

# Corporation Tax Act (Limited to the provisions related to foreign corporations)

(Act No. 34 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 are as prescribed respectively in those items:

- (i) in Japan: These mean in the region where this Act is enforced.
- (ii) outside Japan: These mean outside the region where this Act is enforced.
- (iii) domestic corporation: These mean a corporation that has its head office or principal office in Japan.
- (iv) foreign corporation: These mean a corporation that is not a domestic corporation.
- (v) public service corporation: These mean any of the corporations listed in Appended Table 1.
- (vi) corporation in the public interest, etc.: These mean any of the corporations listed in Appended Table 2.
- (vii) cooperative, etc.: This means any of the corporations listed in Appended Table 3.
- (viii) association or foundation without juridical personality: These mean an association or foundation that is not a juridical person and that has special provisions concerning the representative or administrator.
- (ix) ordinary corporation: These mean a corporation other than those listed in items (v) through (vii), excluding any association or foundation without a juridical personality, etc.
- (ix)-2 non-profit corporation: These mean a general incorporated association or general incorporated foundation (excluding public interest incorporated associations or public interest incorporated foundations) that falls under any of the following:
  - (a) A corporation whose purpose is not to obtain profit from its business or to distribute any of the profit it has obtained, and whose organization is specified by Cabinet Order as being proper for the operation of its business
  - (b) A corporation that utilizes membership fees received from its members and conducts its business in order to obtain a benefit common to those members, and whose organization is specified by Cabinet Order as being proper for the operation of its business

- (x) family company: These mean a company that has three or fewer shareholders, etc. (excluding a company that holds shares or capital contributions in itself) with whom an individual or a corporation that holds shares or capital contributions accounting for more than 50 percent of the total number or total amount of the issued shares of or capital contributions to the company (excluding shares or capital contributions it holds in itself) has a special relationship as specified by Cabinet Order.
- (xi) acquired corporation: These mean a corporation whose assets and liabilities were transferred to another corporation as a result of a merger.
- (xii) acquiring corporation: These mean a corporation that has received a transfer of assets and liabilities from an acquired corporation as a result of a merger.
- (xii)-2 splitting corporation: These mean a corporation whose assets and liabilities were transferred to another corporation as a result of a company split.
- (xii)-3 succeeding corporation in a company split: These mean a corporation that received a transfer of assets and liabilities from a splitting corporation as a result of a company split.
- (xii)-4 corporation making a capital contribution in kind: These mean a corporation whose assets and/or liabilities were transferred to another corporation as a result of a contribution in kind to the capital of other corporation.
- (xii)-5 corporation receiving a capital contribution in kind: These mean a corporation that has received a transfer of assets and/or liabilities from a corporation making a capital contribution in kind as a result of a contribution in kind to its capital.
- (xii)-6 corporation effecting a post-formation contribution : These mean a corporation whose assets and/or liabilities were transferred to another corporation as a result of a post-formation contribution (meaning a transfer of assets or liabilities based on a contract concerning the acts listed in Article 467, paragraph (1), item (v) (Approvals of Transfer of Business) of the Companies Act (Act No. 86 of 2005) or Article 62-2, paragraph (1), item (iv) (Transfer of Business) of the Insurance Business Act (Act No. 105 of 1995); the same applies in the following item and item (xii)-15).
- (xii)-6-2 corporation receiving a post-formation contribution): These mean a corporation that received a transfer of assets or assets and liabilities from a transferring corporation in a post-formation contribution, as a result of a post-formation contribution of assets and/or liabilities.
- (xii)-6-3 wholly owned subsidiary corporation in a share exchange: These mean a corporation that has issued shares and had another corporation acquire the issued shares held by its shareholders as a result of a share exchange.

- (xii)-6-4 wholly owning parent corporation in a share exchange: These mean a corporation that has come to hold the whole of another corporation's issued shares by acquiring the corporation's shares as a result of a share exchange.
- (xii)-6-5 wholly owned subsidiary corporation in a share transfer: These mean a corporation that has issued shares and had a corporation established through a share transfer acquire the issued shares held by its shareholders as a result of the share transfer.
- (xii)-7 wholly owning parent corporation in a share transfer: These mean a corporation established through a share transfer that has acquired the whole of another corporation's issued shares as a result of the share transfer.
- (xii)-7-2 consolidated parent corporation: These mean the first domestic corporation as prescribed in Article 4-2 (Consolidated Taxpayer) that has obtained the approval set forth in the Article.
- (xii)-7-3 consolidated subsidiary corporation: These mean the second domestic corporation as prescribed in Article 4-2 that has obtained the approval set forth in the Article.
- (xii)-7-4 consolidated corporation: These mean a consolidated parent corporation or a consolidated subsidiary corporation that has a consolidated full controlling interest in the consolidated parent corporation.
- (xii)-7-5 consolidated full controlling interest: These mean a full controlling interest as prescribed in Article 4-2 between a consolidated parent corporation and a consolidated subsidiary corporation or an interest between consolidated subsidiary corporations that have a full controlling interest in the consolidated parent corporation.
- (xii)-8 qualified merger: These mean a merger that falls under any of the following, in which the shareholders, etc. of an acquired corporation do not receive the delivery of assets other than either the acquiring corporation's shares (meaning shares in or capital contributions to the acquiring corporation) or the acquiring parent corporation's shares (meaning shares in or capital contributions to a corporation that has a relationship with an acquiring corporation as specified by Cabinet Order as a relationship whereby the corporation holds the whole of the issued shares in or made the whole of the capital contributions to the acquiring corporation (excluding shares that the acquiring corporation holds in itself or capital contributions made by the acquiring corporation; hereinafter referred to as the "issued shares, etc." in this Article)) or capital contributions (such assets exclude monies or other assets to be delivered as a dividend, etc. of surplus to the shareholders, etc. (meaning a dividend of surplus, dividend of profit, or distribution of surplus pertaining to shares or capital contributions; the same applies in item (xii)-11) and monies or other assets to be delivered to the shareholders, etc. who oppose the merger as the consideration based on

the demand that their shares be purchased from them):

