity in Japan. The master file report must be filed with the tax office electronically in Japanese or English within 1 year from the end of the accounting period of the ultimate parent entity, applicable to accounting periods beginning after March 31, 2016. Non-compliance is subject to fine of up to JPY300,000.

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