

Japan Tax Bulletin

Tax Measures In Emergency Economic Measures Relating To COVID-19

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1. Special tax measures for deferral of national tax payments

The tax payment deferral system is one whereby taxpayers in special circumstances can postpone their tax payment for up to one year by applying to the tax office.

Under current tax laws only taxpayers who are in special circumstances, such as they face difficulty continuing business by paying the tax in one lump sum, or they have lost their assets due to disasters, are eligible for the system (Acts on General Rules for National Taxes, Article 46).

In view of the COVID-19 outbreak, special tax measures for deferral of payments have been established for taxpayers whose income has decreased considerably due to influence of COVID-19 (Act on Extraordinary Exception on National Tax Related Laws to Address the Impact of COVID-19, Article 3).

If taxpayers meet both of the following requirements, they are eligible for the special tax deferral system and can postpone their tax payment for up to one year without any delinquent penalty tax.

(1) The taxpayer suffers a decrease in income for any period (more than one month) after February 2020 by about 20 percent or more compared to the same period of the previous year; and

(2) The taxpayer has difficulty paying their national tax in one lump sum.

The special tax measures cover national taxes which are due from February 1, 2020 to February 1, 2021. An application is required by the due date for payment.

2. Additional tax measure for extension of the national tax filing deadlines

An additional tax measure has been introduced in relation to extending the filing deadline for national taxes (including corporate income, consumption and withholding taxes).

If corporations are unable to file tax returns by the due date because of 'unavoidable circumstances' such as some employees work from home to prevent the spread of COVID-19, the corporations can apply for a tax filing extension and postpone the tax filing until they are able to file the return (Acts on General Rules for National Taxes, Article 11).

With regards to the filing extension, corporations do not have to submit any documents in advance. They just need to state 'Application for tax filing/payment extension' in the tax return.

If this is applied for, the filing due date will be the date when corporations file the tax return and the tax payment due date will be also postponed to the date of the tax filing.

3. Special tax measures for carried-back losses

If corporations who file blue tax returns continuously, make a taxable loss for a fiscal year, the loss can be carried back to the preceding year (Acts on Corporate Tax, Article 80) or carried forward for ten years (Acts on Corporate Tax, Article 57).

If the corporations choose to carry back the loss, the tax on taxable income for the previous fiscal year will be refunded fully or partially.

Under the current tax laws, the loss-carried-back system is applied only for corporations whose paid-in capital is JPY100 million or less.ⁱ

The special tax measure for loss carry-back widen the scope of eligible corporations to include those with paid-in capital is JPY1 billion or less.ⁱⁱ

The special tax measure for loss carry-back applies to fiscal years ending during the period from February 1, 2020 to January 31, 2022.

4. Special tax credit /special depreciation applicable to capital investment for remote work

Under the current laws, if a small or medium-sized enterprise (SMEⁱⁱⁱ) that files a blue tax return acquires and uses certain equipment for business, the SMEs can depreciate 100% of the acquired amount or deduct 7% of the amount from its corporate tax liability for the fiscal year.

SMEs with paid-in capital of JPY30 million or less can deduct 10% of the amount from its corporate tax liability for the fiscal year.

In addition, a special measure has been introduced so that SMEs that acquire and use specific equipment for remote working can also apply the special tax credit or the special depreciation. The equipment includes items that enable remote control, video conferencing, or automatic control etc. (Act on Special Measures Concerning Taxation, Article 42-12-4).

In order to enjoy the special tax credit or the special depreciation, SMEs need to submit a management improvement plan to the Ministry of Economy, Trade and Industry and receive approval in advance.

5. Other tax measures

Besides the above tax measures, there are other tax measures such as tax credits for donations and housing loans under personal income tax, exemptions from revenue stamp tax, and amendments to the filing deadlines for some consumption tax notifications.

i This is not applicable to corporations that are wholly owned directly or indirectly by companies with paid-in capital of JPY500 million or more (“Large corporation”).

ii This is not applicable to corporations that are wholly owned by companies with paid-in capital of JPY1 billion or more.

iii SME is a corporation whose paid-in capital is JPY 100 million or less. Even where the paid-in capital is JPY 100 million or less, a corporation that is wholly owned directly or indirectly by large corporations is not qualified for SME.