- (a) A merger in the case where either the acquired corporation or the acquiring corporation (where the merger aims to establish a corporation (hereinafter referred to as a "consolidation-type merger" in this item), either one acquired corporation or the other acquired corporation) has a relationship whereby one of the corporations holds directly or indirectly the whole of the issued shares, etc. of the other corporation or any other relationship as specified by Cabinet Order
- (b) A merger in the case where either the acquired corporation or the acquiring corporation (where the merger falls under the category of a consolidation-type merger, either one acquired corporation or the other acquired corporation) has a relationship whereby one of the corporations holds directly or indirectly more than 50 percent but less than 100 percent of the total number (or total amount in the case of capital contributions; hereinafter the same applies up to item (xii)-16) of the issued shares (including capital contributions; hereinafter the same applies up to item (xii)-16) of the other corporation or any other relationship as specified by Cabinet Order, and which meets all of the following requirements:
  - 1. That approximately 80 percent or more of the total number of employees of the acquired corporation as of immediately prior to the merger are expected to engage in the business of the acquiring corporation after the merger (in the case where, following the merger in question, a qualified merger, is expected to be effected, wherein the acquiring corporation in the first merger is to become the acquired corporation in the second, that the number of employees are expected to engage in the business of the acquiring corporation after the merger and then engage in the business of the acquiring corporation involved in the qualified merger thereafter).
  - 2. That the main business conducted by the acquired corporation prior to the merger is expected to be conducted on a continuous basis by the acquiring corporation after the merger (in the case where, following the merger in question, a qualified merger, is expected to be effected, wherein the acquiring corporation in the first merger is to become the acquired corporation in the second, that the main business is expected to be conducted by the acquiring corporation after the merger and then be conducted on a continuous basis by the acquiring corporation involved in the qualified merger thereafter).
- (c) A merger specified by Cabinet Order as a merger to allow the acquired corporation and the acquiring corporation (where the merger falls under the category of a consolidation-type merger, for one acquired corporation and another acquired corporation) to conduct business jointly

(xii)-9 company split by split-off: These mean a company split in the case where the whole of the shares or other assets of a succeeding corporation in a company split that a splitting corporation receives as a result of the company split (referred to as the "assets as a consideration for a split" in the following item and item (xii)-11) are delivered to the shareholders, etc. of the splitting corporation as of the date of the company split.

(xii)-10 company split by spin-off: These mean a company split in the case where the assets as a consideration for a split that a splitting corporation receives as a result of the company split are not delivered to the shareholders, etc. of the splitting corporation as of the date of the company split.

(xii)-11 qualified company split: These mean a company split falling under any of the following (in the case of a company split by split-off, limited to a company split in which the shareholders, etc. of the splitting corporation do not receive the delivery of assets other than either the shares of the succeeding corporation in a company split or the shares of the succeeding parent corporation (meaning the shares of a corporation that has a relationship with the succeeding corporation that is specified by Cabinet Order as being a relationship whereby the corporation holds the whole of the issued shares, etc. of the succeeding corporation; hereinafter the same applies in this item) (such assets exclude monies or other assets other than the assets as a consideration for the split delivered as a dividend, etc. of surplus to the shareholders, etc.) but receive the shares, in accordance with the rate of the number of the shares of the splitting corporation that they hold, and in the case of a company split by spin-off, limited to a company split in which a splitting corporation does not receive the delivery of assets other than either the shares of the succeeding corporation in a company split or the shares of the succeeding parent corporation in a company split):

(a) A company split in the case where either the splitting corporation or the succeeding corporation in a company split has a relationship whereby one of the corporations holds directly or indirectly the whole of the issued shares, etc. of the other corporation, or any other relationship as specified by Cabinet Order

(b) A company split in the case where either the splitting corporation or the succeeding corporation in a company split has a relationship whereby one of the corporations holds directly or indirectly more than 50 percent but less than 100 percent of the total number of the issued shares, etc. of the other corporation, or any other relationship as specified by Cabinet Order, and which meets all of the following requirements:

1. That the major assets and liabilities pertaining to the business succeeded to in a company split (meaning the part of a business conducted by the splitting corporation prior to the company split that

is to be conducted by the succeeding corporation in a company split, as a result of the company split; the same applies in (b)) have been transferred to the succeeding corporation in a company split as a result of the company split (in the case where, following the company split in question, a qualified merger is expected to be effected wherein the succeeding corporation in the company split is to become an acquired corporation, that the major assets and liabilities are expected to be transferred to the succeeding corporation in a company split as a result of the company split and then to be transferred to the acquiring corporation involved in the qualified merger as a result of the qualified merger).

2. That approximately 80 percent or more of the total number of employees engaged in the business succeeded to as of immediately prior to the company split are expected to engage in the business of the succeeding corporation in a company split after the company split (in the case where, following the company split in question, a qualified merger is expected to be effected wherein the succeeding corporation in the company split is to become an acquired corporation, that the number of employees are expected to engage in the business of the succeeding corporation in a company split after the company split and then engage in the business of the acquiring corporation involved in the qualified merger thereafter).

3. That the business succeeded to in a company split is expected to be conducted on a continuous basis by the succeeding corporation in a company split after the company split (in the case where, following the company split in question, a qualified merger is expected to be effected wherein the succeeding corporation in the company split is to become an acquired corporation, that the business succeeded to in the company split is expected to be conducted by the succeeding corporation in a company split after the company split and then be conducted on a continuous basis by the acquiring corporation involved in the qualified merger thereafter).

(c) A company split specified by Cabinet Order as being a company split to allow the splitting corporation and the succeeding corporation in a company split (where the company split aims to establish a corporation, for one splitting corporation and another splitting corporation) to conduct business jointly

(xii)-12 qualified company split by split-off: These mean a company split by split-off that falls under the category of qualified company split.

(xii)-13 qualified company split by spin-off: These mean a company split by spin-off that falls under the category of qualified company split.

(xii)-14 qualified contribution in kind: These mean a contribution in kind to the capital of the receiving corporation (excluding the transfer of assets or liabilities specified by Cabinet Order as being assets or liabilities located in Japan transferred to a foreign corporation and the delivery of bonds with share options resulting from the exercise of share options attached to bonds with share options, and limited to a contribution in kind in which only the shares of the corporation receiving a capital contribution in kind are delivered to a corporation making a capital contribution in kind) that falls under either of the following:

(a) A contribution in kind to the capital of the receiving corporation in the case where either the corporation making a capital contribution in kind or the corporation receiving a capital contribution in kind has a relationship whereby one of the corporations holds directly or indirectly the whole of the issued shares, etc. of the other corporation, or any other relationship as specified by Cabinet Order

(b) A contribution in kind to the capital of the receiving corporation in the case where either the corporation making a capital contribution in kind or the corporation receiving a capital contribution in kind has a relationship whereby one of the corporations holds directly or indirectly more than 50 percent but less than 100 percent of the total number of the issued shares of the other corporation, or any other relationship as specified by Cabinet Order, and which meets all the following requirements:

