

Income Tax Act (Limited to the provisions related to nonresidents and foreign corporations)

(Act No. 33 of March 31, 1965)

Part I General Provisions Chapter I General Rules

(Definitions)

Article 2 In this Act, the meanings of the terms listed in the following items shall be as prescribed respectively in those items:

- (i) In Japan: This shall mean in the region where this Act is enforced.
- (ii) Outside Japan: This shall mean outside the region where this Act is enforced.
- (iii) Resident: This shall mean an individual who has a domicile or has had a residence continuously for one year or more in Japan.
- (iv) Non-permanent resident: This shall mean a resident who does not have Japanese nationality and who has had a domicile or a residence in Japan for not more than five years in total within the past ten years.
- (v) Nonresident: This shall mean an individual who is not a resident.
- (vi) Domestic corporation: This shall mean a corporation that has its head office or principal office in Japan.
- (vii) Foreign corporation: This shall mean a corporation that is not a domestic corporation.
- (viii) Association, etc. without juridical personality: This shall mean an association or foundation that is not a juridical person and that has special provisions concerning the representative or administrator.
- (viii)-2 Shareholder, etc.: This shall mean a shareholder, a member of a general partnership company, a limited partnership company, or a limited liability company, or any other contributor of a corporation.
- (viii)-3 Trust subject to corporation taxation: This shall mean a trust subject to corporation taxation prescribed in Article 2, item (xxix)-2 (Definitions) of the Corporation Tax Act (Act No. 34 of 1965).
- (ix) Public and corporate bonds: This shall mean public bonds and corporate bonds (including bonds that a corporation other than a company issues under special Acts).
- (x) Deposits and savings: This shall mean deposits and savings (including those specified by Cabinet Order as equivalent thereto).
- (xi) Jointly operated cash trust: This shall mean a cash trust accepted by a trust company (including a financial institution prescribed in Article 1,

- paragraph (1) (Approval for Additional Operations) of the Act on Additional Operation, etc. of Trust Business by Financial Institutions (Act No. 43 of 1943) that is engaged in trust business prescribed in said paragraph under said Act) in which the trust company jointly operates trust property of multiple settlors who do not act in concert (excluding an investment trust operated without instructions from the settlor prescribed in Article 2, paragraph (2) (Definitions) of the Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951), a foreign investment trust equivalent thereto (meaning a foreign investment trust as prescribed in paragraph (22) of said Article; the same shall apply in the item (xii)-2 and item (xiii)), and other trusts specified by Cabinet Order as those with settlors being substantially small in number).
- (xii) Loan trust: This shall mean a loan trust prescribed in Article 2, paragraph (1) (Definitions) of the Loan Trust Act (Act No. 195 of 1952)
- (xii)-2 Investment trust: This shall mean an investment trust or a foreign investment trust as prescribed in Article 2, paragraph (3) of the Act on Investment Trusts and Investment Corporations
- (xiii) Securities investment trust: This shall mean a securities investment trust as prescribed in Article 2, paragraph (4) of the Act on Investment Trusts and Investment Corporations and a foreign investment trust equivalent thereto.
- (xiv) Open-ended securities investment trust: This shall mean a securities investment trust under which additional principal may be entrusted.
- (xv) Bond investment trust: This shall mean a securities investment trust for the purpose of operating trust property to invest in public or corporate bonds without operating trust property to invest in shares (including units of investment prescribed in Article 2, paragraph (14) of the Act on Investment Trusts and Investment Corporations; the same shall apply in Article 24 (Dividend Income), Article 25 (The Amount Deemed to Be Dividends, etc.), Article 57-4, paragraph (3) (Special Provisions on Capital Gains, etc. from a Share Exchange, etc.), Article 176, paragraph (1) and paragraph (2) (Special Provisions on Taxation of Interest, etc. from Trust Property), Article 224-3, paragraph (2), item (i) (Notification of Recipients of Consideration for the Transfer of Shares, etc.), and Article 225, paragraph (1), item (ii) (Payment Records and Notifications of Payment)) or capital contributions.
- (xv)-2 Bond operation investment trust: This shall mean an investment trust that is not a securities investment trust and is specified by Cabinet Order as a trust operating monies accepted as trust property by investing in public or corporate bonds, etc. (meaning public or corporate bonds, negotiable instruments, nominative monetary claims (meaning nominative claims for the purpose of paying monies), or other assets specified by Cabinet Order)
- (xv)-3 Publicly offered bond investment trust: This shall mean a bond operation

- investment trust (limited to what falls under the category of an investment trust listed in Article 2, item (xxix), (b)2. of the Corporation Tax Act) under which beneficial rights based on the establishment thereof were offered through public offering (meaning a solicitation for acquisition as prescribed in Article 2, paragraph (3) (Definitions) of the Financial Instruments and Exchange Act (Act No. 25 of 1948) which is specified by Cabinet Order as falling under the case listed in item (i) of said paragraph).
- (xv)-4 Specified purpose trust: This shall mean a specified purpose trust prescribed in Article 2, paragraph (13) (Definitions) of the Act on Securitization of Assets (Act No. 105 of 1998).
- (xv)-5 Specified trust that issues beneficiary certificates: This shall mean a specified trust that issues beneficiary certificates as prescribed in Article 2, item (xxix), (c) of the Corporation Tax Act.
- (xvi) Inventories: This shall mean commodities, products, semi-finished products, products in progress, raw materials, or other assets (excluding securities and forests) related to a business that is to generate business income, which are specified by Cabinet Order as those to be taken inventory.
- (xvii) Securities: This shall mean securities as prescribed in Article 2, paragraph (1) of the Financial Instruments and Exchange Act or others equivalent thereto that are specified by Cabinet Order.
- (xviii) Fixed assets: This shall mean land (including any right on land), depreciable assets, telephone subscription rights, or other assets (excluding forests) specified by Cabinet Order.
- (xix) Depreciable assets: This shall mean buildings, structures, machinery, devices, ships, vehicles and equipment, tools, apparatuses and appliances, mining rights, or other assets, which generate real property income or miscellaneous income and which are used for operations to generate real property income, business income, timber income, or miscellaneous income, and which are specified by Cabinet Order as assets to be depreciated.
- (xx) Deferred expenses: This shall mean expenses paid by an individual for operations that are to generate real property income, business income, timber income, or miscellaneous income, whose effects last for one year or more after the day on which the payment was made and which are specified by Cabinet Order.
- (xxi) Classified income: This shall mean interest income, dividend income, real property income, business income, employment income, retirement income, timber income, capital gains, occasional income, and miscellaneous income as prescribed in Part II, Chapter II, Section 2, Subsection 1 (Types of Income and Amounts of Classified Income).
- (xxii) Amounts of classified income: This shall mean the amount of interest income, the amount of dividend income, the amount of real property income,

the amount of business income, the amount of employment income, the amount of retirement income, the amount of timber income, the amount of capital gains, the amount of occasional income, and the amount of miscellaneous income prescribed in Part II, Chapter II, Section 2, Subsection 1.

- (xxiii) Fluctuating income: This shall mean income arising from fish catches, income related to royalties for a copyright, or other income whose amount varies significantly year by year and which is specified by Cabinet Order.
- (xiv) Ad hoc income: This shall mean income related to a signing bonus paid on lump-sum basis due to a promise to provide services, or other income which arises on a temporary basis and which is specified by Cabinet Order.
- (xxv) Amount of net loss: This shall mean the portion of the amount of loss prescribed in Article 69, paragraph (1) (Aggregation of Profits and Losses) that remains un-deducted even after applying the provisions of said Article).
- (xxvi) Amount of casualty loss: This shall mean, in the case where the total amount of loss prescribed in Article 72, paragraph (1) (Deduction for Casualty Loss) exceeds the amount listed in the items of said paragraph in accordance with the category listed in the relevant item, the amount in excess of said amount.
- (xxvii) Disaster: This shall mean an earthquake, storm and flood, fire, or any other disaster specified by Cabinet Order.
- (xxviii) Person with disabilities: This shall mean a person who, at all times, lacks the capacity to appreciate the person's situation due to a mental disability, a person who is blind, or any other person with a mental or physical disability as specified by Cabinet Order.
- (xxix) Person with particular disabilities: From among persons with disabilities, this shall mean persons who suffer a serious mental or physical disability as specified by Cabinet Order.
- (xxx) Widow: This shall mean a person listed as follows:
 - (a) Among persons who have been bereaved of or divorced from their husbands and who have not married thereafter or whose husbands' whereabouts are unknown, those as specified by Cabinet Order who have any dependent relatives or other persons specified by Cabinet Order whose cost of living is included in their own.
 - (b) In addition to those listed in (a), among persons who have been bereaved of their husbands and who have not married thereafter or whose husbands' whereabouts are unknown, those as specified by Cabinet Order whose gross income, retirement income and timber income as prescribed in Article 22 (Tax Base) in total, calculated without applying the provisions of Article 70 (Deduction for Carryover of Net Loss) and Article 71 (Deduction for Carryover of Casualty Loss), (hereinafter referred to as the "total

- amount of income" in this Article) is not more than five million yen
- (xxxix) Widower: This shall mean, among persons who have been bereaved of or divorced from their wives and who have not married thereafter or whose wives' whereabouts are unknown, those as specified by Cabinet Order who have any relatives as specified by Cabinet Order whose cost of living is included in their own, and whose total amount of income is not more than five million yen.
- (xxxix) Working student: This shall mean, among persons listed as follows who earn business income, employment income, retirement income, or miscellaneous income based on their own work (hereinafter referred to as "employment income, etc." in this item) and whose total amount of income is not more than 650,000 yen, those for whom the amount pertaining to income other than employment income, etc. is not more than 100,000 yen:
- (a) A student or child at a school prescribed in Article 1 (Scope of Schools) of the School Education Act (Act No. 26 of 1947)
 - (b) A student at a special training college prescribed in Article 124 (Special Training Colleges) of the School Education Act or a miscellaneous school prescribed in Article 134, paragraph (1) (Miscellaneous Schools) of said Act, which is established by the national or a local government, a school corporation prescribed in Article 3 (Definitions) of the Private Schools Act (Act No. 270 of 1949), a corporation established under Article 64, paragraph (4) (Private Special Training Colleges and Private Miscellaneous Schools) of said Act, or others specified by Cabinet Order as those equivalent thereto, who studies in a course specified by Cabinet Order
 - (c) A person who receives the accredited vocational training provided by a vocational training corporation as prescribed in Article 24, paragraph (3) (Accreditation of Vocational Training) of the Human Resources Development Promotion Act (Act No. 64 of 1969) and who studies in a course specified by Cabinet Order.
- (xxxix) Qualifying spouse for tax deduction: This shall mean a spouse of a resident whose cost of living is included in that of the resident (excluding a person who falls under the category of family employees of a blue return taxpayer prescribed in Article 57, paragraph (1) (Special Provisions, etc. on Necessary Expenses Where Relatives Are Engaged in Business as Full-Time Employees) and receives any salaries prescribed in said paragraph, and the category of family employees prescribed in paragraph (3) of said Article) and whose total amount of income is not more than 380,000 yen.
- (xxxix)-2 Qualifying spouse for tax deduction over 70: This shall mean a qualifying spouse for tax deduction who is 70 years of age or older.
- (xl) Dependent relative: This shall mean a relative of a resident (excluding

- the resident's spouse), a child entrusted to a foster parent prescribed in Article 6-3, paragraph (1) (Definitions) of the Child Welfare Act (Act No. 164 of 1947) under Article 27, paragraph (1), item (iii) (Measures to Be Taken by Prefectures) of said Act, or an elderly person entrusted to a nursing care provider as prescribed in Article 11, paragraph (1), item (iii) (Measures to Be Taken by Municipalities) of the Act on Social Welfare Services for the Elderly (Act No. 133 of 1963) under the same item, whose cost of living is included in that of the resident (excluding a person who falls under the category of family employees of a blue return taxpayer prescribed in Article 57, paragraph (1) and receives any salaries prescribed in said paragraph and the category of family employees prescribed in paragraph (3) of said Article) and whose total amount of income is not more than 380,000 yen.
- (xxxiv)-2 Specified dependent relatives: This shall mean a dependent relative who is 16 years of age or older and younger than 23 years of age.
- (xxxiv)-3 Elderly dependent relative: This shall mean a dependent relative who is 70 years of age or older.
- (xxxv) Special farming income earner: This shall mean a person whose farming income (meaning income arising from a business related to growing or cultivating rice, wheat, tobacco, fruits, vegetables or flowers, the silk cultivation business, or other business specified by Cabinet Order as being equivalent thereto; hereinafter the same shall apply in this item) for the year accounts for over 70% of the gross income, and the portion of the farming income that arises on or after September 1 of the year exceeds 70% of the total farming income for the year
- (xxxvi) Amount of estimated tax prepayment: This shall mean the amount of income tax to be paid under the provisions of Article 104, paragraph (1) (Payment of Estimated Tax Prepayment) or Article 107, paragraph (1) (Payment of Estimated Tax Prepayment by Special Farming Income Earners) (including the case where these provisions are applied mutatis mutandis pursuant to Article 166 (Mutatis Mutandis Application to Nonresidents)).
- (xxxvii) Tax return: This shall mean a return pursuant to the provisions of Part II, Chapter V, Section 2, Subsection 1 and Subsection 2 (Tax Returns) (including the case where they are applied mutatis mutandis pursuant to Article 166) (including a return filed after the deadline for said return).
- (xxxviii) Return filed after the deadline: This shall mean a return filed after the deadline prescribed in Article 18, paragraph (2) (Return Filed after the Deadline) of the Act on General Rules for National Taxes (Act No. 66 of 1962).
- (xxxix) Amended return: This shall mean an amended return prescribed in Article 19, paragraph (3) (Amended Return) of the Act on General Rules for National Taxes.
- (xl) Blue return: This shall mean a tax return and an amended return related

- thereto filed with a blue return pursuant to the provisions of Article 143 (Blue Return) (including the case where it is applied mutatis mutandis pursuant to Article 166).
- (xli) Deadline for filing a tax return: This shall mean the deadline for filing a return pursuant to the provisions of Article 120, paragraph (1) (Income Tax Returns) (including the case where it is applied mutatis mutandis pursuant to Article 166), and in the case where the taxpayer has died or left the country during the year, this shall mean the deadline for filing a return pursuant to the provisions of Article 125, paragraph (1) (Tax Returns Where the Taxpayer Has Died During the Year) or Article 127, paragraph (1) (Tax Returns Where the Taxpayer Leaves the Country During the Year) (including the case where these provisions are applied mutatis mutandis pursuant to Article 166).
- (xlii) Departure: This shall mean that a resident ceases to have a domicile or a residence in Japan without making a notification of the resident's tax agent under Article 117 paragraph (2) (Tax Agents) of the Act on General Rules for National Taxes, or that a nonresident ceases to have a residence in Japan without making a notification of tax agent under said paragraph (with regard to a nonresident who does not have a domicile in Japan and falls under the category of nonresidents listed in Article 164, paragraph (1), items (i) to (iii) (Method of Taxation for Nonresidents), this shall mean that such nonresident ceases to fall under the category of any of the nonresidents listed in these items, and with regard to a nonresident who does not have a domicile in Japan and falls under the category of nonresidents listed in item (iv) of said paragraph, this shall mean that such nonresident terminates the business prescribed in Article 161, item (ii) (Compensation for the Provision of Personal Services) that the nonresident's conducts in Japan).
- (xliii) Reassessment: This shall mean a reassessment pursuant to the provisions of Article 24 (Reassessment) or Article 26 (Reassessment of Previous Reassessment) of the Act on General Rules for National Taxes
- (xliv) Determination: This shall mean a determination pursuant to the provisions of Article 25 (Determination) of the Act on General Rules for National Taxes, except for the case set forth in Article 19 (Effect of Filing a Return, etc. When the Designation of the Place for Tax Payment Has Been Revoked).
- (xlv) Withholding: This shall mean withholding and paying income tax pursuant to the provisions of Part IV, Chapter I to Chapter VI (Withholding).
- (xlvi) Penalty tax: This shall mean penalty tax prescribed in Article 2, item (iv) (Definitions) of the Act on General Rules for National Taxes.
- (xlvii) Appropriation: This shall mean appropriation pursuant to the provisions of Article 57, paragraph (1) (Appropriation) of the Act on General Rules for

National Taxes, except for the case set forth in Article 190 (Year-End Adjustment) and Article 191 (Refund of Overpayment).

(xlviii) Interest on refunds: This shall mean interest on refunds prescribed in Article 58, paragraph (1) (Interest on Refunds) of the Act on General Rules for National Taxes.

(The Taxpayer)

Article 5 (1) A resident shall be liable to pay income tax pursuant to this Act.

(2) A nonresident shall be liable to pay income tax pursuant to this Act in any of the following cases:

(i) Where the nonresident has domestic source income prescribed in Article 161 (Domestic Source Income) (referred to as "domestic source income" in the following item) (excluding the case listed in said item)

(ii) Where the nonresident receives, in Japan, taxable income from a domestic corporation that is attributable to the trust property under a trust subject to corporation taxation for which the nonresident accepts the position of trustee (meaning interest, etc., dividends, etc., compensation for periodic deposits, profits, margin profits, distribution of profits, or monetary awards listed in the items of Article 174 (Tax Base for a Domestic Corporation's Income Tax); hereinafter the same shall apply in this Article), or where the nonresident receives taxable income from a foreign corporation that is attributable to said trust property (meaning domestic source income listed in Article 161, items (i)-2 to (vii) or items (ix) to (xii); hereinafter the same shall apply in this Article)

(3) A domestic corporation shall be liable to pay income tax pursuant to this Act when it receives, in Japan, taxable income from a domestic corporation, or when it receives taxable income from a foreign corporation that is attributable to the trust property under a trust subject to corporation taxation for which it accepts the position of trustee.

(4) A foreign corporation shall be liable to pay income tax pursuant to this Act when it receives taxable income from a foreign corporation, or when it receives, in Japan, taxable income from a domestic corporation that is attributable to the trust property under a trust subject to corporation taxation for which it accepts the position of trustee.

Chapter III Scope of Taxable Income

(Scope of Taxable Income)

Article 7 (1) Income tax shall be imposed with respect to income specified in each of the following items for the category of person listed in the relevant item:

- (i) A resident other than a non-permanent resident: All income
 - (ii) A non-permanent resident: Domestic source income prescribed in Article 161 (Domestic Source Income) (hereinafter referred to as "domestic source income" in this Article), and any other income paid in Japan or remitted to Japan from abroad
 - (iii) A nonresident: Domestic source income listed in the items of Article 164, paragraph (1) and paragraph (2) (Method of Taxation for Nonresidents) for the category of nonresident listed in the relevant item of Article 164, paragraph (1)
 - (iv) A domestic corporation: Interest, etc., dividends, etc., compensation for periodic deposits, interests, profits, margin profits, distribution of profits or monetary awards listed in the items of Article 174 (Tax Base for a Domestic Corporation's Income Tax), which is paid in Japan
 - (v) A foreign corporation: Domestic source income listed in Article 161, items (i)-2 to (vii) and items (ix) to (xii) (in the case of a foreign corporation listed in Article 141, item (iv) of the Corporation Tax Act (Foreign Corporations Without a Permanent Establishment in Japan: excluding that listed in Article 161, item (i)-2)
- (2) Necessary matters concerning the scope of income listed in item (ii) of the preceding paragraph shall be specified by Cabinet Order.

(Scope of Taxable Income in the Case of Change in the Category of the Taxpayer)

Article 8 Where an individual, in the relevant year, falls under more than one category among [1] a category of resident other than a non-permanent resident, [2] the category of non-permanent resident, and [3] the categories of nonresident listed in the items of Article 164, paragraph (1) (Method of Taxation for Nonresidents), income tax shall be imposed on the income listed in paragraph (1), items (i) to (iii) of the preceding Article, which has arisen during the respective periods when the individual was [1] a resident other than a non-permanent resident, [2] a non-permanent resident, or [3] a nonresident listed in the relevant item in said year.

(Tax Exemption of Public Corporations, etc. and Charitable Trusts, etc.)

Article 11 (1) Income tax shall not be imposed with respect to the interest, etc., dividends, etc., compensation for periodic deposits, interests, profits, margin profits, and distribution of profits listed in the items of Article 174 (Tax Base for a Domestic Corporation's Income Tax) that is to be received by a domestic corporation listed in Appended Table 1 (with regard to interest on public and corporate bonds, loan trusts, bond investment trusts, or beneficial rights of specified purpose trusts that are specified by Cabinet Order (hereinafter

- referred to as "public and corporate bonds, etc." in this Article), as well as the distribution of proceeds, or dividends of surplus prescribed in Article 24, paragraph (1) (Dividend Income) (hereinafter referred to as "interest, etc." in this Article), limited to the portion equivalent to the amount of monies specified by Cabinet Order as corresponding to the period during which said domestic corporation continued to hold said public and corporate bonds, etc.).
- (2) Income tax shall not be imposed with respect to income arising from the property of a charitable trust as prescribed in Article 1 (Charitable Trusts) of the Charitable Trust Act (Act No. 62 of 1922) or a participant protection trust as prescribed in Article 2, paragraph (11) (Definitions) of the Act on Book-Entry Transfer of Bonds, Shares, etc. (with regard to income pertaining to interest, etc. on public and corporate bonds, etc., limited to the portion equivalent to the amount of monies specified by Cabinet Order as corresponding to the period during which said public and corporate bonds continued to be among the property of said charitable trust or participant protection trust).
- (3) The part of the provisions of the preceding two paragraphs that relates to interest, etc. on public and corporate bonds, etc. shall apply only when a domestic corporation or a trustee of a charitable trust or participant protection trust as prescribed in these provisions operated with regard to the public and corporate bonds, etc., by way of entries or records in a transfer account book as prescribed in the Act on Book-Entry Transfer of Bonds, Shares, etc. or by other means specified by Cabinet Order, and when the domestic corporation or the trustee has submitted a statement containing its intention to seek the application of these provisions to interest, etc. on said public and corporate bonds, and other matters as specified by Ordinance of the Ministry of Finance, to the district director of the tax office, via a person who pays the interest, etc. of said public and corporate bonds.

Chapter V Place for Tax Payment

(Place for Payment of the Withholding Tax)

Article 17 The place where a person who pays salaries, etc. as prescribed in Article 28, paragraph (1) (Employment Income), or a person who makes any other payments as prescribed in Part IV, Chapter I to Chapter VI (Withholding) is to pay income tax to be withheld with regard to such payments shall be the location where the person's office, place of business or any other equivalent place for handling the payment is located as on the date of payment; provided, however, that with regard to interest on public and corporate bonds, dividends of surplus or any other payment specified by Cabinet Order which is paid by a domestic corporation (including a trust

corporation that is deemed to be a domestic corporation pursuant to the provisions of Article 6-3, item (i) (Application of This Act to Trust Corporations, etc.) as prescribed in said Article) and which is prescribed in Article 24, paragraph (1) (Dividend Income), the place shall be the location of the head office or principal office of a person who makes the payment or any other place specified by Cabinet Order.

(Designation of the Place for Tax Payment)

Article 18 (1) Omitted

(2) Where the place for the tax payment prescribed in the preceding Article is deemed to be inappropriate as the place for the payment of income tax as set forth in said Article, in light of the manner for payment by the person who makes the payment as prescribed in said Article or other circumstances, the competent regional commissioner with jurisdiction over the place for the tax payment may designate the place for payment of said income tax, notwithstanding the provisions of said Article.

Part II Tax Liability of Residents

Chapter I General Rules

(Procedures for the Calculation of Income Tax)

Article 21 (1) The amount of income tax imposed on a resident shall be calculated according to the procedures prescribed as follows:

- (i) Pursuant to the provisions of Section 2 of the following Chapter (Calculation of the Amount of Classified Income), the income shall be divided into interest income, dividend income, real property income, business income, employment income, retirement income, timber income, capital gains, occasional income, or miscellaneous income, and the amount of income shall be calculated for each category
- (ii) Based on the amounts of income set forth in the preceding item, the amount of gross income, retirement income and timber income as prescribed in the following Article shall be calculated, pursuant to the provisions of the following Article and Section 3 of the following Chapter (Aggregation of Profits and Losses and Deduction for Carryover of Losses)
- (iii) Pursuant to the provisions of Section 4 of the following Chapter (Exemptions and Deductions from Income), the amount of taxable gross income, the amount of taxable retirement income, or the amount of taxable timber income as prescribed in Article 89, paragraph (2) (Tax Rate) shall be calculated after taking the basic deduction and any other deductions from the amount of gross income, retirement income or timber income set forth in the preceding item.

- (iv) Based on the amount of taxable gross income, the amount of taxable retirement income or the amount of taxable timber income set forth in the preceding paragraph, the amount of income tax shall be calculated pursuant to the provisions of Chapter III, Section 1 (Tax Rate).
 - (v) Where the taxpayer is taking a tax credit for dividends and a credit for foreign tax pursuant to the provisions of Chapter III, Section 2 (Tax Credit), the amount after receiving the credit from the amount equivalent to the income tax set forth in the preceding item shall be the amount of income tax.
- (2) In the case referred to in the preceding paragraph, when a resident falls under the provisions of Chapter IV (Special Provisions on Calculation of the Amount of Tax), the amount of income tax imposed on the resident shall be as prescribed in said Chapter.

**Chapter II Tax Base, Calculation Thereof, and Exemptions and Deductions
from Income
Section 1 Tax Base**

(Tax Base)

- Article 22 (1) The tax base for the income tax imposed on a resident shall be the amount of gross income, retirement income and timber income.
- (2) The amount of gross income shall be the sum of the amounts listed as follows that are calculated pursuant to the provisions of the following Section (Calculation of the Amount of Classified Income) (in the case where the provisions of Article 70, paragraph (1) or paragraph (2) (Deduction for Carryover of Net Loss) or Article 71, paragraph (1) (Deduction for Carryover of Casualty Loss) are applied, the amount after the application):
- (i) The sum of the amount of interest income, dividend income, real property income, business income, employment income, capital gains (limited to the part of income listed in Article 33 paragraph (3), item (i) (Calculation of the Amount of Capital Gains)), and miscellaneous income (in the case where the provisions of Article 69 (Aggregation of Profits and Losses) are applied to these amounts, the respective amount after the application)
 - (ii) The amount equivalent to a half of the sum of capital gains (limited to the part of income listed in Article 33, paragraph (3), item (ii)) and occasional income (in the case where the provisions of Article 69 are applied to these amounts, the respective amount after the application)
- (3) The amount of retirement income or the amount of timber income shall be an amount calculated pursuant to the provisions of the following Section, respectively (in the case where the provisions of Articles 69 to 71 are applied to those amounts, the respective amount after the application).

Section 2 Calculation of the Amount of Classified Income

Subsection 1 Types of Income and the Amount of Classified Income

(Interest Income)

Article 23 (1) Interest income shall be income related to interest on public and corporate bonds and deposits and savings (excluding coupon-only book-entry government bonds as prescribed in Article 90, paragraph (3) (Definitions) of the Act on Book-Entry Transfer of Bonds, Shares, etc. (limited to those for which the separate trading of principal and interest prescribed in paragraph (1) of said Article has been conducted as specified by Ordinance of the Ministry of Finance), and the distribution of proceeds of a jointly operated cash trust, bond investment trust, and publicly offered bond investment trust (hereinafter referred to as "interest, etc." in this Article).

(2) The amount of interest income shall be the revenue arising from interest, etc. for the year.

(Dividend Income)

Article 24 (1) Dividend income shall be income related to dividends of surplus (limited to dividends related to shares or capital contributions (including the beneficial rights of a bond investment trust other than a publicly offered bond investment trust, and company bond-type beneficial rights; the same shall apply in the following Article) and excluding dividends which result from a decrease in capital surplus and a company split by split-off (meaning a company split by split-off as prescribed in Article 2, item (xii)-9 of the Corporation Tax Act and including a trust split in a trust subject to corporation taxation; hereinafter the same shall apply in this paragraph and the following Article)), dividends of profits (including the distribution of monies prescribed in Article 115, paragraph (1) (Interim Dividend) of the Act on Securitization of Assets and excluding dividends due to a company split by split-off), distribution of surplus (limited to a distribution related to capital contributions), and distribution of interest on funds (meaning interest on funds as prescribed in Article 55, paragraph (1) (Restriction on Payment of Interest on Funds) of the Insurance Business Act (Act No. 105 of 1995)), and proceeds from an investment trust (excluding a bond investment trust and a publicly offered bond investment trust) and a specified trust that issues beneficiary certificates (hereinafter referred to as "dividends, etc." in this Article), which are to be received from a corporation (excluding corporations in the public interest and associations, etc. without juridical personality as prescribed in Article 2, item (vi) (Definitions) of the Corporation Tax Act).

(2) The amount of dividend income shall be the revenue arising from dividends, etc. for the year; provided, however, that in the case where there is any

interest on liabilities required to acquire shares or any other principal which is to generate dividend income (excluding any interest on liabilities required to acquire securities which have generated business income or miscellaneous income; hereinafter the same shall apply in this paragraph) and which is to be paid within the year, the amount of dividend income shall be the amount that remains after deducting, from said revenue, the sum calculated as specified by Cabinet Order as the portion of the payable interest on liabilities that corresponds to the period during which the principal was held during that year.

(The Amount Deemed to Be Dividends, etc.)

Article 25 (1) In the case where a shareholder, etc. of a corporation (excluding corporations in the public interest, etc. and associations, etc. without juridical personality as prescribed in Article 2, item (vi) (Definitions) of the Corporation Tax Act; hereinafter the same shall apply in this paragraph) has received the delivery of monies or any other assets by reason of the occurrence of any of the corporation's events listed as follows, when the sum of the amount of the monies and the value of the assets exceeds the amount of the portion of the corporation's stated capital, etc. prescribed in item (xvi) of said Article or the amount of consolidated individual stated capital, etc. prescribed in item (xvii)-2 of said Article that corresponds to the corporation's shares or capital contributions, which caused the delivery; with regard to the application of the provisions of this Act, monies or any other assets related to the amount of said excess shall be deemed to be dividends of surplus, dividends of profits or distribution of surplus as prescribed in paragraph (1) of the preceding Article:

- (i) Merger of the corporation (including the consolidation of trusts related to a trust subject to corporation taxation and excluding a qualified merger as prescribed in Article 2, item (xii)-8 of the Corporation Tax Act)
- (ii) Company split by split-off of the corporation (excluding a qualified company split by split-off as prescribed in Article 2, item (xii)-12 of the Corporation Tax Act)
- (iii) Redemption of the stated capital of the corporation (meaning dividends of surplus related to shares (limited to dividends due to a decrease in capital surplus) on grounds other than a company split by split-off) or the distribution of residual assets due to the dissolution of the corporation
- (iv) The corporation's acquisition of its own shares or capital contributions (excluding an acquisition through purchase on a market opened by a financial instruments exchange as prescribed in Article 2, paragraph (16) (Definitions) of the Financial Instruments and Exchange Act, other types of acquisition as specified by Cabinet Order, and the acquisition of shares or capital contributions listed in Article 57-4, paragraph (3), item (i) to (iii) (Special Provisions on Capital Gains, etc. from a Share Exchange, etc.) in the

- case falling under the case prescribed in said paragraph)
- (v) Cancellation of the corporation's capital contributions (excluding cancellation with regard to acquired capital contributions), refund of the corporation's capital contributions, refund of equity due to the withdrawal of a member or any other contributor from the corporation, or extinguishment of the corporation's shares or capital contributions by the corporation without acquiring them
 - (vi) Entity conversion of the corporation (limited to an entity conversion accompanying the delivery of assets other than the shares of or capital contributions to the corporation that has undergone the entity conversion)
- (2) Methods for calculating the amount of the portion corresponding to shares or capital contributions as prescribed in the preceding paragraph and any other matters necessary for the application of the provisions of said paragraph shall be specified by Cabinet Order.

(Real Property Income)

- Article 26 (1) Real property income shall be income arising from the lending of real property, any right on real property, vessels or aircraft (hereinafter referred to as "real property, etc." in this paragraph) (including the establishment of superficies or emphyteusis and any other act carried out for having another person use real property, etc.) (such income shall exclude that which falls under the category of business income or capital gains).
- (2) The amount of real property income shall be the amount that remains after deducting the necessary expenses from gross revenue related to real property income for the year.

(Business Income)

- Article 27 (1) Business income shall be income arising from the farming industry, the fishing industry, the manufacturing industry, the wholesale industry, the retail industry, the service industry or any other industry specified by Cabinet Order (excluding that which falls under the category of timber income or capital gains).
- (2) The amount of business income shall be the amount that remains after deducting the necessary expenses from gross revenue related to business income for the year.

(Employment Income)

- Article 28 (1) Employment income shall be income related to pay, compensation, wages, annual allowance, a bonus or any other salaries of a similar nature (hereinafter referred to as "salaries, etc." in this Article).
- (2) The amount of employment income shall be the amount that remains after

making an employment income deduction from the revenue from salaries, etc. for the year.

- (3) The employment income deduction prescribed in the preceding paragraph shall be the amount specified in each of the following items for the category set forth in the relevant item:
- (i) In the case where the amount of revenue prescribed in the preceding paragraph is 1,800,000 yen or less: The amount equivalent to 40% of said revenue (650,000 yen, in the case where said amount is less than 650,000 yen)
 - (ii) In the case where the amount of revenue prescribed in the preceding paragraph is over 1,800,000 yen but not more than 3,600,000 yen: The sum of 720,000 yen and the amount equivalent to 30% of the amount that remains after deducting 1,800,000 yen from said revenue
 - (iii) In the case where the amount of revenue prescribed in the preceding paragraph is over 3,600,000 yen but not more than 6,600,000 yen: The sum of 1,260,000 yen and the amount equivalent to 20% of the amount that remains after deducting 3,600,000 yen from said revenue
 - (iv) In the case where the amount of revenue prescribed in the preceding paragraph is over 6,600,000 yen but not more than 10,000,000 yen: The sum of 1,860,000 yen and the amount equivalent to 10% of the amount that remains after deducting 6,600,000 yen from said revenue
 - (v) In the case where the amount of revenue prescribed in the preceding paragraph exceeds 10,000,000 yen: The sum of 2,200,000 yen and the amount equivalent to 5% of the amount that remains after deducting 10,000,000 yen from said revenue
- (4) In the case where the revenue from salaries, etc. for the year is less than 6,600,000 yen, the amount of employment income related to said salaries, etc. shall be the amount equivalent to the amount of salaries, etc. after making the employment income deduction set forth in Appended Table 5 that is calculated, by deeming said revenue to be the amount of salaries, etc. set forth in Appended Table 5, in accordance with said amount pursuant to said table, notwithstanding the provisions of the preceding two paragraphs.

(Retirement Income)

- Article 30 (1) Retirement income shall be income related to a retirement allowance, lump sum pension or any other salaries to be received occasionally due to retirement, or any salaries of a similar nature (hereinafter referred to as a "retirement allowance, etc." in this Article).
- (2) The amount of retirement income shall be the amount equivalent to 50% of the amount that remains after making a retirement income deduction from the revenue from a retirement allowance, etc. for the year.

- (3) The retirement income deduction prescribed in the preceding paragraph shall be the amount listed in each of the following items for the category set forth in the relevant item:
- (i) In the case where the period of service specified by Cabinet Order (hereinafter referred to as a "period of service (years)" in this paragraph) is 20 years or less: The amount obtained by multiplying 400,000 yen by said period of service (years)
 - (ii) In the case where the period of service exceeds 20 years: The sum of 8,000,000 yen and the amount obtained by multiplying 700,000 yen by the number of years after subtracting 20 years from said period of service (years)
- (4) When falling under any of the cases listed in the following items, the retirement income deduction prescribed in paragraph (2) shall be the amount listed in the relevant item, notwithstanding the provisions of the preceding paragraph:
- (i) In the case where a person has received payment of another retirement allowance, etc. in or before the year prior to the relevant year and which is specified by Cabinet Order: The amount that remains after deducting, from the amount calculated pursuant to the provisions of the preceding paragraph, the amount calculated, with regard to said other retirement allowance, etc., in accordance with the provisions of said paragraph as specified by Cabinet Order
 - (ii) In the case where the amount calculated pursuant to the provisions of the preceding paragraph and the preceding item is less than 800,000 yen (excluding the case falling under the following item): 800,000 yen
 - (iii) In the case where a person is deemed to have retired directly as a result of having become disabled as specified by Cabinet Order: The amount adding 1,000,000 yen to the amount calculated pursuant to the provisions of the preceding paragraph and item (i) (800,000 yen, in the case where said amount is less than 800,000 yen)

(Lump Sum Payment Deemed to be Retirement Allowance, etc.)

