

# Japan Tax Bulletin

## Amendments to the basic corporate tax circulars relating to the COVID-19 outbreak

October 2020

Amendments to the basic corporate tax circulars have been announced due to the spread of the new coronavirus infection<sup>1</sup>.

As a result, the costs and the losses related to supporting business partners in the event of a natural disaster, which have been announced in the past, are treated consistently. The specific treatments are described below and the same amendments have also been made to the circular relating to consolidated corporations. All of these treatments were in force previously but the disasters have been amended to include the new coronavirus infection.

1. *Forgiveness of accounts receivable, etc. to business partners in the event of a disaster (CIT-C<sup>2</sup> 9-4-6-2, STML-C<sup>3</sup>61-4(1)-10-2)*

When a company forgives all or part of receivables such as accounts receivable and loans, etc. for the purpose of supporting the recovery of its business partners who suffered from a disaster within a certain period after the disaster, the losses caused by the forgiveness are not treated as donations but deductible expenses. In addition, the same also applies when a company changes the previous transaction terms stipulated in a contract such as forgiving all or part of lease payments, interest on loans and installment payments related to installment sales, etc. after the disaster occurred.

Regarding the above treatments, when the new coronavirus infection occurs and circumstances that are out of the taxpayer's control occur, such as immigration restrictions or requests stay at home, and its business partners have financing difficulties due to a decrease in sales, etc. the forgiveness of receivables and the changing the transaction terms are not treated as donations.

As well as not being treated as donations, the above transactions are also not treated as entertainment expenses.

2. *Low-interest or interest-free loans to business partners in the event of a disaster (CIT-C 9-4-6-3)*

A company may make low-interest or interest-free loans to its business partners who have suffered from a disaster, for the purpose of supporting the recovery of the business partners. If this occurs within a certain of time after the disaster occurred, the loans are treated as being made under normal terms and conditions. In other words, the difference between the interest that should normally be collected and the interest that is actually collected is not treated as donation.

3. *Disaster condolence money, etc. for business partners (STML-C 61-4(1)-10-3)*

When a company pays disaster condolence money, provides business assets, or provides services to its business partners for the purpose of maintaining and recovering business relationships within a certain period of time after the disaster occurred, these transactions are not treated as entertainment expenses (which are subject to restrictions on deduction).

4. *Expenses spent for employees of subcontractors (STML-C61-4(1)-18)*

When employees of a subcontractor suffer from a disaster in connection with the performance of a company's business at its factory or at a construction site, etc. and the company is required to pay condolence money and goods, in the same manner as with its own employees to the subcontractor's employees, the expenses are not treated as entertainment expenses.

With the above amendments to the circulars, it has become clear that losses and support money paid due to the new coronavirus infections are not treated as donations nor entertainment expenses. However, please note that when considering specific cases, it is also necessary to consider whether other non-deductible treatments apply or not.

<sup>1</sup> In this article, the new coronavirus refers to the new influenza, etc. which is subject to the provisions of the Act on Special Measures Concerning New Influenza.

<sup>2</sup> Corporate income tax circular

<sup>3</sup> Special taxation measures law circular