1. That the major assets and liabilities pertaining to the business contributed in a contribution in kind (meaning the part of a business conducted by the corporation making a capital contribution in kind prior to the contribution in kind that is to be conducted by the corporation receiving a capital contribution in kind as a result of the contribution in kind; the same applies in (b)) have been transferred to the corporation making a capital contribution in kind as a result of the contribution in kind (in the case where, following the contribution in question, a qualified merger, wherein the corporation receiving a capital contribution in kind is an acquired corporation, is expected to be effected wherein the receiving corporation of the contribution in kind is to become an acquired corporation, that the major assets and liabilities are expected to be transferred to the corporation receiving a capital contribution in kind as a result of the contribution in kind and then to be transferred to the acquiring corporation involved in the qualified merger, as a result of the qualified merger).
2. That approximately 80 percent or more of the total number of employees engaged in the business contributed in a contribution in kind as of immediately prior to the contribution are expected to engage in the

business of the corporation receiving a capital contribution in kind after the contribution in kind (in the case where, following the contribution in question, a qualified merger is expected to be effected wherein the receiving corporation of the contribution in kind is to become an acquired corporation, that the number of employees are expected to engage in the business of the corporation receiving a capital contribution in kind after the contribution in kind and then engage in the business of the acquiring corporation involved in the qualified merger thereafter).

3. That the business contributed in a contribution in kind is expected to be conducted on a continuous basis by the corporation receiving a capital contribution in kind after the contribution in kind (in the case where, following the contribution in question, a qualified merger is expected to be effected wherein the receiving corporation of the contribution in kind is to become an acquired corporation, that the business contributed in the contribution in kind is expected to be conducted by the corporation receiving a capital contribution in kind after the contribution and then to be conducted on a continuous basis by the acquiring corporation involved in the qualified merger thereafter).
- (c) A contribution in kind to the capital of the receiving corporation that is specified by Cabinet Order as being a contribution in kind to allow for the corporation making a capital contribution in kind and the corporation receiving a capital contribution in kind (where the contribution in kind aims to establish a corporation, for one corporation making a capital contribution in kind and any other corporation making a capital contribution in kind) to conduct business jointly
- (xii)-15 qualified post-formation contribution: These mean a post-formation contribution acquisition of assets and/or liabilities that meets the requirement that the transferring corporation holds the whole of the issued shares, etc. of the transferee corporation, and any other requirements as specified by Cabinet Order (excluding a post-formation contribution acquisition of assets and/or liabilities in which the assets or liabilities specified by Cabinet Order as prescribed in the preceding item are transferred to a foreign corporation).
- (xii)-16 qualified share exchange: These mean a share exchange that falls under any of the following, in which shareholders of a wholly owned subsidiary corporation in the share exchange do not receive the delivery of assets other than either the shares of the wholly owning parent corporation in the share exchange or the shares of the fully controlling parent corporation in the share exchange (meaning the shares of a corporation that has a relationship with the wholly owning parent corporation that is

specified by Cabinet Order as being a relationship whereby the corporation holds the whole of the issued shares, etc. of the wholly owning parent corporation) (such assets exclude monies or other assets to be delivered as a dividend of surplus to the shareholders and monies or other assets to be delivered to the shareholders who oppose the share exchange as the consideration based on their demand that their shares be purchased from them):

- (a) A share exchange in the case where the wholly owned subsidiary corporation in the share exchange and the wholly owning parent corporation in the share exchange have a relationship whereby the whole of each of the corporations' issued shares, etc. are held directly or indirectly by the same person, or any other relationship as specified by Cabinet Order
- (b) A share exchange in the case where either the wholly owned subsidiary corporation in the share exchange or the wholly owning parent corporation in the share exchange has a relationship whereby one of the corporations holds directly or indirectly more than 50 percent but less than 100 percent of the total number of the issued shares, etc. of the other corporation, or any other relationship as specified by Cabinet Order, and which meets all of the following requirements:
  1. That approximately 80 percent or more of the total number of employees of the wholly owned subsidiary corporation in the share exchange as of immediately prior to the share exchange are expected to continue to be engaged in the business of the wholly owned subsidiary corporation in the share exchange (in the case where, following the share exchange in question, a qualified merger, qualified company split, qualified contribution in kind, or qualified post-formation contribution acquisition that has taken is expected to be effected, wherein the wholly owned subsidiary corporation in the share exchange is to become the acquired corporation, splitting corporation, corporation making a capital contribution in kind, or transferring corporation (hereinafter referred to as an "acquired corporation, etc." in this item and the following item) (hereinafter such qualified merger, qualified company split, qualified contribution in kind, or qualified post-formation contribution is referred to as a "qualified organizational restructuring" in this item and the following item), that the whole or a part of the number of employees are expected to be absorbed by the acquiring corporation, succeeding corporation in a company split, corporation receiving a capital contribution in kind, or transferee corporation (hereinafter referred to as a "acquiring corporation, etc." in this item and the following item), that the portion of the number of

employees who are absorbed by the acquiring corporation, etc. (referred to as "employees absorbed in the merger, etc." in 1.) are expected to engage in the business of the wholly owned subsidiary corporation in the share exchange after the share exchange and then to engage in the business of the acquired corporation, etc. after the qualified organizational restructuring, and that the remaining number of the employees other than the employees absorbed in the merger, etc. are expected to continue to be engaged in the business of the wholly owned subsidiary corporation in the share exchange after the qualified organizational restructuring.

2. That the main business conducted by the wholly owned subsidiary corporation in a share exchange prior to the share exchange is expected to be conducted on a continuous basis by the wholly owned subsidiary corporation in a share exchange (where the main business is expected to be transferred as a result of a qualified organizational restructuring, wherein the wholly owned subsidiary corporation in the share exchange is to become the acquired corporation, etc., that the main business is expected to be conducted by the wholly owned subsidiary corporation in the share exchange after the share exchange and then to be conducted on a continuous basis by the acquiring corporation involved in the qualified organizational restructuring thereafter).

