

Japan Tax Bulletin

Foreign currency conversion methods

December 2019

1. Conversion of assets and liabilities denominated in a foreign currency

The conversion of assets and liabilities denominated in a foreign currency at the end of a fiscal period is prescribed in Article 61-9, Japan Corporation Tax Act.

Article 61-9 states:

In the case where a domestic corporation holds the following assets and liabilities (hereinafter referred to as "assets, etc. in a foreign currency" in this Division) as of the end of a business year, the amount in Japanese yen of the assets, etc. in a foreign currency as of the time is to be the amount converted by the method specified in the following items in accordance with the category of the assets, etc. in a foreign currency (with regard to the assets, etc. in a foreign currency listed in item (i), item (ii)(b), and item (iii), by a method that the domestic corporation selected from those prescribed in these provisions, and when the domestic corporation had not selected any method, by a method from those prescribed in these provisions that is specified by Cabinet Order):

(i) Claims in a foreign currency (meaning monetary claims to be paid in a foreign currency) and debts in a foreign currency (meaning monetary debts to be paid in a foreign currency): The method listed in (a) or (b)

- (a) Conversion method on an accrual basis
- (b) Conversion method at the current exchange rate

(ii) Securities in a foreign currency (meaning the securities specified by Ordinance of the Ministry of Finance to be securities to be redeemed, refunded, and otherwise similarly disposed of in a foreign currency): The method specified as follows in accordance with the category of the following securities:

- (a) Securities for buying and selling: Conversion method on an accrual basis or conversion method at the current exchange rate
- (b) Securities not for buying and selling (limited to those with provisions concerning a redemption date and redemption price): Conversion method on an accrual basis or conversion method at the current exchange rate
- (c) Securities other than those listed in (a) and (b): Conversion method on an accrual basis

(iii) Deposits in a foreign currency: Conversion method on an accrual basis or conversion method at the current exchange rate

(iv) Foreign currency: Conversion method at the current exchange rate

2. Gross profit and deductible expenses

Generally, foreign exchange gains and losses that arise from the conversion into Japanese yen by using the "conversion method at the current exchange rate" are included in gross profit and deductible expenses when calculating taxable income.

However if a domestic corporation uses a different method (selected by filing a notification), or the corporation does not file to select the conversion method for certain items, it is required to adjust its taxable income for the difference between the booked and the theoretical foreign exchange gain and loss. This adjusted amount is treated as a temporary difference.

3. Prescribed conversion method

Claims and debts		Short-term - Current exchange rate Long-term- Accrual basis	
Securities	Held for trading	Current exchange rate	
	Not held for trading	Containing provisions concerning a redemption date and redemption price	Accrual basis
		Other	Accrual basis
Deposits in foreign currency		Short-term - Current exchange rate Long-term - Accrual basis	
Foreign currency		Current exchange rate	

4. Selection of conversion method

There is a notification called "Selection of conversion method for foreign currency assets and liabilities". A corporation can select the current exchange rate or accrual basis for (a) claims and debts, (b) securities (provisions concerning a redemption date and redemption price), (c) deposits in a foreign currency for all foreign currency. If the corporation does not file this notification, the conversion method for tax purpose will be the prescribed method in 3 above.

The notification should be filed before a new fiscal year starts, but if the corporation has to deal with a new foreign currency during the fiscal year, the due date for filing becomes the end of the fiscal year.



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5. Foreign exchange contracts

There are prescribed rates for foreign exchange contracts.

5.1 Forward exchange contracts

When a domestic corporation acquires assets or liabilities under a foreign exchange futures contract, the Japanese yen value of the assets and liabilities can be the amount based on the rate in the foreign exchange futures contract if it is stated on ledgers that the conversions are made on such basis when the foreign exchange futures contract is entered into. Otherwise, assets or liabilities

denominated in a foreign currency are converted into Japanese Yen in the way described in 1 and forward exchange contracts are evaluated at mark to market.

5.2 Scheduled transactions

Where forward exchange contracts are entered into for scheduled transactions, unsettled forward exchange contracts are evaluated at mark to market unless the conditions for hedge transactions are not satisfied. .