Article 31 With regard to the application of the provisions of this Act, the following lump sum payments shall be deemed to be a retirement allowance, etc. as prescribed in paragraph (1) of the preceding Article:

- (i) Lump sum payment based on the provisions of the National Pension Act, Welfare Pension Insurance Act (Act No. 115 of 1954) (excluding the provisions of Chapter IX (Welfare Pension Fund and Welfare Fund Association)), National Public Service Mutual Aid Association Act (Act No. 128 of 1958), Local Public Service Mutual Aid Association Act (Act No. 152 of 1962), Private School Personnel Mutual Aid Association Act (Act No. 245 of 1953), and Act on Farmers' Pension Fund, Incorporated Administrative

Agency (Act No. 127 of 2002), or any other lump sum payment based on a system similar to the one concerning social insurance or mutual aid pursuant to the provisions of these Acts (including any similar payment; the same shall apply in item (iii)), which is specified by Cabinet Order

(ii) Lump sum payment based on the provisions of Chapter IX of the Welfare Pension Insurance Act which is paid due to the retirement of a subscriber as prescribed in Article 122 (Subscribers) of said Act and a lump sum payment based on the provisions of the Coal Mining Pension Fund Act (Act No. 135 of 1967) which is paid due to the retirement of a pit worker or surface worker prescribed in Article 16, paragraph (1) (Payment for Pit Workers) or Article 18, paragraph (1) (Payment for Surface Workers) of said Act

(iii) Lump sum payment received based on the provisions of the Defined-Benefit Corporate Pension Act (Act No. 50 of 2001) which is paid due to the retirement of a subscriber as prescribed in Article 25, paragraph (1) (Subscribers) of said Act (in the case where installment deposits contributed based on a constitution related to a defined-benefit corporate pension as prescribed in Article 3, paragraph (1) (Implementation of Defined-Benefit Corporate Pension) of said Act contain the amount borne by the subscriber, limited to the portion equivalent to the amount that remains after deducting the amount borne by the subscriber from the amount of the lump sum payment) or any other lump sum payment specified by Cabinet Order as being similar thereto.

(Timber Income)

Article 32 (1) Timber Income shall be income arising from the felling or transfer of forests.

(2) Income arising from the felling or transfer of forests within five years from the date of the acquisition thereof shall not be included in timber income.

(3) The amount of timber income shall be the amount that remains after making a special timber income deduction from the amount after deducting the necessary expenses from gross revenue related to timber income for the year.

(4) The special timber income deduction prescribed in the preceding paragraph shall be 500,000 yen (in the case where the remaining amount prescribed in said paragraph is less than 500,000 yen, said remaining amount).

(Capital Gains)

Article 33 (1) Capital gains shall be income arising from the transfer of assets (including the establishment of superficies or a right of lease for owning a building or structure and any other act carried out for having another person use land for a long period of time under contract, which is specified by Cabinet Order; hereinafter the same shall apply in this Article).

- (2) Income listed as follows shall not be included in capital gains:
- (i) Income arising from the transfer of inventories (including those specified by Cabinet Order as assets equivalent thereto) or the transfer of other assets carried out continuously for the purpose of profit
 - (ii) In addition to what falls under the preceding item, income arising from the felling or transfer of forests
- (3) The amount of capital gains shall be the amount obtained by deducting the sum of the acquisition costs of assets that have generated the income listed in the following items and the cost of the transfer of such assets from gross revenue related to the relevant income for the year, respectively, and then by making a special capital gain deduction from the sum of the remaining amount (in the case where gross revenue related to any of the income listed in the following items is less than the sum of the acquisition costs of assets that have generated said income and the cost of the transfer of such assets, from the amount that remains after deducting the amount equivalent to such shortfall from the remaining amount related to the income listed in the other items; hereinafter such amount shall be referred to as "capital gains" in this Article):
- (i) Income arising from the transfer of assets (excluding a transfer falling under the provisions of the preceding paragraph; the same shall apply in the following item) that was made within five years from the date of the acquisition thereof (excluding income specified by Cabinet Order)
 - (ii) Income arising from the transfer of assets other than the income listed in the preceding item
- (4) The special capital gain deduction prescribed in the preceding paragraph shall be 500,000 yen (in the case where capital gains are less than 500,000 yen, said capital gains).
- (5) In the case of making a special capital gain deduction as prescribed in paragraph (3) from capital gains pursuant to the provisions of said paragraph, the deduction shall first be made from the portion of said capital gains that relates to the income listed in item (i) of said paragraph.

(Occasional Income)

Article 34 (1) Occasional income shall be income other than interest income, dividend income, real property income, business income, employment income, retirement income, timber income, and capital gains, which is occasional income other than that arising from a continuous act for the purpose of profit and does not have the nature of a compensation for labor or other services or the transfer of assets.

- (2) The amount of occasional income shall be the amount obtained by deducting the sum of the amount spent on gaining said revenue from gross revenue related to occasional income for the year (limited to the amount directly

required for conducting an act that generated the revenue or for the occurrence of the cause that generated the revenue), and then by making a special occasional income deduction from the remaining amount.

- (3) The special occasional income deduction prescribed in the preceding paragraph shall be 500,000 yen (in the case where the remaining amount prescribed in said paragraph is less than 500,000 yen, said remaining amount)

(Miscellaneous Income)

Article 35 (1) Miscellaneous income shall be income that does not fall under any of the categories of interest income, dividend income, real property income, business income, employment income, retirement income, timber income, capital gains and occasional income.

- (2) The amount of miscellaneous income shall be the sum of the amount listed in the following items:

(i) The amount that remains after deducting the amount of a public annuities deduction from the revenue from public annuities, etc. for the year

(ii) The amount that remains after deducting the necessary expenses from gross revenue related to miscellaneous income (excluding income related to public annuities, etc.) for the year

- (3) Public annuities, etc. as prescribed in the preceding paragraph shall be annuities listed as follows:

(i) Annuities based on the provisions of the Acts prescribed in Article 31, item (i) and item (ii) (Lump Sum Payment Deemed to be Retirement Allowance, etc.) and other annuities based on the system prescribed in item (i) of said Article (including any similar payments; the same shall apply in item (iii)), which are specified by Cabinet Order

(ii) Pensions (excluding lump sum pensions) and annuities based on past service and paid by a person who is the former employer

(iii) Annuities received based on the provisions of the Defined-Benefit Corporate Pension Act (in the case where installment deposits contributed based on a constitution prescribed in Article 31, item (iii) contain the amount borne by a subscriber prescribed in Article 25, paragraph (1) (Subscribers) of said Act (including a person who was formerly a subscriber as prescribed in said paragraph) to which said annuities are paid, limited to the portion equivalent to the amount that remains after deducting, from the amount of the annuities, the portion of the amount borne by a subscriber which is calculated as corresponding to the amount of the annuities as specified by Cabinet Order) and other annuities specified by Cabinet Order as being similar thereto.

- (4) The public annuities deduction prescribed in paragraph (2) shall be the sum of the amount listed in the following items; provided, however, that when said

sum is less than 700,000 yen, the public annuities deduction shall be 700,000 yen:

(i) 500,000 yen

(ii) With regard to the amount that remains after deducting the amount listed in the preceding item from the revenue from public annuities for the year, the amount listed in each of the following sub-items for the category set forth in the relevant sub-item:

(a) In the case where said remaining amount is 3,600,000 yen or less: The amount equivalent to 25% of said remaining amount

(b) In the case where said remaining amount is over 3,600,000 yen but not more than 7,200,000 yen: The sum of 900,000 yen and the amount equivalent to 15% of the amount after deducting 3,600,000 yen from said remaining amount

(c) In the case where said remaining amount is over 7,200,000 yen: The sum of 1,440,000 yen and the amount equivalent to 5% of the amount after deducting 7,200,000 yen from said remaining amount

Subsection 2 General Rules for Calculating the Amount of Income

(Amount of Revenue)

Article 36 (1) The amount to be treated as revenue or to be included in gross revenue in the calculation of the amount of classified income for the year shall be, except as otherwise provided, the amount to be earned in the year (in the case where an article other than monies, rights, or any other economic benefits are earned, the value of the article other than monies, rights, or any other economic benefits).

(2) The value of the article other than monies, rights, or any other economic benefits set forth in the preceding paragraph shall be the value at the time of acquiring the article or rights or receiving the benefits.

(3) With regard to any interest on bearer public and corporate bonds, dividends of surplus of bearer shares, etc. (meaning dividends of surplus as prescribed in Article 24, paragraph (1) (Dividend Income)) or the distribution of proceeds based on a bearer beneficiary certificate of a loan trust, investment trust, or trust that issues specified beneficiary certificates, the amount to be treated as revenue in the calculation of the amount of interest income or dividend income for the year shall be the amount received in the year, notwithstanding the provisions of paragraph (1).

(Necessary Expenses)

Article 37 (1) The amount to be included in necessary expenses in the calculation of the amount of real property income, business income, or miscellaneous

income (excluding the portion of the amount of business income and miscellaneous income that relates to the felling or transfer of forests and the portion of the amount of miscellaneous income that relates to public annuities, etc. as prescribed in Article 35, paragraph (3) (Definition of Public Annuities, etc.)) for the year shall be, except as otherwise provided, the amount of the cost of sales for the respective income for gross revenue, other expenses directly required to acquire said gross revenue, and selling expenses, general administrative expenses and any other expenses for operations for the year needed to generate such income (excluding expenses other than a depreciation allowance for which the obligation is not determined in the year).

- (2) With regard to forests, the amount to be included in necessary expenses in the calculation of the amount of business income, timber income or miscellaneous income shall be, except as otherwise provided, the amount of planting expenses, acquisition costs, maintenance expenses, felling expenses and any other expenses required for the growth or transfer of forests (excluding expenses other than a depreciation allowance for which the obligation is not determined in the year).

(Acquisition Costs to Be Deducted in the Calculation of Capital Gains)

Article 38 (1) The acquisition costs of the assets to be deducted in the calculation of capital gains shall be, except as otherwise provided, the sum of the amount required to acquire the assets and the amount of equipment expenses and improvement expenses.

- (2) In the case where assets that generate capital gains are houses or any other assets that depreciate as a result of use or through the elapse of time, the acquisition costs of the assets prescribed in the preceding paragraph shall be the amount that remains after deducting, from the amount equivalent to the sum prescribed in said paragraph, the sum of the amounts listed in each of the following items for the category of period set forth in the relevant item during the period between the date of acquisition and the date of transfer:
- (i) The period during which the assets are used for operations to generate real property income, business income, timber income or miscellaneous income: The accumulated sums of depreciation allowance of the assets to be included in necessary expenses in the calculation of the amount of real property income, business income, timber income or miscellaneous income for each of the years that contain days within said period, pursuant to the provisions of Article 49, paragraph (1) (Calculation of Depreciation Allowance of Depreciable Assets and Depreciation Methods)
 - (ii) The period other than the one listed in the preceding item: The amount of depreciation of the assets during said period that is calculated in accordance with the provisions of Article 49, paragraph (1) as specified by Cabinet Order.

Subsection 3 Calculation of the Amount of Revenue

(Inclusion of Captively Consumed Inventories, etc. in Gross Revenue)

Article 39 In the case where a resident has consumed inventories (including assets specified by Cabinet Order as being equivalent thereto) for household use or has felled and consumed forests for household use, the amount equivalent to the value of those assets at the time of consumption shall be included in gross revenue in the calculation of the amount of the person's business income, timber income, or miscellaneous income for the year that contains the date of consumption.

(Inclusion of a Gift, etc. of Inventories in Gross Revenue)

Article 40 (1) In the case where inventories owned by a resident (including forests generating business income or any other assets specified by Cabinet Order as being equivalent to inventories; hereinafter the same shall apply in this Article) have been transferred on any of the grounds listed in the following items, the amounts equivalent to the amounts listed in each of the items shall be included in gross revenue in the calculation of the amount of the resident's business income or miscellaneous income for the year that contains the day on which said grounds occurred:

(i) Gifts (excluding a gift to an heir that becomes effective on the death of the donor, or the decedent) or testamentary gifts (excluding a comprehensive testamentary gift and a specific testamentary gift to an heir): The value of the inventories at the time of said gift or testamentary gift

(ii) Transfer for consideration at a conspicuously low value: The difference between said consideration and the value of the inventories at the time of said transfer that is deemed to be a substantial gift.

(2) In the case where a resident has transfer inventories that the resident acquired through a gift, testamentary gift, or transfer listed in the items of the preceding paragraph, the amount of business income, timber income, capital gains, or miscellaneous income shall be calculated as specified as follows:

(i) Inventories acquired through a gift or testamentary gift listed in item (i) of the preceding paragraph shall be deemed to have been acquired at the value listed in said item

(ii) Inventories acquired through a transfer listed in item (ii) of the preceding paragraph shall be deemed to have been acquired at a price adding the consideration for said transfer and the amount listed in said item

(Inclusion of Crop Harvests in Gross Revenue)

Article 41 (1) In the case where a person engaged in agriculture has harvested

crops (limited to rice, barley or wheat, or any other crops specified by Cabinet Order), the amount equivalent to the value of said crops at the time of the harvest (hereinafter referred to as the "harvesting value" in this Article) shall be included in gross revenue in the calculation of the amount of the person's business income for the year that contains the date of the harvest.

(2) The crops set forth in the preceding paragraph shall be deemed to be acquired at the harvesting value at the time prescribed in said paragraph.

(Exclusion of National Subsidies, etc. from Gross Revenue)

Article 42 (1) In the case where a resident has received subsidies or benefits from the national or a local government or any other financial assistance specified by Cabinet Order as being equivalent thereto (hereinafter referred to as "national subsidies, etc." in this Article and the following Article) in each year for the purpose of spending them to acquire or improve fixed assets (including forests; hereinafter the same shall apply in this Article and the following Article), and has acquired or improved fixed assets with said national subsidies, etc. in line with such purpose in the relevant year, only in the case where it is determined that said national subsidies, etc. need not be returned by December 31 of the relevant year (in the case where the person has died or left the country during the year after said acquisition or improvement, by the time of the person's death or departure), the amount equivalent to the portion of said national subsidies, etc. that was spent to acquire or improve the fixed assets shall be excluded from gross revenue in the calculation of the amount of the person's classified income.

(2) In the case where a resident has acquired fixed assets which are delivered in lieu of national subsidies, etc. in each year, the amount equivalent to the value of the fixed assets shall be excluded from gross revenue in the calculation of the amount of the person's classified income.

(3) The provisions of the preceding two paragraphs shall apply only in the case where a tax return states the resident's intention to seek the application of these provisions, the amount excluded from gross revenue under these provisions, and any other matters specified by Ordinance of the Ministry of Finance.

(4) Even in the case where a tax return has not been filed or a tax return with no entries for the matters set forth in the preceding paragraph has been filed, the district director of the tax office may apply the provisions of paragraph (1) or paragraph (2), when the director finds any unavoidable grounds for the person's failure to file the tax return or to make entries for such matters.

(5) Matters necessary for the following calculations shall be specified by Cabinet Order: the calculation of the depreciation allowance prescribed in Article 49, paragraph (1) (Calculation of Depreciation Allowance of Depreciable Assets and

Depreciation Methods) with regard to the fixed assets that a resident subject to the provisions of paragraph (1) or paragraph (2) has acquired or improved with national subsidies, etc. or the acquired fixed assets prescribed in said paragraph, and the calculation of the amount of business income, timber income, capital gains, or miscellaneous income, in the case where the person has transferred the fixed assets.

(Exclusion of National Subsidies with Conditions, etc. from Gross Revenue)

- Article 43 (1) In the case where a resident has received national subsidies, etc. in each year for the purpose of spending them to acquire or improve fixed assets, when it has not determined whether said national subsidies, etc. should be returned by December 31 of the relevant year (in the case where the person has died or left the country during the year, by the time of the person's death or departure), the amount equivalent to said national subsidies, etc. shall be excluded from gross revenue in the calculation of the amount of the person's classified income for the year.
- (2) In the case where it is determined that a resident subject to the provisions of the preceding paragraph needs not return the whole or a part of the national subsidies, etc. set forth in said paragraph that the resident has received, the amount equivalent to the determined portion of the national subsidies, etc. shall, except for the amount spent to acquire or improve fixed assets in line with the purpose of the national subsidies, etc. that is specified by Cabinet Order, be included in gross revenue in the calculation of the amount of the person's classified income for the year containing the date of the determination.
- (3) In the case where it is determined that a resident subject to the provisions of the preceding paragraph needs to return the whole or a part of the national subsidies, etc. set forth in said paragraph that the resident has received, the amount equivalent to the determined portion of the national subsidies, etc. shall be excluded from necessary expenses or the amount spent, in the calculation of the amount of the person's classified income for the year containing the date of the determination.
- (4) The provisions of the preceding paragraph shall apply only in the case where a tax return states the resident's intention to seek the application of the provisions of said paragraph, the amount excluded from gross revenue under the provisions of said paragraph, and any other matters specified by Ordinance of the Ministry of Finance.
- (5) Even in the case where a tax return has not been filed or a tax return with no entries for the matters set forth in the preceding paragraph has been filed, the district director of the tax office may apply the provisions of paragraph (1), when the director finds any unavoidable grounds for the person's failure to file the tax return or to make entries for such matters.

(6) Matters necessary for the following calculations shall be specified by Cabinet Order: the calculation of a depreciation allowance as prescribed in Article 49, paragraph (1) (Calculation of Depreciation Allowance of Depreciable Assets and Depreciation Methods), with regard to the fixed assets that a resident subject to the provisions of paragraph (1) has acquired or improved with national subsidies, etc., and the calculation of the amount of business income, timber income, capital gains, or miscellaneous income, in the case where the person has transferred the fixed assets.

(Exclusion of Grants from Gross Revenue for Spending Them for Relocation, etc.)

Article 44 In the case where a resident has received subsidies from the national or a local government for the purpose of spending them to carry out the relocation, reconstruction, or removal of the resident's assets, or any other similar acts (excluding the improvement of fixed assets or any other acts specified by Cabinet Order; hereinafter referred to as the "relocation, etc. of assets" in this paragraph) that is necessary for administrative purposes, or has received monies for the purpose of spending it to carry out the relocation, etc. of the resident's assets due to the purchase of land pursuant to the provisions of the Compulsory Purchase of Land Act (Act No. 219 of 1951) or the occurrence of any other unavoidable grounds as specified by Cabinet Order, when the person has spent said monies for the relocation, etc. of assets in line with the purpose thereof, the amount spent shall be excluded from gross revenue in the calculation of the amount of the person's classified income; provided, however, that this shall not apply to the amount equivalent to the portion of the amount spent that is included in necessary expenses in the calculation of the amount of classified income or is deemed to be expenses required for the transfer.

(Exclusion of Reduced Foreign Income Taxes from Gross Revenue)

Article 44-2 In the case where a reduction has been made for the amount of foreign income taxes prescribed in Article 95, paragraph (1) (Credit for Foreign Tax), which was used as the basis of the calculation of the amount to be deducted pursuant to the provisions of Article 95, paragraphs (1) to (3) in each year from the year following the year when a resident was subject to the provisions of these paragraphs, the portion of the reduced amount that is specified by Cabinet Order as corresponding to the portion related to the application of credit for foreign tax under the provisions of Article 95, paragraph (1) in the year containing the date of the reduction shall be excluded from gross revenue in the calculation of the amount of the person's real property income, business income, timber income, occasional income or miscellaneous income for the relevant year. In this case, the amount that

remains after deducting, from said reduced amount, the amount specified by said Cabinet Order shall be included in gross revenue in the calculation of the amount of the person's miscellaneous income for the relevant year.

Subsection 4 Calculation of Necessary Expenses, etc.

Division 1 Expenses Relating to Housekeeping, Taxes and Duties, etc.

(Exclusion from Necessary Expenses of Expenses Relating to Housekeeping)

Article 45 (1) The amount of expenses, listed as follows, that a resident spends or pays shall be excluded from necessary expenses in the calculation of the amount of the person's real property income, business income, timber income, or miscellaneous income:

- (i) Expenses relating to housekeeping and any other related expenses specified by Cabinet Order
- (ii) Income tax (excluding interest tax prescribed in Article 131, paragraph (3) (Interest Tax on Postponement of Payment of Income Tax Based on Tax Return) or Article 136 (Interest Tax on Postponement of Payment of Income Tax Related to Assets Transferred on a Deferred Payment Basis) to be paid by a resident conducting a business that generates real property income, business income, or timber income, which is specified by Cabinet Order as corresponding to the amount of income tax on such income from said business)
- (iii) Delinquent tax, additional tax for understatement, additional tax for failure to file, additional tax on non-payment, substantial additional tax and tax on delinquency under the provisions of the Stamp Tax Act (Act No. 23 of 1967) imposed on national taxes other than income tax
- (iv) Prefectural inhabitants' tax and municipal inhabitants' tax (including Tokyo inhabitants' tax and special ward inhabitants' tax) under the provisions of the Local Tax Act (Act No. 226 of 1950)
- (v) Delinquent charge, additional charge for understatement, additional charge for failure to file, and substantial additional charge imposed by a local government under the provisions of the Local Tax Act
- (vi) Fine and petty fine (including what is equivalent to a fine or petty fine due to notification procedures and what is equivalent to a fine or petty fine imposed by a foreign state or any other person specified by Cabinet Order as being equivalent thereto) and non-penal fine
- (vii) Compensation for damage (or similar) as specified by Cabinet Order
- (viii) Surcharge and delinquent charge under the provisions of the Act on Emergency Measures for Stabilization of National Life (Act No. 121 of 1973)
- (ix) Surcharge and delinquent charge under the provisions of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade (Act No.

54 of 1947)

- (x) Surcharge and delinquent charge under the provisions of Chapter VI-2 (Surcharge) of the Financial Instruments and Exchange Act
 - (xi) Surcharge and delinquent charge under the provisions of the Certified Public Accountant Act (Act No. 103 of 1948)
- (2) The amount of a bribe as prescribed in Article 198 (Bribe) of the Penal Code (Act No. 45 of 1907), monies or other profits as prescribed in Article 18, paragraph (1) (Prohibition of Provision of Illicit Profits, etc. to Foreign Public Officials, etc.) of the Unfair Competition Prevention Act (Act No.47 of 1993) and the value of an article other than monies, rights, or any other economic benefits, which is provided by a resident (in the case where any expenses are required for the provision thereof, the amount adding said expenses), shall be excluded from necessary expenses in the calculation of the amount of the person's real property income, business income, timber income or miscellaneous income.
- (3) The amount of expenses listed in items (ii) to (vii) of paragraph (1), or the amount of monies and the value of an article other than monies, rights, or any other economic benefits prescribed in the preceding paragraph shall be excluded from the amount spent in the calculation of the amount of a resident's occasional income set forth in paragraph (1) or the preceding paragraph.

(Exclusion from Necessary Expenses of Foreign Tax to be Credited against Income Tax)

Article 46 In the case where a resident seeks the application of the provisions of Article 95, paragraph (1) (Credit for Foreign Tax) or Article 138, paragraph (1) (Refund of Withholding Tax, etc.) to the amount of foreign income tax prescribed in Article 95, paragraph (1), the amount of said foreign income tax shall be excluded from necessary expenses or the amount spent, in the calculation of the amount of the person's real property income, business income, timber income, miscellaneous income, or occasional income.

Division 2 Valuation of Assets and Depreciation Allowance

(Calculation of Cost of Sales, etc. of Inventories and Valuation Methods)

Article 47 (1) In the case where a calculation is made, with regard to a resident's inventories, for the amount that is to be included in necessary expenses in the calculation of the amount of the person's business income pursuant to the provisions of Article 37, paragraph (1) (Necessary Expenses), the value of the inventories that the person possesses as of December 31 of the relevant year which is to be used as the basis of the calculation (in the case where the person has died or left the country during the year, as of the time of the person's death

or departure; the same shall apply in the following Article to Article 50), shall be the amount that the person values in accordance with the valuation method that the person selected for inventories (in the case where no valuation methods were selected or a valuation was not based on the selected valuation method, the amount valued in accordance with a valuation method specified by Cabinet Order).

- (2) Types of valuation methods that can be selected as set forth in the preceding paragraph, procedures for the selection, and any other matters necessary for the valuation of inventories shall be specified by Cabinet Order.

(Calculation of Cost of Negotiation, etc. of Securities and Valuation Methods)

Article 48 (1) In the case where a calculation is made, with regard to a resident's securities, for the amount that is to be included in necessary expenses in the calculation of the amount of the person's business income pursuant to the provisions of Article 37, paragraph (1) (Necessary Expenses), the value of the securities that the person possesses as of December 31 of the year which is to be used as the basis of the calculation, shall be the amount that the person values in accordance with the valuation method that the person selected for securities (in the case where no valuation methods were selected or a valuation was not based on the selected valuation method, the amount valued in accordance with a valuation method specified by Cabinet Order).

- (2) Types of valuation methods that can be selected as set forth in the preceding paragraph, procedures for the selection, and any other matters necessary for the valuation of securities shall be specified by Cabinet Order.

- (3) With regard to the same class of securities that a resident acquired on two or more occasions, the amount to be included in necessary expenses in the calculation of the amount of the person's miscellaneous income pursuant to the provisions of Article 37, paragraph (1) or the amount to be included in the acquisition costs in the calculation of the amount of the person's capital gains pursuant to the provisions of Article 38, paragraph (1) (Acquisition Costs to be Deducted in the Calculation of Capital Gains) shall be the amount valued in accordance with the provisions of paragraph (1), based on the amount required for the acquisition of securities on each occasion, as specified by Cabinet Order.

(Calculation of Depreciation Allowance of Depreciable Assets and Depreciation Methods)

Article 49 (1) With regard to depreciable assets that a resident possesses as of December 31 of the relevant year, the amount to be included in necessary expenses as the depreciation allowance thereof in the calculation of the amount of the person's real property income, business income, timber income or miscellaneous income pursuant to the provisions of Article 37 (Necessary

Expenses) shall be the amount calculated as specified by Cabinet Order, based on the depreciation method that the person selected for said assets from among depreciation methods specified by Cabinet Order, in accordance with the date of acquisition and category of assets (in the case where no depreciation methods were selected, based on a depreciation method specified by Cabinet Order).

- (2) Special provisions on the depreciation methods that can be selected as set forth in the preceding paragraph, procedures for the selection of depreciation methods, the acquisition costs of depreciable assets that is to be used as the basis of the calculation of the depreciation allowance, and any other matters necessary for the depreciation of depreciable assets shall be specified by Cabinet Order.

(Calculation of Depreciation Allowance of Deferred Expenses and Depreciation Methods)

Article 50 (1) With regard to deferred expenses that a resident possesses as of December 31 of the relevant year, the amount to be included in necessary expenses as the depreciation allowance thereof in the calculation of the amount of the person's real property income, business income, timber income or miscellaneous income pursuant to the provisions of Article 37 (Necessary Expenses) shall be the amount calculated as specified by Cabinet Order, based on the period during which the expenses related to said deferred expenses continue to affect the calculation.

- (2) In addition to what is provided for in the preceding paragraph, any other matters necessary for the depreciation of deferred expenses assets shall be specified by Cabinet Order.

Division 3 Losses on Assets

(Inclusion of Losses on Assets in Necessary Expenses)

Article 51 (1) With regard to fixed assets or any other assets equivalent thereto as specified by Cabinet Order, which are used for a business conducted by a resident so as to generate real property income, business income, or timber income, the amount of loss caused by demolition, removal, extinguishment (including a decrease in value due to damage to the assets) or on any other grounds (such amount shall exclude the amount of loss compensated for by insurance benefit, compensation for damage or any other payment equivalent thereto and the amount of loss due to or related to the transfer of assets) shall be included in necessary expenses in the calculation of the amount of the person's amount of real property income, business income, or timber income for the year containing the day on which said loss occurred.

- (2) With regard to a business conducted by a resident to generate real property income, business income, or timber income, the amount of loss caused by accounts receivable, loans, advance payments, bad debt claims equivalent thereto, or on any other grounds specified by Cabinet Order, arising in the course of the business, shall be included in necessary expenses in the calculation of the amount of the person's amount of real property income, business income, or timber income for the year containing the day on which said loss occurred.
- (3) With regard to forests owned by a resident, the amount of loss due to disasters, robbery, or embezzlement (excluding the amount of loss compensated for by insurance benefit, compensation for damage or any other payment equivalent thereto) shall be included in necessary expenses in the calculation of the amount of the person's amount of business income or timber income for the year containing the day on which said loss occurred.
- (4) The amount of loss on assets (excluding the forests and assets prescribed in Article 62, paragraph (1) (Loss Caused by Disasters for Assets Not Ordinarily Necessary for Daily Life)) which are used for a resident's operations that generate real property income or miscellaneous income or are the basis of such income (such amount shall exclude the amount of loss compensated for by insurance benefit, compensation for damage or any other payment equivalent thereto, the amount of loss due to or related to the transfer of assets, or the amount of loss prescribed in paragraph (1) or paragraph (2) or Article 72, paragraph (1) (Deduction for Casualty Loss)) shall be included in necessary expenses in the calculation of the amount of the person's real property income or miscellaneous income for the year containing the day on which said loss occurred, up to the amount of the real property income or miscellaneous income for the year (such amount shall be the amount of such income calculated without applying the provisions of this paragraph).
- (5) Matters necessary for the calculation of the amount of loss prescribed in paragraph (1) and the preceding two paragraphs shall be specified by Cabinet Order.

Division 4 Reserves

(Reserves for Bad Debts)

Article 52 (1) In the case where a resident conducting a business that generates real property income, business income or timber income is granted a payment grace period or is allowed installment payments for the resident's accounts receivable, loans, advance payments or any other equivalent monetary claims that have arisen through said business (hereinafter referred to as "loans, etc." in this paragraph), based on the decision of the confirmation of a

reorganization plan pursuant to the provisions of the Corporate Reorganization Act (Act No. 154 of 2002), or in any other cases specified by Cabinet Order, the amount credited to reserves for bad debts in each year (excluding the year containing the day on which the whole business was transferred or terminated; the same shall apply in the following paragraph) as the prospective amount of loss from loans, part of which is expected to generate a loss due to bad debts or on any other equivalent grounds (in the case where the debtor of said loans, etc. has other loans, including said other loans; hereinafter referred to as the "individually assessed loans, etc." in this paragraph and the following paragraph) shall be included in necessary expenses in the calculation of the amount of the person's real property income, business income or timber income for the year, up to the amount calculated as specified by Cabinet Order, based on the portion of said amount for which it is deemed that there is little chance of the collection or payment of said individually assessed loans, etc. as of December 31 of the relevant year (in the case where a person has died during the year, as of the time of the person's death; the same shall apply in the following paragraph); provided, however, that this shall not apply where a person has died and the person's heir has not succeeded to said business.

- (2) With regard to a resident who files a blue return and conducts a business that generates business income, the amount credited to reserves for bad debts in each year as the prospective amount of loss due to bad debts on the resident's accounts receivable, loans, or any other equivalent monetary claims that have arisen through said business (excluding individually assessed loans, etc.; hereinafter referred to as "collectively assessed loans" in this paragraph) shall be included in necessary expenses in the calculation of the amount of the person's business income for the year, up to the amount calculated as specified by Cabinet Order, based on the amount of the collectively assessed loans as of December 31 of the relevant year; provided, however, this shall not apply where the person has died and the person's heir has not succeeded to said business or any other case specified by Cabinet Order.
- (3) The amount of reserves for bad debts included in necessary expenses in the calculation of the amount of real property income, business income, or timber income for the year in which said amount was credited pursuant to the provisions of the preceding two paragraphs shall be included in gross revenue in the calculation of the amount of real property income, business income, or timber income for the year following the year in which said amount was credited.
- (4) The provisions of paragraph (1) and paragraph (2) shall apply only in the case where a tax return states details concerning the inclusion of the amount credited to reserves for bad debts in necessary expenses.
- (5) Even in the case where a tax return with no entries for the matters set forth

in the preceding paragraph has been filed, the district director of the tax office may apply the provisions of paragraph (1) or paragraph (2), when the director finds any unavoidable reason for the person's failure to make entries for such matters.

- (6) In the case where a resident prescribed in paragraph (1) or paragraph (2) has died, when there is any amount of reserves for bad debts included in necessary expenses in the calculation of the amount of real property income, business income, or timber income for the year containing the date of the person's death, the matters necessary for the disposition of said amount of reserves for bad debts shall be specified by Cabinet Order.

(Reserves for Loss on Returned Goods)

Article 53 (1) With regard to a resident who files a blue return and conducts a publishing business or any other business as specified by Cabinet Order and who continuously concludes special provisions concerning the repurchase of most of the resident's inventories for sale related to said business at the value at the time of the sales thereof or any other special provisions specified by Cabinet Order, the amount credited to reserves for loss on returned goods in each year (excluding the year containing the day on which the whole business was transferred or terminated) as the estimated amount of loss due to the repurchase of said inventories under said special provisions shall be included in necessary expenses in the calculation of the amount of the person's business income for the year, up to the amount calculated as specified by Cabinet Order, based on the actual result of the repurchase of said inventories under said special provisions in recent years; provided, however, that this shall not apply where the person has died and his/her heir has not succeeded to said business or to any other case specified by Cabinet Order.

- (2) The amount of reserves for loss on returned goods included in necessary expenses in the calculation of the amount of business income for the year in which said amount was credited pursuant to the provisions of the preceding paragraph shall be included in gross revenue in the calculation of the amount of business income for the year following the year in which said amount was credited.
- (3) The provisions of paragraph (1) shall apply only in the case where a tax return states details concerning the inclusion of the amount credited to reserves for losses on returned goods in necessary expenses.
- (4) Even in the case where a tax return with no entries for the matters set forth in the preceding paragraph has been filed, the district director of the tax office may apply the provisions of paragraph (1), when the director finds any unavoidable reason for the person's failure to make entries for such matters.
- (5) In the case where a resident prescribed in paragraph (1) has died, when there

is any amount of reserves for loss on returned goods included in necessary expenses in the calculation of the amount of business income for the year containing the date of the person's death, the matters necessary for the disposition of said amount of reserves for losses on returned goods shall be specified by Cabinet Order.

(Reserves for Retirement Allowance)

Article 54 (1) With regard to a resident who files a blue return and conducts a business that generates business income and who determines the rules for a retirement allowance as specified by Cabinet Order, the amount credited to reserves for a retirement allowance in each year, for the purpose of allocating that amount to the retirement allowance to be paid to employees engaged in the business (excluding a spouse or any other relatives whose cost of living is included in that of the resident; hereinafter the same shall apply in this Article) upon their retirement, shall be included in necessary expenses in the calculation of the amount of the resident's business income for the year, up to the amount calculated as specified by Cabinet Order, based on the portion that is deemed to have increased in the year out of the calculated prospective amount of retirement allowance to be paid when assuming that all the employees engaged in the business as of December 31 of the relevant year (in the case where the resident has died during the year, as of the time of resident's death) retire on personal grounds.

(2) A resident who holds the amount of reserves for a retirement allowance (limited to the amount included in necessary expenses in the calculation of the amount of business income for the year in which said amount was credited pursuant to the provisions of the preceding paragraph, and excluding the amount already determined to be withdrawn pursuant to the provisions of this paragraph; hereinafter the same shall apply in this Article) shall withdraw said amount of reserves for a retirement allowance, in the case where an employee set forth in the preceding paragraph retired or the approval to file a blue return was rescinded, or in any other case specified by Cabinet Order.