(c) A share exchange specified by Cabinet Order as being a share exchange to allow the wholly owned subsidiary corporation in the share exchange and the wholly owning parent corporation in the share exchange to conduct business jointly

(xii)-17 qualified share transfer: These mean a share transfer that falls under any of the following, in which the shareholders of the wholly owned subsidiary corporation in a share transfer do not receive the delivery of any assets other than the shares of the wholly owning parent corporation in the share transfer (such assets exclude monies or any other assets to be delivered to the shareholders who oppose the share transfer as the consideration based on their demand that their shares be purchased from them):

(a) A share transfer in the case where one wholly owned subsidiary corporation in the share transfer and a second wholly owned subsidiary corporation in the share transfer (hereinafter referred to as "the second wholly owned subsidiary corporation in the share transfer" in this item) have a relationship whereby the whole of each of the corporations' issued shares (excluding the shares they hold in themselves) are held directly or indirectly by the same person, or any other relationship as specified by Cabinet Order, or a share transfer in which only one corporation becomes

the wholly owned subsidiary corporation in the share transfer and which is specified by Cabinet Order

(b) A share transfer in the case where either one wholly owned subsidiary corporation in a share transfer or a second wholly owned subsidiary corporation in the share transfer has a relationship whereby one of the corporations holds directly or indirectly more than 50 percent but less than 100 percent of the total number of the issued shares of the other corporation, or any other relationship as specified by Cabinet Order, and which meets all of the following requirements:

1. That approximately 80 percent or more of the total number of employees of a wholly owned subsidiary corporation in a share transfer as of immediately prior to the share transfer are expected to continue to be engaged in the business of the wholly owned subsidiary corporation in the share transfer (in the case where, following the share transfer in question, a qualified organizational restructuring is expected to be effected wherein the wholly owned subsidiary corporation in the share transfer is to become the acquired corporation, etc., that the whole or a part of the number of employees are expected to be absorbed by the acquiring corporation, etc. involved in the qualified organizational restructuring, that the portion of the number of employees who are absorbed by the acquiring corporation, etc. (referred to as "employees absorbed in the merger, etc." in 1.) are expected to be engaged in the business of the wholly owned subsidiary corporation in the share transfer after the share transfer and then to be engaged in the business of the acquired corporation, etc. after the qualified organizational restructuring, and that the rest of the number of employees other than the employees absorbed in the merger, etc. are expected to continue to be engaged in the business of the wholly owned subsidiary corporation in the share transfer after the qualified organizational restructuring.
2. That the main business conducted by the wholly owned subsidiary corporation in a share transfer prior to the share transfer is expected to be conducted on a continuous basis by the wholly owned subsidiary corporation in the share transfer (in the case where, following the share transfer in question, the main business is expected to be transferred as a result of a qualified organizational restructuring wherein the wholly owned subsidiary corporation in a share transfer is to become the acquired corporation, etc., that the main business is expected to be conducted by the wholly owned subsidiary corporation in the share transfer after the share transfer and then to be conducted on a continuous basis by the acquiring corporation involved in the

qualified organizational restructuring thereafter).

- (c) A share transfer specified by Cabinet Order as being a share transfer to allow the wholly owned subsidiary corporation in the share transfer and another wholly owned subsidiary corporation in the share transfer to conduct business jointly
- (xiii) profit-making business: These mean a sales business, manufacturing business or any other business as specified by Cabinet Order that is conducted on a continuous basis by maintaining a workplace.
- (xiv) shareholder, etc.: These mean a shareholder, member of a general partnership company, limited partnership company, or limited liability company, or any other contributor to a corporation.
- (xv) officer: These mean an executive officer, operating officer, accounting advisor, auditor, director, inspector, or liquidator, and any person other than those persons who engages in the management of a corporation and is specified by Cabinet Order.
- (xvi) amount of stated capital, etc.: These mean the amount specified by Cabinet Order as the amount of capital contributions from shareholders, etc. received by a corporation (excluding a consolidated corporation for a consolidated business year liable for corporation tax on consolidated income for each consolidated business year (hereinafter referred to as a "corporation subject to corporation tax on consolidated income" in this Article)).
- (xvii) amount of consolidated stated capital, etc.: These mean the sum of the amounts of consolidated individual stated capital, etc. of consolidated corporations (limited to corporations subject to corporation tax on consolidated income).
- (xvii)-2 amount of consolidated individual stated capital, etc.: These mean the amount specified by Cabinet Order as the amount that a consolidated corporation (limited to a corporation subject to corporation tax on consolidated income) has received from shareholders, etc. as capital contributions.
- (xviii) amount of retained earnings: These mean the amount specified by Cabinet Order as the amount of income of a corporation (excluding a corporation subject to corporation tax on consolidated income) (such amount of income includes individual income as prescribed in Article 81-18, paragraph (1) (Calculation of Individually Attributed Amount of Consolidated Corporation Tax) that has been reserved.
- (xviii)-2 amount of consolidated retained earnings: These mean the amount specified by Cabinet Order as the amount of consolidated income (including the amount of income) of a consolidated corporation (limited to a corporation subject to corporation tax on consolidated income) that has been reserved.
- (xviii)-3 amount of consolidated individual retained earnings: These mean the

- amount specified by Cabinet Order as the amount of consolidated retained earnings to be attributed to respective consolidated corporations (limited to corporations subject to corporation tax on consolidated income).
- (xviii)-4 consolidated income: These mean the income of a consolidated parent corporation and other consolidated subsidiary corporations.
- (xix) net operating loss: These mean, in the case where deductible expenses for a business year exceed gross profits for the business year, when calculating the amount of income for each business year, the excess amount of the loss.
- (xix)-2 amount of consolidated operating loss: These mean, in the case where deductible expenses for a consolidated business year exceed gross profits for the consolidated business year, in the calculation of the amount of income for each consolidated business year, the excess amount of the loss.
- (xx) inventories: These mean commodities, products, semi-finished products, products in progress, raw materials or other assets which are specified by Cabinet Order as those to be inventoried (excluding securities and commodities for short-term trading as prescribed in Article 61, paragraph (1) (Inclusion in Gross Profits or Deductible Expenses of Capital Gain or Losses and Gains or Losses on the Fair Valuation of Commodities for Short-Term Trading)).
- (xxi) securities: These mean the securities prescribed in Article 2, paragraph (1) (Definition) of the Financial Instruments and Exchange Act (Act No. 25 of 1948) and others equivalent thereto that are specified by Cabinet Order (excluding the shares that a corporation, etc. holds in itself and the capital contributions made thereby, and those related to derivative transactions as prescribed in Article 61-5, paragraph (1) (Inclusion, etc. in Gross Profits or Deductible Expenses of the Amount Equivalent to Profit or Loss on Derivative Transactions)).
- (xxii) fixed assets: These mean land (including any right on land), depreciable assets, telephone subscription rights, or other assets as specified by Cabinet Order.
- (xxiii) depreciable assets: This means the buildings, structures, machinery, devices, ships, vehicles and equipment, tools, apparatus and appliances, mining rights, or other assets which are specified by Cabinet Order as assets to be depreciated.
- (xxiv) deferred assets: These mean expenses paid by a corporation, with the effects of the payment thereof lasting one year or longer after the day on which the payment was made and which are specified by Cabinet Order.
- (xxv) account for as atax deductibles: These mean that a corporation accounts for an amount as an expense or a loss in the final settlement of the accounts.
- (xxvi) jointly operated trust : These mean a money trust operated by a trust company (including a financial institution as prescribed in Article 1,

paragraph (1) (Permission for Concurrent Operations) of the Act on the Concurrent Operation, etc. of a Trust Business by a Financial Institution (Act No. 43 of 1943) that is engaged in a trust business as prescribed in the paragraph under the Act) in which the trust company jointly manages the trust property of multiple settlors who do not act in concert (excluding an investment trust operated without instructions from the settlor as 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 the Article; the same applies in the following item and item (xxix), (b)), and other trusts specified by Cabinet Order as those with settlors who are substantially small in number).

