

Japan Tax Bulletin

The blue tax return system and its benefits

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The “blue tax return” system (named for the color of the tax form) was initiated following a recommendation by the Shoup Mission in 1950 in order to promote the use of modern accounting methods by taxpayers with conferring certain benefits on the “blue form” tax filers.

1. Overview

1-1. Requirements to file a blue tax return

In order to receive permission to file a blue tax return, corporations must:

- record transactions in accounting books and, maintain and reserve those books and records; and
- submit an application form for approval to file a blue tax return with the tax office before the beginning of the tax year for which the blue tax return is to be filed.

For newly incorporated companies wishing to file a blue tax return for their first tax year, the due date for the application is the earlier of the last day of the first tax year or the day after three months from the date of incorporation.

1-2. Benefits of blue form filing status

Japan Corporation Tax Law and the Special Taxation Measures Law confer the following benefits to blue tax return filers:

- Ability to carry over losses for 9 years

Net losses in each business year are carried forward for the next nine years (or ten years in the case of losses arising during business years

beginning on or after April 1, 2018).

Losses may only be carried forward in this way if a blue tax return is filed for the business year in which the loss arose, and a final tax return is then filed every subsequent year.

Note that if a corporation has paid-in capital in excess of JPY100 million or is a wholly-owned subsidiary of a large corporation with paid-in capital of at least JPY500 million (including foreign corporations), the amount of loss that may be deducted from income cannot exceed 80%¹ of income.

- Ability to claim tax refunds by carrying back net losses².
- Protection from the tax office making corrections to the corporation’s tax return that are not based on a tax investigation of the books and records.
- The tax office is required to provide a written explanation of any corrections made to the tax return.
- The tax office may not make a correction to the tax return based on estimates (This can also apply to not blue form filing status).
- Ability to expense amounts accumulated in various

reserve funds.

- Special deduction for expenditure related to prospecting for new mineral deposits.
- Special tax deductions for corporations engaged in experimentation and research.
- Special tax credits for medium- and small-sized companies that acquire machinery, etc.
- Special tax deductions for corporations that increase employee numbers.

2. Revocation of blue form filing status

Article 127 of the Corporation Tax Law lists grounds for revocation of blue form filing status. If these grounds arise in a particular tax year then the benefits of the blue form filing would be lost for that year and succeeding years.

This is the case even if, for example, the fact that such grounds existed was not found until some years after the year the grounds arose, perhaps as a result of an audit or similar examination of the records of the company. If blue form status is revoked for a past tax year, then the benefits for that year are also lost. Any loss that arose in such a year would not be able to be carried forward to and relieved against taxable profits of later years. This can give rise to potentially serious financial consequences.

Possible grounds for revocation of blue form filing status include, in summary:

- Access, recording or preservation of financial records not being in accordance with the requirements of the relevant ministerial orders;

¹ The deductible percentage of 80% will be lowered in a phased manner as follows:
Business years commencing between April 1, 2016 and March 31, 2017: 60%
Business years commencing between April 1, 2017 and March 31, 2018: 55%
Business years commencing on or after April 1, 2018: 50%
However, the deductible percentage is 100% for a certain period if the corporation is an unlisted company, undergoing reconstruction, etc.

² This provision was suspended for tax years ending between 1 April 1992 and 31 March 2018.

- Types of financial records have not been kept in accordance with the directions of the relevant head of the tax office having jurisdiction;
- There are sufficient appropriate reasons to doubt the reliability of the whole of the recorded items in the financial records, on account of the concealment or disguise of all or some part of the transactions from the financial record concerned; or
- The final tax return (or liquidation tax return if applicable) has not been submitted within the time limit allowed.



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