(3) The amount of reserves for a retirement allowance determined to be withdrawn pursuant to the provisions of the preceding paragraph or the amount of reserves for a retirement allowance having been withdrawn although it does not fall under the provisions of said paragraph shall be included in gross revenue in the calculation of the amount of business income for the year containing the day on which the amount was determined to be withdrawn or the amount was withdrawn, respectively.

(4) The provisions of paragraph (1) shall apply only in the case where a tax return states details concerning the inclusion of the amount credited to reserves for retirement allowance in necessary expenses.

- (5) Even in the case where a tax return with no entries for the matters set forth in the preceding paragraph has been filed, the district director of the tax office may apply the provisions of paragraph (1), when the director finds any unavoidable reason for the person's failure to make entries for such matters.
- (6) In addition to what is provided for in paragraph (2) to the preceding paragraph, matters necessary for the disposition of the amount of reserves for a retirement allowance in the case where a resident holding the amount of reserves for a retirement allowance has died and any other matters necessary for the application of the provisions of paragraph (1) shall be specified by Cabinet Order.

Division 5 Consideration that Relatives Receive from Business

(Special Provisions on Necessary Expenses Where Relatives Receive Consideration from a Resident's Business)

Article 56 In the case where the spouse or any other relatives whose cost of living is included in that of a resident receive payment of a consideration from the resident's business that generates real property income, business income, or timber income, as a result of their engagement in said business or on any other grounds, the amount equivalent to the consideration shall be excluded from necessary expenses in the calculation of the amount of real property income, business income, or timber income related to said resident's business, and the amount to be included in necessary expenses in the calculation of the amount of classified income related to said relatives' consideration shall be included in necessary expenses in the calculation of the amount of real property income, business income, or timber income related to said resident's business. In this case, the amount of the consideration received by said relatives and the amount to be included in necessary expenses in the calculation of the amount of classified income related to said relatives' consideration shall be disregarded in the calculation of the amount of said classified income.

(Special Provisions, etc. on Necessary Expenses Where Relatives Are Engaged in Business as Full-Time Employees)

Article 57 (1) In the case where the spouse or any other relatives (excluding those under 15 years of age) whose cost of living is included in that of a resident who has obtained approval to file a blue return from the district director of the tax office, and who are exclusively engaged in the resident's business prescribed in the preceding Article (hereinafter referred to as the "family employees of a blue return taxpayer" in this Article) have received any salaries, within the amount entered in a document set forth in the following

paragraph, from said business in accordance with the method entered in said document; the portion of the amount of the salaries that is deemed to be appropriate as a consideration for their labor, in light of the period of the labor, the nature and the level of the provision of the labor, the type and size of the business, the salaries ordinarily paid for the same type and similar size of business, and any other circumstances specified by Cabinet Order, shall be included in necessary expenses in the calculation of the amount of the resident's real property income, business income, or timber income related to said business for the year pertaining to the payment of said salaries, notwithstanding the provisions of the preceding paragraph, and shall be deemed to be revenue from employment income for the year of said family employees of a blue return taxpayer.

- (2) A resident who wishes to seek the application of the provisions of the preceding paragraph to income tax for the year and each year thereafter, shall submit a document stating the names of any family employees of a blue return taxpayer, the details of their duties, the amount of their salaries, the dates for the payment thereof, and any other matters specified by Ordinance of the Ministry of Finance to the competent district director with jurisdiction over the place for tax payment no later than March 15 of the relevant year (in the case where such resident has started a business as set forth in said paragraph on or after January 16 of the year, within two months from the day on which the resident started said business).
- (3) In the case where the spouse's or any other relative's (excluding those under 15 years of age) cost of living is included in that of a resident (excluding those prescribed in paragraph (1)) and who are exclusively engaged in the resident's business prescribed in the preceding Article (hereinafter referred to as "family employees" in this Article), the lower amount of either of the following shall be deemed to be the necessary expenses for each of the family employees in the calculation of the amount of the resident's real property income, business income, or timber income related to said business for the year:
 - (i) The amount specified as follows for the category of family employees set forth in the relevant item:
 - (a) A family employee who is the spouse of the resident: 860,000 yen
 - (b) Family employees other than the person listed in (a): 500,000 yen
 - (ii) The amount obtained by dividing the amount of real property income, business income, or timber income related to said business for the year (the amount calculated without applying the provisions of this paragraph) by the number of family employees for said business plus one
- (4) In the case where the provisions of the preceding paragraph are applied, the amount deemed to be the necessary expenses for each of the family employees pursuant to the provisions of said paragraph shall be deemed to be revenue

from the employment income of said respective family employees in the calculation of the amount of their classified income for the year.

- (5) The provisions of paragraph (3) shall not apply unless a tax return states an intention to seek the application of the provisions of said paragraph and matters concerning the amount deemed to be the necessary expenses pursuant to the provisions of said paragraph.
- (6) Even in the case where a tax return has not been filed or a tax return with no entries for the matters set forth in the preceding paragraph has been filed, the district director of the tax office may apply the provisions of paragraph (3) when the director finds any unavoidable reason for the person's failure to file the tax return or to make entries for such matters.
- (7) In the case of paragraph (1) or paragraph (3), the determination as to whether the relatives prescribed in these provisions are under 15 years of age shall be based on their circumstances as of December 31 of the relevant year (in the case where a resident prescribed in these provisions has died or left the country during the year, as of the time of the director's death or departure); provided, however, that in the case where any of said relatives was already deceased at that point of time, the determination shall be based on their circumstances as of the time of their death.
- (8) Matters necessary for the procedures for changing the details of the requirements for family employees of a blue return taxpayer or family employees or matters entered in a document set forth in paragraph (2) and any other matters necessary for the application of the provisions of paragraph (1) or paragraph (3) shall be specified by Cabinet Order.

Division 6 Specific Expenses of Employment Income Earners

(Special Provisions on Deduction of Specific Expenses of Employment Income Earners)

- Article 57-2 (1) In the case where a resident has paid specific expenses in each year, when the sum of the specific expenses for the year exceeds the employment income deduction prescribed in Article 28, paragraph (3) (Employment Income), the amount of employment income prescribed in paragraph (2) of said Article for the year may be deemed to be the amount that remains after deducting the amount of said excess from the remaining amount set forth in paragraph (2) of said Article, notwithstanding the provisions of paragraph (2) and paragraph (4) of said Article.
- (2) The specific expenses prescribed in the preceding paragraph shall be a resident's expenses listed as follows (in the case where the portion of said expenses is compensated for by a person related to the resident who pays out the salaries, etc. prescribed in Article 28, paragraph (1) (hereinafter referred to

as a "payer of salaries, etc.") and income tax shall not be imposed on said portion compensated for, excluding said portion):

- (i) Out of the resident's expenses for utilizing means of transportation or transportation apparatus for commuting, whose routes and methods of transportation are certified by a payer of salaries, etc., as specified by Ordinance of the Ministry of Finance, to be the most economic and reasonable in light of the fare, time required, distance and any other circumstances concerning the person's commuting, the portion that is specified by Cabinet Order as ordinarily necessary for a general commuter
 - (ii) Expenses specified by Cabinet Order as being necessary ordinarily for a change of residence, which is certified by a payer of salaries, etc., as specified by Ordinance of the Ministry of Finance as being required in the event of a job transfer
 - (iii) Expenses for undergoing training certified by a payer of salaries, etc., as specified by Ordinance of the Ministry of Finance, in order to learn the technology or acquire the knowledge which is directly necessary for the person to perform the duties (excluding training for acquiring a personal qualification)
 - (iv) Expenses for acquiring a personal qualification (excluding a qualification for an attorney, certified public accountant, tax accountant or any other qualification for allowing a person to perform specific jobs exclusively), which are certified by a payer of salaries, etc., as specified by Ordinance of the Ministry of Finance, to be directly necessary for the person in the performance of the duties
 - (v) In the case where the payer of salaries, etc. certifies, as specified by Ordinance of the Ministry of Finance, that, due to a job transfer, the resident is required, at all times, to live apart from a spouse whose cost of living is included in that of said resident or where the circumstances fall under a case specified by Cabinet Order as equivalent thereto, expenses specified by Cabinet Order that are ordinarily necessary for the resident's travel from the workplace or residence to the place where the resident's spouse and/or any other relative live
- (3) The provisions of paragraph (1) shall apply only in the case where a tax return states an intention to seek the application of the provisions of said paragraph and the sum of the amount of specific expenses prescribed in said paragraph, and is attached with a detailed statement concerning specific expenses listed respectively in the items of the preceding paragraph and certifying the documents prescribed in those items.
- (4) In the case of filing a tax return stating an intention to seek the application of the provisions of paragraph (1), a document specified by Cabinet Order as a document certifying the fact that specific expenses prescribed in said

paragraph have been paid and the amount actually spent shall be attached to said tax return or presented when filing said tax return.

- (5) In addition to what is provided for in the preceding paragraphs, any matters necessary for providing details of the scope of specific expenses prescribed in paragraph (2) and any other matters necessary for the application of the provisions of paragraph (1) shall be specified by Cabinet Order.

Subsection 4-2 Conversion of Transactions on a Foreign Currency Denominated Basis

(Conversion of Transactions on a Foreign Currency Denominated Basis)

Article 57-3 (1) In the case where a resident has made transactions on a foreign currency denominated basis (meaning the sale and purchase of assets, provision of services, borrowing and lending of monies or any other transaction for which payment is made in a foreign currency; hereinafter the same shall apply in this Article), the amount of said transactions converted into Japanese yen (meaning the amount in Japanese yen converted from the original amount in a foreign currency; the same shall apply in the following paragraph) shall be deemed to be the amount converted based on the foreign exchange rate as of the time of making said transactions in a foreign currency, when calculating the amount of the person's classified income for each year.

- (2) In the case where a resident performing operations that generate real property income, business income, timber income or miscellaneous income has determined the amount converted into Japanese yen of assets acquired or liabilities incurred through transactions on a foreign currency denominated basis, based on foreign exchange futures contracts, etc. (meaning the contracts specified by Ordinance of the Ministry of Finance as those determining the amount converted into Japanese yen of assets acquired or liabilities incurred through transactions on a foreign currency denominated basis; hereinafter the same shall apply in this paragraph), when such fact was entered, as specified by Ordinance of the Ministry of Finance, in the person's books and documents for said operations or in any other document specified by Ordinance of the Ministry of Finance as on the day on which said foreign exchange futures contracts, etc. were concluded; said amount converted into Japanese yen of said assets or liabilities shall be deemed to be the amount converted pursuant to the provisions of the preceding paragraph, when calculating the amount of the person's real property income, business income, timber income or miscellaneous income for each year.

- (3) In addition to what is provided for in the preceding paragraph, special provisions on the conversion of transactions on a foreign currency denominated basis and any other matters necessary for the application of the provisions of

the preceding two paragraphs shall be specified by Cabinet Order.

**Subsection 5 Special Provisions on Calculation of Gross Revenue,
Necessary Expenses, and Acquisition Costs Concerning Transfer of
Assets**

(Special Provisions on Capital Gains, etc. from Share Exchange, etc.)

Article 57-4 (1) With regard to shares that a resident holds (hereinafter referred to as the "old shares" in this paragraph), in the case where the resident has, in each year, transferred said old shares to a wholly owning parent corporation in a share exchange as prescribed in Article 2, item (xii)-6-4 (Definitions) of the Corporation Tax Act (hereinafter referred to as a "wholly owning parent corporation in a share exchange" in this paragraph) and has received the delivery of the shares through a share exchange conducted by a corporation that issued the old shares (limited to a share exchange under which shareholders of said corporation have not received the delivery of assets other than either of the shares of a wholly owning parent corporation in a share exchange (including capital contributions; hereinafter the same shall apply in this paragraph) or the shares of a corporation specified by Cabinet Order as having a relationship with a wholly owning parent corporation in a share exchange whereby it holds all the issued shares or capital contributions of said wholly owning parent corporation in a share exchange (excluding its own shares held by said wholly owning parent corporation in a share exchange) (such assets shall exclude monies or any other assets delivered to said shareholders as dividends of surplus, and monies or any other assets delivered to said shareholders who oppose the share exchange as a consideration based on their purchase demand)), with regard to the application of the provisions of Article 27 (Business Income), Article 33 (Capital Gains) or Article 35 (Miscellaneous Income), it shall be deemed that said old shares have not been transferred.

(2) With regard to shares that a resident holds (hereinafter referred to as the "old shares" in this paragraph), in the case where the resident has, in each year, transferred said old shares to a wholly owning parent corporation in a share transfer as prescribed in Article 2, item (xii)-7 of the Corporation Tax Act (hereinafter referred to as a "wholly owning parent corporation in a share transfer" in this paragraph) and has received the delivery of the shares of said wholly owning parent corporation in a share transfer through a share transfer conducted by a corporation that issued the old shares (limited to a share transfer under which shareholders of said corporation have not received the delivery of assets other than the shares of a wholly owning parent corporation in a share transfer (such assets shall exclude monies or any other assets

delivered to said shareholders who oppose the share transfer as a consideration based on their purchase demand)), with regard to the application of the provisions of Article 27, Article 33 or Article 35, it shall be deemed that said old shares have not been transferred.

(3) In the case where a resident has, in each year, transferred securities as listed in the following items on any of the grounds prescribed in said items and has received the delivery of shares (including capital contributions; hereinafter the same shall apply in this paragraph) or share options of a corporation that makes the acquisition as prescribed in said items on said grounds (excluding the case where it is deemed that the value of said shares or share options received is not close to the value of the transferred securities), with regard to the application of the provisions of Article 27, Article 33 or Article 35, it shall be deemed that said securities have not been transferred:

(i) Shares with put option (meaning the shares in the case where a corporation provides, as a feature of the whole or a part of its shares it issues, that shareholders, etc. may demand the corporation to redeem such shares): The exercise of the claim related to said shares with put option, in the case where only the shares of a corporation that makes the acquisition are delivered as a consideration for the acquisition through the exercise of said claim

(ii) Shares subject to call (meaning the shares in the case where a corporation provides, as a feature of the whole or a part of its shares, that such corporation may redeem such shares upon the occurrence of certain grounds (hereinafter referred to as the "grounds for acquisition" in this item)): The occurrence of the grounds for acquisition, in the case where only shares of a corporation that makes the acquisition are delivered to shareholders, etc. whose shares are acquired as a consideration for the acquisition due to the occurrence of the grounds for acquisition related to said shares subject to call (in the case where all the classes of shares subject to the acquisition are acquired, including the case where only the shares and share options of a corporation that makes the acquisition are delivered to shareholders, etc. whose shares are acquired as a consideration for the acquisition)

(iii) Class shares subject to wholly call (meaning a type of shares in the case where a corporation that issued them provides that all such shares shall be acquired by resolution of a shareholders meeting or any other meeting equivalent thereto (hereinafter referred to as the "resolution of acquisition" in this item)): The resolution of acquisition in the case where no assets (excluding monies or any other assets delivered based on a petition for a determination of the price of the acquisition) other than the shares of a corporation that makes the acquisition (including the share options of the corporation that makes the acquisition delivered along with said shares) are delivered to shareholders, etc. whose shares are acquired as a consideration

for the acquisition by the resolution of acquisition related to said class shares subject to wholly call

- (iv) Bonds pertaining to bonds with share options: The exercise of the share options attached to said bonds pertaining to bonds with share options, in the case where the shares of a corporation that makes the acquisition are delivered as a consideration for the acquisition through the exercise of said share options
 - (v) Share options subject to call (meaning share options that a corporation which issued them may acquire on the condition of the occurrence of certain grounds (hereinafter referred to as the "grounds for acquisition" in this item), in the case where the corporation determines to that effect, and excluding share options delivered to a person who receives them on particularly favorable conditions or at a particularly favorable price and any other share options specified by Cabinet Order): The occurrence of the grounds for acquisition, in the case where only the shares of a corporation that makes the acquisition are delivered to holders of share options whose share options are acquired as a consideration for the acquisition due to the occurrence of the grounds for acquisition related to said share options subject to call
 - (vi) Bonds with share options attached with share options subject to call (meaning share options that a corporation which issued them may acquire on the condition of the occurrence of certain grounds (hereinafter referred to as the "grounds for acquisition" in this item), in the case where the corporation provides to that effect): The occurrence of the grounds for acquisition, in the case where only the shares of a corporation that makes the acquisition are delivered to holders of share options whose share options are acquired as a consideration for the acquisition due to the occurrence of the grounds for acquisition related to said share options subject to call
- (4) Matters necessary for the calculation of the acquisition costs of securities that a resident acquired in the case where the provisions of the preceding three paragraphs are applied and any other matters necessary for the application of the provisions of the preceding three paragraphs shall be specified by Cabinet Order.

(Special Provisions on Capital Gains in the Case of Exchange of Fixed Assets)

Article 58 (1) In the case where a resident has, in each year, exchanged the fixed assets listed in the following items that the resident has possessed for one year or more with the fixed assets listed in said items that another person has possessed for one year or more (excluding those deemed to have been acquired by that person solely for the purpose of exchange) and has used the assets listed in said items that the resident acquired through the exchange (hereinafter referred to as the "acquired assets" in this Article) for the same

purpose as that of the assets listed in said items that the resident transferred through the exchange (hereinafter referred to as the "transferred assets" in this Article) immediately prior to the transfer, with regard to the application of the provisions of Article 33 (Capital Gains), it shall be deemed that said transferred assets (in the case where monies or any other assets have been acquired together with the acquired assets, excluding the portion equivalent to the value of the monies and the assets other than monies) have not been transferred:

- (i) Land (including a superficies and a right of lease for owning a building or structure and a right concerning cultivation on farmland as prescribed in Article 2, paragraph (1) (Definitions) of the Agricultural Land Act (Act No. 229 of 1952)
 - (ii) A building (including the facilities and structures attached thereto)
 - (iii) Machinery and equipment
 - (iv) A vessel
 - (v) A mining right (including a mining lease right, a right of quarrying, or any other right to dig or quarry soil and stone
- (2) The provisions of the preceding paragraph shall not apply where the difference between the value of the acquired assets and that of the transferred assets at the time of an exchange as set forth in said paragraph exceeds 20% of the larger value of either of them.
- (3) The provisions of paragraph (1) shall apply only in the case where a tax return states the resident's intention to seek the application of the provisions of said paragraph, the values of the acquired assets and transferred assets, and any other matters specified by Ordinance of the Ministry of Finance.
- (4) Even in the case where a tax return has not been filed or a tax return with no entries for the matters set forth in the preceding paragraph has been filed, the district director of the tax office may apply the provisions of paragraph (1), when the director finds any unavoidable reason for the person's failure to file the tax return or to make entries for such matters.
- (5) Matters necessary for the calculation of the depreciation allowance prescribed in Article 49, paragraph (1) (Calculation of Depreciation Allowance of Depreciable Assets and Depreciation Methods) that shall be made, with regard to acquired assets by a resident subject to the provisions of paragraph (1), and the calculation of the amount of capital gains in the case where the person has transferred acquired assets shall be specified by Cabinet Order.

(Special Provisions on Capital Gains, etc. in the Case of Gift, etc.)

Article 59 (1) In the case where any forests that a resident owns (excluding any forests generating business income) or assets generating capital gains have been transferred on any of the grounds listed as follows, it shall be deemed

that such assets have been transferred at an amount equivalent to the value as of the time when said grounds occurred, in the calculation of the amount of the person's timber income, capital gains, or miscellaneous income:

- (i) Gift (limited to a gift to a corporation), an inheritance (limited to an inheritance related to a qualified acceptance), or a testamentary gift (limited to a comprehensive testamentary gift to a corporation and an individual that relates to a qualified acceptance)
 - (ii) Transfer at the price specified by Cabinet Order as a consideration at a conspicuously low value (limited to a transfer to a corporation)
- (2) In the case where a resident has transferred the assets prescribed in the preceding paragraph to an individual at the price prescribed in item (ii) of said paragraph, when the amount of said consideration is less than the sum of the necessary expenses or acquisition costs, and the cost of transfer, which are to be deducted in the calculation of the amount of timber income, capital gains, or miscellaneous income from the transfer of said assets, such shortfall shall be disregarded in the calculation of said amount of timber income, capital gains, or miscellaneous income.

(Acquisition Costs, etc. of Assets Acquired through Gift, etc.)

Article 60 (1) In the case where a resident has transferred the assets prescribed in paragraph (1) of the preceding Article that the resident acquired on any of the grounds listed as follows, with regard to the calculation of the amount of business income, timber income, capital gains, or miscellaneous income, it shall be deemed that the person has continued to possess them:

- (i) Gift, inheritance (excluding an inheritance related to qualified acceptance), or testamentary gift (excluding a comprehensive testamentary gift related to qualified acceptance)
 - (ii) Transfer falling under the provisions of paragraph (2) of the preceding Article
- (2) In the case where a resident has transferred assets that the resident has acquired through an inheritance or a testamentary gift as listed in Article 59, paragraph (1), item (i), with regard to the calculation of the amount of business income, timber income, capital gains, or miscellaneous income, it shall be deemed that the person has acquired said assets at the amount equivalent to the value at the time of the acquisition.

(Acquisition Costs, etc. of Assets Acquired Prior to December 31, 1952)

Article 61 (1) In the case where forests generating timber income have been owned continuously since prior to December 31, 1952, the necessary expenses to be deducted in the calculation of the amount of timber income related to said forests shall be the sum of the amount calculated, as specified by Cabinet

Order, as the value of the forests as of January 1, 1953, and the monies that have been spent on maintenance expenses, felling expenses and any other expenses required for the growth or transfer of the forests on or after said day.

- (2) In the case where assets that generate capital gains (excluding the assets prescribed in the following paragraph and paragraph (4)) have been possessed continuously from prior to December 31, 1952, the acquisition costs to be deducted in the calculation of the amount of capital gains related to said assets shall be the sum of the amount calculated as specified by Cabinet Order as the value of the assets as of January 1, 1953 (in the case where it is certified that said amount is less than the sum of the amount required to acquire the assets and the amount of monies that have been spent on equipment expenses and improvement expenses prior to said day, said sum), and the amount of monies that have been spent on equipment expenses and improvement expenses for the assets on or after said day.
- (3) In the case where assets that generate capital gains have been possessed continuously since prior to December 31, 1952, and fall under the provisions of Article 38, paragraph (2) (Acquisition Costs of Assets that Depreciate Due to Being Used or Through the Elapse of Time), any acquisition costs to be deducted in the calculation of the amount of capital gains related to said assets shall be the amount that remains after deducting, from the sum of the amount calculated as specified by Cabinet Order as the value of the assets as of January 1, 1953 (in the case where it is certified that said amount is less than the value of the assets as of said day that such amount is calculated as specified by Cabinet Order, based on the sum of the amount required to acquire the assets and the amount of monies that have been spent on equipment expenses and improvement expenses prior to said day, said value), the sum of the amount listed in the items of said paragraph that is calculated by deeming that the assets were acquired at said calculated amount as of said day.
- (4) In the case of calculating the amount of capital gains from securities, when the amount that is to be used as the basis of the calculation of the acquisition costs of securities, which is to be deducted in the calculation of the amount of capital gains, contains the amount required to acquire securities that had been acquired prior to December 31, 1952, the amount calculated as specified by Cabinet Order as the value of the acquired securities as of January 1, 1953 (in the case where it is certified that said amount is less than the amount required to acquire said securities, said amount required for the acquisition) shall be deemed to be the amount required to acquire said securities.

(Loss Caused by Disasters for Assets Not Ordinarily Necessary for Daily Life)

Article 62 (1) The amount of loss incurred by a resident, with regard to assets specified by Cabinet Order as not being ordinarily necessary for daily life, due

to disasters, robbery, or embezzlement (excluding the amount of loss compensated for by insurance benefit, compensation for damage or any other payment equivalent thereto) shall be deemed to be the amount to be deducted in the calculation of the amount of capital gains for the year containing the day on which the person incurred said loss or for the next year, as specified by Cabinet Order.

(2) Matters necessary for the calculation of the amount of loss prescribed in the preceding paragraph shall be specified by Cabinet Order.

Subsection 6 Special Provisions on Calculation of Income Where Business Has Been Terminated

(Special Provisions on Necessary Expenses Where Business Has Been Terminated)

Article 63 In the case where a resident has terminated a business that generated real property income, business income, or timber income and then there proves to be an amount of expenses or losses related to said business, which would be included in necessary expenses in the calculation of the amount of the person's real property income, business income, or timber income for the year and each year thereafter if the person had not terminated said business, said amount shall be included in necessary expenses in the calculation of the amount of the person's real property income, business income, or timber income for the year containing the day on which the person terminated the business (in the case where there was no gross revenue from such income in the year containing said day, for the latest year in which there was the gross revenue) or for the year prior to said year.

(Special Provisions on the Calculation of Income Where Gains on Assets Transferred Have Become Uncollectible, etc.)

Article 64 (1) In the case where the whole or a part of the revenue or gross revenue (excluding any revenue that has arisen from a business that generates real property income or timber income; hereinafter the same shall apply in this paragraph), which is to be used as the basis of the calculation of the amount of classified income (excluding the amount of business income; hereinafter the same shall apply in this paragraph) for the year, proves to be uncollectible, or where the whole or a part of said revenue or gross revenue is to be returned on grounds specified by Cabinet Order, the portion of the amount of said classified income corresponding to said amount that proves to be uncollectible or that is to be returned shall be deemed not to have existed in the calculation of the amount of said classified income, as specified by Cabinet Order.

(2) In the case where assets (excluding those falling under the provisions of

Article 33, paragraph (2), item (i) (Income Not Included in Capital Gains)) have been transferred (including other acts specified by Cabinet Order as prescribed in paragraph (1) of said Article) in performance of a guarantee obligation, when the whole or a part of the right to obtain reimbursement for the performance of a guarantee obligation cannot be exercised, the provisions of the preceding paragraph shall apply by deeming the amount for which said right cannot be exercised (excluding the amount to be included in necessary expenses in the calculation of the amount of real property income, business income, or timber income) to be the amount that proves to be uncollectible as prescribed in the preceding paragraph.

- (3) The provisions of the preceding paragraph shall apply only in the case where a tax return states the person's intention to seek the application of the provisions of said paragraph, and any other matters specified by Ordinance of the Ministry of Finance, except in the case where a request for a reassessment is filed pursuant to the provisions of Article 152 (Special Provisions on Requests for Reassessment Where There Are Changes to the Amount of Classified Income).
- (4) Even in the case where a tax return has not been filed or a tax return with no entries for the matters set forth in the preceding paragraph has been filed, the district director of the tax office may apply the provisions of paragraph (2), when the director finds any unavoidable reason for the person's failure to file the tax return or to make entries for such matters.

Subsection 7 Special Provisions on the Time Attribution of Revenue and Expenses

(Time Attribution of Revenue and Expenses from Deferred Payment Sales, etc.)
Article 65 (1) In the case where a resident has sold inventories in a manner which falls under the category of deferred payment sales, etc., has contracted for construction work (including manufacturing work), or has provided services (excluding contracts for long-term, large-scale construction work prescribed in paragraph (1) of the following Article; hereinafter referred to as the "sales, etc. of assets" in this Article), when the amount of revenue and expenses related to the sales, etc. of assets has been settled on a deferred payment basis as specified by Cabinet Order in each year from the year that contains the date of the delivery of the subject matter or the provision of services related to said sales, etc. of assets; said amount of revenue and expenses settled shall be included in gross revenue and necessary expenses in the calculation of the amount of business income for the relevant years; provided, however, that in the case where the amount of revenue and expenses related to said sales, etc. of assets was not settled on a deferred payment basis in any year from the year

following the year containing said date, this shall not apply to the calculation of the amount of business income for years from the year following the year when the amount of the revenue and expenses was not settled by said method.

- (2) In the case where a resident has delivered the lease assets prescribed in Article 67-2, paragraph (1) (Calculation of the Amount of Income Related to Lease Transactions) through lease transactions prescribed in paragraph (3) of said Article (hereinafter the delivery of such lease assets shall be referred to as the "lease transfer" in this Article), the amount specified by Cabinet Order as the amount of revenue and expenses for each year after the year containing the date of said lease transfer, when categorizing the amount of the consideration for the lease transfer into the portion corresponding to interest and the other portion as specified by Cabinet Order, shall be included in gross revenue and necessary expenses in the calculation of the amount of business income for the relevant years, notwithstanding the provisions of the preceding paragraph.
- (3) Deferred payment sales, etc. as prescribed in paragraph (1) shall be the sales, etc. of assets under conditions that meet the following requirements, based on a contract that defines said conditions, and lease transfer.
 - (i) Consideration is received in three or more installments, by way of a monthly installment, annual installment, or any other installment payment
 - (ii) The period from the day following the due date for the delivery or provision of the subject matter or services related to said sales, etc. of assets up to the deadline of the last installment payment is two years or more
 - (iii) Any other requirements as specified by Cabinet Order
- (4) The provisions of paragraph (2) shall apply only in the case where a tax return for the year containing the date of the lease transfer states details concerning the inclusion in gross revenue and necessary expenses of the amount specified by Cabinet Order as the amount of revenue and expenses prescribed in said paragraph.
- (5) Even in the case where a tax return has not been filed or a tax return with no entries for the matters set forth in the preceding paragraph has been filed, the district director of the tax office may apply the provisions of paragraph (2), when the director finds any unavoidable reason for the person's failure to file the tax return or to make entries for such matters.
- (6) Special provisions on the disposition of the amount of revenue and expenses related to the sales, etc. of assets, which fall under the category of deferred payment sales, etc. as prescribed in paragraph (1), in the case where a resident subject to the provisions of said paragraph dies or leaves the country, and any other matters necessary for the application of the provisions of said paragraph or paragraph (2) shall be specified by Cabinet Order.

(Time Attribution of Revenue and Expenses Related to a Contract for

Construction Work)

Article 66 (1) When a resident has contracted for long-term, large-scale construction work (meaning construction work (including manufacturing work and the development of software; hereinafter the same shall apply in this Article), for which the period between the date of the start of construction and the due date for the delivery of the subject matter defined under the contract for said construction work is one year or more, which falls under the category of large-scale construction work specified by Cabinet Order, and which meets any other requirements specified by Cabinet Order; hereinafter the same shall apply in this Article), the portion of revenue and expenses related to the contract for said large-scale construction work, which is calculated by way of a percentage of the completion method specified by Cabinet Order as the amount of revenue and expenses for each year from the year containing the date of the start of construction up to the year preceding the year containing the date of the delivery of the subject matter, shall be included in gross revenue and necessary expenses in the calculation of the amount of business income for the relevant years.

(2) In the case where a resident has contracted for construction work (limited to construction work for which the subject matter is not delivered within the year containing the date of the start of construction (hereinafter referred to as the "year of starting construction" in this paragraph) and excluding construction work falling under the category of long-term, large-scale construction work; hereinafter the same shall apply in this Article), when the amount of revenue and expenses related to the contract for construction work has been settled by way of a percentage of the completion method specified by Cabinet Order for each year from the year of starting construction up to the year preceding the year containing the date of the delivery of the subject matter, said amount of revenue and expenses settled shall be included in gross revenue and necessary expenses in the calculation of the amount of business income for the relevant years; provided, however, that in the case where the amount of revenue and expenses related to said contract for construction work was not settled by way of a percentage of the completion method in any year from the year following the year of starting construction, this shall not apply to the calculation of the amount of business income for the years from the year following the year when the amount of the revenue and expenses was not settled by said method.

(3) Special provisions on the disposition of the amount of revenue and expenses related to long-term, large-scale construction work or a contract for construction work, in the case where a resident subject to the provisions of paragraph (1) or the preceding paragraph has died, and any other matters necessary for the application of the provisions of the preceding two paragraphs shall be specified by Cabinet Order.

(Time Attribution of Revenue and Expenses of Small-Scale Enterprises)

Article 67 With regard to a resident who has obtained approval to file a blue return from the district director of the tax office, performs operations that generate real property income or business income, and meets the requirements specified by Cabinet Order as a small-scale enterprise, the amount to be included in gross revenue and necessary expenses in the calculation of the amount of real property income or business income (excluding income that relates to the felling or transfer of forests) for the year may be deemed to be the amount earned from and spent for the operations in the year, as specified by Cabinet Order.

Subsection 8 Lease Transactions

(Calculation of the Amount of Income Related to Lease Transactions)

Article 67-2 (1) In the case where a resident has made lease transactions, the amount of classified income for each year of the resident who is the lessor or lessee of assets, which are the object of the lease transactions (hereinafter referred to as "lease assets" in this paragraph), shall be calculated, by deeming that said lease assets were sold at the time of their delivery from the lessor to the lessee.

(2) In the case where a resident has sold assets under the conditions of a lease from a transferee to a transferor (limited to a lease falling under the category of lease transactions), when it is deemed that such transactions substantially cover the borrowing and lending of monies, in light of the type of assets, developments leading to said sale and lease-back, and any other circumstances, the amount of classified income for each year of the resident who is the transferee or transferor shall be calculated, by deeming that said assets were not traded and monies were lent from the transferee to the transferor.

(3) Lease transactions prescribed in the preceding two paragraphs shall be the lease of assets (excluding the lease of land of which the ownership is not transferred and any other lease specified by Cabinet Order) that meets the requirements listed as follows:

(i) The contract for the lease cannot be canceled in the middle of the lease period or the contract is equivalent to such contract

(ii) The lessee of the lease may receive substantial economic benefits from the assets related to the lease and is expected to bear substantial expenses caused by the use of said assets

(4) Matters necessary for the determination as to whether a person is to bear the substantial expenses caused by the use of the assets set forth in item (ii) of the preceding paragraph, and any other matters necessary for the application of

the preceding three paragraphs shall be specified by Cabinet Order.

Subsection 9 Calculation of the Amount of Income Related to Trusts

Article 67-3 (1) In the case where a resident has become a beneficiary as prescribed in Article 13, paragraph (1) (Attribution of Assets and Liabilities in Trust Property and Profits and Expenses to Be Attributable to Trust Property) (such beneficiary shall include a person who is deemed to be a beneficiary prescribed in paragraph (1) of said Article pursuant to the provisions of paragraph (2) of said Article and exclude a beneficiary under liquidation proceedings) of a trust subject to corporation taxation (limited to a trust listed in Article 2, item (xxix)-2, (b) (Definitions) of the Corporation Tax Act) and thereby said trust subject to corporation taxation has ceased to fall under the category of trusts listed in (b) of said item (excluding the case where said trust subject to corporation taxation falls under the category of trusts listed in (a) or (c) of said item), the amount of classified income for each year of the resident shall be calculated, by deeming that the resident has succeeded to the assets and liabilities in the trust property from the trust corporation (meaning a trust corporation prescribed in Article 6-3 (Application of This Act to Trust Corporations, etc.)) at the amount specified by Cabinet Order based on the book value immediately preceding the time when said trust ceased to fall under said category.

(2) In the case where the resident set forth in the preceding paragraph is deemed to have succeeded to the assets and liabilities pursuant to the provisions of said paragraph, the amount of proceeds arising from the succession shall not be included in gross revenue in the calculation of the amount of classified income for the year containing the day on which the resident succeeded to said assets and liabilities.

(3) In the case where a settlor (limited to a resident; hereinafter the same shall apply in this paragraph) of a trust (excluding a group investment trust, retirement pension trust, or a trust subject to corporation taxation as prescribed in the proviso of Article 13, paragraph (1); hereinafter the same shall apply in this Article) has entrusted settlor's assets, when a person to become a beneficiary, etc. of the trust (limited to a corporation; hereinafter the same shall apply in this paragraph) becomes the beneficiary, etc. without paying a proper consideration, the amount of classified income for each year for the settlor of the trust shall be calculated, by deeming that the assets related to the right in the trust were transferred from the settlor of the trust to a person to become the beneficiary, etc. of the trust by gift (in the case where the person to become the beneficiary, etc. paid a consideration, by transfer at the price of the consideration) as of the time when the settlor entrusted said assets.