(xxvii) securities investment trust: These 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.

(xxviii) public and company bond investment trust: These mean a securities investment trust that has as its purpose the management of trust property for investment in government bonds or company bonds (including bonds that a corporation other than a company issues under special Acts) and in which the trust property is not managed for investment in shares or capital contributions.

(xxix) group investment trust: These mean trusts listed as follows:

(a) A jointly operated trust

(b) An investment trust as prescribed in Article 2, paragraph (3) of the Act on Investment Trusts and Investment Corporations (limited to those listed as follows) and a foreign investment trust:

1. A securities investment trust as prescribed in Article 2, paragraph (4) of the Act on Investment Trusts and Investment Corporations

2. A trust specified by Cabinet Order as a trust for which beneficial rights are publicly offered, as prescribed in Article 2, paragraph (8) of the Act on Investment Trusts and Investment Corporations, by the trustee (in the case of an investment trust operated with instructions from the settlor as prescribed in paragraph (1) of the Article, by the settlor) mainly in Japan

(c) A specified trust that issues beneficiary certificates (meaning a trust that issues beneficiary certificates as prescribed in Article 185, paragraph (3) (Provisions on Terms of Trust Concerning the Issuance of Beneficiary Certificates) of the Trust Act (Act No. 108 of 2006) that meets all of the following requirements (excluding a trust listed in (a) and a trust listed in (c) of the following item)):

1. That the trust has been assumed by a corporation that has obtained

approval from the district director of the tax office to the effect that the corporation meets the requirements specified by Cabinet Order for carrying out trust affairs as specified by Cabinet Order (referred to as an "approved trustee" in 1.) (excluding the case where the approved trustee (including an approved trustee who has succeeded to the trust affairs upon becoming the trustee of the trust that issues beneficiary certificates) had its approval rescinded and where any person other than the approved trustee has become a trustee of the trust that issues beneficiary certificates, by the day preceding the first day of the accounting period).

2. That there is a provision for trust deeds to the effect that the rate of the amount calculated as specified by Cabinet Order as the amount of undistributed profit as of the end of each accounting period against the total amount of the principal as of the time (referred to as the "rate of retained profit" in 3.) do not exceed the rate specified by Cabinet Order.
3. That the calculated rate of retained profit has not exceeded the rate specified by Cabinet Order as prescribed in 2., at any time specified by Cabinet Order as the timing for calculating the rate of retained profit, prior to the start of each accounting period.
4. That the accounting period does not exceed one year.
5. That the trust has never fallen under the category of trusts for which there are no beneficiaries (limited to those who actually hold the rights of a beneficiary).

(xxix)-2 trust subject to corporate taxation: These mean the trusts listed as follows (excluding a group investment trust, a retirement pension trust as prescribed in Article 12, paragraph (4), item (i) (Vesting of Assets and Liabilities in Trust Property and Profits and Expenses to Be Attributed to Trust Property) and a specified charitable trust as prescribed in item (ii) of the paragraph):

- (a) A trust for which there is a provision to the effect that securities which certify beneficial rights are to be issued
- (b) A trust for which there are no beneficiaries as prescribed in Article 12, paragraph (1) (including those deemed to be beneficiaries as prescribed in the paragraph pursuant to the provisions of paragraph (2) of the Article)
- (c) A trust for which a corporation (excluding a public service corporation and a corporation in the public interest, etc.) becomes a settlor (such trust excludes a trust for which only the assets included in a trust property are entrusted) and which meets any of the following requirements:
  1. That the trust was expected to fall under the category specified by Cabinet Order as a trust for which the whole or a significant part of the corporation's business (limited to the portion whose transfer

requires a resolution (including what is equivalent thereto) at a shareholders' meeting of the corporation set forth in Article 467, paragraph (1) (limited to the part pertaining to item (i) or item (ii) of the Companies Act) has been entrusted, and the rate of beneficial rights obtained by shareholders, etc. of the corporation out of all of the beneficial rights of the trust exceeded 50 percent as of the time when the trust became effective (excluding the case specified by Cabinet Order as a case where the types of assets other than monies included in the trust property are almost the same).

2. That at the time when the trust became effective or a change to a provision regarding the duration of the trust (meaning the duration set by the trust deed; the same applies in 2.) became effective (referred to as the "effective time, etc." in 2.), the corporation or a person who has a special relationship thereto as specified by Cabinet Order (referred to as a "person with a special relationship (thereto)" in 2. and 3.) was the trustee and it was found that the duration after the effective time, etc. exceeded 20 years as of the effective time, etc. (including the case where neither the corporation nor a person with a special relationship thereto had been the trustee and either of them newly became the trustee and it was found that the duration thereafter exceeded 20 years as of the time of newly becoming the trustee, and excluding the case specified by Cabinet Order as the case where the management or disposition of the trust property required a long period of time by the nature thereof).

3. That the case fell under the category of cases specified by Cabinet Order as a case where the corporation or a person with a special relationship thereto was the trustee and the person with a special relationship to the corporation was a beneficiary at the time when the trust became effective, and the rate of distribution of proceeds to the person with a special relationship thereto can be changed as of that time.

(d) An investment trust as prescribed in Article 2, paragraph (3) of the Act on Investment Trusts and Investment Corporations

(e) A special purpose trust as prescribed in Article 2, paragraph (13) (Definitions) of the Act on Securitization of Assets (Act No. 105 of 1998)

(xxx) interim return: This means a return pursuant to the provisions of Article 71, paragraph (1) (Interim Return) (including the case where it is applied mutatis mutandis pursuant to Article 145, paragraph (1) (Application Mutatis Mutandis to Foreign Corporations)).

(xxxi) tax return: These mean a return pursuant to the provisions of Article 74, paragraph (1) (Final Return) (including the case where it is applied mutatis mutandis pursuant to Article 145, paragraph (1)) (including a return filed

- after the due date).
- (xxxix)-2 consolidated interim return: These mean a return pursuant to the provisions of Article 81-19, paragraph (1) (Consolidated Interim Return).
- (xxxix) consolidated tax return: These mean a return pursuant to the provisions of Article 81-22, paragraph (1) (Consolidated Final Return) (including a return filed after the due date).
- (xxxixiii) interim return for a retirement pension fund: These mean a return pursuant to the provisions of Article 88 (Interim Returns for Retirement Pension Funds) (including the case where it is applied mutatis mutandis pursuant to Article 145-5 (Application Mutatis Mutandis to Foreign Corporations)) (such returns include returns filed after the due date).
- (xxxixiv) tax return for retirement pension fund: These mean a return pursuant to the provisions of Article 89 (Final Return for a Retirement Pension Fund) (including the case where it is applied mutatis mutandis pursuant to Article 145-5) (including a return filed after the due date).
- (xxxixv) return for estimated tax due in a liquidation accounting period: These mean a return pursuant to the provisions of Article 102, paragraph (1) (Return for Estimated Tax Due on Income during a Liquidation) (including a return filed after the due date).
- (xxxixvi) return for estimated tax due on the distribution of residual property: These mean a return pursuant to the provisions of Article 103, paragraph (1) (Returns for Estimated Tax Due on Partial Distributions of Residual Property) (including a return filed after the due date).
- (xxxixvii) tax return in a liquidation: These mean a return pursuant to the provisions of Article 104, paragraph (1) (Final Returns in a Liquidation) (including a return filed after the due date).
- (xxxixviii) return filed after the due date: These mean a return filed after the due date prescribed in Article 18, paragraph (2) (Returns Filed after the Due Date) of the Act on General Rules for National Taxes (Act No. 66 of 1962).
- (xxxixix) amended return: These mean an amended return prescribed in Article 19, paragraph (3) (Amended Returns) of the Act on General Rules for National Taxes.
- (xl) blue return: These mean a return listed in item (xxx), item (xxxix), and items (xxxixiii) through (xxxixvii) and an amended return related thereto filed in a blue form pursuant to the provisions of Article 121 (Blue Returns) (including the case where it is applied mutatis mutandis pursuant to Article 146, paragraph (1) (Mutatis Mutandis Application to Foreign Corporations)).
- (xli) amount of interim payment: These mean the amount of corporation tax to be paid pursuant to the provisions of Article 76 (Payment Based on Interim Returns) (including the case where it is applied mutatis mutandis pursuant to Article 145, paragraph (1)) or Article 81-26 (Payment Based on

- Consolidated Interim Returns) (where an amended return has been filed or a reassessment has been made for the amount, the amount of corporation tax after the amended return was filed or the reassessment was made).
- (xlii) amount of estimated tax due during a liquidation: These mean the amount of corporation tax to be paid pursuant to the provisions of Article 105 (Prepayment Based on a Return for Estimated Tax Due on Income during a Liquidation) or Article 106 (Prepayment Based on a Return for Estimated Tax Due on a Partial Distribution of Residual Property) (including the amount of corporation tax to be paid based on a return filed after the due date as prescribed in these provisions or based on a determination made due to the failure to file such returns, and in the case where an amended return has been filed or a reassessment has been made for the amounts, the amount of corporation tax after the amended return was filed or the reassessment was made).
- (xliii) reassessment: These mean 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: These mean a determination pursuant to the provisions of Article 25 (Determinations) of the Act on General Rules for National Taxes, except for the cases set forth in Article 19 (Effectiveness of a Return, etc. on the Rescission of a Disposition Designating the Place for Tax Payment) and Chapter I, Section 1 (Tax Base and Calculation Thereof) of the following Part.
- (xlv) penalty tax: These mean any penalty tax as prescribed in Article 2, item (iv) (Definitions) of the Act on General Rules for National Taxes.
- (xlvi) appropriation: These mean appropriation pursuant to the provisions of Article 57, paragraph (1) (Appropriations) of the Act on General Rules for National Taxes.
- (xlvii) interest on a refund: These mean interest on a refund as prescribed in Article 58, paragraph (1) (Interest on Refunds) of the Act on General Rules for National Taxes.
- (xlviii) local tax: These mean monies to be collected by local bodies as prescribed in Article 1, paragraph (1), item (xiv) (Terminology) of the Local Tax Act (Act No. 226 of 1950) (including any equivalent monies to be collected by Tokyo Metropolis, special wards, and district-wide authorities).

## **Chapter II Taxpayers**

Article 4 (1) A domestic corporation is liable to pay corporation tax pursuant to this Act; provided, however, that a corporation in the public interest, etc. or association or foundation without juridical personality is liable only where it conducts a profit-making business, accepts the position of trustee of a trust

subject to corporate taxation, or performs retirement pension services, etc. prescribed in Article 84, paragraph (1) (Calculation of the Amount of Retirement Pension Funds).

- (2) Notwithstanding the provisions of the preceding paragraph, a public service corporation is not liable to pay corporation tax.
- (3) A foreign corporation is liable to pay corporation tax pursuant to this Act when it has domestic source income prescribed in Article 138 (Domestic Source Income) (limited to the domestic source income from a profit-making business in the case of an association or foundation without juridical personality), when it accepts the position of trustee of a trust subject to corporate taxation or when it performs retirement pension services, etc. prescribed in Article 145-3 (Calculation of the Amount of Retirement Pension Funds for Foreign Corporations).
- (4) An individual who accepts the position of trustee of a trust subject to corporate taxation is liable to pay corporation tax pursuant to this Act.

## **Chapter II-2 Consolidated Taxpayers**

(Consolidated Taxpayers)

Article 4-2 Where a first domestic corporation (limited to an ordinary corporation or a cooperative, etc.; excluding the corporations listed below) and a second domestic corporation(s) (limited to ordinary corporations; excluding a corporation under liquidation proceedings, special purpose company prescribed in Article 2, paragraph (3) of the Act on Securitization of Assets (Definitions), and any other corporation specified by Cabinet Order) in which the first domestic corporation has a full controlling interest (meaning a relationship specified by Cabinet Order as a relationship whereby one party directly or indirectly holds the whole of the issued shares of or capital contributions to the other party (excluding the shares or capital contributions held by the other party); hereinafter the same applies in this Article) have all obtained approval from the Commissioner of the National Tax Agency for paying corporation tax via such controlling domestic corporation as taxpayer, these corporations are to pay corporation tax via the controlling domestic corporation as taxpayer pursuant to this Act:

- (i) corporation under liquidation proceedings;
- (ii) corporation having a relationship with an ordinary corporation (excluding a foreign corporation) or cooperative, etc. in which such ordinary corporation or cooperative, etc. has a full controlling interest; and
- (iii) any other corporation specified by Cabinet Order.