- (4) In the case where a new beneficiary has come to join a trust (excluding the case where the provisions of the preceding paragraph and paragraph (6) apply), when the person who is to become the new beneficiary, etc. of the trust (limited to a corporation; hereinafter the same shall apply in this paragraph) becomes the beneficiary, etc. without paying a proper consideration and a person who was formerly a beneficiary, etc. of the trust is a resident, the amount of classified income for each year of the person who was formerly the beneficiary, etc. of the trust shall be calculated by deeming that the assets related to the right in the trust were transferred from the person who was formerly the beneficiary, etc. of the trust to the person who is to become the new beneficiary, etc. of the trust by a gift (in the case where the person who is to become the new beneficiary, etc. paid a consideration, by transfer at the price of the consideration) as of the time when the new beneficiary joined the trust.
- (5) In the case where some of the beneficiaries, etc. of a trust have ceased to exist, when a person who is already a beneficiary, etc. of the trust (limited to a corporation; hereinafter the same shall apply in this paragraph) is a person who is to newly receive profits from rights in said trust without paying a proper consideration and the person who was formerly one of beneficiaries, etc. of the trust is a resident, the amount of classified income for each year of the person who was formerly one of beneficiaries, etc. of the trust shall be calculated by deeming that the assets related to the beneficiary's rights in the trust were transferred from the person who was formerly one of beneficiaries, etc. of the trust to the person who is to receive the profits by a gift (in the case where the person who is to receive the profits paid a consideration, by transfer at the price of the consideration) as of the time when those beneficiaries, etc. of the trust ceased to exist.
- (6) In the case where a trust has been terminated, when a person who is to receive the delivery of or is to be vested with the residual assets of the trust (limited to a corporation; hereinafter the same shall apply in this paragraph) is a person who is to receive the delivery of or is to be vested with the residual assets of the trust without bearing proper consideration and a person who was a beneficiary, etc. immediately prior to the termination of said trust is a resident, the amount of classified income for each year of the person who was formerly the beneficiary, etc. shall be calculated by deeming that the residual assets of the trust were transferred from the person who was formerly the beneficiary, etc. to the person who is to receive the delivery of or to be vested with the residual assets by gift (in the case where the person who is to receive the delivery of or to be vested with the residual assets bore consideration, by transfer at the price of the consideration) as of the time when the person became entitled to receive the delivery of or to be vested with the residual assets.

- (7) A beneficiary, etc. prescribed in paragraph (3) to the preceding paragraph shall be a beneficiary as prescribed in Article 13, paragraph (1) (including a person who is deemed to be a beneficiary as prescribed in paragraph (1) of said Article pursuant to the provisions of paragraph (2) of said Article).
- (8) Matters necessary for the calculation of income in the case where there is any amount of loss caused by succession under the provisions of paragraph (1), matters necessary for the application of paragraph (3) in the case where the right in a trust prescribed in said paragraph is not the whole of the right on said trust, and any other matters necessary for the application of the provisions of paragraphs (1) to (6) shall be specified by Cabinet Order.

Subsection 10 Scope of Classified Income and Details of Calculation of the Amount Thereof

(Scope of Classified Income and Details of Calculation of the Amount Thereof)
Article 68 In addition to what is provided for in this Section, the scope of classified income and the matters necessary for the calculation of the amount of classified income shall be specified by Cabinet Order.

Section 3 Aggregation of Profits and Losses and Deduction for Carryover of Losses

(Aggregation of Profits and Losses)
Article 69 (1) In the case of calculating the amount of gross income, retirement income, or timber income, when there is any amount of loss in the calculation of the amount of real property income, business income, timber income or capital gains, said amount of loss shall be deducted from the amount of other classified income, according to the procedures specified by Cabinet Order.
(2) In the case referred to in the preceding paragraph, when the amount of loss prescribed in said paragraph contains the amount of loss in the calculation of the amount of income related to assets prescribed in Article 62, paragraph (1) (Loss Caused by Disasters for Assets Not Ordinarily Necessary for Daily Life) (hereinafter such amount of income shall be referred to as the "amount of income related to assets not ordinarily necessary for daily life" in this paragraph), the portion of said loss specified by Cabinet Order shall be deducted from the amount of other income related to assets not ordinarily necessary for daily life, as specified by Cabinet Order, and the rest other than said portion of the loss specified by Cabinet Order and any amount that remains even after said deduction shall be deemed to have never existed.

(Deduction for Carryover of Net Loss)

Article 70 (1) In the case where there is any amount of net loss incurred by a resident who files a tax return in each year within the three years prior to the year before the relevant year (limited to a year for which the resident filed a blue return form for income tax) (the amount of such net loss shall exclude an amount that was deducted prior to the previous year pursuant to the provisions of this paragraph and an amount that was used as the basis of the calculation of the amount to be refunded pursuant to the provisions of Article 142, paragraph (2) (Refund by Carryback of Net Loss)), the amount equivalent to said net loss shall be deducted in the calculation of the amount of gross income, retirement income, or timber income for the year related to said tax return, as specified by Cabinet Order.

(2) When the amount of net loss incurred by a resident who files a tax return contains any loss related to the amount of loss listed as follows and that is specified by Cabinet Order in each year within the three years prior to the year before the relevant year (the amount of such net loss shall exclude the amount that is subject to the provisions of the preceding paragraph and the amount that was used as the basis of the calculation of the amount to be refunded pursuant to the provisions of Article 142, paragraph (2)), the amount equivalent to said net loss specified by Cabinet Order shall be deducted in the calculation of the amount of gross income, retirement income, or timber income for the year related to said return, as specified by Cabinet Order.

(i) The amount of loss in the calculation of the amount of fluctuating income

(ii) The amount of loss on business assets from disasters

(3) The amount of loss on business assets from disasters listed in item (ii) of the preceding paragraph shall be the amount of loss due to disasters with regard to inventories or assets as prescribed in Article 51, paragraph (1) or paragraph (3) (Inclusion of Losses on Assets in Necessary Expenses) (including the amount of unavoidable expenses related to disasters specified by Cabinet Order and excluding the amount compensated for by insurance benefit, compensation for damage or any other payment equivalent thereto) that does not fall under the category of the amount of loss listed in item (i) of the preceding paragraph.

(4) The provisions of paragraph (1) or paragraph (2) shall apply only in the case where a resident prescribed in either of the provisions filed a blue return set forth in paragraph (1) or a tax return stating matters related to the amount of loss listed in the items of paragraph (2), with regard to income tax for the year when the resident incurred a net loss, by the deadline (where the district director of the tax office finds any unavoidable reason, including the case where the resident filed such returns after the deadline) and the resident has continued to file a tax return since then.

(5) A deduction pursuant to the provisions of paragraph (1) and paragraph (2) shall be referred to as a deduction for carryover of net loss.

(Deduction for Carryover of Casualty Loss)

- Article 71 (1) The amount of casualty loss incurred by a resident who files a tax return in each year within the three years prior to the year before the relevant year (excluding the amount that had been deducted prior to the previous year pursuant to the provisions of this paragraph or paragraph (1) of the following Article) shall be deducted in the calculation of the amount of gross income, retirement income, or timber income for the year related to said return, as specified by Cabinet Order.
- (2) The provisions of the preceding paragraph shall apply only in the case where a resident set forth in said paragraph filed a tax return stating matters related to the amount of casualty loss, with regard to income tax for the year when the resident incurred the casualty loss, by the deadline (in the case where the district director of the tax office finds any unavoidable reason, including the case where the resident filed such return after the deadline) and the resident has continued to file a tax return since then.
- (3) A deduction pursuant to the provisions of paragraph (1) shall be referred to as a deduction for carryover of casualty loss.

Section 4 Exemptions and Deductions from Income

(Deductions for Casualty Loss)

- Article 72 (1) In the case where there was any loss on assets owned by a resident or resident's spouse or any other relative whose cost of living is included in that of the resident (excluding assets prescribed in Article 62, paragraph (1) (Loss Caused by Disasters for Assets Not Necessary for Daily Life) and Article 70, paragraph (3) (The Amount of Loss on Business Assets from Disasters)) due to disasters, robbery, or embezzlement (including the case where the resident paid unavoidable expenses as specified by Cabinet Order, in relation to said disasters, robbery, or embezzlement), when the sum of said loss for the year (including said amount spent and excluding the amount compensated for by insurance benefit, compensation for damage or any other payment equivalent thereto; hereinafter referred to as the "amount of loss" in this paragraph) exceeds the amount listed in each of the following items for the category set forth in the relevant item, the amount of said excess shall be deducted from the amount of the resident's gross income, retirement income or timber income for the year:
- (i) In the case where the amount of disaster-related expenses contained in the amount of loss (meaning the portion of the amount of loss specified by Cabinet Order as the amount spent directly in relation to disasters; hereinafter the same shall apply in this paragraph) for the year is 50,000 yen

- or less (including the case where there were no disaster-related expenses for the year): The amount equivalent to 10% of the sum of the amount of the resident's gross income, retirement income, and timber income for the year
- (i) In the case where the amount of disaster-related expenses contained in the amount of loss for the year exceeds 50,000 yen: The lower amount of either of the amount that remains after deducting, from the sum of the amount of loss for the year, the portion of disaster-related expenses that exceeds 50,000 yen or the amount listed in the preceding item
 - (ii) In the case where the whole amount of loss for the year was that of disaster-related expenses: The lower amount of either of 50,000 yen or the amount listed in item (i)
- (2) Matters necessary for the calculation of the amount of loss prescribed in the preceding paragraph shall be specified by Cabinet Order.
- (3) A deduction pursuant to the provisions of paragraph (1) shall be referred to as a deduction for a casualty loss.

(Deduction for Contribution or Donation)

- Article 78 (1) In the case where a resident has made a specified donation in each year, when the amount listed in item (i) exceeds the amount listed in item (ii), the amount of said excess shall be deducted from the amount of the resident's gross income, retirement income or timber income for the year:
- (i) The sum of specified donations made within the year (in the case where said sum exceeds the amount equivalent to 40% of the sum of the amount of the resident's gross income, retirement income and timber income for the year, said amount equivalent to 40%)
 - (ii) 5,000 yen
- (2) The specified donations prescribed in the preceding paragraph shall be donations listed as follows (excluding those to be made in relation to enrollment in schools):
- (i) A donation to the national or a local government (including port authorities prescribed by the Ports and Harbors Act (Act No. 218 of 1950) (when it is deemed that a person who has made a donation may utilize the facilities established with the donation exclusively or may enjoy any other special benefits therefrom, such donation shall be excluded)
 - (ii) A donation to a public interest incorporated association, public interest incorporated foundation, or any other corporation or group that conducts business for public interest purposes (including a donation for the purpose of establishing such corporation or any other donation made prior to the establishment thereof that is specified by Cabinet Order) that is designated by the Minister of Finance as a donation meeting the following requirements, as specified by Cabinet Order:

- (a) The donation is collected widely from the general public
 - (b) It is fully expected that the donation shall be allocated to urgent expenses to serve in the promotion of education or science, enhancement of culture, contribution to social welfare or any other improvement in the public interest
 - (iii) A donation to any of the corporations listed in Appended Table 1 and any other corporation established under special Acts, which is specified by Cabinet Order as significantly serving in the promotion of education or science, enhancement of culture, contribution to social welfare or any other improvement in the public interest, that is made in relation to the business that is the principal objective of said corporation (excluding donations falling under the category of donations prescribed in the preceding two items)
- (3) The amount that a resident has spent for the purpose of entrusting as trust property under a specified charitable trust (meaning a charitable trust prescribed in Article 1 (Charitable Trust) of the Charitable Trust Act, for which it is certified, as specified by Cabinet Order, that trust property as of the time of the termination of the trust is not vested in a settlor of the trust related to said trust property and the operation of the trust affairs meets the requirements specified by Cabinet Order) that is specified by Cabinet Order as significantly serving in the promotion of education or science, enhancement of culture, contribution to social welfare or any other improvement in the public interest shall be deemed to be a specified donation prescribed in the preceding paragraph, and the provisions of paragraph (1) shall be applied.
- (4) A deduction pursuant to the provisions of paragraph (1) shall be referred to as a deduction for a contribution or donation.

(Basic Exemption)

Article 86 (1) With regard to a resident, 380,000 yen shall be exempted from the amount of the person's gross income, retirement income, or timber income for the year.

- (2) An exemption pursuant to the provisions of the preceding paragraph shall be referred to as a basic exemption.

(Procedures for Exemptions and Deductions from Income)

Article 87 (1) In the case of making a deduction for casualty losses along with a medical expenses deduction, deduction for social insurance premiums, deduction for small-scale enterprise mutual aid premiums, etc., deduction for life insurance premiums, deduction for earthquake insurance premiums, deduction for a contribution or donation, a deduction for persons with disabilities, deduction for widows (widowers), deduction for working students, exemption for spouses, a special exemption for spouses, a deduction for

dependents, or a basic exemption, a deduction for a casualty loss shall be the first to be made.

- (2) The amount to be exempted or deducted as set forth in the preceding paragraph shall be exempted or deducted successively from the amount of gross income, timber income or retirement income.

Chapter III Calculation of the Amount of Tax
Section 1 Tax Rate

(Tax Rate)

Article 89 (1) The amount of income tax to be imposed on a resident shall be the sum of [1] the amount obtained by dividing the amount of taxable gross income or taxable retirement income for the year into the categories listed in the left-hand column of the following table, multiplying each amount by the relevant tax rate listed in the right-hand column of said table, and adding up all these amounts and [2] the amount obtained by first dividing the amount equivalent to 20% of the amount of taxable timber income for the year into the categories listed in the left-hand column of said table, multiplying each amount by the relevant tax rate listed in the right-hand column of said table, and adding up all these amounts and then multiplying the total obtained by 5.

| | |
|---|-----|
| The portion of the taxable gross income that is not more than 1,950,000 yen | 5% |
| The portion of the taxable gross income that is over 1,950,000 yen but not more than 3,300,000 yen | 10% |
| The portion of the taxable gross income that is over 3,300,000 yen but not more than 6,950,000 yen | 20% |
| The portion of the taxable gross income that is over 6,950,000 yen but not more than 9,000,000 yen | 23% |
| The portion of the taxable gross income that is over 9,000,000 yen but not more than 18,000,000 yen | 33% |
| The portion of the taxable gross income that is over 18,000,000 yen | 40% |

- (2) The amount of taxable gross income, taxable retirement income or taxable timber income shall be the amount that remains after making an exemption or a deduction from the amount of gross income, retirement income, or timber income as prescribed in Section 4 (Exemptions and Deductions from Income) of the preceding Chapter.

(Averaging Taxation on Fluctuating Income and Ad hoc Income)

Article 90 (1) In the case where the sum of the amount of a resident's fluctuating income and ad hoc income for the year (in the case where the amount of

fluctuating income for the year is not more than 50% of the sum of the amount of fluctuating income for the previous year and the year before that, the amount of ad hoc income for the year) is 20% or more of the amount of gross income for the year, the amount of income tax on the person's taxable income for the year shall be the sum of the amount listed as follows:

- (i) The amount of tax calculated pursuant to the provisions of paragraph (1) of the preceding Article by deeming the amount that remains after deducting the amount equivalent to 80% of the average taxable amount from the amount equivalent to taxable gross income for the year (in the case where said taxable gross income is not more than the average taxable amount, the amount equivalent to 20% of said taxable gross income; hereinafter referred to as the "adjusted income" in this Article) to be the amount of taxable gross income for the year
 - (ii) The amount obtained by multiplying the amount that remains after deducting the adjusted income from the amount equivalent to taxable gross income for the year by the rate of the amount listed in the preceding item against the adjusted income
- (2) The rate prescribed in item (ii) of the preceding paragraph shall be calculated by rounding a number to two decimal places.
 - (3) The average taxable amount prescribed in paragraph (1) shall be the sum of the amount of fluctuating income (in the case where there was any fluctuating income for the previous year or the year before that, when the amount of fluctuating income for the year exceeds the amount equivalent to 50% of the sum of the amount of fluctuating income for the previous year and the year before that, the amount of said excess) and the amount of ad hoc income.
 - (4) The provisions of paragraph (1) shall apply only in the case where a tax return states the resident's intention to seek the application of the provisions of said paragraph, and details concerning the calculation of the sum of the amount listed in the items of said paragraph.
 - (5) Even in the case where a tax return has not been filed or a tax return with no entries for the matters set forth in the preceding paragraph has been filed, the district director of the tax office may apply the provisions of paragraph (1), when the director finds any unavoidable reason for the person's failure to file the tax return or to make entries for such matters.

Section 2 Tax Credit

(Tax Credit for Dividends)

Article 92 (1) In the case where a resident has any dividend income related to dividends of surplus (meaning dividends of surplus as prescribed in Article 24, paragraph (1) (Dividend Income); hereinafter the same shall apply in this

Article), dividends of profits (meaning dividends of profits as prescribed in said paragraph; hereinafter the same shall apply in this Article), a distribution of surplus (meaning a distribution of surplus as prescribed in said paragraph; hereinafter the same shall apply in this Article), or a distribution of proceeds from a securities investment trust (excluding what is listed in Article 9, paragraph (1), item (xi) (Tax Exemption on Distribution of Proceeds Related to a Return of Principal); hereinafter the same shall apply in this Article) (such dividend income shall exclude income related to those amounts to be received from a foreign corporation (excluding income related to a distribution of proceeds from a securities investment trust entrusted to a foreign corporation's business office, business establishment, or any other place equivalent thereto located in Japan); hereinafter the same shall apply in this Article), the amount specified in each of the following items for the category set forth in the relevant item shall be deducted from the resident's amount of income tax (meaning the amount of income tax pursuant to the provisions of the preceding Section (Tax Rate); hereinafter the same shall apply in this Article) for the year:

- (i) In the case where the amount of taxable gross income for the year is not more than 10,000,000 yen: The sum of the amount specified in each of the following sub-items for the category set forth in the relevant sub-item:
 - (a) Dividend income related to dividends of surplus, dividends of profits, and distribution of surplus (hereinafter referred to as a "dividends of surplus, etc." in this paragraph): The amount obtained by multiplying the amount of said dividend income by 10%
 - (b) Dividend income related to a distribution of proceeds from a securities investment trust: The amount obtained by multiplying the amount of said dividend income by 5%
- (ii) In the case where the amount of taxable gross income for the year is over 10,000,000 yen and the amount that remains after deducting the amount of dividend income related to a distribution of proceeds from a securities investment trust from the amount of said taxable gross income is not more than 10,000,000 yen: The sum of the amount specified in each of the following sub-items for the category set forth in the relevant sub-item
 - (a) Dividend income related to dividends of surplus, etc.: The amount obtained by multiplying the amount of said dividend income by 10%
 - (b) Dividend income related to a distribution of proceeds from a securities investment trust: The sum of [1] the amount obtained by multiplying, by 2.5%, the portion of said dividend income that is equivalent to the amount that remains after deducting 10,000,000 yen from the amount of said taxable gross income and [2] the amount obtained by multiplying the rest of said dividend income by 5%
- (iii) In a case other than those listed in the preceding two items: The sum of

the amount specified in each of the following sub-items for the category set forth in the relevant sub-item

- (a) Dividend income related to dividends of surplus, etc.: The sum of [1] the amount obtained by multiplying, by 5%, the portion of said dividend income up to the amount equivalent to the amount that remains after deducting 10,000,000 yen and the amount of dividend income listed in (b) from the amount of said taxable gross income, and [2] the amount obtained by multiplying the rest of said dividend income by 10%
 - (b) Dividend income related to a distribution of proceeds from a securities investment trust: The amount obtained by multiplying the amount of said dividend income by 2.5%
- (2) The amount to be deducted pursuant to the provisions of the preceding paragraph shall be deducted from the amount of income tax related to taxable gross income, taxable timber income, or taxable retirement income, successively. In this case, when said amount to be deducted exceeds the amount of income tax for the year, the amount to be deducted shall be the amount equivalent to said amount of income tax.
- (3) A deduction pursuant to the provisions of paragraph (1) shall be referred to as tax credit for a dividend.

(Credit for Foreign Tax)

Article 95 (1) In the case where a resident is to pay any foreign income tax (meaning a tax imposed under foreign laws or regulations that is equivalent to income tax and is specified by Cabinet Order; hereinafter the same shall apply in this Article) for each year (excluding the case where a resident is to pay any foreign income tax on income arising from transactions that are specified by Cabinet Order as those that are not deemed to be ordinary transactions), the amount of said foreign income tax shall be deducted from the amount of income tax for the year, to the extent of the portion calculated as specified by Cabinet Order as income that was generated in that year and whose sources correspond to those located outside Japan, out of the amount of income tax for the year calculated pursuant to the provisions of Articles 89 to 92 (Tax Rate and Tax Credit for Dividend) (hereinafter such portion shall be referred to as the "maximum tax credit" in this Article).

- (2) In the case where the amount of foreign income tax that a resident is to pay in each year exceeds the sum of the maximum tax credit for the year and the amount specified by Cabinet Order as the maximum tax credit for local tax, when the maximum tax credit for each year within the three years prior to the year before the relevant year (hereinafter referred to as "each year within the preceding three years" in this Article) contains the amount specified by Cabinet Order as the portion to be carried over to the year (hereinafter

referred to as the "maximum tax credit to be carried over" in this Article), the amount of said excess shall be credited against income tax for the year, to the extent of said maximum tax credit to be carried over, as specified by Cabinet Order.

- (3) In the case where the amount of foreign income tax that a resident is to pay in each year is less than the maximum tax credit for the year, when the amount of foreign income tax to be paid in each year within the preceding three years contains an amount specified by Cabinet Order as the portion to be carried over to the year (hereinafter referred to as the "amount of foreign income tax to be carried over" in this Article), said amount of foreign income tax to be carried over shall be deducted from income tax for the year, to the extent of the amount that remains after deducting the amount of foreign income tax to be paid in the year from said maximum tax credit, as specified by Cabinet Order.
- (4) In the case where the amount of foreign income tax that a resident is to pay has been reduced in each year after the year following the year when the resident was subject to the provisions of the preceding three paragraphs, with regard to the whole or a part of said amount of foreign income tax, the application of the provisions of the preceding three paragraphs for the year containing the day on which said amount was reduced shall be specified by Cabinet Order.
- (5) The provisions of paragraph (1) shall apply only in the case where a tax return states the amount to be deducted pursuant to the provisions of said paragraph and the details concerning the calculation thereof, and is attached with a document certifying that foreign income tax has been imposed and any other documents specified by Ordinance of the Ministry of Finance. In this case, the amount to be deducted pursuant to the provisions of said paragraph shall be limited to such amount entered as said amount.
- (6) The provisions of paragraph (2) and paragraph (3) shall apply only in the case where a resident [1] files a tax return stating the maximum tax credit and the amount of foreign income tax to be paid in each year after the earliest year that relates to the maximum tax credit to be carried over or the amount of foreign income tax to be carried over, for each of the relevant years, [2] enters the amount to be credited pursuant to the provisions of paragraph (2) and paragraph (3) in a tax return for the year for which the resident wishes to seek the application of these provisions, and [3] attaches, to said tax return, a document stating the matters to be used as the basis of the calculation of the maximum tax credit to be carried over or the amount of foreign income tax to be carried over and any other documents specified by Ordinance of the Ministry of Finance. In this case, the amount to be credited pursuant to these provisions shall be limited to the amount calculated based on the amount

entered in a tax return for each of the relevant years as the maximum tax credit for said relevant year and the amount of foreign income tax to be paid for said relevant year.

- (7) Even in the case where a tax return that has been filed does not state the amount to be credited pursuant to the provisions of paragraphs (1) to (3), the maximum tax credit prescribed in the preceding paragraph, or the matters set forth in the preceding two paragraphs, with regard to the whole or a part of the amount of foreign income tax, or a tax return that has been filed is not attached with documents as set forth in the preceding two paragraphs, the district director of the tax office may apply the provisions of paragraphs (1) to (3) to the amount, for which there was no entry or where no documents are attached, when the director finds any unavoidable reason for the person's failure to make entries for such matters or to attach such documents.
- (8) The provisions of the first sentence of Article 92, paragraph (2) (Tax Credit for Dividend) shall apply mutatis mutandis to the amount to be credited pursuant to the provisions of paragraphs (1) to (3).
- (9) A credit pursuant to the provisions of paragraphs (1) to (3) shall be referred to as a credit for foreign tax.

Chapter IV Special Provisions on the Calculation of the Amount of Tax

(Calculation of the Amount of Tax Where a Nonresident Becomes a Resident During the Year)

Article 102 The amount of income tax to be imposed on a person who is a resident as of December 31 of the relevant year (in the case where the person has died during the year, as of the date of the death) and who was formerly a nonresident for a certain period within the year, or a resident who left the country during the year and who was formerly a nonresident for a certain period between January 1 of the relevant year and the date of the departure shall be the amount calculated, as specified by Cabinet Order, based on the amount of income listed in Article 7, paragraph (1), item (i) (Scope of Taxable Income of Residents) that was generated during the period when the person was a resident (in the case where the person was formerly a non-permanent resident for a certain period, the amount of income listed in item (ii) of said paragraph for said period) and the amount of income categorized as domestic source income listed in the items of Article 164, paragraph (1) (Method of Taxation for Nonresidents) and the items of paragraph (2) of said Article, in accordance with the categories of nonresidents listed in the items of paragraph (1) of said Article, that was generated during the period when the person was a nonresident, irrespective of the amount of income tax calculated pursuant to the provisions of the preceding two Chapters (Tax Base and Calculation of the

Amount of Tax).

(Special Provisions on the Amount of Tax Where a Tax Return Is Not Filed)

Article 103 The amount of income tax to be imposed on a person who is not liable to file a return pursuant to the provisions of Article 120, paragraph (1) (Income Tax Returns), Article 125, paragraph (1) (Tax Returns Where the Taxpayer Has Died During the Year), or Article 127, paragraph (1) (Tax Returns Where the Taxpayer Leaves the Country During the Year) shall be the sum of the amount of the estimated tax prepayment prescribed in Article 120, paragraph (2) that relates to the person's income tax for the year and the amount of tax withheld or to be withheld with regard to income tax for the year, irrespective of the amount of income tax calculated pursuant to the provisions of the preceding two Chapters (Tax Base and Calculation of the Amount of Tax); provided, however, that this shall not apply where the person has filed a tax return.

Chapter V Filing of Returns, Payment, and Refunds

Section 1 Estimated Tax Prepayment

Subsection 1 Estimated Tax Prepayment

(Payment of Estimated Tax Prepayment)

Article 104 (1) In the case where the amount that remains after deducting the amount listed in item (ii) from the amount listed in item (i) (hereinafter the remaining amount shall be referred to as the "basis amount of estimated tax prepayment" in this Chapter) is 150,000 yen or more, a resident (excluding a person who is to pay tax pursuant to the provisions of Article 107, paragraph (1) (Payment of Estimated Tax Prepayment by Special Farming Income Earners)) shall pay, to the national government, income tax equivalent to one-third of said basis amount of estimated tax prepayment during each of the first term (meaning the period from July 1 to July 31 of that year; hereinafter the same shall apply in this Chapter) and the second term (meaning the period from November 1 to November 30 of that year):

(i) The amount of income tax on the previous year's taxable gross income (in the case where the amount of classified income that was used as the basis of the calculation of said amount of taxable gross income contains an amount of capital gains, occasional income, miscellaneous income, or ad hoc income that does not fall under the category of miscellaneous income, the amount calculated as specified by Cabinet Order by deeming that none of these amounts existed, and in the case where the provisions of Article 2 (Reduction of or Exemption from Income Tax) of the Act on Exemption, Reduction or Postponement of Collection of Taxes for Disaster Victims (Act No. 175 of

1947) have been applied to income tax for said year, the amount calculated by deeming that the provisions of said Article have not been applied)

- (ii) The amount of income tax that was or that should have been withheld with regard to the classified income that was used as the basis of the calculation of the amount of the previous year's taxable gross income (in the case where said classified income contained occasional income, miscellaneous income, or ad hoc income that does not fall under the category of miscellaneous income, the amount that remained after deducting the amount of income tax that was or that should have been withheld with regard to those types of income)
- (2) In the case referred to in the preceding paragraph, when in the amount equivalent to one-third of the basis amount of estimated tax prepayment as prescribed in said paragraph, there is a value in the tens or ones column, the relevant number shall be rounded down to the nearest hundred yen .

(Basis Date, etc. for Calculation of the Basis Amount of Estimated Tax Prepayment)

Article 105 In the case of applying the provisions of the preceding Article, the calculation of the basis amount of estimated tax prepayment shall be based on the information determined as of May 15 of the relevant year and the determination as to whether a person falls under the category of residents shall be based on the circumstances as of June 30 of the relevant year; provided, however, that in the case where the amount calculated based on the information determined as of any date between May 16 and July 31 of the relevant year turns out to be less than the amount calculated pursuant to the provisions of the main clause, the calculation of the basis amount of estimated tax prepayment shall be based on the information determined as of said date (in the case where there are two or more such dates, as of the day on which the calculated amount is the smallest).

(Notice of the Amount of Estimated Tax Prepayment, etc.)

Article 106 (1) With regard to a resident who is to pay tax pursuant to the provisions of Article 104, paragraph (1) (Payment of Estimated Tax Prepayment), the district director of the tax office shall calculate the basis amount of estimated tax prepayment based on the resident's circumstances as of May 15 of the relevant year, and notify the person, in writing, of said basis amount of estimated tax prepayment and the amount of estimated tax prepayment to be paid during the first term and the second term, by June 15 of the year.

- (2) In the case where the basis amount of estimated tax prepayment set forth in the preceding paragraph is to be calculated pursuant to the proviso of the preceding Article, the district director of the tax office shall notify the resident

set forth in said paragraph, to that effect in writing.

- (3) A notice pursuant to the provisions of the preceding two paragraphs shall be given by the district director of the tax office who has received a tax return from a resident who is to pay tax pursuant to the provisions of Article 104, paragraph (1), with regard to the resident's income tax for the previous year, or who has made a decision on said income tax (in the case where said place for payment of income tax has changed subsequently, by the district director of the tax office specified by Cabinet Order).

Subsection 2 Special Provisions on Estimated Tax Prepayment for Special Farming Income Earners

(Payment of Estimated Tax Prepayment by Special Farming Income Earners)

Article 107 (1) In the case where the basis amount of estimated tax prepayment is 150,000 yen or more, a resident listed as follows shall pay, to the national government, income tax equivalent to half of said basis amount of estimated tax prepayment during the second term:

(i) A resident who was a special farming income earner in the previous year

(ii) A resident approved by the district director of the tax office so that the resident is expected to be a special farming income earner in the year, pursuant to the provisions of Article 110 (Application for Approval as a Special Farming Income Earner)

- (2) In the case referred to in the preceding paragraph, when in the amount equivalent to a half of the basis amount of estimated tax prepayment prescribed in said paragraph, there is a value in the tens or ones column, the relevant number shall be rounded down to the nearest hundred yen.

(Basis Date, etc. for Calculation of the Basis Amount of Estimated Tax Prepayment Regarding Special Farming Income Earners)

Article 108 In the case of applying the provisions of the preceding Article, the determination as to whether a person falls under the category of special farming income earners or the calculation of the basis amount of estimated tax prepayment shall be based on the information determined as of May 1 or September 15 of the relevant year and the determination as to whether a person falls under the category of a resident shall be based on the circumstances as of October 31 of a given year; provided, however, that in the case where the amount calculated based on the information determined as of any date between September 16 and November 30 of a given year proves to be less than the amount calculated pursuant to the provisions of the main clause, the calculation of the basis amount of estimated tax prepayment shall be based on the information determined as of said date (in the case where there are two

or more such dates, as of the day on which the calculated amount is the smallest).

(Notice of the Amount of Estimated Tax Prepayment, etc. to Special Farming Income Earners)

Article 109 (1) With regard to a resident who is to pay tax pursuant to the provisions of Article 107, paragraph (1) (Payment of Estimated Tax Prepayment by Special Farming Income Earners), the district director of the tax office shall calculate the basis amount of estimated tax prepayment based on the circumstances as of September 15 of a given year, and notify said person, in writing, of said basis amount of estimated tax prepayment and the amount of estimated tax prepayment to be paid during the second term, by October 15 of the relevant year.

(2) In the case where the basis amount of estimated tax prepayment set forth in the preceding paragraph is to be calculated pursuant to the proviso of the preceding Article, the district director of the tax office shall notify the resident set forth in said paragraph, to that effect in writing.

(3) A notice pursuant to the provisions of the preceding two paragraphs shall be given by the district director of the tax office who has received a tax return from a resident who is to pay tax pursuant to the provisions of Article 107, paragraph (1), with regard to the resident's income tax for the previous year, or who has made a decision on said income tax (in the case where said place for payment of income tax has changed subsequently, by the district director of the tax office specified by Cabinet Order).

(Application for Approval as a Special Farming Income Earner)

Article 110 (1) A resident who was not a special farming income earner in the previous year may, where the resident is expected to become a special farming income earner in the year, based on the circumstances as of May 1 of the relevant year, apply for approval, with regard to said expectation, from the competent district director with jurisdiction over the place for tax payment.

(2) A resident who wishes to apply for approval as set forth in the preceding paragraph shall submit an application form stating the grounds as to why the resident is expected to be a special farming income earner in the year and any other matters specified by Ordinance of the Ministry of Finance, to the competent district director with jurisdiction over the place for tax payment, by May 15 of the relevant year.

(3) In the case where an application form as set forth in the preceding paragraph has been submitted, the district director of the tax office shall, when giving approval for or dismissing the application, notify the applicants to that effect in writing. In this case, the district director of the tax office shall, when

notifying the dismissal, additionally enter the reason therefor.

- (4) In the case of applying the provisions of paragraph (1), the determination as to whether a person was not a special farming income earner in the previous year shall be based on the information determined as of May 1 of the relevant year.

Subsection 3 Reduction of the Amount of Estimated Tax Prepayment

(Application for Approval for a Reduction of the Amount of Estimated Tax Prepayment)

- Article 111 (1) In the case where the amount of estimated self-assessed income tax based on a resident's circumstances as of June 30 of a given year is expected to be less than the basis amount of estimated tax prepayment, a resident who is to pay tax pursuant to the provisions of Article 104, paragraph (1) (Payment of Estimated Tax Prepayment) may apply for approval, with regard to a reduction of the amount of estimated tax prepayment to be paid during the first term and the second term, from the competent district director with jurisdiction over the place for tax payment, by July 15 of that year.
- (2) In the case where the amount of estimated self-assessed income tax based on a resident's circumstances as of October 31 of a given year is expected to be less than the amount listed in the following items, a resident listed in either of those items may apply for approval, with regard to a reduction of the amount of estimated tax prepayment to be paid during the second term, from the competent district director with jurisdiction over the place for tax payment, by November 15 of that year:
- (i) A resident who is to pay tax pursuant to the provisions of Article 104, paragraph (1): The basis amount of estimated tax prepayment (with regard to a resident who has obtained approval as set forth in the preceding paragraph, the amount of estimated self-assessed income tax related to the approval)
 - (ii) A resident who is to pay tax pursuant to the provisions of Article 107, paragraph (1) (Payment of Estimated Tax Prepayment by Special Farming Income Earners): The basis amount of estimated tax prepayment
- (3) In the case where a written notice given by the district director of the tax office pursuant to the provisions of Article 106, paragraph (1) (Notice of the Amount of Estimated Tax Prepayment, etc.) or Article 109, paragraph (1) (Notice of the Amount of Estimated Tax Prepayment, etc. to Special Farming Income Earners) has not been issued by June 15 or October 15 of a given year, respectively, the deadline for an application set forth in the preceding two paragraphs shall be extended to the day on which one month has elapsed from the date of the issuance of the written notice.

(4) The amount of estimated self-assessed income tax prescribed in paragraph (1) or paragraph (2) shall be the amount calculated, as specified by Cabinet Order, as the amount that remains after deducting the amount of estimated income tax that is being withheld with regard to the classified income that was used as the basis for the calculation of the year's taxable gross income, from the amount of income tax calculated in accordance with the provisions of Chapter III (Calculation of the Amount of Tax), with regard to the estimated amount of that year's taxable gross income and taxable timber income.