## **Chapter II-3 Trust Subject to Corporate Taxation**

(Application of This Act to Trustees of Trust Subject to Corporate Taxation)

Article 4-6 (1)

(2) In the case referred to in the preceding paragraph, the trust assets, etc. under each trust subject to corporate taxation and the trustees' own assets, etc. are attributed to the respective persons who were deemed to be different persons pursuant to the provisions of the paragraph.

(Application of This Act to Trust Corporations)

Article 4-7 The provisions of this Act apply to a trust corporation (meaning a corporation that is a trustee of a trust subject to corporate taxation (where the trustee is an individual, the individual who is the trustee) to which the provisions of this Act are applied by deeming that the trust corporation or the individual is to be the person that the trust assets, etc. related to the trust subject to corporate taxation are attributed to pursuant to the provisions of the preceding Article; hereinafter the same applies in this Article) or a trustee of a trust subject to corporate taxation as specified as follows:

- (i) in the case where a business office, office or other place equivalent thereto (referred to as a "business office" in the following item), where a trust subject to corporate taxation is entrusted, is located in Japan, a trust corporation under the trust subject to corporate taxation is deemed to be a domestic corporation;
- (ii) in the case where a business office, where a trust subject to corporate taxation is entrusted, is not located in Japan, a trust corporation under the trust subject to corporate taxation is deemed to be a foreign corporation;
- (iii) a trust corporation (limited to a trust corporation that is not a company) is deemed to be a company;
- (iv) the consolidation of trusts is deemed to be a merger, and a trust corporation under a trust subject to corporate taxation prior to the consolidation of trusts is deemed to be included in an acquired corporation, while a trust corporation under the new trust subject to corporate taxation after the consolidation of trusts is to be included in acquiring corporations;
- (v) a split of a trust is to be included in a company split by split-off, and a trust corporation under a trust subject to corporate taxation, which transfers a part of the trust property, as a result of the split of the trust, as trust property under another trust with the same trustees or a new trust, is to be included in a splitting corporation, while a trust corporation under a trust subject to corporate taxation, which receives from another trust with the same trustees the transfer of a part of the trust property, as a result of the split of the trust, is to be included in the succeeding corporations in a company split;

- (vi) the beneficial rights under a trust subject to corporate taxation are deemed to be shares or capital contributions and the beneficiaries of a trust subject to corporate taxation are to be included in the shareholders, etc. In this case, the shares and capital contributions of a corporation which is a trustee of the trust subject to corporate taxation are deemed not to be the shares or capital contributions of a trust corporation under the trust subject to corporate taxation, and the shareholders, etc. of the corporation which is the trustee are not to be the shareholders, etc. of the trust corporation;
- (vii) a trust corporation is to have been established on the day when a trust subject to corporate taxation related to the trust corporation became effective (where multiple trust contracts are concluded based on a single agreement, on the day when the first contract was concluded, and where any trust other than a trust subject to corporate taxation has come to fall under the category of a trust subject to corporate taxation, on the day when it came to fall under the category);
- (viii) in the case where a trust under a trust subject to corporate taxation has been terminated or a beneficiary as prescribed in Article 12, paragraph (1) (Vesting of Assets and Liabilities in Trust Property and Profit and Expenses to Be Attributed to Trust Property) (including a person who is deemed to be a beneficiary as prescribed in Article 12, paragraph (1) pursuant to the provisions of paragraph (2) of the Article; referred to as a "beneficiary, etc." in the following item) has come into existence for a trust subject to corporate taxation (limited to a trust listed in Article 2, item (xxix)-2, (b) (Definition)) (excluding the case where the trust falls under the category of a trust listed in Article 2, item (xxix)-2, (a) or (c)), it is deemed that a trust corporation under those trusts subject to corporate taxation has been dissolved;
- (ix) in the case where the settlor of a trust subject to corporate taxation (excluding a trust listed in Article 2, item (xxix)-2, (b); hereinafter the same applies in this item) has entrusted their own assets, or where a trust, for which a beneficiary, etc. is deemed to hold any of the assets and liabilities included in the trust property pursuant to the provisions of Article 12, paragraph (1), has come to fall under the category of a trust subject to corporate taxation, it is deemed that capital contributions have been made to a trust corporation under those trusts subject to corporate taxation;
- (x) the distribution of proceeds from a trust subject to corporate taxation is deemed to be a dividend of surplus independent of a decrease in capital surplus, and the refund of the principal of a trust subject to corporate taxation is deemed to be a dividend of surplus resulting from a decrease in capital surplus; or
- (xi) beyond what is provided for in the preceding items, necessary matters concerning the application of the provisions of this Act to trust corporations

or beneficiaries of a trust subject to corporate taxation are specified by Cabinet Order.

### **Chapter III Scope of Taxable Income**

#### **Section 1 Scope of Taxable Income**

(Scope of a Foreign Corporation's Taxable Income)

Article 9 (1) A foreign corporation has corporation tax imposed on income for each business year with respect to income for each business year categorized as domestic source income listed in each item of Article 141 (Tax Base for a Foreign Corporation's Corporation Tax) for the category of foreign corporation listed in the relevant item.

(2) Notwithstanding the provision of the preceding paragraph, a foreign corporation (limited to an association or foundation without juridical personality) does not have corporation tax imposed on income for each business year with respect to the portion of the income categorized as domestic source income prescribed in the paragraph which has not arisen from its profit-making business.

(Taxation on the Retirement Pension Funds of Foreign Corporations Engaged in Retirement Pension Services)

Article 10-2 A foreign corporation which performs retirement pension services, etc. prescribed in Article 145-3 (Calculation of the Amount of Retirement Pension Funds for Foreign Corporations) , beyond corporation tax imposed pursuant to the provision of Article 9, paragraph (1) (Scope of a Foreign Corporation's Taxable Income), has corporation tax imposed on its retirement pension fund with respect to the retirement pension fund for each business year.

### **Part II Corporation Tax of Domestic Corporations**

#### **Chapter I Corporation Tax on Income for Each Business Year**

##### **Section 1 Tax Base and Calculation Thereof**

##### **Subsection 2 General Rules on Calculation of Amount of Income for Each Business Year**

(Calculation of Amount of Income for Each Business Year)

Article 22 (1) The amount of income of a domestic corporation for each business year is the amount that remains after deducting the amount of deductible expenses for the business year from the amount of gross profits for the business year.