(Procedures for Applying for Approval for a Reduction of the Amount of Estimated Tax Prepayment)

Article 112 (1) A resident who wishes to file an application pursuant to the provisions of paragraph (1) or paragraph (2) of the preceding Article shall submit an application form, which states the amount of estimated self-assessed income tax prescribed in these provisions, the reason for the application, and any other matters specified by Ordinance of the Ministry of Finance, to the competent district director with jurisdiction over the place for tax payment.

(2) An application form set forth in the preceding paragraph shall be attached with a document stating the fact that is to be used as the basis of the calculation of the amount of estimated self-assessed income tax set forth in said paragraph, based on transaction records, etc.

(Dispositions on an Application for Approval for a Reduction of the Amount of Estimated Tax Prepayment)

Article 113 (1) In the case where an application form set forth in paragraph (1) of the preceding Article has been submitted, the district director of the tax office shall [1] approve the amount of estimated self-assessed income tax prescribed in said paragraph related to the application (hereinafter referred to as the "amount of estimated self-assessed income tax" in this Article) by carrying out an examination, [2] fix the amount of estimated self-assessed income tax and give the approval as set forth in Article 111, paragraph (1) or paragraph (2) (Application for Approval for a Reduction of the Amount of Estimated Tax Prepayment), or [3] reject the application.

(2) In the case where an application form set forth in paragraph (1) of the preceding Article has been submitted, the district director of the tax office shall give an approval as set forth in the preceding paragraph, when the application falls under any of the following items:

(i) In the case where it is deemed that due to damage caused by the termination, suspension or conversion of the whole or a part of the business, unemployment, disasters, robbery, or embezzlement that has occurred by the basis date for the calculation of the amount of estimated self-assessed income

tax related to said application or due to the payment of medical expenses prescribed in Article 73, paragraph (2) (The Meaning of Medical Expenses), the amount of estimated self-assessed income tax based on a resident's circumstances as of said date will be less than the basis amount of estimated tax prepayment or the amount of estimated self-assessed income tax that was used as the basis of the calculation of the amount of estimated tax prepayment to be reduced based on said approval

(ii) In addition to the case listed in the preceding item, in the case where it is deemed that the amount of estimated self-assessed income tax based on a resident's circumstances as of the basis date for the calculation of the amount of estimated self-assessed income tax related to said application will be not more than the amount equivalent to 70% of the basis amount of estimated tax prepayment or the amount of estimated self-assessed income tax that was used as the basis of the calculation of the amount of estimated tax prepayment to be reduced based on said approval

(3) The district director of the tax office who has reached a disposition set forth in paragraph (1) shall [1] notify the resident who submitted the application form set forth in said paragraph of the amount of estimated self-assessed income tax that the director has approved and the amount of estimated tax prepayment calculated based on said amount of estimated self-assessed income tax, [2] notify the resident of the amount of estimated self-assessed income tax that the director has fixed and the amount of estimated tax prepayment calculated based on said amount of estimated self-assessed income tax or [3] notify the resident of the rejection of the application and shall additionally enter the reason therefor.

(4) In the case where approval as set forth in paragraph (1) has been given based on an application filed pursuant to the provisions of Article 111, paragraph (1) or paragraph (2), item (ii), when the amount of estimated self-assessed income tax notified pursuant to the provisions of the preceding paragraph exceeds the basis amount of estimated tax prepayment calculated pursuant to the provisions of the proviso of Article 105 (Special Provisions on Calculation of the Basis Amount of Estimated Tax Prepayment) or the proviso of Article 108 (Special Provisions on Calculation of the Basis Amount of Estimated Tax Prepayment for Special Farming Income Earners), it shall be deemed that said approval has not been given.

(Special Provisions on the Amount of Estimated Tax Prepayment Where a Reduction of the Amount of Estimated Tax Prepayment Has Been Approved)
Article 114 (1) In the case where a resident who has filed an application pursuant to the provisions of Article 111, paragraph (1) (Application for Approval for a Reduction of the Amount of Estimated Tax Prepayment), has

obtained approval set forth in said paragraph, the amount of estimated tax prepayment that the person is to pay, with regard to income tax for the year, during the first term and the second term, pursuant to the provisions of Article 104, paragraph (1) (Payment of Estimated Tax Prepayment), shall be the amount equivalent to one-third of the amount of estimated self-assessed income tax of which the district director of the tax office who has given an approval pursuant to the provisions of paragraph (3) of the preceding Article has notified the resident.

(2) In the case where a resident listed in Article 111, paragraph (2), item (i) who has filed an application pursuant to the provisions of Article 111, paragraph (2) has obtained approval set forth in said paragraph, the amount of estimated tax prepayment that the person is to pay, with regard to the relevant year's income tax, during the second term, pursuant to the provisions of Article 104, paragraph (1), shall be the amount equivalent to half of the amount that remains after deducting the amount of estimated tax prepayment to be paid during the first term pursuant to the provisions of Article 104, paragraph (1) from the amount of estimated self-assessed income tax of which the district director of the tax office who has given an approval pursuant to the provisions of paragraph (3) of the preceding Article has notified the resident.

(3) In the case where a resident listed in Article 111, paragraph (2), item (ii) who has filed an application pursuant to the provisions of Article 111, paragraph (2) has obtained approval as set forth in said paragraph, the amount of estimated tax prepayment that the person is to pay, with regard to that year's income tax, during the second term, pursuant to the provisions of Article 107, paragraph (1) (Payment of Estimated Tax Prepayment by Special Farming Income Earners), shall be the amount equivalent to half of the amount of estimated self-assessed income tax of which the district director of the tax office who has given the approval pursuant to the provisions of paragraph (3) of the preceding Article has notified the resident.

(4) In the case set forth in the preceding three paragraphs, when in the amount of estimated tax prepayment pursuant to these provisions, there is a value in the tens or ones column, the relevant number shall be rounded down to the nearest hundred yen, and when the amount of estimated self-assessed income tax prescribed in these provisions is less than 150,000 yen, it shall be deemed that the amount of estimated tax prepayment under these provisions does not exist.

Subsection 4 Special Provisions on Payment and Collection of Estimated Tax Prepayment

(Special Provisions on the Deadline for Payment of Estimated Tax Prepayment

Where the Taxpayer Leaves the Country)

Article 115 A resident who is to pay the estimated tax prepayment, pursuant to the provisions of Article 104, paragraph (1) (Payment of Estimated Tax Prepayment) or Article 107, paragraph (1) (Payment of Estimated Tax Prepayment by Special Farming Income Earners), shall, when wishing to leave the country prior to the deadline for the tax payment prescribed in these provisions, pay income tax equivalent to the amount of estimated tax prepayment, whose deadline falls after the departure, to the national government by the time of his/her departure, notwithstanding these provisions.

(Special Provisions on Demand for Payment of Estimated Tax Prepayment)

Article 116 In the case where the district director of the tax office has failed to issue a written notice pursuant to the provisions of Article 106, paragraph (1) (Notice of the Amount of Estimated Tax Prepayment, etc.) or Article 109, paragraph (1) (Notice of the Amount of Estimated Tax Prepayment, etc. to Special Farming Income Earners) by one month prior to the deadline for payment of the estimated tax prepayment to be paid pursuant to the provisions of Article 104, paragraph (1) (Payment of Estimated Tax Prepayment) or Article 107, paragraph (1) (Payment of Estimated Tax Prepayment by Special Farming Income Earners) (excluding the amount of the estimated tax prepayment that is to be paid pursuant to the provisions of the preceding Article; hereinafter the same shall apply in this Article), the district director of the tax office may not make a demand for payment of the estimated tax prepayment to be paid pursuant to these provisions, as prescribed in Article 37 (Demand for Payment) of the Act on General Rules for National Taxes, until the day on which one month has elapsed from the date of the issuance of the written notice.

(Special Provisions on Disposition for Delinquency of the Amount of Estimated Tax Prepayment)

Article 117 With regard to the amount of estimated tax prepayment (including a delinquent tax related to said amount of estimated tax prepayment), even in the case of making a disposition for delinquency, the property of the tax payer shall not be compulsory sold for delinquency until the deadline for filing a tax return for income tax for the year (in the case where there is any refund pursuant to the provisions of Article 138, paragraph (1) (Refund of Withholding Tax, etc.) or Article 139, paragraph (1) or paragraph (2) (Refund of Estimated Tax Prepayment), with regard to income tax for the year as of said deadline, until the day on which said refund is appropriated).

(Postponement of Collection of Estimated Tax Prepayment)

Article 118 In the case where an application form set forth in Article 112, paragraph (1) (Procedures for Applying for Approval for a Reduction of the Amount of Estimated Tax Prepayment) has been submitted, the district director of the tax office may postpone the collection of the whole or a part of the amount of estimated tax prepayment related to the application, when director finds any reasonable grounds.

(Special Provisions on Delinquent Tax Related to the Amount of Estimated Tax Prepayment)

Article 119 In the case of calculating the amount of delinquent tax, with regard to the amount of estimated tax prepayment listed in the following items, pursuant to the provisions of Article 60, paragraph (2) (Delinquent Tax) of the Act on General Rules for National Taxes, none of the periods listed in said items shall be included in the period to be used as the basis of the calculation, and the phrase "the period up to the deadline for payment (in the case where permission for the postponement of tax payment or tax payment in kind has been rescinded, up to the day on which a document for the rescission was issued; hereinafter the same shall apply in this paragraph and Article 63, paragraph (1), paragraph (4) and paragraph (5) (Exemption from Payment of Delinquent Tax in the Case of a Grace Period for Tax Payment)) or the period up to the day on which two months have elapsed from the day following the deadline for payment" in said paragraph shall be deemed to be replaced with "the period up to the day on which two months have elapsed from the day following the final day of the period listed in the items of Article 119 of the Income Tax Act."

(i) The amount of estimated tax prepayment in the case where the district director of the tax office has failed to issue a written notice pursuant to the provisions of Article 106, paragraph (1) (Notice of the Amount of Estimated Tax Prepayment, etc.) by one month prior to the deadline for payment of the estimated tax prepayment to be paid during the first term pursuant to the provisions of Article 104, paragraph (1) (Payment of Estimated Tax Prepayment) (excluding the amount of estimated tax prepayment that is to be paid pursuant to the provisions of Article 115 (Special Provisions on the Deadline for Payment of Estimated Tax Prepayment Where the Taxpayer Leaves the Country); hereinafter the same shall apply in this Article): The period from the day following said deadline for payment up to the day on which one month has elapsed from the date of the issuance of the written notice (in the case where said day falls after the deadline for filing a tax return for income tax for the year, up to said deadline for filing a tax return; hereinafter the same shall apply in this Article)

(ii) The amount of estimated tax prepayment in the case where the district

director of the tax office has failed to issue a written notice as set forth in the preceding item by one month prior to the deadline for payment of the estimated tax prepayment to be paid during the second term pursuant to the provisions of Article 104, paragraph (1): The period from the day following said deadline for payment up to the day on which one month has elapsed from the date of the issuance of the written notice

(iii) The amount of estimated tax prepayment in the case where the district director of the tax office has failed to issue a written notice pursuant to the provisions of Article 109, paragraph (1) (Notice of the Amount of Estimated Tax Prepayment, etc. to Special Farming Income Earners) by one month prior to the deadline for payment of the estimated tax prepayment to be paid during the second term pursuant to the provisions of Article 107, paragraph (1) (Payment of Estimated Tax Prepayment by Special Farming Income Earners): The period from the day following said deadline for payment up to the day on which one month has elapsed from the date of the issuance of the written notice

Section 2 Tax Returns and Payment and Refund of Tax Based Thereon

Subsection 1 Tax Returns

(Income Tax Returns)

Article 120 (1) In the case where the sum of the amount of a resident's gross income, retirement income, and timber income for the year exceeds the sum of the amount of a deduction for casualty losses pursuant to the provisions of Chapter II, Section 4 (Exemptions and Deductions from Income) and any other deduction, when the sum of the amount of income tax, which was calculated by deeming the amount that remains after deducting those amounts from the amount of said gross income, retirement income, and timber income, pursuant to the provisions of Article 87, paragraph (2) (Procedures for Exemptions and Deductions from Income), to be the amount of taxable gross income, taxable retirement income, or taxable timber income, respectively, and applying the provisions of Article 89 (Tax Rate), exceeds the amount of tax credit for a dividend, the resident shall file a return stating the matters listed as follows, to the district director of the tax office, for the third term (meaning the period from February 16 to March 15 of the next year; hereinafter the same shall apply in this Section), except in the case where the resident files a tax return pursuant to the provisions of Article 123, paragraph (1) (Tax Returns of Losses):

(i) The amount of gross income, retirement income, and timber income for the year, the amount of the deduction for casualty losses pursuant to the provisions of Chapter II, Section 4 and any other deduction, and the amount of taxable gross income, taxable retirement income, and taxable timber

- income or the amount of net loss for the year
- (ii) In the case of seeking the application of the provisions of Article 90, paragraph (1) (Averaging Taxation on Fluctuating Income and Ad Hoc Income), the amount of fluctuating income and ad hoc income and the average taxable amount prescribed in paragraph (3) of said Article for the year
 - (iii) The amount of income tax calculated by applying the provisions of Chapter III (Calculation of the Amount of Tax), with regard to the amount of taxable gross income, taxable retirement income, and taxable timber income listed in item (i)
 - (iv) In the case where there is any amount of foreign tax to be credited that remains even after a credit in the calculation of the amount of income tax listed in the preceding item, said remaining amount
 - (v) In the case where there is any amount of income tax withheld or to be withheld, with regard to the classified income that was used as the basis of the calculation of the amount of gross income, retirement income, and timber income or the amount of net loss listed in item (i) (in the case where said amount of income tax contains the amount to be refunded after having filed a return pursuant to the provisions of Article 127, paragraphs (1) to (3) (Tax Returns Where the Taxpayer Leaves the Country During the Year) or after having received a reassessment or determination regarding the income tax related to said return or any other amount specified by Cabinet Order, the amount that remains after deducting said amount; hereinafter referred to as the "amount of withholding tax" in this paragraph), the amount that remains after deducting said amount of withholding tax from the amount of income tax listed in item (iii)
 - (vi) In the case where there is any amount of withholding tax that remains even after a deduction in the calculation of the amount listed in the preceding item, said remaining amount
 - (vii) In the case where there is any amount of estimated tax prepayment for the year, the amount that remains after deducting said amount of estimated tax prepayment from the amount of income tax listed in item (iii) (in the case where there is any amount of withholding tax, the amount listed in item (v))
 - (viii) In the case where there is any amount of estimated tax prepayment that remains even after a deduction in the calculation of the amount listed in the preceding item, said remaining amount
 - (ix) In the case where the amount of classified income that was used as the basis of the calculation of the amount of gross income listed in item (i) contains the amount of capital gains, occasional income, miscellaneous income, fluctuating income that does not fall under the category of miscellaneous income, or ad hoc income that does not fall under the category

- of miscellaneous income, the amount of income tax withheld or to be withheld, with regard to those amounts, occasional income, miscellaneous income, or ad hoc income that does not fall under the category of miscellaneous income
- (x) In the case where the person is a special farming income earner in the year, to that effect
 - (xi) The basis of the calculation of the amount listed in items (i) to (ix) and any other matters specified by Ordinance of the Ministry of Finance
- (2) The amount of estimated tax prepayment prescribed in item (vii) and item (viii) of the preceding paragraph shall be the sum of the amount of tax listed as follows (in the case where said amount of tax contains the amount to be refunded after having filed a return pursuant to the provisions of Article 127, paragraphs (1) to (3) or having received a reassessment or determination regarding the income tax related to said return, the amount that remains after deducting said amount):
- (i) The amount of estimated tax prepayment
 - (ii) The amount of income tax paid or to be paid for the year, pursuant to the provisions of Article 130 (Payment by Tax Returns Where the Taxpayer Leaves the Country) or Article 35, paragraph (2) (Payment by Return after the Deadline, etc.) of the Act on General Rules for National Taxes, as the case falls under the provisions of Article 127, paragraph (1)
- (3) In the case where a resident listed in the following items files a return pursuant to the provisions of paragraph (1), the resident shall attach the document specified in relevant items to said return or present such document when filing said return, as specified by Cabinet Order:
- (i) A resident who is to enter, in a return pursuant to the provisions of paragraph (1), matters concerning a deduction for casualty losses, deduction for medical expenses, deduction for social insurance premiums (limited to a deduction related to social insurance premiums as listed in Article 74, paragraph (2), item (v) (Deduction for Social Insurance Premiums)), deduction for small-scale enterprise mutual aid premiums, deduction for life insurance premiums, deduction for earthquake insurance premiums, or deduction for a contribution or donation: A document certifying the amount that is to be used as the basis of the calculation of the amount, for which those types of deduction are to be made, and any other matters
 - (ii) A resident who is to enter, in a return pursuant to the provisions of paragraph (1), matters concerning an deduction for working students related to any of the persons listed in Article 2, paragraph (1), item (xxxii), (b) or (c) (Definitions): A document certifying that the person falls under the category of such persons
 - (iii) A resident who has received employment income, retirement income, or

- miscellaneous income that relates to public annuities, etc. as prescribed in Article 35, paragraph (3) (Definition of Public Annuities, etc.) for the year that is to be withheld pursuant to the provisions of Chapter II (Withholding for Employment Income), Chapter III (Withholding for Retirement Income), or Chapter III-2 (Withholding for Public Annuities, etc.) of Part IV: A withholding certificate issued pursuant to the provisions of paragraphs (1) to (3) and the proviso of paragraph (4) of Article 226 (Withholding Certificate)
- (4) In the case where a resident performing operations that generate real property income, business income, or timber income for the year files a return pursuant to the provisions of paragraph (1) (excluding the case where said return is a blue return), the resident shall attach a document stating the amount of gross revenue for the year related to those types of income and details of the necessary expenses to said return, as specified by Ordinance of the Ministry of Finance.
- (5) In the case where a resident who was a non-permanent resident for a certain period within the year files a return pursuant to the provisions of paragraph (1), the resident shall attach a document stating his/her nationality, the period during which the resident has had a domicile or a residence in Japan, and any other matters specified by Ordinance of the Ministry of Finance, to said return.

(Cases Not Requiring Income Tax Returns)

- Article 121 (1) In the case of falling under any of the following items, a resident who has received employment income for the year and whose salaries, etc. as prescribed in Article 28, paragraph (1) (Employment Income) to be received within the year (hereinafter referred to as "salaries, etc." in this paragraph) are not more than 20,000,000 yen, shall not be required to file a return pursuant to the provisions of paragraph (1) of the preceding Article, with regard to income tax on the amount of taxable gross income and taxable timber income for the year, notwithstanding the provisions of said paragraph; provided, however, that this shall not apply where the resident uses real property or any other assets for the purpose of the business of the payer of salaries, etc. related to said employment income and receives payment of a consideration thereof and any other case specified by Cabinet Order:
- (i) In the case where the resident receives salaries, etc. from a single payer of salaries, etc. and income tax has been withheld or is to be withheld, with regard to the whole of said salaries, etc., pursuant to the provisions of Article 183 (Withholding Obligation Regarding Employment Income) or Article 190 (Year-End Adjustment), when the sum of the amount of interest income, dividend income, real property income, business income, timber income, capital gains, occasional income, and miscellaneous income (hereinafter referred to as the "amount of income other than employment income and

retirement income" in this paragraph) for the year is not more than 200,000 yen

(ii) In the case where the resident receives salaries, etc. from two or more payers of salaries, etc. and income tax has been withheld or is to be withheld, with regard to the whole of said salaries, etc., pursuant to the provisions of Article 183 or Article 190, when falling under either of (a) or (b):

(a) When the sum of the amount of salaries, etc. related to employment income for the year to be received from a payer of the secondary salaries, etc. as prescribed in Article 195, paragraph (1) (Return for Deduction for Dependents, etc. Regarding Secondary Salaries) and the amount of income other than employment income and retirement income for the year is not more than 200,000 yen

(b) Except in the case falling under (a), when the amount of salaries, etc. related to employment income for the year is not more than the sum of 1,500,000 yen and the amount of the deduction for social insurance premiums, deduction for small-scale enterprise mutual aid premiums, deduction for life insurance premiums, deduction for earthquake insurance premiums, deduction for persons with disabilities, deduction for widows (widowers), deduction for working students, exemption for spouses, special exemption for spouses, and deduction for dependents, and the amount of income other than employment income and retirement income for the year is not more than 200,000 yen

(2) In the case of falling under any of the following items, a resident who has received retirement income for the year shall not be required to file a return pursuant to the provisions of paragraph (1) of the preceding Article, with regard to income tax on the amount of taxable retirement income for the year, notwithstanding the provisions of said paragraph:

(i) In the case where income tax has been or is to be withheld, with regard to all of the retirement allowance, etc. as prescribed in Article 30, paragraph (1) (Retirement Income) (hereinafter referred to as a "retirement allowance, etc." in this paragraph) that relates to retirement income for the year, pursuant to the provisions of Article 199 (Withholding Obligation on Retirement Income) or Article 201, paragraph (1) (The Amount of Withholding Tax on Retirement Income)

(ii) Except in the case of falling under the preceding item, in the case where the amount of income tax calculated by applying the provisions of Article 89 (Tax Rate) to the amount of taxable retirement income for the year is not more than the amount of income tax withheld or to be withheld, with regard to a retirement allowance, etc. related to retirement income for the year

(Return for Receiving Refund, etc.)

Article 122 (1) In the case where there is any amount listed in Article 120, paragraph (1), item (iv), item (vi), or item (viii) (Income Tax Returns), with regard to a resident's income tax for the year, the resident may file a return stating the matters listed in the items of Article 120, paragraph (1), with the district director of the tax office, so as to receive a refund pursuant to the provisions of Article 138, paragraph (1) (Refund of Withholding Tax, etc.) or Article 139, paragraph (1) or paragraph (2) (Refund of Estimated Tax Prepayment), except in the case where the resident is to file a return pursuant to the provisions of Article 120, paragraph (1) and where the resident may file a return pursuant to the provisions of paragraph (1) of the following Article. In this case, when a resident who has received the salaries, etc. prescribed in Article 28, paragraph (1) (Employment Income) to be received for the year, for which the provisions of Article 190 (Year-End Adjustment) were applied, files the return attaching a withholding certificate as listed in Article 120, paragraph (3), item (iii) related to said salaries, etc., the matters listed in the items of Article 120, paragraph (1) that are specified by Ordinance of the Ministry of Finance may be entered as specified by Ordinance of the Ministry of Finance.

(2) Even in a case where a resident need not file a return pursuant to the provisions of Article 120, paragraph (1) and the case where the resident may not file a return pursuant to the provisions of the preceding paragraph or paragraph (1) of the following Article, when it is necessary in order to seek the application of the provisions of Article 95, paragraph (2) or paragraph (3) (Carryover, etc. of Shortfall in Credit for Foreign Tax) to income tax for the year following the relevant year and each year thereafter, the resident may file a return stating the matters listed in the items of Article 120, paragraph (1) with the district director of the tax office.

(3) The provisions of Article 120, paragraphs (3) to (5) shall apply mutatis mutandis to the filing of a return pursuant to the provisions of the preceding two paragraphs.

(Tax Returns of Losses)

Article 123 (1) In the case of falling under any of the following items, when a resident wishes to seek the application of the provisions of Article 70, paragraph (1) or paragraph (2) (Deduction for Carryover of Net Loss) or Article 71, paragraph (1) (Deduction for Carryover of Casualty Loss), or receive a refund pursuant to the provisions of Article 142, paragraph (2) (Refund by Carryback of Net Loss), in or after the year following the relevant year, the resident may file a return stating the matters listed in the items of the following paragraph with the district director of the tax office:

(i) In the case where there is any amount of net loss that was incurred in the

- year
- (ii) In the case where the amount of net loss that was incurred in the year exceeds the sum of the amount of gross income, retirement income, and timber income for the year
 - (iii) In the case where the sum of the amount of net loss and casualty loss that were incurred in each year within the three years prior to the year before the relevant year (excluding the amount that had been deducted prior to the previous year pursuant to the provisions of Article 70, paragraph (1) or paragraph (2) or Article 71, paragraph (1) and the amount that was used as the basis of the calculation of the amount to be refunded pursuant to the provisions of Article 142, paragraph (2); the same shall apply in item (ii) of the following paragraph) exceeds the sum of the amount of gross income, retirement income, and timber income for the year that were calculated without deducting the former amount
- (2) Matters to be entered in a return pursuant to the provisions of the preceding paragraph shall be the following matters:
- (i) The amount of net loss and casualty loss that was incurred in the year
 - (ii) The amount of net loss and casualty loss that was incurred in each year within the three years prior to the year before the relevant year
 - (iii) In the case where there is any amount of casualty loss that was incurred in the year, the sum of the amount of gross income, retirement income, and timber income for the year
 - (iv) In the case where there is any amount of net loss or casualty loss listed in item (ii), the sum of the amount of gross income, retirement income, and timber income for the year that was calculated without deducting the former amount
 - (v) The amount of net loss and casualty loss that may be deducted in the calculation of the amount of gross income, retirement income, and timber income in or after the year following the relevant year, pursuant to the provisions of Article 70, paragraph (1) or paragraph (2) or Article 71, paragraph (1)
 - (vi) In the case where there is any amount to be deducted in the year pursuant to the provisions of Article 95 (Credit for Foreign Tax), said amount
 - (vii) In the case where there is any amount of withholding tax as prescribed in Article 120, paragraph (1), item (v) (Income Tax Returns), with regard to classified income that was used as the basis of the calculation of the amount of net loss listed in item (i) or the amount of gross income or retirement income listed in item (iii) or item (iv), said amount of withholding tax
 - (viii) In the case where there is any amount of estimated tax prepayment prescribed in Article 120, paragraph (2) for the year, said amount of estimated tax prepayment

- (ix) The basis of the calculation of the amount listed in items (i) to (v) and any other matters specified by Ordinance of the Ministry of Finance
- (3) The provisions of Article 120, paragraphs (3) to (5) shall apply mutatis mutandis to the filing of a return pursuant to the provisions of paragraph (1).

Subsection 2 Tax Returns in the Case of Death or Departure

(Tax Returns Where a Person Who Should File a Tax Return Has Died)

Article 124 (1) In the case where a resident who is to file a return pursuant to the provisions of Article 120, paragraph (1) (Income Tax Returns), has died without filing the return during the period from January 1 of the year following the relevant year up to the deadline for filing the relevant year's return, the resident's heir shall file the return with the district director of the tax office, by the day before the day on which four months have elapsed from the day following the day on which the heir became aware of the commencement of the inheritance (in the case where the heir leaves the country prior to said date, by the time of the departure; hereinafter the same shall apply in this Article), as specified by Cabinet Order, except in the case where the heir files a return pursuant to the provisions of the following paragraph.

(2) In the case where a resident who may file a return pursuant to the provisions of paragraph (1) of the preceding Article, has died without filing the return during the period from January 1 of the year following the relevant year up to the deadline for filing the relevant year's return, the resident's heir may file the return with the district director of the tax office, by the day before the day on which four months have elapsed from the day following the day on which the heir became aware of the commencement of the inheritance, as specified by Cabinet Order.

(Tax Returns Where the Taxpayer Has Died During the Year)

Article 125 (1) In the case where a resident has died during the year, when it is the case that the resident was to file a return pursuant to the provisions of Article 120, paragraph (1) (Income Tax Returns), with regard to the person's income tax for the year, the resident's heir shall file a return stating the matters listed in the items of Article 120, paragraph (1) and any other matters concerning said income tax, with the district director of the tax office, by the day before the day on which four months have elapsed from the day following the day on which the heir became aware of the commencement of the inheritance (in the case where the heir leaves the country prior to said date, by the time of the departure; hereinafter the same shall apply in this Article), as specified by Cabinet Order, except in the case where the heir files a return

pursuant to the provisions of paragraph (3).

- (2) In the case where a resident has died during the year, when it is the case that the resident was allowed to file a return pursuant to the provisions of Article 122, paragraph (1) or paragraph (2) (Return for Receiving Refund, etc.), the resident's heir may file a return stating the matters listed in the items of Article 120, paragraph (1) and any other matters concerning said income tax, with the district director of the tax office, as specified by Cabinet Order, except in the case where the heir is to file a return pursuant to the provisions of the preceding paragraph and where the heir may file a return pursuant to the provisions of the following paragraph.
- (3) In the case where a resident has died during the year, when it is the case that the resident was allowed to file a return pursuant to the provisions of Article 123, paragraph (1) (Tax Returns of Losses), the resident's heir may file a return stating the matters listed in the items of paragraph (2) of said Article and any other matters concerning said income tax, with the district director of the tax office, by the day before the day on which four months have elapsed from the day following the day on which the heir became aware of the commencement of the inheritance, as specified by Cabinet Order.
- (4) The provisions of Article 120, paragraphs (3) to (5) shall apply mutatis mutandis to the filing of a return pursuant to the provisions of the preceding three paragraphs.
- (5) The provisions of paragraph (1) or paragraph (2) of the preceding Article shall apply mutatis mutandis, respectively, to the case where a person who is to file a return pursuant to the provisions of paragraph (1) or a person who may file a return pursuant to the provisions of paragraph (3) has died without filing such returns, prior to the deadline for filing such return.

(Tax Returns Where a Person Who Should File a Tax Return Leaves the Country)

- Article 126 (1) In the case where a resident who should file a return pursuant to the provisions of Article 120, paragraph (1) (Income Tax Returns), leaves the country during the period from January 1 of the year following the relevant year up to the deadline for filing the relevant year's return, the resident shall file the return with the district director of the tax office, by the time of the departure, except in the case where the resident files a return pursuant to the provisions of Article 123, paragraph (1) (Tax Returns of Losses).
- (2) In the case where a resident who may file a return pursuant to the provisions of Article 123, paragraph (1) leaves the country during the period from January 1 of the year following the relevant year until February 15, the resident may file the return with the district director of the tax office, even during said period.

(Tax Returns Where the Taxpayer Leaves the Country During the Year)

- Article 127 (1) In the case where a resident leaves the country during the year, when it is the case that the resident is to file a return pursuant to the provisions of Article 120, paragraph (1) (Income Tax Returns), with regard to the amount of the gross income, retirement income, and timber income for the period from January 1 of the relevant year up to the time of his/her departure, the resident shall file a return stating the matters listed in the items of Article 120, paragraph (1), in accordance with the circumstances at the relevant time, with the district director of the tax office, by the time of the departure, except in the case where the resident files a return pursuant to the provisions of paragraph (3).
- (2) In the case where a resident leaves the country during the year, when it is the case that the resident may file a return pursuant to the provisions of Article 122, paragraph (1) (Return for Receiving Refund, etc.), with regard to the amount of the gross income, retirement income, and timber income for the period from January 1 of the relevant year up to the time of the departure, the resident may file a return stating the matters listed in the items of Article 120, paragraph (1), in accordance with the circumstances at the relevant time, with the district director of the tax office, except in the case where the resident is to file a return pursuant to the provisions of the preceding paragraph and where the resident may file a return pursuant to the provisions of the following paragraph.
- (3) In the case where a resident leaves the country during the year, when it is the case that the resident may file a return pursuant to the provisions of Article 123, paragraph (1) (Tax Returns of Losses), with regard to the amount of net loss or casualty loss incurred during the period from January 1 of the relevant year up to the time of the departure or the amount of such loss incurred in each year within the three years prior to the year before the relevant year, the resident may file a return stating the matters listed in the items of Article 123, paragraph (2), in accordance with the circumstances at the relevant time, with the district director of the tax office, by the time of the departure.
- (4) The provisions of Article 120, paragraphs (3) to (5) shall apply mutatis mutandis to the filing of a return pursuant to the provisions of the preceding three paragraphs.

Subsection 3 Payment

(Payment by Tax Returns)

Article 128 When a resident who has filed a return pursuant to the provisions of Article 120, paragraph (1) (Income Tax Returns) (excluding a return to be filed

due to falling under the provisions of Article 124, paragraph (1) (Tax Returns Where the Person Who Should File a Tax Return Has Died) or Article 126, paragraph (1) (Tax Returns Where the Person Who Should File a Tax Return Leaves the Country During the Year)), has entered any amount as listed in Article 120, paragraph (1), item (iii) (in the case where there is any amount of withholding tax as prescribed in Article 120, paragraph (1), item (v) but no amount of estimated tax prepayment due as prescribed in Article 120, paragraph (1), item (vii), any amount listed in Article 120, paragraph (1), item (v); and in the case where there is any amount of withholding tax as prescribed in Article 120, paragraph (1), item (v) and any amount of estimated tax prepayment due as prescribed in Article 120, paragraph (1), item (vii), any amount listed in Article 120, paragraph (1), item (vii); hereinafter the same shall apply in this Subsection) in said tax return, the resident shall pay income tax equivalent to said amount to the national government in the third term.

(Payment by Tax Returns in the Case of Death)

Article 129 When a person who has filed a return pursuant to the provisions of Article 124, paragraph (1) (Tax Returns Where the Person Who Should File a Tax Return Has Died) (including the case where it is applied mutatis mutandis pursuant to Article 125, paragraph (5) (Tax Returns Where the Taxpayer Has Died During the Year)) or Article 125, paragraph (1), due to falling under these provisions, has entered any amount listed in Article 120, paragraph (1), item (iii) (The Amount of Income Tax Related to Income Tax Returns) in these returns, the person shall pay income tax equivalent to said amount to the national government in the third term, by the deadline for filing such returns, as prescribed in Article 5 (Succession of Obligation to Pay National Tax Through Inheritance) of the Act on General Rules for National Taxes.

(Payment by Tax Returns Where the Taxpayer Leaves the Country)

Article 130 When a resident who has filed any returns pursuant to the provisions of Article 126, paragraph (1) (Tax Returns Where the Person Who Should File a Tax Return Leaves the Country) or Article 127, paragraph (1) (Tax Returns Where the Taxpayer Leaves the Country During the Year), due to falling under these provisions, has entered any amount as listed in Article 120, paragraph (1), item (iii) (The Amount of Income Tax Related to Income Tax Returns) in such returns, the resident shall pay income tax equivalent to said amount to the national government, by the deadline for filing such returns.

Subsection 4 Postponement of Tax Payment

(Postponement of Payment of Income Tax Based on Tax Returns)

Article 131 (1) When a resident who has filed a return pursuant to the provisions of Article 120, paragraph (1) (Income Tax Returns) has paid income tax equivalent to more than 50% of the amount of income tax payable pursuant to the provisions of Article 128 (Payment by Tax Returns) (in the case of submitting an application form as set forth in Article 133, paragraph (1) (Procedures for Postponement of Tax Payment Related to Assets Transferred on a Deferred Payment Basis), half of the amount that remains after deducting, from the amount of said payable income tax, the portion thereof, for which the resident wishes to apply for the postponement of payment and which the resident has entered in the application form) to the national government by the deadline for payment pursuant to the provisions of Article 128, the resident may postpone the payment of the remaining amount, until May 31 of the relevant year when the resident paid the former amount of the income tax.

(2) The provisions of the preceding paragraph shall apply only in the case where a resident who has filed a return as prescribed in said paragraph has submitted a report of the postponement of tax payment stating the amount of payable tax pursuant to the provisions of Article 128, the portion of the amount of said tax that the resident intends to pay by the deadline for payment as prescribed in the preceding paragraph, and any other matters specified by Ordinance of the Ministry of Finance, to the competent district director with jurisdiction over the place for tax payment, by said deadline.

(3) A resident who is subject to the provisions of paragraph (1) shall pay income tax related to the postponement of payment pursuant to the provisions of said paragraph, along with interest tax equivalent to the amount obtained by multiplying the amount of said interest tax by an annual rate of 7.3%, in accordance with the number of days of the postponement period.

(Postponement of Payment of Income Tax Related to Assets Transferred on a Deferred Payment Basis)

Article 132 (1) In the case where a resident has transferred assets that generate timber income or capital gains on a deferred payment basis, when the following requirements have all been met, the district director of the tax office may permit the postponement of payment of the whole or a part of the amount of income tax payable related to a return as prescribed in item (i), pursuant to the provisions of Article 128 (Payment by Tax Returns) or Article 129 (Payment by Tax Returns in the Case of Death) (in the case where the amount of tax related to assets transferred on a deferred payment basis is less than the amount of said income tax, the whole or a part of said amount of tax related to assets transferred on a deferred payment basis), for up to five years, upon an application from the person (including the person's heir):

(i) The person has filed a return pursuant to the provisions of Article 120,

- paragraph (1) (Income Tax Returns) (excluding a return to be filed due to falling under the provisions of Article 126, paragraph (1) (Tax Returns Where the Person Who Should File a Tax Return Leaves the Country)) or a return pursuant to the provisions of Article 125, paragraph (1) (Tax Returns Where the Taxpayer Has Died During the Year), with regard to income tax for the year containing the date of said transfer on a deferred payment basis, by the deadline for filing such returns
- (ii) The amount of tax related to assets transferred on a deferred payment basis exceeds the amount equivalent to 50% of the amount of income tax listed in Article 120, paragraph (1), item (iii) that is entered in a return prescribed in the preceding item
 - (iii) The amount of tax related to assets transferred on a deferred payment basis exceeds 300,000 yen.
- (2) When the district director of the tax office permits the postponement of tax payment pursuant to the provisions of the preceding paragraph, the director shall obtain a collateral for security equivalent to the amount of income tax related to the postponement of payment; provided, however, that this shall not apply where the amount of income tax related to the postponement of payment is not more than 500,000 yen and the postponement period is three years or less.
- (3) A Transfer on a deferred payment basis as prescribed in paragraph (1) shall mean be a transfer under conditions meeting the requirements listed as follows, based on a contract that defines said conditions.
- (i) A consideration is to be received in three or more installments, by way of a monthly installment, annual installment, or any other installment payment
 - (ii) The period from the day following the due date for the delivery of the subject matter of said transfer up to the deadline of the last installment payment is to be two years or more
 - (iii) Any other requirements specified by Cabinet Order
- (4) The amount of tax related to assets transferred on a deferred payment basis prescribed in paragraph (1) shall be the portion of the amount of income tax listed in Article 120, paragraph (1), item (iii) that is entered in a return prescribed in item (i) of paragraph (1), which is calculated, as specified by Cabinet Order, as the portion related to the amount of timber income or capital gains corresponding to the sum of the amount of installments related to the transfer on a deferred payment basis, whose deadline for payment defined in the contract for said transfer on a deferred payment basis falls in or after the year following the relevant year (such installment amounts shall exclude those already paid during the relevant year).

(Procedures, etc. for Postponement of Payment of Income Tax Related to Assets

Transferred on a Deferred Payment Basis)

- Article 133 (1) A resident who wishes to apply for permission for the postponement of a tax payment pursuant to the provisions of paragraph (1) of the preceding Article shall submit an application form stating the amount of income tax for which the resident wishes to apply for the postponement of payment, the postponement period (in the case where the resident wishes to pay the income tax in two or more installments, the period and the amount of each installment payment, for which the resident wishes to apply for the postponement of payment), and any other matters specified by Ordinance of the Ministry of Finance, along with a document concerning the provision of collateral for security, to the competent district director with jurisdiction over the place for tax payment, by the deadline for payment of said income tax, pursuant to the provisions of Article 128 (Payment by Tax Returns) or Article 129 (Payment by Tax Returns in the Case of Death).
- (2) In the case where an application form set forth in the preceding paragraph has been submitted, the district director of the tax office shall examine whether the resident who has submitted the application form and the matters concerning the application meet the requirements listed in the items of paragraph (1) of the preceding Article, whether the amount of income tax related to the postponement of payment, the postponement period, the period and the amount for each installment payment entered in the application form are reasonable, in light of the deadline for an installment payment and the amount thereof as defined in the contract related to the transfer on a deferred payment basis prescribed in said paragraph, and any other necessary matters, and shall permit, based on the results of such examination, the postponement of payment, with regard to the whole or a part of the amount of income tax related to the application, under conditions related to the application or changed conditions, or dismiss the application.
- (3) In the case where the district director of the tax office permits the postponement of tax payment set forth in the preceding paragraph, when the director finds that the collateral for security that the resident who has filed the application wishes to provide is not appropriate, the director may request a change thereof. In this case, if the person has failed to respond to the request, the district director of the tax office may dismiss the application.
- (4) In the case where the district director of the tax office permits the postponement of tax payment or dismisses the application set forth in paragraph (1), the director shall notify, in writing, the resident who has filed the application of the amount of income tax related to the permission for the postponement of payment and the conditions for the postponement, or the dismissal of the application and the reason thereof.
- (5) In the case where an application form set forth in paragraph (1) has been

submitted, the district director of the tax office may postpone the withholding of the whole or a part of the amount of income tax related to the application, when the director finds any reasonable grounds.

(Changes to Conditions of Postponement of Payment of Income Tax Related to Assets Transferred on a Deferred Payment Basis)

Article 134 (1) In the case where a resident who has obtained permission for the postponement of tax payment pursuant to the provisions of Article 132, paragraph (1) (Postponement of Payment of Income Tax Related to Assets Transferred on a Deferred Payment Basis) wishes to ask for a change to the conditions for the postponement of tax payment related to the permission, since the deadline for the payment of installments, which is defined in the contract for the transfer on a deferred payment basis prescribed in said paragraph, has been changed or any other grounds have emerged, the resident may submit an application form stating the conditions that the wishes to change and any other matters specified by Ordinance of the Ministry of Finance, to the competent district director with jurisdiction over the place for tax payment.

(2) The provisions of paragraph (2) and paragraph (4) of the preceding Article shall apply mutatis mutandis to the case where an application form set forth in the preceding paragraph has been submitted.

(3) In the case where the deadline for the payment of installments set forth in a contract for the transfer on a deferred payment basis prescribed in Article 132, paragraph (1) has been changed, said installments have been paid prior to said deadline, or any other grounds have emerged, and the district director of the tax office finds it necessary to change the conditions for the postponement of tax payment related to the permission, the director may shorten the postponement period or make any other changes to the conditions for the postponement of tax payment. In this case, the provisions of Article 49, paragraph (2) and paragraph (3) (Hearing of Explanation and Notice in the Case of Rescission, etc. of Grace Period for Tax Payment) of the Act on General Rules for National Taxes shall apply mutatis mutandis.

(Rescission of Postponement of Payment of Income Tax Related to Assets Transferred on a Deferred Payment Basis)

Article 135 (1) When a resident who has obtained permission for the postponement of tax payment pursuant to the provisions of Article 132, paragraph (1) (Postponement of Payment of Income Tax Related to Assets Transferred on a Deferred Payment Basis) has come to fall under any of the cases listed as follows, the district director of the tax office may rescind the permission for the postponement of tax payment:

- (i) When the person has failed to pay the amount of income tax related to the postponement of payment (including the amount equivalent to interest tax pursuant to the provisions of the following Article and a delinquent tax related to said amount of income tax) and has violated other conditions for the postponement of tax payment
 - (ii) In the case where, with regard to the income tax related to a return prescribed in Article 132, paragraph (1), item (i) that was filed by the person, an amended return has been filed or a reassessment has been made, when the amount calculated, as specified by Cabinet Order, based on the amount of income tax listed in Article 120, paragraph (1), item (iii) (The Amount of Income Tax Related to Income Tax Returns) after the amended return was filed or the reassessment was made (hereinafter referred to as the "amount of annual tax after amendment" in this item), in accordance with the calculation of the amount of tax related to assets transferred on a deferred payment basis as prescribed in Article 132, paragraph (4), is not more than the amount equivalent to 50% of the amount of annual tax after amendment or not more than 300,000 yen
 - (iii) When, with regard to the collateral for security related to the postponement of tax payment, the person has failed to follow an order pursuant to the provisions of Article 51, paragraph (1) (Changes, etc. of Collateral for Security) of the Act on General Rules for National Taxes
 - (iv) When, with regard to the collateral for security related to the postponement of tax payment, compulsory liquidation procedures as prescribed in Article 2, item (x) (Definitions) of the Act on General Rules for National Taxes have been commenced
- (2) The provisions of Article 49, paragraph (2) (Hearing of Explanation in the Case of Rescission, etc. of Grace Period for Tax Payment) of the Act on General Rules for National Taxes shall apply mutatis mutandis to the case where the district director of the tax office rescinds permission for the postponement of tax payment set forth in the preceding paragraph, pursuant to the provisions of item (i) or item (iii) of said paragraph.
- (3) In the case where the district director of the tax office rescinds permission for the postponement of tax payment set forth in paragraph (1), pursuant to the provisions of said paragraph, the director shall notify the resident who has obtained said permission for the postponement of tax payment to that effect and of the reason therefor, in writing.

(Interest Tax on Postponement of Payment of Income Tax Related to Assets Transferred on a Deferred Payment Basis)

Article 136 (1) A resident who has obtained permission for the postponement of tax payment pursuant to the provisions of Article 132, paragraph (1)

(Postponement of Payment of Income Tax Related to Assets Transferred on a Deferred Payment Basis), shall pay interest tax equivalent to the amount listed in each of the following items for the category set forth in the relevant item, along with income tax equivalent to the amount of an installment payment of payable tax as prescribed in the relevant item (in the case of item (iii), the amount of postponed tax as prescribed in said item):

- (i) In the case where the amount of income tax related to the permission for the postponement of payment (hereinafter referred to as the "amount of postponed tax" in this Article) contains any amount from an installment payment, when the person pays the amount of the installment payment for the first time: The amount obtained, based on the amount of postponed tax, by multiplying said amount by an annual rate of 7.3%, in accordance with the number of days from the day following the deadline for payment of said amount of postponed tax, pursuant to the provisions of Article 128 (Payment by Tax Returns) or Article 129 (Payment by Tax Returns in the Case of Death), up to the deadline for said postponed installment payment
 - (ii) In the case where the amount of postponed tax contains any amount of installment payment, when the person pays the amount of the installment payment for the second time onward: The amount obtained, based on the amount of income tax that remains after deducting the sum of the amount of the installment payment already paid from the amount of postponed tax, by multiplying said amount of income tax by an annual rate of 7.3%, in accordance with the number of days from the day following the deadline for the previous installment payment up to the deadline for the relevant postponed installment payment
 - (iii) In a case other than one listed in the preceding two items: The amount obtained, based on the amount of postponed tax, by multiplying said amount by an annual rate of 7.3%, in accordance with the number of days from the day following the deadline for payment of said amount of postponed tax, pursuant to the provisions of Article 128 or Article 129, up to the deadline for said postponed payment
- (2) In the case where a resident who has obtained permission for the postponement of tax payment pursuant to the provisions of Article 132, paragraph (1) has had said permission rescinded pursuant to the provisions of paragraph (1) of the preceding Article, the provisions of the preceding paragraph shall apply to the person, by deeming that the sum of the amount of the installment payment or the amount of postponed tax that is to be paid after the rescission is the amount of installment payment or the amount of postponed tax whose deadline for the postponed payment fell at the time of the rescission.

(Special Provisions on Delinquent Tax Related to the Amount of Postponed Tax)

Article 137 With regard to delinquent tax related to income tax in the case where a postponement of payment has been permitted pursuant to the provisions of Article 132, paragraph (1) (Postponement of Payment of Income Tax Related to Assets Transferred on a Deferred Payment Basis), said amount of income tax shall be categorized into the amount of postponed tax prescribed in Article 136, paragraph (1), item (i) and the remaining amount, and said amount of postponed tax shall be further categorized by the amount of installment payment if it contains any such amount, and the provisions concerning delinquent tax of the Act on General Rules for National Taxes shall apply to each category of such amount of tax.

Subsection 5 Refund

(Refund of Withholding Tax, etc.)

Article 138 (1) In the case where a tax return has been filed, when it states any of the amounts listed in Article 120, paragraph (1), item (iv) or item (vi) (Shortfall in Credit for Withholding Tax, etc.) or Article 123, paragraph (2), item (vi) or item (vii) (The Amount of Withholding Tax, etc.), the district director of the tax office shall refund income tax equivalent to said amount to the person who filed said return.

(2) In the case referred to in the preceding paragraph, when there is any portion that has yet to be paid out of the amount of withholding tax prescribed in Article 120, paragraph (1), item (vi) or Article 123, paragraph (2), item (vii) that is entered in a tax return as set forth in the preceding paragraph, the amount equivalent to said unpaid portion out of the amount to be refunded pursuant to the provisions of the preceding paragraph shall not be refunded until said unpaid portion is paid.

(3) In the case of calculating the amount of interest on a refund with regard to a refund pursuant to the provisions of paragraph (1), the period set forth in Article 58, paragraph (1) (Interest on Refunds) of the Act on General Rules for National Taxes, which shall be the basis of the calculation, shall be the period from the day following the date listed in each of the following items (with regard to a refund related to the amount of withholding tax prescribed in the preceding paragraph that was paid after said date, from the day following the date of payment of said amount of withholding tax), for the category set forth in the relevant item, up to the day on which the payment of the relevant refund is decided or the day on which the relevant refund is appropriated (in the case where appropriation has become possible before said date of appropriation, the day on which it becomes possible):

- (i) In the case where a tax return set forth in paragraph (1) has been filed by the deadline: Said deadline for filing a tax return
 - (ii) In the case where a tax return set forth in paragraph (1) has been filed after the deadline: The day on which the tax return was filed
- (4) In the case where a refund pursuant to the provisions of paragraph (1) is appropriated for the unpaid portion of the income tax for the year related to a tax return set forth in said paragraph, interest on the refund shall not be added to the portion of said refund to be used for appropriation and the delinquent tax shall be exempted with regard to the portion of the income tax that is to be appropriated.
- (5) In addition to what is provided for in the preceding three paragraphs, procedures for a refund as set forth in paragraph (1), methods of appropriation of a refund (including interest on a refund related thereto) pursuant to the provisions of said paragraph, and any other matters necessary for the application of the provisions of said paragraph shall be specified by Cabinet Order.

(Refund of Estimated Tax Prepayment)

- Article 139 (1) In the case where a tax return has been filed, when it states any of the amounts listed in Article 120, paragraph (1), item (viii) (Shortfall in Credit for Estimated Tax Prepayment) or Article 123, paragraph (2), item (viii) (The Amount of Estimated Tax Prepayment), the district director of the tax office shall refund the amount of the estimated tax prepayment prescribed in these provisions that is equivalent to said amount stated in the return (hereinafter referred to as the "amount of estimated tax prepayment") to the person who filed said return.
- (2) In the case where the district director of the tax office makes a refund pursuant to the provisions of the preceding paragraph, when a delinquent tax has been paid with regard to the amount of estimated tax prepayment for the year related to a tax return set forth in said paragraph, the director shall also refund the amount calculated, as specified by Cabinet Order, as the portion of said delinquent tax that corresponds to the amount of estimated tax prepayment to be refunded pursuant to the provisions of said paragraph.
- (3) In the case of calculating the amount of interest on a refund with regard to a refund pursuant to the provisions of paragraph (1), the period set forth in Article 58, paragraph (1) (Interest on Refunds) of the Act on General Rules for National Taxes, which shall be the basis of the calculation, shall be the period from the day following the day on which the amount of estimated tax prepayment to be refunded pursuant to the provisions of paragraph (1) was paid (in the case where said amount of estimated tax prepayment was paid prior to the deadline for payment, from the day following said deadline for

payment) up to the day on which payment of the relevant refund is decided or the day on which the relevant refund is appropriated (in the case where appropriation has become possible before said date of appropriation, the day on which it becomes possible); provided, however, that in the case where a tax return set forth in said paragraph has been filed after the deadline for filing a tax return, the number of days from the day following said deadline up to the day on which a tax return was filed shall not be included in said period.

- (4) In the case where a refund pursuant to the provisions of paragraph (1) is appropriated for the unpaid portion of the income tax for the year related to the amount of estimated tax prepayment, which was used as the basis of the calculation of the amount of said refund, interest on the refund shall not be added to the portion of said refund to be used for appropriation and the delinquent tax shall be exempted with regard to the portion of the income tax that is to be appropriated.
- (5) Interest on a refund shall not be added to a refund pursuant to the provisions of paragraph (2).
- (6) In addition to what is provided for in the preceding three paragraphs, procedures for a refund as set forth in paragraph (1) or paragraph (2), methods of appropriation of a refund (including interest on a refund related thereto) pursuant to the provisions of paragraph (1), and any other matters necessary for the application of the provisions of said paragraph or paragraph (2) shall be specified by Cabinet Order.

(Claim for Refund by Carryback of Net Loss)

Article 140 (1) A resident who files a blue return may, in the case where the resident e has incurred any amount of net loss in the year, file a claim for a refund of income tax equivalent to the amount that remains after deducting the amount listed in item (ii) from the amount listed in item (i), with the competent district director with jurisdiction over the place for tax payment, at the time of filing said return:

- (i) The amount of income tax calculated, by applying the provisions of Chapter III, Section 1 (Tax Rate), with regard to the amount of taxable gross income, taxable retirement income, and taxable timber income for the year before the relevant year
 - (ii) The amount of income tax calculated, in accordance with the provisions of Chapter III, Section 1 (Tax Rate), with regard to the amount that remains after deducting the whole or a part of said net loss from the amount of taxable gross income, taxable retirement income, and taxable timber income for the year before the relevant year
- (2) In the case referred to in the preceding paragraph, when the amount of income tax equivalent to the amount that remains after a deduction as

prescribed in said paragraph exceeds the amount of income tax (excluding the amount of penalty tax) related to the amount of taxable gross income, taxable retirement income, and taxable timber income for the year before the relevant year, the amount for which a claim for a refund as set forth in said paragraph can be filed shall be limited to the amount equivalent to the amount of said (latter) income tax.

- (3) In the case of calculating the amount listed in paragraph (1), item (ii), it shall be specified by Cabinet Order, from which of the amount of taxable gross income, taxable retirement income, or taxable timber income, as set forth in said item, the amount of net loss is first to be deducted; and in the case where the provisions of Article 90 (Averaging Taxation on Fluctuating Income and Ad Hoc Income) were applied in the previous year, it shall be specified by Cabinet Order, from either of the average taxable amounts prescribed in paragraph (3) of said Article or the amount that remains after deducting said average taxable amount from the amount of taxable gross income, the amount of net loss is first to be deducted.
- (4) The provisions of paragraph (1) shall apply only in the case where a resident set forth in said paragraph has filed a blue return with regard to income tax for the year before the relevant year, and has filed a blue return for the relevant year by the deadline for filing a return (in the case where the district director of the tax office finds any compelling reason, including the case where the resident has filed a return after the deadline).
- (5) In the case where an entire business has been transferred or terminated or any other fact equivalent thereto that is specified by Cabinet Order has emerged with regard to a resident, when any amount of net loss has been incurred in the year before the year containing the day on which said fact emerged (such amount of net loss shall exclude the amount deducted in the year containing said day, pursuant to the provisions of Article 70, paragraph (1) (Deduction for Carryover of Net Loss), and the amount that was used as the basis of the calculation of the amount to be refunded, pursuant to the provisions of Article 142, paragraph (2) (Refund by Carryback of Net Loss)), the person may file a claim for a refund of income tax equivalent to the amount calculated, as specified by Cabinet Order, in accordance with the provisions of paragraphs (1) to (3), with regard to the amount of said net loss, with the competent district director with jurisdiction over the place for tax payment, by the deadline for filing a tax return for income tax for the year containing said day, only in the case where the person filed a blue return for income tax for the year before the year containing said day and the year before that.

(Claim for a Carryback of Net Loss by an Heir, etc.)

Article 141 (1) A person who files a return (limited to a blue return) prescribed

in Article 125, paragraph (1), paragraph (3) or paragraph (5) (Tax Returns Where the Taxpayer Has Died During the Year) as a result of falling under any of these provisions may, in the case where the person has incurred any amount of net loss in the year which the person is to enter in said return, file a claim for a refund of income tax equivalent to the amount that remains after deducting the amount listed in item (ii) from the amount listed in item (i), with the competent district director with jurisdiction over the place for tax payment, at the time of filing said return , as specified by Cabinet Order:

- (i) The amount of income tax calculated, by applying the provisions of Chapter III, Section 1 (Tax Rate), with regard to the amount of taxable gross income, taxable retirement income, and taxable timber income of the deceased resident prescribed in Article 125, paragraph (1) or paragraph (3) for the year before the relevant year
- (ii) The amount of income tax calculated, in accordance with the provisions of Chapter III, Section 1 (Tax Rate), with regard to the amount that remains after deducting the whole or a part of said net loss from the amount of taxable gross income, taxable retirement income, and taxable timber income of the deceased resident prescribed in the preceding item for the year before the relevant year
- (2) The provisions of paragraph (2) and paragraph (3) of the preceding Article shall apply mutatis mutandis to the case referred to in the preceding paragraph.
- (3) The provisions of paragraph (1) shall apply only in the case where the deceased resident prescribed in item (i) of said paragraph had filed a blue return with regard to income tax for the year before the relevant year, and a person who files a return prescribed in said paragraph has filed said return by the deadline for filing a return (in the case where the district director of the tax office finds any unavoidable reason, including the case where the resident filed a return after the deadline).
- (4) In the case where a resident has died, when there is any amount of net loss related to the person that was incurred in the year before the year containing the date of the resident's death (such amount of net loss shall exclude the amount deducted in the year containing said date, pursuant to the provisions of Article 70, paragraph (1) (Deduction for Carryover of Net Loss), and the amount that was used as the basis of the calculation of the amount to be refunded, pursuant to the provisions of paragraph (2) of the following Article), the resident's heir may file a claim for a refund of income tax equivalent to the amount calculated, in accordance with the provisions of paragraph (1) and paragraph (2), with regard to the amount of said net loss, with the competent district director with jurisdiction over the place for payment of said income tax, by the deadline for filing a tax return for income tax for the year containing

said date of the resident's death, only in the case where a blue return was filed for income tax for the year before the year containing said date of the resident's death and the year before that, as specified by Cabinet Order.

(Procedures, etc. for Refund by Carryback of Net Loss)

Article 142 (1) A person who wishes to file a claim for a refund pursuant to the provisions of the preceding two Articles, shall submit a written refund claim stating the amount of income tax for which the person wishes to receive the refund, the basis of the calculation, and any other matters specified by Ordinance of the Ministry of Finance, to the district director of the tax office.

(2) In the case where a written refund claim set forth in the preceding paragraph has been submitted, the district director of the tax office shall examine the amount of net loss, which was used as the basis of said claim, and any other necessary matters and, based on the results of the examination, the director shall refund income tax to the extent of the amount related to said claim, or notify, in writing, that there are no justifiable grounds for claiming a refund.

(3) In the case of calculating the amount of interest on a refund with regard to a refund pursuant to the provisions of the preceding paragraph, the period set forth in Article 58, paragraph (1) (Interest on Refunds) of the Act on General Rules for National Taxes, which shall be the basis of the calculation, shall be the period from the day on which three months have elapsed from the day following the day on which a claim for a refund pursuant to the provisions of the preceding two Articles was filed (in the case where the day, on which a claim for a refund pursuant to the provisions of Article 140, paragraph (1) (Claim for Refund by Carryback of Net Loss) or paragraph (1) of the preceding Article was filed, falls prior to the deadline for filing a return prescribed in these provisions, from the day following said deadline) up to the day on which payment of the relevant refund is decided or the day on which the relevant refund is appropriated (in the case where appropriation has become possible before said date of appropriation, the day on which it became possible).

Section 3 Blue Returns

(Blue Returns)

Article 143 A resident engaged in operations that generate real property income, business income, or timber income may, when having obtained approval from the competent district director with jurisdiction over the place for tax payment, file a tax return or an amended return related to said tax return with a blue return.

(Application for Approval to File a Blue Return)

Article 144 A resident who wishes to obtain approval as set forth in the preceding Article with regard to income tax for the year and each year thereafter, shall submit an application form stating the types of income related to said operations and any other matters specified by Ordinance of the Ministry of Finance, to the competent district director with jurisdiction over the place for tax payment, by March 15 of the relevant year (in the case where the resident commenced the operations set forth in said Article on or after January 16 of the relevant year, within two months from the day on which the resident e commenced said operations).

(Dismissal of Application for Approval to File a Blue Return)

Article 145 In the case where an application form set forth in the preceding Article has been submitted, the district director of the tax office may dismiss the application, when there is any fact falling under the following items, with regard to the resident who submitted said application form:

- (i) With regard to income tax for the year and each year thereafter, where the books and documents related to the operations prescribed in Article 143 (Blue Return) for the year, for which the person wishes to obtain approval as set forth in said Article, are not kept, recorded, or preserved as specified by Ordinance of the Ministry of Finance prescribed in Article 148, paragraph (1) (Books and Documents of Blue Return Taxpayers)
- (ii) Where there are justifiable grounds to deem that the books and documents prescribed in the preceding item that the person keeps contain any entry or record by concealing or falsifying the whole or a part of any transactions or making any other false entry or record
- (iii) Where the person has submitted the application form within one year after the day on which the person received a notice pursuant to the provisions of Article 150, paragraph (2) (Rescission of Approval to File a Blue Return) or the person submitted a report prescribed in Article 151, paragraph (1) (Cancellation of Blue Returns)

(Notice of Approval to File a Blue Return, etc.)

Article 146 In the case where an application form set forth in Article 144 (Application for Approval to File a Blue Return) has been submitted, the district director of the tax office shall, when giving the director's approval or dismissing the application, notify the resident who filed the application to that effect, in writing.

(Case Where Filing of a Blue Return is Deemed to Have Been Approved)

Article 147 In the case where an application form set forth in Article 144 (Application for Approval to File a Blue Return) has been submitted, when

neither the approval nor the dismissal of the application was decided on by December 31 of the relevant year, for which year and each year thereafter the applicant wishes to obtain approval as set forth in Article 143 (Blue Returns) with regard to income tax for the relevant year (in the case where the applicant commenced the operations prescribed in said Article on or after November 1 of the relevant year, by February 15 of the next year), it shall be deemed that the approval was given as on said day.

(Books and Documents of Blue Return Taxpayers)

- Article 148 (1) A resident who has obtained approval as set forth in Article 143 (Blue Returns), shall keep the books and documents with regard to the operations prescribed in said Article, record transactions related to the amount of real property income, business income, and timber income, and preserve said books and documents, as specified by Ordinance of the Ministry of Finance.
- (2) The competent district director with jurisdiction over the place for tax payment may, when the director finds it necessary, give the necessary instructions to a resident who has obtained approval as set forth in Article 143, with regard to the resident's books and documents related to the operations prescribed in said Article.

(Documents to be Attached to a Blue Return)

- Article 149 A blue return shall be attached with a balance sheet, a profit and loss statement, and any other detailed statement concerning the calculation of the amount of real property income, business income, or timber income or the amount of net loss, as specified by Ordinance of the Ministry of Finance.

(Rescission of Approval to File a Blue Return)

- Article 150 (1) In the case where there is any fact falling under the following items with regard to a resident who has obtained approval as set forth in Article 143 (Blue Returns), the competent district director with jurisdiction over the place for tax payment may rescind the approval retroactively to the year listed in the relevant item. In this case, when the approval has been rescinded, the blue return related to the approval that the resident submitted with regard to income tax for the year and each year thereafter shall be deemed to be a return other than a blue return:
- (i) The books and documents related to the operations prescribed in Article 143 for the year have not been kept, recorded, or preserved as specified by Ordinance of the Ministry of Finance prescribed in Article 148, paragraph (1) (Books and Documents of Blue Return Taxpayers): The relevant year
- (ii) The resident has failed to follow the instructions of the district director of the tax office given pursuant to the provisions of Article 148, paragraph (2),

with regard to the books and documents prescribed in the preceding item for the year: The relevant year

(iii) There are justifiable grounds to deem that the books and documents prescribed in item (i) contain any entry or record which conceal or falsify the whole or a part of any transactions or to suspect the credibility of all of the other matters entered or recorded: The relevant year

(2) The district director of the tax office shall, when rescinding approval pursuant to the provisions of the preceding paragraph, notify the resident set forth in said paragraph to that effect, in writing. In this case, the district director of the tax office shall, in addition, enter in the written notice which of the items of said paragraph was the cause of the rescission.

(Cancellation of Blue Returns, etc.)

Article 151 (1) A resident who has obtained approval as set forth in Article 143 (Blue Returns) shall, when wishing to stop filing a blue return with regard to income tax for the year and each year thereafter, submit a report stating the years in which the resident wishes to stop filing a blue return and any other matters specified by Ordinance of the Ministry of Finance, to the competent district director with jurisdiction over the place for tax payment, by March 15 of the next year. In this case, when the report has been submitted, the approval shall cease to be effective with regard to income tax for the year and each year thereafter.

(2) In the case where a resident who has obtained approval as set forth in Article 143 has transferred or terminated the whole of the operations prescribed in said Article, the approval shall cease to be effective with regard to income tax for the year following the year containing the date of the transfer or abolition and each year thereafter.

Chapter VI Special Provisions on Requests for Reassessment

(Special Provisions on Requests for Reassessment Where There are Changes to the Amount of Classified Income)

Article 152 A resident (including the resident's heir) who has filed a tax return or has received a determination may, when any grounds as set forth in the items of Article 23, paragraph (1) (Requests for Reassessment) of the Act on General Rules for National Taxes occurred due to the emergence of any fact prescribed in Article 63 (Special Provisions on Necessary Expenses Where Business Has Been Terminated) or Article 64 (Special Provisions on the Calculation of Income Where Gains on Assets Transferred Have Become Uncollectible, etc.) or any other fact specified by Cabinet Order as being equivalent thereto, with regard to the amount of classified income for the year

related to said return or determination, file a request for reassessment pursuant to the provisions of Article 23, paragraph (1) of said Act, with regard to the amount related to said return or determination listed in Article 120, paragraph (1), item (i) or items (iii) to (viii) (Matters to be Entered in Income Tax Returns) or Article 123, paragraph (2), item (i), item (v), item (vii), or item (viii) (Matters to be Entered in Tax Returns of Losses) (in the case where an amended return has been filed or a reassessment has been made for said amount, with regard to the amount after the amended return was filed or the reassessment was made), with the district director of the tax office, only within two months from the day following the day on which said fact emerged. In this case, a reassessment request prescribed in Article 23, paragraph (3) of said Act shall state the date that said fact emerged, in addition to the matters prescribed in said paragraph.

(Special Provisions on Requests for Reassessment Due to Reassessment, etc. of the Amount of Income Tax, etc. for the Previous Year)

Article 153 A resident (including the resident's heir) who has submitted an amended return or has received a reassessment or determination with regard to the amount to be entered in a tax return that is listed in Article 120, paragraph (1), item (i) or items (iii) to (viii) (Matters to Be Entered in Income Tax Returns) or Article 123, paragraph (2), item (i) or items (v) to (viii) (Matters to be Entered in Tax Returns of Losses), may, in any of the cases listed in the following items as a result of having submitted the amended return or having received the reassessment or determination, file a request for reassessment pursuant to the provisions of Article 23, paragraph (1) (Requests for Reassessment) of the Act on General Rules for National Taxes, with regard to the amount prescribed in the relevant item, with the district director of the tax office, only within two months from the day following the day on which the resident submitted the amended return or received a notice of the reassessment or determination. In this case, a reassessment request as prescribed in Article 23, paragraph (3) of said Act shall state the date that the resident submitted the amended return or received a notice of the reassessment or determination, in addition to the matters prescribed in said paragraph:

- (i) In the case where the amount entered in a tax return for a year after the year following the year related to said amended return or said reassessment or determination or the amount for the year in which the resident received the determination that is listed in Article 120, paragraph (1), item (iii), item (v) or item (vii) (in the case where an amended return has been filed or a reassessment has been made for said amount, the amount after the amended return was filed or the reassessment was made) turns out to be in excess.

- (ii) In the case where the amount entered in a tax return for a year after the year following the year related to said amended return or said reassessment or determination or the amount for the year in which the resident received the determination that is listed in Article 120, paragraph (1), item (iv), item (vi) or item (viii) or Article 123, paragraph (2), item (i) or items (v) to (viii) (in the case where an amended return has been filed or a reassessment has been made for said amount, the amount after the amended return was filed or the reassessment was made) turns out to be excessively small

Chapter VII Reassessment and Determination

(Special Provisions Concerning Matters to be Reassessed or Determined)

- Article 154 (1) A reassessment or determination related to income tax may be made with regard to the matters listed in Article 120, paragraph (1), item (ix) or item (x) (Matters to be Entered in Income Tax Returns), in addition to the matters prescribed in Articles 24 to 26 (Reassessment/Determination) of the Act on General Rules for National Taxes. In this case, when making a reassessment or determination with regard to the former matters, the term "the amount of tax, etc." in Article 28, paragraph (2) and paragraph (3) (Matters to be Entered in Written Notice of Reassessment or Determination) of said Act shall be deemed to be replaced with "the amount of tax, etc. and the matters listed in Article 120, paragraph (1), item (ix) or item (x) (Matters to be Entered in Income Tax Returns) of the Income Tax Act."
- (2) A written notice of reassessment or determination as prescribed in Article 28, paragraph (1) of the Act on General Rules for National Taxes issued in the case of making a reassessment or determination with regard to income tax shall state the matters prescribed in paragraph (2) or paragraph (3) of said Article and shall be attached with the breakdown of the amount listed in Article 120, paragraph (1), item (i) or the amount of net loss listed in Article 123, paragraph (2), item (i) (Matters to be Entered in Tax Returns of Losses) related to said reassessment or determination, by category of income prescribed in Article 2, paragraph (1), item (xxi) (Definitions).

(Reassessment Related to Blue Returns)

- Article 155 (1) In the case of making a reassessment with regard to the amount of gross income, retirement income, or timber income or the amount of net loss of a resident for a year related to a blue return that the resident has filed, the district director of the tax office shall examine the resident's books and documents and may make the reassessment only in the case where the district director of the tax office finds any errors in the calculation of such amounts, based on the results of the examination; provided, however, that in the case

listed as follows, the district director of the tax office shall not be precluded from making a reassessment without examining the resident's books and documents:

- (i) In the case where the reassessment became necessary only as a result of errors in the calculation of the amount of classified income other than real property income, business income, and timber income or the application of the provisions of Articles 69 to 71 (Aggregation of Profits and Losses and Deduction for Carryover of Losses)
 - (ii) In the case where the matters entered in the return or the documents attached thereto clearly reveal that the calculation of the amount of real property income, business income, or timber income are not in accordance with the provisions of this Act or there are any other errors in said calculation
- (2) In the case of making a reassessment with regard to the amount of gross income, retirement income, or timber income or the amount of net loss of a resident for a year related to a blue return that the resident has filed (excluding a reassessment only on the grounds prescribed in item (i) of the preceding paragraph), the district director of the tax office shall enter the reason for the reassessment in a written notice of reassessment as prescribed in Article 28, paragraph (2) (Matters to be Entered in Written Notice of Reassessment) of the Act on General Rules for National Taxes.

(Reassessment or Determination by Estimate)

Article 156 The district director of the tax office may make a reassessment or determination with regard to income tax related to a resident, by way of estimating the amount of the person's classified income or loss for each year (excluding the amount of real property income, business income, or timber income and the amount of loss arising in the calculation thereof for the year related to the blue return the resident has filed), in light of increases and decreases in the person's assets or liabilities, revenue or expenses, production volumes, sales volumes or other transaction volumes, the number of employees and other matters concerning the size of the business.

(Denial, etc. of Acts or Calculation by Family Company, etc.)

Article 157 (1) When it is found that any acts conducted or calculations made by a corporation listed as follows will, if accepted, unreasonably reduce the burden of income tax on a resident who is a shareholder, etc. of the corporation or a resident who has a special relationship, as specified by Cabinet Order, with the corporation (including a resident who has said special relationship with a nonresident who is a shareholder, etc. of the corporation; the same shall apply in paragraph (4)), the district director of the tax office may, when making a

reassessment or determination with regard to the resident's income tax, calculate the amount listed in Article 120, paragraph (1), item (i), or items (iii) to (viii) (Matters to be Entered in Income Tax Returns) or Article 123, paragraph (2), item (i), item (iii), item (v), or item (vii) (Matters to be Entered in Tax Returns of Losses) of the resident for each year, based on the director's own recognition, notwithstanding said acts or calculation:

- (i) A family company prescribed in Article 2, paragraph (10) (Definitions) of the Corporation Tax Act
- (ii) A corporation falling under all of (a) to (c) below:
 - (a) The corporation has three or more branch offices, factories, or any other places of business
 - (b) Where, with regard to half or more of its places of business, the director or the chief officer of the places of business, any other presiding official of a business related to the places of business, a relative of said presiding official or any other individual who has a special relationship specified by Cabinet Order with said presiding official (hereinafter referred to as the "director, etc." in this item) formerly conducted a business at said places of business as an individual
 - (c) The sum of the number or the amount of shares of or capital contributions to the corporation held by the director, etc. of a place of business, for which the fact prescribed in (b) exists, corresponds to two-thirds or more of the total number or the total amount of the corporation's issued shares or capital contributions (excluding its own shares or the capital contributions held by the corporation)
- (2) In the case referred to in the preceding paragraph, the determination as to whether a corporation falls under the category of corporations listed in the items of said paragraph shall be based on the circumstances as of the time when the acts or calculation prescribed in said paragraph were actually conducted or made.
- (3) The provisions of paragraph (1) shall apply mutatis mutandis to a reassessment or determination related to a resident's income tax as set forth in paragraph (1) in the case where the provisions of Article 132, paragraph (1) (Denial of Acts or Calculation by Family Company, etc.) of the Corporation Tax Act, Article 64, paragraph (1) (Denial, etc. of Acts or Calculation by Family Company, etc.) of the Inheritance Tax Act, or Article 32, paragraph (1) (Denial, etc. of Acts or Calculation by Family Company, etc.) of the Land Value Tax Act were applied to the acts or calculation conducted or made by a corporation listed in the items of paragraph (1).
- (4) When it is found that any acts or calculation conducted or made by a corporation or a counterparty which has gone through a merger (including the consolidation of trusts related to a trust subject to corporation taxation),

company split (including a trust split in a trust subject to corporation taxation), capital contribution in kind, post-formation acquisition of assets and/or liabilities as prescribed in Article 2, item (xii)-6 of the Corporation Tax Act, share exchange, or share transfer (hereinafter referred to as a "merger, etc." in this paragraph) (such corporation or counterparty shall include a corporation which has issued shares or capital contributions delivered through said merger, etc.; hereinafter the same shall apply in this paragraph), will, if accepted, unreasonably reduce the burden of income tax on a resident who is a shareholder, etc. of the corporation or the counterparty, or a resident who has a special relationship as prescribed in paragraph (1) with the corporation or the counterparty, the district director of the tax office may, when making a reassessment or determination with regard to the resident's income tax, calculate the amount listed in Article 120, paragraph (1), item (i), or items (iii) to (viii) or Article 123, paragraph (2), item (i), item (iii), item (v), or item (vii) of the resident for each year, based on the director's own recognition, notwithstanding said acts or calculation.

(Presumption of Attribution of Income of Place of Business)

Article 158 In the case where a corporation has 15 or more branch offices, factories, or any other places of business, when, with regard to two-thirds or more of its places of business, the director or the chief officer of the places of business, any other presiding official of a business related to the places of business, a relative of said presiding official or any other individual who has a special relationship as specified by Cabinet Order with said presiding official used to conduct a business at said places of business as an individual, the district director of the tax office may make a reassessment or determination, by presuming that the presiding official of said places of business receives the proceeds arising from each of said places of business, except in the case where the whole of the deposit and borrowing of funds, purchase and sale of commodities and any other transactions at each of the corporation's places of business are conducted in the name of the corporation.

(Refund of Withholding Tax, etc. by Reassessment or Determination)

Article 159 (1) In the case where a determination has been made with regard to a resident's income tax for each year, when there is any amount listed in Article 120, paragraph (1), item (vi) (Shortfall in Credit for Withholding Tax, etc.) related to the determination, the district director of the tax office shall refund income tax equivalent to said amount to the person.

(2) In the case where a reassessment has been made with regard to a resident's income tax for each year, when the amount listed in Article 120, paragraph (1), item (iv) or item (vi) or Article 123, paragraph (2), item (vi) or item (vii) (The

Amount of Withholding Tax, etc.) has increased as a result of the reassessment, the district director of the tax office shall refund income tax equivalent to the amount of said increase to the person.

- (3) In the case referred to in the preceding two paragraphs, when there is any portion that has yet to be paid out of the amount of withholding tax prescribed in Article 120, paragraph (1), item (vi) or Article 123, paragraph (2), item (vii), which was used as the basis of the calculation of the amount to be refunded pursuant to the provisions of the preceding two paragraphs, the amount equivalent to said unpaid portion out of the amount to be refunded pursuant to the provisions of the preceding two paragraphs shall not be refunded until said unpaid portion has been paid.
- (4) In the case of calculating the amount of interest on a refund with regard to a refund pursuant to the provisions of paragraph (1) or paragraph (2), the period set forth in Article 58, paragraph (1) (Interest on Refunds) of the Act on General Rules for National Taxes, which shall be the basis of the calculation, shall be the period from the day following the date listed in each of the following items (with regard to a refund related to the amount of withholding tax prescribed in the preceding paragraph that was paid after said date, from the day following the date of payment of said amount of withholding tax), for the category set forth in the relevant item, up to the day on which payment of the relevant refund is decided or the day on which the relevant refund is appropriated (in the case where appropriation has become possible before said date of appropriation, the day on which it becomes possible):
 - (i) A refund pursuant to the provisions of paragraph (1): The day on which the determination set forth in said paragraph was made
 - (ii) A refund pursuant to the provisions of paragraph (2) (excluding a refund listed in the following item): The day listed in each of the following items for the category set forth in the relevant item:
 - (a) In the case where the tax return related to a reassessment as set forth in paragraph (2) has been filed by the deadline: Said deadline for filing a tax return
 - (b) In the case where the tax return related to a reassessment as set forth in paragraph (2) has been filed after the deadline: The day on which the tax return was filed
 - (c) In the case where a reassessment as set forth in paragraph (2) is a reassessment related to a determination: The day on which the determination was made
 - (iii) A refund pursuant to the provisions of paragraph (2) that relates to a reassessment made based on the emergence of the fact prescribed in Article 152 (Special Provisions on Requests for Reassessment Where There are Changes to the Amount of Classified Income): The day on which the

reassessment was made

- (5) In the case where a refund pursuant to the provisions of paragraph (1) or paragraph (2) is appropriated for the unpaid portion of the income tax for the year related to a determination as set forth in paragraph (1) or a reassessment as set forth in paragraph (2), interest on the refund shall not be added to the portion of said refund to be used for appropriation and the delinquent tax shall be exempted with regard to the portion of the income tax that is to be appropriated.
- (6) In addition to what is provided for in the preceding three paragraphs, methods of appropriation of a refund (including interest on a refund related thereto) pursuant to the provisions of paragraph (1) or paragraph (2), and any other matters necessary for the application of these provisions shall be specified by Cabinet Order.

(Refund of Estimated Tax Prepayment by Reassessment or Determination)

- Article 160 (1) In the case where a determination has been made with regard to a resident's income tax for each year, when there is any amount listed in Article 120, paragraph (1), item (viii) (Shortfall in Credit for Estimated Tax Prepayment) or Article 123, paragraph (2), item (viii) (The Amount of Estimated Tax Prepayment) related to the determination, the district director of the tax office shall refund the estimated tax prepayment prescribed in these provisions equivalent to said amount (hereinafter referred to as the "amount of estimated tax prepayment" in this Article) to the person.
- (2) In the case where a reassessment has been made with regard to a resident's income tax for each year, when the amount listed in Article 120, paragraph (1), item (viii) or Article 123, paragraph (2), item (viii) has increased as a result of the reassessment, the district director of the tax office shall refund the estimated tax prepayment equivalent to the amount of said increase to the person.
 - (3) In the case where the district director of the tax office makes a refund pursuant to the provisions of the preceding two paragraphs, when a delinquent tax has been paid with regard to the amount of estimated tax prepayment for the year prescribed in these provisions, the director shall also refund the amount calculated, as specified by Cabinet Order, to be the portion of said delinquent tax that corresponds to the amount of the estimated tax prepayment to be refunded pursuant to these provisions.
 - (4) In the case of calculating the amount of interest on a refund with regard to a refund pursuant to the provisions of paragraph (1) or paragraph (2), the period set forth in Article 58, paragraph (1) (Interest on Refunds) of the Act on General Rules for National Taxes, which shall be the basis of the calculation, shall be the period from the day following the day on which the amount of

estimated tax prepayment to be refunded pursuant to the provisions of paragraph (1) or paragraph (2) was paid (in the case where said amount of estimated tax prepayment was paid prior to the deadline for payment, from the day following said deadline for payment) up to the day on which the payment of the relevant refund is decided on or the day on which the relevant refund is appropriated (in the case where appropriation has become possible before said date of appropriation, the day on which it becomes possible); provided, however, that with regard to a refund listed in the following items, the number of days listed in the relevant item shall not be included in said period:

- (i) A refund pursuant to the provisions of paragraph (1): The number of days from the day following the deadline for filing a tax return for income tax for the year up to the day on which the determination set forth in said paragraph was made
 - (ii) A refund pursuant to the provisions of paragraph (2) (excluding a refund caused by a reassessment which does not fall under either of the following subitems or a refund listed in the following item): The number of days from the day following the deadline for filing a tax return for income tax for the year up to the day listed in each of the following items for the category set forth in the relevant item:
 - (a) In the case where a tax return related to a reassessment as set forth in paragraph (2) has been filed after the deadline: The day on which the tax return was filed
 - (b) In the case where a reassessment set forth in paragraph (2) is a reassessment related to a determination: The day on which the determination was made
 - (iii) A refund pursuant to the provisions of paragraph (2) that relates to a reassessment made based on the emergence of the fact prescribed in Article 152 (Special Provisions on Requests for Reassessment Where There are Changes to the Amount of Classified Income): The number of days from the day following said deadline for filing a tax return for income tax for the year up to the day on which the reassessment was made
- (5) In the case where a refund pursuant to the provisions of paragraph (1) or paragraph (2) is appropriated for the unpaid portion of the income tax for the year related to the amount of estimated tax prepayment, which was used as the basis of the calculation of the amount of said refund, interest on the refund shall not be added to the portion of said refund to be used for appropriation and the delinquent tax shall be exempted with regard to the portion of the income tax that is to be appropriated.
- (6) Interest on a refund shall not be added to a refund pursuant to the provisions of paragraph (3).
- (7) In addition to what is provided for in the preceding three paragraphs,

methods of appropriation of a refund (including interest on a refund related thereto) pursuant to the provisions of paragraph (1) or paragraph (2), and any other matters necessary for the application of the provisions of paragraphs (1) to (3) shall be specified by Cabinet Order.

Part III Tax Liability of Nonresidents and Corporations

Chapter I Domestic Source Income

(Domestic Source Income)

Article 161 The term "domestic source income" as used in this Part means any of the following:

- (i) Income from a business conducted in Japan or from the utilization, holding or transfer of assets located in Japan (excluding the types of income falling under the following item to item (xii)) or any other income specified by Cabinet Order as arising from sources within Japan
- (i)-2 Profits from a business conducted in Japan under a partnership contract prescribed in Article 667, paragraph (1) (Partnership Contracts) of the Civil Code (Act No. 89 of 1896) (including a contract specified by Cabinet Order as being similar thereto; hereinafter the same shall apply in this item), which is distributed under said partnership contract and is specified by Cabinet Order
- (i)-3 Consideration for the transfer of land or any right on land, or any building and auxiliary equipment or structure thereof, all of which are located in Japan (excluding any consideration specified by Cabinet Order)
- (ii) Compensation received by a person who conducts a business that has as its main content the provision of personal services in Japan and is specified by Cabinet Order, for the provision of said personal services
- (iii) Consideration for the lending of real property located in Japan, any right on real property located in Japan or a right of quarrying pursuant to the provisions of the Quarrying Act (Act No. 291 of 1950) (including the establishment of superficies or a right of quarrying or any other act carried out for having another person use real property, any right on real property or right of quarrying), the establishment of a mining lease pursuant to the provisions of the Mining Act (Act No. 289 of 1950) or the lending of a vessel or aircraft to a resident or domestic corporation
- (iv) Interest, etc. prescribed in Article 23, paragraph (1) (Interest Income), which is listed in any of the following:
 - (a) Interest on Japanese government bonds or Japanese municipal bonds or bonds issued by a domestic corporation
 - (b) Interest on bonds issued by a foreign corporation that is attributable to the business conducted by the foreign corporation in Japan or any other

- interest specified by Cabinet Order
- (c) Interest on deposits and savings which have been deposited with a business office or other office, or any other business facility equivalent thereto, located in Japan (hereinafter referred to as "business office" in this Part)
 - (d) Distribution of profits from a jointly operated cash trust, bond investment trust or publicly offered bond investment trust which has been entrusted with a business office located in Japan
 - (v) Dividends, etc. prescribed in Article 24, paragraph (1) (Dividend Income), which is listed in any of the following:
 - (a) Dividends of surplus, dividends of profits, distribution of surplus or interest on funds prescribed in Article 24, paragraph (1) which is received from a domestic corporation
 - (b) Distribution of profits from an investment trust (excluding a bond investment trust and a publicly offered bond investment trust) or a specified trust that issues beneficiary certificates which has been entrusted with a business office located in Japan
 - (vi) Interest on a loan provided for a person who performs operations in Japan (including monies equivalent thereto), which pertains to said operations (excluding interest specified by Cabinet Order)
 - (vii) Any of the following royalties or considerations received from a person who performs operations in Japan, which pertain to said operations:
 - (a) Royalties for an industrial property right or any other right concerning technology, a production method involving special technology or any other equivalent right or method, or consideration for the transfer thereof
 - (b) Royalties for a copyright (including right of publication, neighboring right, and any other equivalent right), or consideration for the transfer thereof
 - (c) Royalties for machinery, equipment or any other tool specified by Cabinet Order
 - (viii) Any of the following salaries, remuneration or pension:
 - (a) Pay, compensation, wages, annual allowance, bonus or any other salaries or remuneration for the provision of personal services that has the nature of any of these, which arises from work or the provision otherwise of personal services carried out in Japan (including work carried out outside Japan by a person acting as an officer of a domestic corporation and other provision of personal services, which are specified by Cabinet Order)
 - (b) Public pension, etc. prescribed in Article 35, paragraph (3) (Definition of Public Pension, etc.) (excluding a pension specified by Cabinet Order)
 - (c) Retirement allowance, etc. prescribed in Article 30, paragraph (1) (Retirement Income), which arises from work or the provision otherwise of personal services carried out by a person entitled to receive it during the

- period when the person has been a resident (including work that has been carried out by a person acting as an officer of a domestic corporation during the period when the person has been a nonresident and other provision of personal services, which are specified by Cabinet Order)
- (ix) Monetary award for the advertisement of a business conducted in Japan, which is specified by Cabinet Order
 - (x) Pension received under a life insurance contract, non-life insurance contract or any other contract for a pension concluded via a business office located in Japan or via a person who acts as an agent for conclusion of contracts in Japan, which does not fall under the category of pension set forth in item (viii)(b) (including a surplus distributed or a refund paid under the relevant contract for a pension on or after the date of commencement of the payment of a pension, and a lump sum payment given in lieu of a pension under said contract)
 - (xi) Any of the following compensation for periodic deposits, interest, profits or margin profits:
 - (a) Compensation for periodic deposits for payment as listed in Article 174, item (iii) (Tax Base for a Domestic Corporation's Income Tax), which pertain to installment deposits that have been accepted by a business office located in Japan
 - (b) Compensation for periodic deposits listed in Article 174, item (iv), which pertain to installment deposits prescribed in said item that have been accepted by a business office located in Japan
 - (c) Interest listed in Article 174, item (v), which pertains to a contract prescribed in said item that has been concluded via a business office located in Japan
 - (d) Profits listed in Article 174, item (vi), which pertain to a contract prescribed in said item that has been concluded via a business office located in Japan
 - (e) Margin profits listed in Article 174, item (vii), which pertain to deposits and savings that have been accepted by a business office located in Japan
 - (f) Margin profits listed in Article 174, item (viii), which pertain to a contract prescribed in said item that has been concluded via a business office located in Japan or via a person who acts as an agent for conclusion of contracts in Japan
 - (xii) Distribution of profits received under a silent partnership contract (including a contract specified by Cabinet Order as being equivalent thereto) with respect to capital contributions to a person who conducts a business in Japan

(Domestic Source Income Subject to the Provisions of Tax Conventions)

Article 162 Where a convention for the avoidance of double taxation with respect to taxes on income that Japan has concluded contains provisions on domestic source income that are different from the provisions of the preceding Article, the domestic source income of a person who is subject to such convention shall, notwithstanding said Article, be governed as specified in the convention to the extent of such different provisions. In this case, where the convention contains provisions on domestic source income that can replace the provisions of items (ii) to (xii) of said Article, with regard to the application of the part of this Act that relates to the matters prescribed in these items, any income treated as domestic source income under the convention shall be deemed to be the corresponding domestic source income listed in the relevant item.

(Details of Scope of Domestic Source Income)

Article 163 In addition to what is provided for in the preceding two Articles, necessary matters concerning the scope of domestic source income shall be specified by Cabinet Order.

Chapter II Tax Liability of Nonresidents

Section 1 General Rules

(Method of Taxation for Nonresidents)

Article 164 (1) The amount of income tax imposed on a nonresident shall be calculated by applying the provisions of Subsection 1 of the following Section (Tax on Aggregate Income for Nonresidents) to domestic source income listed in each of the following items for the category of nonresident listed in the relevant item:

- (i) A nonresident who has branch offices, factories or any other fixed places for conducting a business which are specified by Cabinet Order in Japan: All domestic source income
- (ii) A nonresident who has carried out construction, installation, assembly or any other work or provided services for directing and supervising such work (hereinafter referred to as "construction work, etc." in this Article) in Japan for more than one year (excluding a nonresident who falls under the preceding item): Any of the following domestic source income:
 - (a) Domestic source income listed in Article 161, item (i) to (iii) (Domestic Source Income)
 - (b) Domestic source income listed in Article 161, items (iv) to (xii), which is attributable to the business related to construction work, etc. that is conducted by the nonresident in Japan
- (iii) A nonresident who has a person who is authorized to conclude contracts on behalf of the nonresident or any other person equivalent to such an

- authorized person specified by Cabinet Order (hereinafter referred to as an "agent, etc." in this Article) in Japan (excluding a nonresident who falls under item (i)): Any of the following domestic source income:
- (a) Domestic source income listed in Article 161, items (i) to (iii)
 - (b) Domestic source income listed in Article 161, items (iv) to (xii), which is attributable to the business conducted by the nonresident in Japan via said agent, etc.
- (iv) A nonresident other than one listed in the preceding three items: Any of the following domestic source income:
- (a) Domestic source income listed in Article 161, item (i) and item (i)-3 which has arisen from the utilization or holding of assets located in Japan or the transfer of real property located in Japan, or any such income which is specified by Cabinet Order
 - (b) Domestic source income listed in Article 161, item (ii) and item (iii)
- (2) Where a nonresident listed in each of the following items has domestic source income listed in the relevant item, the amount of income tax imposed on the nonresident shall be calculated by applying the provisions of Section 3 (Separate Income Taxation for Nonresidents) to domestic source income listed in the relevant income, in addition to what is calculated pursuant to the provisions of the preceding paragraph:
- (i) A nonresident listed in item (ii) or item (iii) of the preceding paragraph: Domestic source income listed in Article 161, items (iv) to (xii), which is not attributable to a business related to construction work, etc. prescribed in item (ii) of the preceding paragraph or business conducted through an agent, etc. prescribed in item (iii) of said paragraph
 - (ii) A nonresident listed in item (iv) of the preceding paragraph: Domestic source income listed in Article 161, items (iv) to (xii)

Section 2 Tax on Aggregate Income for Nonresidents

Subsection 1 Calculation of the Tax Base, the Amount of Tax, etc.

(Calculation of the Tax Base, the Amount of Income Tax, etc. for Tax on Aggregate Income)

Article 165 The tax base and the amount of income tax imposed on a nonresident listed in the items of paragraph (1) of the preceding Article with respect to domestic source income listed in the relevant item (hereinafter referred to as "income tax in the case of tax on aggregate income" in this Section) shall be the amount calculated with respect to the domestic source income listed in the relevant item pursuant to the method specified by Cabinet Order and in accordance with the provisions Part II, Chapter I to Chapter IV (Calculation of the Tax Base, the Amount of Income Tax, etc. in the case of Residents)

(excluding Articles 73 to 77 (Medical Expenses Deduction, etc.), Article 79 (Deduction for Persons with Disabilities), Articles 81 to 85 (Deduction for Widows (Widowers), etc.), and Article 95 (Credit for Foreign Tax)).

Subsection 2 Filing of Returns, Payment and Refunds

(Filing of Returns, Payment and Refunds)

Article 166 The provisions of Part II, Chapter V (Filing of Returns, Payment and Refunds for Residents) shall apply mutatis mutandis to the filing of a return, payment and refund of income tax in the case of tax on aggregate income for nonresidents. In this case: in Article 120, paragraph (3), item (iii) (Income Tax Returns), the term "resident" shall be deemed to be replaced with "nonresident, or a nonresident who performs operations both in and outside Japan," and the term "withholding certificates" shall be deemed to be replaced with "withholding certificates, or detailed statements of revenue and expenditure specified by Ordinance of the Ministry of Finance"; in Article 120, paragraph (4), the phrase "resident who performs operations" shall be deemed to be replaced with "nonresident who performs operations in Japan"; in Article 143 (Blue Returns), the phrase "performs operations" shall be deemed to be replaced with "performs operations in Japan"; Article 144 (Application for Approval to File a Blue Return) and Article 147 (Where There Has Been Deemed Approval to File a Blue Return), the phrase "commenced operations" shall be deemed to be replaced with "commenced operations in Japan."

Subsection 3 Special Provisions on Requests for Reassessment

(Special Provisions on Requests for Reassessment)

Article 167 The provisions of Part II, Chapter VI (Special Provisions on Requests for Reassessment in the case of Residents) shall apply mutatis mutandis to a request for reassessment pursuant to the provisions of Article 23, paragraph (1) of the Act on General Rules for National Taxes (Requests for Reassessment) with regard to income tax in the case of tax on aggregate income for nonresidents.

Subsection 4 Reassessment and Determination

(Reassessment and Determination)

Article 168 The provisions of Part II, Chapter VII (Reassessment and Determination in the case of Residents) shall apply mutatis mutandis to the reassessment or determination of income tax in the case of tax on aggregate income for nonresidents.

Section 3 Separate Income Taxation for Nonresidents

(Income Tax Base for Separate Taxation)

Article 169 With respect to domestic source income specified in the items of Article 164, paragraph (2) (Method of Taxation for Nonresidents) earned by a nonresident, income tax shall be imposed separately from the nonresident's other income, and the tax base of such income tax shall be the amount of said domestic source income receivable (in the case of domestic source income listed in any of the following items: the amount specified in the relevant item):

- (i) Interest, etc. listed in Article 161, item (iv) (Domestic Source Income), which is interest on bearer public and corporate bonds or a distribution of profits based on a bearer beneficiary certificate of a loan trust, bond investment trust or publicly offered bond investment trust: The amount received
- (ii) Dividends, etc. listed in Article 161, item (v), which are dividends of the surplus of bearer shares, etc. (meaning dividends of surplus prescribed in Article 24, paragraph (1) (Dividend Income)) or a distribution of profits based on a bearer beneficiary certificate of an investment trust (excluding a bond investment trust and a publicly offered bond investment trust) or trust that issues specified beneficiary certificates: The amount received
- (iii) Pensions listed in Article 161, item (viii), (b): The amount of pension receivable, after deducting therefrom the amount calculated by multiplying 60,000 yen by the number of months corresponding to said amount of pension receivable
- (iv) Monetary awards listed in Article 161, item (ix): The amount receivable, after deducting 500,000 yen therefrom
- (v) Pensions listed in Article 161, item (x): The amount receivable under the contract prescribed in said item, after deducting therefrom the amount of insurance premiums or installment deposits paid under said contract, which is calculated by the method specified by Cabinet Order as the amount corresponding to said amount receivable

(Tax Rate for Income Tax for Separate Taxation)

Article 170 The amount of income tax prescribed in the preceding Article shall be the amount calculated by multiplying the amount of domestic source income prescribed in said Article by a tax rate of 20 percent (or by a tax rate of 15 percent in the case of domestic source income listed in Article 161, item (iv) and item (xi) (Domestic Source Income)).

(Voluntary Taxation on Retirement Income)

Article 171 Where a nonresident prescribed in Article 169 (Tax Base) receives

payment of a retirement allowance, etc. (meaning a retirement allowance, etc. as prescribed in Article 30, paragraph (1) (Retirement Income); hereinafter the same shall apply in this Section) that falls under the provisions of Article 161, item (viii), (c) (Retirement Allowances, etc. Arising from Work Carried Out in the Capacity of a Resident), the nonresident may, notwithstanding the provisions of the preceding Article, opt to have income tax imposed on the nonresident based on the amount equivalent to the amount of tax calculated by deeming that the nonresident has received, in the capacity of a resident, the total amount of the retirement allowance, etc. to be received within the relevant year by reason of the nonresident's retirement causing the payment of said retirement allowance, etc. (in the case where there is more than one retirement allowance, etc. to be received within the relevant year: by reason of the nonresident's retirement causing the payment of each retirement allowance, etc.), and applying the provisions of Article 30 and Article 89 (Tax Rate) to said total amount.

(Tax Payment with Special Return in the Case of No Withholding on Salaries, etc.)

Article 172 (1) Where a nonresident prescribed in Article 169 (Tax Base) receives payment of salaries or remuneration listed in Article 161, item (viii), (a) or (c) (Salaries, etc. Arising from Work Carried Out in Japan), and the provisions of Part IV, Chapter V (Withholding on the Income of Nonresidents or Corporations) do not apply to said salaries or remuneration, the nonresident shall, except where the nonresident may file a return pursuant to the provisions of the following Article, file a return to the district director of the tax office no later than March 15 of the year following the relevant year (in the case where the nonresident ceases to have the nonresident's residence in Japan before that date: no later than the day on which the nonresident ceases to have a residence), stating the following matters:

- (i) Any portion of the amount of salaries or remuneration listed in Article 161, item (viii), (a) or (c) to be received within the relevant year, to which the provisions of Part IV, Chapter V shall not apply (in the case where said portion of the amount to which said provisions shall not apply includes any amount of the retirement allowance, etc. prescribed in the preceding Article, and the nonresident opts for taxation under said Article with respect to said retirement allowance, etc.: The amount of said retirement allowance, etc. shall be excluded), and the amount of income tax calculated by applying the provisions of Article 170 (Tax Rate) to said portion of the amount
- (ii) In the case where any portion of the amount of salaries or remuneration prescribed in the preceding item shall be stated in a return to be filed pursuant to the provisions of this paragraph due to the fact that the

- nonresident has ceased to have the nonresident's residence in Japan before the end of the relevant year: Said portion of the amount, and the amount of income tax calculated by applying the provisions of Article 170 thereto
- (iii) The amount of income tax listed in item (i), after deducting therefrom the amount of income tax listed in the preceding item
 - (iv) The basis of the calculation of the amount listed in item (i), the type of work carried out by the nonresident in Japan, and any other matters specified by Ordinance of the Ministry of Finance.
- (2) Where a nonresident who is to file a return pursuant to the provisions of the preceding paragraph with respect to the retirement allowance, etc. prescribed in the preceding Article opts for taxation under said Article with respect to said retirement allowance, etc., the nonresident shall state, in the return, the following matters in addition to the matters listed in the items of said paragraph:
- (i) The total amount of the retirement allowance, etc. to be received within the relevant year (limited to the portion of the amount subject to the provisions of the preceding Article), and the amount of income tax calculated by applying the provisions of said Article to said total amount
 - (ii) In the case where there is any amount of income tax that has been withheld or is to be withheld pursuant to the provisions of Part IV, Chapter V, with respect to the retirement allowance, etc. to be received within the relevant year: Said amount of income tax (in the case where any portion of the amount of said retirement allowance, etc. shall be stated in a return to be filed pursuant to the provisions of the preceding paragraph due to the fact that the person has ceased to have the person's residence in Japan before the end of the relevant year, the amount of income tax calculated by applying the provisions of Article 170 to said portion of the amount shall be included)
 - (iii) The amount of income tax listed in item (i), after deducting therefrom the amount of income tax listed in the preceding item
 - (iv) The breakdown of the total amount of the retirement allowance, etc. listed in item (i) by payer, each payer's name, and each payer's domicile or residence or the location of each payer's head office or principal office
 - (v) The basis of the calculation of the amount of income tax listed in item (i)
- (3) A nonresident who has filed a return pursuant to the provisions of paragraph (1) shall pay income tax equivalent to the amount listed in item (iii) of said paragraph (in the case of a person subject to the provisions of the preceding paragraph: the sum of said amount and the amount listed in item (iii) of said paragraph) to the State by the deadline of filing said return.

(Refund Due to Voluntary Taxation on Retirement Income)

Article 173 (1) Where a nonresident prescribed in Article 169 (Tax Base) is

subject to the provisions of Part IV, Chapter V (Withholding on the Income of Nonresidents or Corporations), with respect to the retirement allowance, etc. prescribed in Article 171 (Voluntary Taxation on Retirement Income) to be received thereby, and opts for taxation under said Article with respect to said retirement allowance, etc., the nonresident may, in order to receive a refund of income tax pertaining to said retirement allowance, etc., file a return to the district director of the tax office on or after January 1 of the year following the relevant year (in the case where the total amount of the retirement allowance, etc. prescribed in Article 171 has been determined before that date: the day on which the total amount has been determined), stating the following matters:

- (i) The total amount of the retirement allowance, etc. and the amount of income tax, both of which are listed in paragraph (2), item (i) of the preceding Article
- (ii) The amount of income tax listed in paragraph (2), item (ii) of the preceding Article
- (iii) The amount of income tax listed in the preceding item, after deducting therefrom the amount of income tax listed in item (i)
- (iv) The matters listed in paragraph (2), item (iv) and item (v) of the preceding Article, and any other matters specified by Ordinance of the Ministry of Finance

(2) Where a return has been filed pursuant to the provisions of the preceding paragraph, the district director of the tax office shall refund income tax equivalent to the amount listed in item (iii) of said paragraph.

(3) In the case referred to in the preceding paragraph, where any portion of the amount of income tax listed in paragraph (1), item (ii) as stated in the return set forth in the preceding paragraph (limited to the income tax to be withheld pursuant to the provisions of Part IV, Chapter V) has not yet been paid, the portion of the amount of refund pursuant to the provisions of the preceding paragraph which corresponds to said unpaid portion of income tax shall not be paid until the relevant income tax payment is completed.

(4) In calculating the interest on refunds with respect to a refund pursuant to the provisions of paragraph (2), the period set forth in Article 58, paragraph (1) of the Act on General Rules for National Taxes (Interest on Refunds), which shall be the basis of such calculation, shall be the period from the day following the day on which the return has been filed pursuant to the provisions of paragraph (1) (in the case of a refund pertaining to the amount of income tax prescribed in the preceding paragraph which has been paid after said date of filing of the return: the date of payment of said amount of income tax) until the day on which payment of the relevant refund is determined or the day on which the relevant refund is appropriated (in the case where appropriation has become possible before said date of appropriation: that day on which it becomes possible).

- (5) In addition to what is provided for in the preceding two paragraphs, the procedure for a refund set forth in paragraph (2) and other necessary matters concerning the application of the provisions of said paragraph shall be specified by Cabinet Order.

Chapter III Tax Liability of Corporations

Section 1 Tax Liability of Domestic Corporations

(Tax Base for a Domestic Corporation's Income Tax)

- Article 174 The tax base for income tax to be imposed on a domestic corporation shall be the amounts listed as follows that the domestic corporation receives in Japan (with regard to the monetary award listed in item (x), the amount that remains after deducting therefrom the amount specified by Cabinet Order):
- (i) Interest, etc. as prescribed in Article 23, paragraph (1) (Interest Income)
 - (ii) Dividends, etc. as prescribed in Article 24, paragraph (1) (Dividend Income)
 - (iii) Compensation for periodic deposits based on contracts related to installment deposits (meaning the portion of compensation monies based on said contracts that is equivalent to the amount that remains after deducting, from the balloon payment amount to be compensated for, the sum of installment deposits to be paid in accordance with said contracts)
 - (iv) Compensation for periodic deposits Monies for payment based on contracts as set forth in Article 2, paragraph (4) (Definitions, etc.) of the Bank Act (Act No. 59 of 1981) (meaning the portion of compensation monies based on said contracts that is equivalent to the amount that remains after deducting, from the balloon payment amount to be compensated for, the sum of the amounts specified by Cabinet Order as installment deposits to be paid in accordance with said contracts)
 - (v) Interest to be paid based on contracts as specified by Cabinet Order as contracts concluded based on the mortgage securities prescribed in Article 1, paragraph (1) (Delivery of Securities) of the Mortgage Securities Act (Act No. 15 of 1931) and which contain matters concerning payment, etc. of the principal and interest of the claims entered in said mortgage securities
 - (vi) Profits based on contracts concerning the purchase and sellback of gold, other precious metals, or any other equivalent articles as specified by Cabinet Order that sets forth that said articles shall be sold back at the prices specified by said contracts as of the dates specified by said contracts (meaning the amount that remains after deducting the amounts required for the purchase of said articles from the amounts of said articles in the case of selling them back as specified by the contracts)
 - (vii) Margins arising from deposits and savings in a foreign currency, whose principal and interest are to be paid by converting them to the Japanese yen

or a foreign currency other than said first foreign currency at the rate agreed upon in advance

- (viii) Margins based on a life insurance contract, non-life insurance contract or any other contract of mutual aid similar to these insurance, which provides for that the premiums or installment deposits shall be paid in a lump sum (including other payment method specified by Cabinet Order as being equivalent thereto) and that the term of insurance or mutual aid (hereinafter referred to as "term of insurance, etc." in this item) shall be not more than five years, or based on a contract whose term of insurance, etc. exceeds five years and has been canceled within five years from the first day of said term of insurance, etc. (meaning the amount calculated, as specified by Cabinet Order, as the amount that remains after deducting the sum of premiums or installment deposits already paid based on these contracts from the amount of maturity proceeds, return on maturity, mutual aid monies at maturity, or cancellation returns based on these contracts)
- (ix) Distributions of profits under a silent partnership contract (including a contract specified by Cabinet Order as being equivalent thereto; the same shall apply in Article 176, paragraph (2) (Special Provisions on Taxation of Interest, etc. from Trust Property))
- (x) Monetary awards from horse racing to be received by a horse owner specified by Cabinet Order

(Special Provisions on Taxation of Interest, etc. from Trust Property)

Article 176 (1) In the case where a trust company which is a domestic corporation (including a financial institution, as prescribed in Article 1, paragraph (1) (Approval for Additional Operations) of the Act on Additional Operation, etc. of Trust Business by Financial Institutions, that is engaged in a trust business as prescribed in said paragraph; referred to as a "domestic trust company" in the following paragraph) has caused the person who pays interest, etc. as prescribed in Article 23, paragraph (1) (Interest Income) (hereinafter referred to as "interest, etc." in this Article) or dividends, etc. as prescribed in Article 24, paragraph (1) (Dividend Income) (hereinafter referred to as a "dividends, etc." in this Article) in Japan, with regard to the public and corporate bonds, jointly operated cash trust, investment trust, beneficial rights of a specified trust that issues beneficiary certificates, company bond-type beneficial rights, shares or capital contributions (hereinafter referred to as "public and corporate bonds, etc." in this paragraph) that are included in the trust property under a securities investment trust for which the trust company has accepted the position of trustee, to record, in the books that the person keeps, the fact that said public and corporate bonds, etc. are included in said trust property, as well as any other matters specified by Ordinance of the

Ministry of Finance, the provisions of Article 7, paragraph (1), item (iv) (Scope of Taxable Income of Domestic Corporations) and the preceding two paragraphs shall not apply to said interest, etc. or dividends, etc. to be paid during the period when the recordation of said matters regarding said public and corporate bonds, etc. remains in the books.

- (2) In the case where a domestic trust company has caused the person who pays interest, etc., dividends, etc., or distributes profits as listed in Article 174, item (ix) (Tax Base for a Domestic Corporation's Income Tax) in Japan, with regard to the public and corporate bonds, jointly operated cash trust, investment trust, beneficial rights of a specified trust that issues beneficiary certificates, company bond-type beneficial rights, shares, capital contributions, or rights based on a silent partnership contract (hereinafter referred to as "public and corporate bonds, etc." in this paragraph) that are included in the trust property under a retirement pension trust (limited to a retirement pension trust that has been entrusted with a place of business located in Japan) as prescribed in Article 13, paragraph (3), item (ii) (Attribution of Assets and Liabilities in Trust Property and Proceeds and Expenses to Be Attributable to Trust Property) for which the trust company has accepted the position of trustee, to record, in the books that the person keeps, the fact that said public and corporate bonds, etc. are included in said trust property, as well as any other matters specified by Ordinance of the Ministry of Finance, the provisions of Article 7, paragraph (1), item (iv) and the preceding two paragraphs shall not apply to said interest, etc., dividends, etc. or distribution of profits to be paid during the period when the recordation of said matters regarding said public and corporate bonds, etc. remains in the books.
- (3) The amount of income tax paid by a domestic corporation, with regard to trust property under a group investment trust (limited to a group investment trust that has been entrusted with a place of business located in Japan; hereinafter referred to as a "group investment trust" in this Article) as prescribed in Article 13, paragraph (3), item (i) for which the trust company has accepted the position of trustee (including any other tax imposed under foreign laws or regulations that is equivalent to income tax and specified by Cabinet Order; the same shall apply in the following paragraph) shall be deducted from the amount of income tax related to the distribution of proceeds from said group investment trust, as specified by Cabinet Order.
- (4) The amount of income tax paid with regard to trust property under a group investment trust, which is to be deducted pursuant to the provisions of the preceding paragraph, shall be added to the amount of distribution of proceeds from said group investment trust in the calculation of the amount of said distribution of proceeds.

Section 2 Tax Liability of Foreign Corporations

(Tax Base for a Foreign Corporation's Income Tax)

Article 178 The tax base for income tax imposed on a foreign corporation shall be the amount of domestic source income listed in Article 161, items (i)-2 to (vii) and items (ix) to (xii) (Domestic Source Income) to be received by the foreign corporation (in the case where the foreign corporation is one listed in Article 141, item (iv) of the Corporation Tax Act (Foreign Corporations Without a Permanent Establishment in Japan), the tax base shall be limited to the amount of domestic source income listed in Article 161, items (i)-3 to (vii) and items (ix) to (xii), and excluding that specified by Cabinet Order) (in the case of domestic source income listed in Article 169, item (i), item (ii), item (iv) and item (v) (Income Tax Base for Separate Taxation): the amount specified in these provisions).

(Tax Rate for a Foreign Corporation's Income Tax)

Article 179 The amount of income tax imposed on a foreign corporation shall be the amount specified in each of the following items for the category set forth in the relevant item:

- (i) Domestic source income prescribed in the preceding Article (excluding those listed in the following item and item (iii)): The amount calculated by multiplying the amount of domestic source income (in the case of domestic source income listed in Article 169, item (ii), item (iv) and item (v) (Income Tax Base for Separate Taxation): the amount specified in these provisions) by a tax rate of 20 percent
- (ii) Domestic source income listed in Article 161, item (i)-3 (Domestic Source Income): The amount calculated by multiplying the amount of domestic source income by a tax rate of ten percent
- (iii) Domestic source income listed in Article 161, item (iv) and item (xi): The amount calculated by multiplying the amount of domestic source income (in the case of domestic source income listed in Article 169, item (i): The amount specified in said item) by a tax rate of 15 percent

(Special Provisions on Taxation on Domestic Source Income Received by Foreign Corporations With a Permanent Establishment in Japan)

Article 180 (1) Where a corporation specified in each of the following items that satisfies the requirements specified by Cabinet Order, and which receives payment of domestic source income specified in the relevant item has obtained, as specified by Cabinet Order, a certificate issued by the competent district director with jurisdiction over the place for tax payment concerning corporation tax (hereinafter referred to as the "competent district director " in this Article),

certifying that the corporation which receives said payment satisfies said requirements and that the domestic source income to be received falls under the category of domestic source income specified in the relevant item, and the corporation has presented the certificate to the person who pays the domestic source income, the provisions of Article 7, paragraph (1), item (v) (Scope of a Foreign Corporation's Taxable Income) and the preceding two Articles shall not apply to said domestic source income to be received while the certificate remains valid:

- (i) A corporation that falls under the category of foreign corporation listed in Article 141, item (i) of the Corporation Tax Act (Foreign Corporations With a Permanent Establishment in Japan) (in the case of a corporation that is a partner under a partnership contract prescribed in Article 161, item (i)-2 (Domestic Source Income) (including a person similar thereto who is specified by Cabinet Order; hereinafter referred to a "partner corporation" in this paragraph): limited to such corporation specified by Cabinet Order): Domestic source income listed in Article 161, items (i)-2 to (iii), item (vi), item (vii), item (ix) or item (x) (in the case of the consideration prescribed in Article 161, item (i)-3: limited to such domestic source income related to consideration to be attributable to the trust property under a trust prescribed in the proviso of Article 13, paragraph (1) (Attribution of Assets and Liabilities in Trust Property and Profits and Expenses to Be Attributable to Trust Property) that has been entrusted with a business office located in Japan)
 - (ii) A corporation that falls under the category of foreign corporation listed in Article 141, item (ii) of the Corporation Tax Act (in the case of a partner corporation: limited to such corporation specified by Cabinet Order): Domestic source income specified in the preceding item, which is attributable to a business related to construction work, etc. prescribed in Article 141, item (ii) that is conducted by the corporation in Japan
 - (iii) A corporation that falls under the category of foreign corporation listed in Article 141, item (iii) of the Corporation Tax Act (in the case of a partner corporation: limited to such corporation specified by Cabinet Order): Domestic source income specified in item (i), which is attributable to a business conducted by the corporation in Japan through an agent, etc. prescribed in Article 141, item (iii)
- (2) Where a corporation listed in the items of the preceding paragraph has, after obtaining a certificate prescribed in said paragraph, ceased to satisfy the requirements prescribed in said paragraph or ceased to fall under the category of foreign corporation prescribed in the relevant item, the corporation shall, without delay on or after the day on which it has ceased to satisfy said requirements or to fall under said category, as specified by Cabinet Order,

submit a notification to that effect to the competent district director and also give notice to that effect to the party to which the certificate shall be presented.

- (3) Where the competent district director finds that a corporation listed in the items of paragraph (1) has, after obtaining a certificate prescribed in said paragraph, ceased to satisfy the requirements prescribed in said paragraph or ceased to fall under the category of foreign corporation prescribed in the relevant item, the director shall give notice to that effect, in writing, to the corporation that obtained the certificate.
- (4) In the case referred to in the preceding paragraph, the person who has received a notice prescribed in said paragraph shall, without delay on or after the day on which the person has received the notice, give notice to the party to which the certificate prescribed in paragraph (1) shall be presented, to the effect that the person has received the notice.
- (5) Having received a notification pursuant to the provisions of paragraph (2) or given a notice pursuant to the provisions of paragraph (3), the competent district director shall, as specified by Ordinance of the Ministry of Finance, issue a public notice regarding the name of the corporation that has submitted the notification or has received the notice, and any other relevant matters specified by Ordinance of the Ministry of Finance.
- (6) The certificate prescribed in paragraph (1) shall lose its effect in the following cases:
 - (i) Where the validity period of the certificate set by the competent district director has expired.
 - (ii) Where a public notice has been issued pursuant to the provisions of the preceding paragraph.

(Special Provisions on Taxation of Interest, etc. from Trust Property)

Article 180-2 (1) Where a trust company that is a foreign corporation (including a financial institution prescribed in Article 1, paragraph (1) (Approval for Additional Operations) of the Act on Additional Operation, etc. of Trust Business by Financial Institutions that is engaged in trust business prescribed in said paragraph; hereinafter referred to as a "foreign trust company" in the following paragraph) has caused the person who pays domestic source income listed in Article 161, item (iv) (excluding (c) of said item) or item (v) (Domestic Source Income) with respect to the public and corporate bonds, etc. prescribed in Article 176, paragraph (1) (Special Provisions on Taxation of Interest, etc. from Trust Property) that are included in the trust property under a securities investment trust prescribed in said paragraph for which the trust company has accepted the position of trustee, to record, in the books that the person keeps, the fact that said public and corporate bonds, etc. are included in said trust property, as well as other matters specified by Ordinance of the Ministry of

Finance, the provisions of Article 7, paragraph (1), item (v) (Scope of a Foreign Corporation's Taxable Income), Article 178 (Tax Base for a Foreign Corporation's Income Tax), and Article 179 (Tax Rate for a Foreign Corporation's Income Tax) shall not apply to said domestic source income from said government or company bond, etc. to be paid during the period when the recordation of said matters regarding the public and corporate bonds, etc. remain in the books.

- (2) Where a foreign trust company has caused the person who pays domestic source income listed in Article 161, item (iv) (excluding (c) of said item), item (v) or item (xii) with respect to the public and corporate bonds, etc. prescribed in Article 176, paragraph (2) that are included in the trust property under a retirement pension trust prescribed in said paragraph for which the trust company has accepted the position of trustee, to record, in the books that the person keeps, the fact that said public and corporate bonds, etc. are included in said trust property, as well as other matters specified by Ordinance of the Ministry of Finance, the provisions of Article 7, paragraph (1), item (v), Article 178, and Article 179 shall not apply to said domestic source income from said government or company bond, etc. to be paid during the period when the recordation of said matters regarding the public and corporate bonds, etc. remain in the books.
- (3) The amount of income tax paid by a foreign corporation with respect to the trust property under a group investment trust (meaning a group investment trust prescribed in Article 176, paragraph (3); hereinafter the same shall apply in this Article) for which the corporation has accepted the position of trustee (including any other tax imposed under foreign laws or regulations that is equivalent to income tax and specified by Cabinet Order prescribed in said paragraph; the same shall apply in the following paragraph) shall, as specified by Cabinet Order, be deducted from the amount of income tax on the distribution of profits from said group investment trust.
- (4) The amount of income tax paid with respect to the trust property under a group investment trust that is to be deducted pursuant to the provisions of the preceding paragraph shall, in the calculation of the amount of distribution of profits from said group investment trust, be added to the amount of distribution of profits.

Part IV Withholding

Chapter I Withholding for Interest Income and Dividend Income

(Withholding Obligation)

Article 181 (1) Omitted

- (2) In the case where dividends, etc. (excluding the distribution of proceeds from

an investment trust (excluding a bond investment trust and publicly offered bond investment trust) or a specified trust that issues beneficiary certificates) has not been paid by the day on which one year has elapsed from the day on which the payment was determined, the provisions of the preceding paragraph shall apply by deeming that the payment was made as of said day on which one year had elapsed.

(The Amount to Be Withheld)

Article 182 The amount of income tax to be withheld pursuant to the provisions of the preceding Article shall be the amount listed in each of the following items for the category set forth in the relevant item:

- (i) Interest, etc.: The amount calculated by multiplying the amount of interest, etc. by a tax rate of 15%
- (ii) Dividends, etc.: The amount calculated by multiplying the amount of dividends, etc. by a tax rate of 20%

Chapter II Withholding for Employment Income

Section 1 Withholding Obligation and the Amount to Be Withheld

(Withholding Obligation)

Article 183 (1) Omitted

(2) In the case where the bonus for a corporation's officers as prescribed in Article 2, item (xv) (Definitions) of the Corporation Tax Act has not been paid by the day on which one year has elapsed from the day on which the payment was determined, the provisions of the preceding paragraph shall apply by deeming that the payment was made as of said day on which one year has elapsed.

Chapter V Withholding on the Income of Nonresidents or Corporations

(Withholding Obligation)

Article 212 (1) A person who pays a nonresident, in Japan, domestic source income listed in Article 161, items (i)-2 to (xii) (in the case where the nonresident falls under the category listed in Article 164, paragraph (1), item (iv) (Nonresidents Without a Permanent Establishment in Japan): limited to domestic source income listed in Article 161, items (i)-3 to (xii), and excluding that specified by Cabinet Order) or a person who pays a foreign corporation, in Japan, domestic source income listed in Article 161, items (i)-2 to (vii) or items (ix) to (xii) (in the case where the foreign corporation falls under the category listed in Article 141, item (iv) of the Corporation Tax Act (Foreign Corporations Without a Permanent Establishment in Japan): limited to domestic source

income listed in Article 161, items (i)-3 to (vii) or items (ix) to (xii), and excluding the one that falls under the provisions of Article 180, paragraph (1) (Special Provisions on Taxation on Domestic Source Income Received by Foreign Corporations With a Permanent Establishment in Japan) or Article 180-2, paragraph (1) or paragraph (2) (Special Provisions on Taxation of Interest, etc. from Trust Property) and that specified by Cabinet Order) shall, at the time of payment, withhold income tax with respect to said domestic source income, and pay it to the State no later than the tenth day of the month following the month that includes the date of withholding.

- (2) Where payment of domestic source income prescribed in the preceding paragraph is made outside Japan, if the person who makes said payment has a domicile or a residence in Japan or has an office, place of business or any other place equivalent thereto in Japan, the provisions of said paragraph shall be applied by deeming that the person pay the domestic source income in Japan. In this case, the phrase "no later than the tenth day of the month" in said paragraph shall be deemed to be replaced with "no later than the last day of the month."
- (3) A person who pays a domestic corporation, in Japan, interest, etc., dividends, etc., compensation for periodic deposits, profits, margin profits, distribution of profits or monetary award listed in the items of Article 174 (Tax Base for a Domestic Corporation's Income Tax) (excluding those that fall under the provisions of Article 176, paragraph (1) or paragraph (2) (Special Provisions on Taxation of Interest, etc. from Trust Property)) shall, at the time of payment, withhold income tax with respect to said interest, etc., dividends, etc., compensation for periodic deposits, profits, margin profits, distribution of profits or monetary award, and pay it to the State no later than the tenth day of the month following the month that includes the date of withholding.
- (4) The provisions of Article 181, paragraph (2) (Where There Has Been Deemed Payment of Dividends, etc.) shall apply mutatis mutandis in the case where the provisions of paragraph (1) or the preceding paragraph shall apply, and the provisions of Article 183, paragraph (2) (Where There Has Been Deemed Payment of Bonus) shall apply mutatis mutandis in the case where paragraph (1) shall apply.
- (5) With respect to domestic source income listed in Article 161, item (i)-2 to be distributed as prescribed in said paragraph, in the case where a nonresident or foreign corporation that is a partner engaged in a partnership contract prescribed in said item (including a person similar thereto who is specified by Cabinet Order) receives monies or any other assets (hereinafter referred to as "monies, etc." in this paragraph) as the domestic source income arising during the accounting period specified in said partnership contract or any other period similar thereto (in the case where such period is longer than one year: each

term set by dividing the period by one year each since the first day of the period (including the last term that is shorter than one year, if any); hereinafter referred to as the "accounting period" in this paragraph), the provisions of this Act shall be applied by deeming that the person who makes said distribution makes payment of the domestic source income, and deeming that payment has been made as of the day on which said monies, etc. have been paid (in the case where the monies, etc. pertaining to the domestic source income have not yet been paid within two months from the day following the end of the accounting period: as of the last day of the two-month period).

(Amount of Tax to be Withheld)

Article 213 (1) The amount of income tax to be withheld pursuant to the provisions of paragraph (1) of the preceding Article shall be the amount specified by each of the following items for the category set forth in the relevant item:

- (i) Domestic source income prescribed in paragraph (1) of the preceding Article (excluding those listed in the following item and item (iii)): The amount calculated by multiplying the amount of domestic source income (in the case of the domestic source income listed in each of the following sub-items: the amount specified in the relevant sub-item) by a tax rate of 20 percent:
 - (a) Pensions listed in Article 161, item (viii), (b) (Domestic Source Income):
The amount that remains after deducting, from the amount of pension to be paid, the amount calculated by multiplying 60,000 yen by the number of months corresponding to said amount of pension to be paid
 - (b) Monetary awards listed in Article 161, item (ix): The amount that remains after deducting 500,000 yen from the amount of monetary award (in the case where monetary award is paid in assets other than monies: the amount calculated pursuant to the method specified by Cabinet Order as the value of the property at the time of payment)
 - (c) Pensions listed in Article 161, item (x): The amount that remains after deducting, from the amount of pension to be paid under the contract prescribed in said item, the amount of insurance premiums or installment deposits paid under the relevant contract, which is calculated by the method specified by Cabinet Order as the amount corresponding to said amount of pension to be paid
- (ii) Domestic source income listed in Article 161, item (i)-3: The amount calculated by multiplying the amount of domestic source income by a tax rate of ten percent
- (iii) Domestic source income listed in Article 161, item (iv) and item (xi): The amount calculated by multiplying the amount of each of these by a tax rate of 15 percent.

- (2) The amount of income tax to be withheld pursuant to the provisions of paragraph (3) of the preceding Article shall be the amount specified by each of the following items for the category set forth in the relevant item:
- (i) Interest, etc., compensation for periodic deposits, profits or margin profits prescribed in paragraph (3) of the preceding Article: The amount calculated by multiplying the amount of each of these by a tax rate of 15 percent
 - (ii) Dividends, etc. or distribution of profits prescribed in paragraph (3) of the preceding Article: The amount calculated by the amount of each of these by a tax rate of 20 percent
 - (iii) Monetary awards prescribed in paragraph (3) of the preceding Article: The amount calculated by deducting the amount specified by Cabinet Order from the amount of monetary award (in the case where monetary award is paid in assets other than monies: the amount calculated pursuant to the method specified by Cabinet Order as the value of the property at the time of payment), and then multiplying the result by a tax rate of ten percent

(Domestic Source Income of Nonresidents that Is Exempt from Withholding)

Article 214 (1) Where a person listed in each of the following items who satisfies the requirements specified by Cabinet Order and who receives payment of domestic source income specified in the relevant item has obtained, as specified by Cabinet Order, a certificate issued by the competent district director with jurisdiction over the place for tax payment, certifying that the person who receives said payment satisfies said requirements and that the domestic source income to be received falls under the category of domestic source income specified in the relevant item, and the person has presented the certificate to the person who pays the domestic source income, the person who makes payment, notwithstanding the provisions of Article 212, paragraph (1) (Withholding Obligation), shall not be required to withhold and pay income tax from the domestic source income to be paid to the person who has presented the certificate while the certificate remains valid:

- (i) A person who falls under the category of nonresident listed in Article 164, paragraph (1), item (i) (Nonresidents With a Permanent Establishment in Japan) (in the case of a person who is a partner engaged in a partnership contract prescribed in Article 161, item (i)-2 (Domestic Source Income) (including a person similar thereto who is specified by Cabinet Order; hereinafter referred to as a "partner individual" in this paragraph); limited to such person specified by Cabinet Order): Domestic source income listed in Article 161, item (i)-2, item (ii), item (iii), item (vi), item (vii), item (viii), (a) (excluding the part pertaining to salaries) or (x) (excluding that specified by Cabinet Order)
- (ii) A person who falls under the category of a nonresident listed in Article 164,

- paragraph (1), item (ii) (in the case of a partner individual: limited to such person specified by Cabinet Order): Domestic source income specified in the preceding item, which is attributable to a business related to construction work, etc. prescribed in Article 164, paragraph (1), item (ii) that is conducted by the person in Japan
- (iii) A person who falls under the category of a nonresident listed in Article 164, paragraph (1), item (iii) (in the case of a partner individual: limited to such person specified by Cabinet Order): Domestic source income prescribed in item (i), which is attributable to a business conducted by the person in Japan through an agent, etc. prescribed in Article 164, paragraph (1), item (iii).
- (2) Where a person listed in the items of the preceding paragraph has, after obtaining a certificate prescribed in said paragraph, ceased to satisfy the requirements prescribed in said paragraph or ceased to fall under the category of a nonresident prescribed in the relevant item, the person shall, without delay on or after the day on which the person has ceased to satisfy said requirements or to fall under said category, as specified by Cabinet Order, submit a notification to that effect to the competent district director with jurisdiction over the place for tax payment and also give notice to that effect to the party to which the certificate shall be presented.
- (3) Where the competent district director with jurisdiction over the place for tax payment finds that a person listed in the items of paragraph (1) has, after obtaining a certificate prescribed in said paragraph, ceased to satisfy the requirements prescribed in said paragraph or ceased to fall under the category of nonresident prescribed in the relevant item, the director shall give notice to that effect, in writing, to the person who obtained the certificate.
- (4) In the case referred to in the preceding paragraph, the person who has received a notice prescribed in said paragraph shall, without delay on or after the day on which the person has received the notice, give notice to the party to which the certificate prescribed in paragraph (1) shall be presented, to the effect that the person has received the notice.
- (5) Having received a notification pursuant to the provisions of paragraph (2) or given a notice pursuant to the provisions of paragraph (3), the competent district director with jurisdiction over the place for tax payment shall, as specified by Ordinance of the Ministry of Finance, issue a public notice regarding the name of the person who has submitted the notification or has received the notice, and any other relevant matters specified by Ordinance of the Ministry of Finance.
- (6) The certificate prescribed in paragraph (1) shall lose its effect in the following cases:
- (i) Where the valid period of the certificate set by the competent district director with jurisdiction over the place for tax payment has expired.

(ii) Where a public notice has been issued pursuant to the provisions of the preceding paragraph.

(Special Provisions on Withholding on Salaries, etc. from the Provision of Personal Services by Nonresidents)

Article 215 Where, pursuant to the provisions of Article 212, paragraph (1) (Withholding Obligation), income tax has been withheld, as specified by Cabinet Order, from the compensation listed in Article 161, item (ii) (Domestic Source Income) of a nonresident or foreign corporation who conducts, in Japan, a business prescribed in said item, with respect to the salaries or remuneration listed in Article 161, item (viii), (a) or (c) that is to be paid for the provision of personal services out of the compensation for which income tax has been withheld from the nonresident or foreign corporation, to a nonresident who is engaged in providing said personal services, it shall be deemed that income tax has been withheld pursuant to the provisions of Article 212, paragraph (1) at the time payment of the salaries or remuneration.

Appended Table 1 Table of Public Corporations, etc. (Re. Art. 4 and 11)

| Name | Governing Act |
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| Medical care corporations (limited to social medical care corporations as prescribed in Article 42-2, paragraph (1) (Social Medical Care Corporations) of the Medical Care Act (Act No. 205 of 1948)) | Medical Care Act |
| Okinawa Development Finance Corporation | Okinawa Development Finance Corporation Act (Act No. 31 of 1972) |
| Financial Services Association | Money Lending Business Act (Act No. 32 of 1983) |
| School corporations (including a corporation established pursuant to the provisions of Article 64, paragraph (4) (Special Training Colleges and Miscellaneous Schools) of the Private School Act | Private School Act |
| Japan Finance Corporation | Companies Act and Japan Finance Corporation Act (Act No. 57 of 2007) |
| Corporate pension funds | Defined-Benefit Corporate Pension Act |
| Pension Fund Associations | Social Pension Insurance Act |
| Hazardous Materials Safety Techniques Associations | Fire Services Act (Act No. 186 of 1948) |
| Administrative Scrivener Association | Administrative Scrivener Act (Act No. 4 of 1951) |
| Fishing Industry Mutual Aid Associations | Act on Compensation for Disasters in the Fishing Industry (Act No. 158 of |

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| Federations of Fishing Industry Mutual Aid Association | 1964) |
| Fishing Industry Credit Guarantee Fund Associations | Act on Loan Security for Small and Medium Sized Fishing Businesses (Act No. 346 of 1952) |
| Fishing Vessel Insurance Associations | Act on Compensation for Damages Related to Fishing Vessels (Act No. 28 of 1952) |
| Central Society of Fishing Vessel Insurance Associations | |
| Asset-Building Funds for Wage Earners | Act on the Promotion of Asset-Building Funds for Wage Earners (Act No. 92 of 1971) |
| Light Motor Vehicle Inspection Organization | Act on Over-the-Road Shipping Vehicles (Act No. 185 of 1951) |
| Health Insurance Societies | Health Insurance Act |
| National Federation of Health Insurance Societies | |
| Nuclear Waste Management Organization of Japan | Act on the Final Disposal of Designated Radioactive Waste (Act No. 117 of 2000) |
| High Pressure Gas Safety Institute of Japan | High Pressure Gas Safety Act (Act No. 204 of 1951) |
| Regional Offshore Environmental Improvement Centers | Act on Regional Offshore Environmental Improvement Centers (Act No. 76 of 1981) |
| Incorporated public interest foundations | Act on General Incorporated Associations and General Incorporated Foundations (Act No.48 of 2006) and Act on Authorization of Incorporated Public Interest Incorporated Associations and Incorporated Public Interest Incorporated Foundations (Act No. 49 of 2006) |
| Incorporated public interest associations | |
| Social pension funds | Social Pension Insurance Act |
| Juridical persons for offenders rehabilitation | Offenders Rehabilitation Services Act (Act No. 86 of 1995) |
| Port authorities | Ports and Harbors Act |
| Japan Craft Inspection Organization | Ship Safety Act (Act No. 11 of 1933) |
| Mutual Aid Associations of National Public Service Personnel | Act on Mutual Aid Associations of National Public Service Personnel |
| Federation of Mutual Aid Associations of National Public Service Personnel | |
| Japan National Tourist Organization | Act on the Japan National Tourist Organization (Act No. 39 of 1959) |
| National Health Insurance Societies | National Health Insurance Act |
| Federation of National Health Insurance Societies | |
| National Pension Funds | National Pension Act |
| National Pension Fund Association | |

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| National university corporations | National University Corporation Act (Act No. 112 of 2003) |
| Urban renewal associations | Urban Renewal Act (Act No. 38 of 1969) |
| Japan Safe Driving Center | Act on the Japan Safe Driving Center (Act No. 57 of 1975) |
| Shiho-Shoshi Lawyers' Associations | Judicial Scrivener Act (Act No. 197 of 1950) |
| Social welfare corporations | Social Welfare Act (Act No. 45 of 1951) |
| Health Insurance Claims Review & Reimbursement Services | Act on Health Insurance Claims Review & Reimbursement Services |
| Certified Social Insurance and Labour Consultant Associations | Act on Certified Social Insurance and Labour Consultant Associations (Act No. 89 of 1968) |
| Religious corporations | Religious Corporations Act (Act No. 126 of 1951) |
| Residential area development associations | Act on Special Measures to Promote the Supply of Houses and Housing Lands in Urban Districts (Act No. 67 of 1975) |
| Sake brewers' associations | Act on the Maintenance of the Liquor Tax and on Liquor Business Associations (Act No. 7 of 1953) |
| Japan Sake Brewers' Association | |
| Federation of Sake Brewers' Associations | |
| Liquor merchants' associations | |
| All Japan Liquor Merchants' Association | |
| Federation of Liquor Merchants' Associations | |
| Commercial associations | Commercial Associations Act (Act No. 89 of 1960) |
| Chambers of Commerce | Chambers of Commerce Act (Act No. 143 of 1953) |
| Central Federation of Societies of Commerce and Industry | Commercial Associations Act |
| Commercial and industrial associations (limited to associations that do not require members to make contributions) | Act on the Organization of Small Business Associations (Act No. 185 of 1957) |
| Federation of commercial and industrial associations (limited to associations that do not require members to make contributions) | |
| Commodity futures associations | Commodity Exchange Act |
| Mutual Aid Fund for Official Casualties and Retirement of Volunteer Firefighters | Act on the Mutual Aid Association for Liability for Official Casualties and Retirement of Volunteer Firefighters (Act No. 107 of 1956) |

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| Employee organizations (limited to organizations that are corporations) | Act on Granting of Juridical Personality to Employee Organizations, etc. (Act No. 80 of 1978) |
| Vocational training corporations | Act for the Promotion of Human Resources Development |
| Credit Guarantee Corporations | Credit Guarantee Corporations Act (Act No. 196 of 1953) |
| Flood Prevention Associations | Flood Prevention Association Act (Act No. 50 of 1908) |
| Federation of Flood Prevention Associations | |
| Environmental Health Industry Associations (limited to associations that do not require members to make contributions) | Act on Coordination and Improvement of the Environmental Health Industry (Act No. 164 of 1957) |
| Federation of Environmental Health Industry Associations (limited to associations that do not require members to make contributions) | |
| Certified Public Tax Accountants' Associations | Act on Certified Public Tax Accountants (Act No. 237 of 1951) |
| Coal Mining Pension Fund | Act on Coal Mining Pension Funds |
| Association for Accident Prevention Among Seafarers | Act on Promotion of Activities to Prevent Accidents Among Seafarers (Act No. 61 of 1967) |
| Japan Health Insurance Association | Health Insurance Act |
| National Federation of Mutual Aid Associations for Municipal Personnel | Act on Mutual Aid Associations for Regional Public Officers, etc. |
| All Japan Federation of Certified Social Insurance and Labour Consultant Associations | Act on Public Consultants on Social and Labour Insurance |
| National Chamber of Agriculture | Act on Agricultural Commissions, etc. (Act No. 88 of 1951) |
| Non-life insurance rating groups | Act on Non-Life Insurance Rating Groups (Act No. 193 of 1948) |
| Corporate inter-university research institutes | National University Corporation Act |
| Mutual aid associations for members of regional assemblies | Act on Mutual Aid Associations for Regional Public Officers, etc. |
| National Association of Racing | Act on Horse Racing (Act No. 158 of 1948) |
| Japan Finance Organization for Municipal Enterprises | Act on the Japan Finance Organization for Municipal Enterprises |
| Regional governments | Regional Autonomy Act (Act No. 67 of 1947) |
| Mutual Aid Associations of Prefectural Government Personnel | Act on Mutual Aid Associations for Regional Public Officers, etc. |

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| Pension Fund Association for Local Government Officials | |
| Fund for Local Government Employees' Accident Compensation | Act on Compensation for Accidents Involving Local Public Officers (Act No. 121 of 1967) |
| Regional public housing corporations | Act on Regional Public Housing Corporations (Act No. 124 of 1965) |
| Regional public road corporations | Act on Regional Public Road Corporations (Act No. 82 of 1970) |
| Regional incorporated administrative agencies | Act on Regional Incorporated Administrative Agencies (Act No. 118 of 2003) |
| Japan Vocational Ability Development Association | Act for the Promotion of Human Resources Development |
| Japan Industrial Safety and Health Association | Act for the Prevention of Industrial Accidents Act (Act No. 118 of 1964) |
| Federation of Small Business Associations | Small and Medium-Sized Enterprise Cooperatives Act (Act No. 181 of 1949) |
| Investor Protection Funds | Financial Instruments and Exchange Act |
| Incorporated administrative agencies (limited to agencies designated by the Minister of Finance as those, the whole amount of whose stated capital or capital contributions are owned by the national or local governments, those who do not distribute their profits, surplus or any other money equivalent thereto to persons other than the national or local governments, or those equivalent thereto) | Act on General Rules for Incorporated Administrative Agencies (Act No. 103 of 1999) and the individually governing Acts prescribed in Article 1, paragraph (1) (Purpose, etc.) of said Act |
| Public land development corporations | Act on Advancement of Expansion of Public Lands (Act No. 66 of 1972) |
| Land improvement districts | Land Improvement Act (Act No. 195 of 1949) |
| Unified land improvement districts | |
| Federation of Land Improvement Associations | |
| Associations of land and house investigators | Land and House Investigators Act (Act No. 228 of 1950) |
| Land readjustment associations | Land Readjustment Act (Act No. 119 of 1954) |
| Prefectural Vocational Ability Development Associations | Act for the Promotion of Human Resources Development |
| Prefectural agricultural councils | Act on Agricultural Committees, etc. |
| Japan Federation of Gyoseishoshi Lawyers' Associations | Administrative Scrivener Act |
| Japan Workers' Housing Association | Act on the Japan Workers' Housing Association (Act No. 133 of 1966) |

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| Japan Sewage Works Agency | Act on the Japan Sewerage Works Agency (Act No. 41 of 1972) |
| Japanese Institute of Certified Public Accountants | Certified Public Accountants Act |
| Japan Legal Support Center (Houterasu) | Comprehensive Legal Support Act (Act No. 74 of 2004) |
| Japan Federation of Shiho-Shoshi Lawyers' Associations | Judicial Scrivener Act |
| Japan Chamber of Commerce and Industry | Chambers of Commerce Act |
| Japan Fire Equipment Inspection Institute | Fire Services Act |
| Promotion and Mutual Aid Corporation for Private Schools of Japan | Act on the Promotion and Mutual Aid Corporation for Private Schools of Japan (Act No. 48 of 1997) |
| Japan Federation of Certified Public Tax Accountants' Associations | Certified Public Tax Accountants Act |
| Japanese Red Cross Society | Act on the Japanese Red Cross Society (Act No. 305 of 1952) |
| Japan Racing Association | Act on the Japan Racing Association (Act No. 205 of 1954) |
| Japan Electric Meters Inspection Corporation | Act on the Japan Electric Meters Inspection Corporation (Act No. 150 of 1964) |
| Japan Federation of Land and House Investigators' Associations | Land and House Investigators Act |
| Japan Federation of Bar Associations | Attorneys Act (Act No. 205 of 1949) |
| Japan Patent Attorneys Association | Patent Attorneys Act (Act No. 49 of 2000) |
| Japan Broadcasting Corporation | Broadcasting Act (Act No. 132 of 1950) |
| Japan Federation of Pilots' Associations | Pilotage Act (Act No. 121 of 1949) |
| Associations of approved financial instruments firms | Financial Instruments and Exchange Act |
| Agricultural mutual relief associations | Agricultural Disaster Compensation Act (Act No. 185 of 1947) |
| Federation of Agricultural Mutual Relief Associations | |
| Central Union of Agricultural Cooperatives | Agricultural Co-operatives Act |
| Federation of Agricultural Cooperatives (limited to cooperatives that establish hospitals or clinics as prescribed in Article 31 (Definition of Public Medical Institutions) of the Medical Care Act and are designated by the Minister of Finance as those meeting the requirements specified by Cabinet Order) | |

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| Agriculture Credit Guarantee Fund Association | Agricultural Credit Guarantee Insurance Act (Act No. 204 of 1961) |
| Agricultural and Fishing Industry Cooperative Savings Insurance Corporation | Agricultural and Fishing Industry Cooperative Savings Insurance Act (Act No. 53 of 1973) |
| Partnerships for debt settlement | Act on Partnerships for Debt Settlement in Agricultural Communities (Act No. 21 of 1933) |
| Bar associations | Attorneys Act |
| Insurance Policyholders' Protection Corporations | Insurance Business Act |
| Pilots' associations | Pilotage Act |
| Exporters' associations (limited to associations that do not require members to make contributions) | Export and Import Transactions Act (Act No. 299 of 1952) |
| Importers' associations (limited to associations that do not require members to make contributions) | |
| Deposit Insurance Corporation of Japan | Deposit Insurance Act (Act No. 34 of 1971) |
| Labor unions (limited to unions that are corporations) | Labor Union Act (Act No. 174 of 1949) |
| Industrial Safety and Health Association | Act on Organizations for the Prevention of Industrial Accidents[@@] |