(2) When calculating the amount of income of a domestic corporation for each

- business year, the amount to be included in gross profits for the business year is to be the amount of proceeds for the business year arising from the sales of assets, transfer of assets or provision of services for value or without compensation, acceptance of assets without compensation, or other transactions other than capital, etc. transactions, except as otherwise provided.
- (3) When calculating the amount of income of a domestic corporation for each business year, the amount to be included in deductible expenses in the business year is to be the amounts listed as follows, except as otherwise provided:
- (i) the amount of cost of sales, cost of completed work, and other costs equivalent thereto related to the proceeds for the business year;
  - (ii) beyond what is listed in the preceding item, the amount of selling expenses, general administrative expenses, and other expenses for the business year (excluding expenses other than the depreciation allowance for which the obligations have not been determined by the final day of the business year);  
or
  - (iii) the for the business year related to a transaction other than capital, etc. transactions
- (4) The amount of proceeds for the business year prescribed in paragraph (2) and the amounts listed in the preceding items is to be calculated in accordance with an accounting standard that is generally accepted as fair and appropriate.
- (5) The capital, etc. transactions prescribed in paragraph (2) or paragraph (3) means transactions causing an increase or decrease to the amount of stated capital, etc. of a corporation and the distribution of profits or surplus conducted by a corporation (including the distribution of monies prescribed in Article 115, paragraph (1) (Interim Dividend) of the Act on Securitization of Assets).

**Subsection 3 Calculation of Amount of Gross Profits**  
**Division 1 Dividend Received**

(Exclusion of Dividends Received from Gross Profits)

Article 23 (1) The portion of the following amount that a domestic corporation receives (excluding the amount listed in item (i) that a domestic corporation receives from a foreign corporation, corporation in the public interest, etc. or an association or foundation without juridical personality; hereinafter referred to as the "amount of dividends, etc." in this Article), which is equivalent to 50 percent of the amount of dividends, etc. pertaining to the shares, etc. (meaning shares, capital contributions, or beneficial rights; hereinafter the same applies in this Article) that fall under neither of the shares, etc. of a consolidated corporation (meaning the shares or capital contributions of a consolidated

corporation that are specified by Cabinet Order; hereinafter the same applies in this Article) nor the shares, etc. of an affiliated corporation, and the amount of dividends, etc. pertaining to the shares, etc. of an affiliated corporation is excluded from gross profits, when calculating the amount of income of the domestic corporation for each business year:

- (i) the amount of the dividend of surplus (limited to a dividend related to shares or capital contributions and excluding a dividend resulting from a decrease in capital surplus and company split by split-off), dividend of profit (excluding a dividend due to company split by split-off), or distribution of surplus (limited to distribution related to capital contributions);
  - (ii) the amount of distribution of monies prescribed in Article 115, paragraph (1) (Interim Dividend) of the Act on Securitization of Assets; and
  - (iii) the portion of the amount of distribution of proceeds from a securities investment trust other than a public and company bond investment trust, which was calculated, as specified by Cabinet Order, as the amount consisting of those listed in item (i) that are to be received from a domestic corporation.
- (2) The amount of dividends, etc. pertaining to shares, etc. of a consolidated corporation, out of the amount of dividends, etc. that a domestic corporation receives, is excluded from gross profits, when calculating the amount of income of the domestic corporation for each business year.
- (3) In the case where a domestic corporation acquired shares, etc., which are the principal for the amount of dividends, etc. receivable (excluding the amount deemed to be the amount of dividends, etc. that the domestic corporation is to receive pursuant to the provisions of paragraph (1) of the following Article; hereinafter the same applies in this paragraph), within one month prior to the base date for the payment of the amount of dividends, etc. (in the case of the distribution of proceeds from a trust, prior to the final day of the period that was used as the basis of the calculation) and then transferred the shares, etc. or other shares, etc. of the same issue within two months after the base date, the provisions of the preceding two paragraphs do not apply to the amount of dividends, etc. of the portion of the shares, etc. that is specified by Cabinet Order.
- (4) In the case referred to in paragraph (1), when there is any interest on liabilities that the domestic corporation set forth in the paragraph is to pay in the business year (such interest includes what is specified by Cabinet Order as being equivalent thereto and exclude what is to be paid to a consolidated corporation that has a consolidated full controlling interest in the domestic corporation), the amount to be excluded from gross profits, when calculating the amount of income for that business year, pursuant to the provisions of the paragraph, is to be the sum of the amounts listed as follows:

- (i) the amount equivalent to 50 percent of the amount that remains after deducting, from the sum of the amounts of dividends, etc. receivable for the business year, with regard to the shares, etc. that fall under neither the shares, etc. of a consolidated corporation nor the shares, etc. of an affiliated corporation that the domestic corporation holds, the portion of the amount of the interest on liabilities calculated, as specified by Cabinet Order, as the portion related to the shares, etc.; and
  - (ii) the amount that remains after deducting, from the sum of the amounts of dividends, etc. receivable for the business year, with regard to the shares, etc. of an affiliated corporation that the domestic corporation holds, the portion of the amount of the interest on liabilities calculated, as specified by Cabinet Order, as the portion related to the shares, etc. of the affiliated corporation.
- (5) The shares, etc. of an affiliated corporation prescribed in paragraph (1) and the preceding paragraph mean the shares or capital contributions (excluding the shares, etc. of a consolidated corporation) of another domestic corporation in the case specified by Cabinet Order as a case where a domestic corporation holds shares or capital contributions equivalent to 25 percent or more of the total number or total amount of issued shares or capital contributions of another domestic corporation (excluding a corporation in the public interest, etc. and an association or foundation without juridical personality) (such issued shares or capital contributions exclude shares that the second domestic corporation holds in itself and capital contributions it has made).
- (6) The provisions of paragraph (1) and paragraph (2) apply only in the case where a tax return contains the amount of dividends, etc. that is to be excluded from gross profits and a detailed statement concerning the calculation thereof. In this case, the amount to be excluded from gross profits pursuant to these provisions does not exceed such recorded amount.
- (7) Even in the case where a tax return without entries for the matters set forth in the preceding paragraph, with regard to the whole or a part of the amount to be excluded from gross profits pursuant to the provisions of paragraph (1) and paragraph (2), has been filed, the district director of the tax office may apply the provisions of paragraph (1) and paragraph (2), when they find any unavoidable grounds for the person's failure to make entries for such matters.
- (8) Necessary matters concerning the application of the provisions of paragraphs (1) through (3) and the provisions of paragraphs (1) through (5) in the case where the shares, etc. have been transferred as a result of a qualified merger, qualified company split, qualified contribution in kind, or qualified post-formation contribution are specified by Cabinet Order.

(The Amount Deemed to Be Dividends)

Article 24 (1) In the case where a domestic corporation that is a shareholder, etc.

of a corporation (excluding corporations in the public interest, etc. and an association or foundation without juridical personality; hereinafter the same applies in this Article) has received a delivery of monies or other assets on any of the following grounds concerning the corporation, when the sum of the amount of the monies and the value of the assets other than monies exceeds the portion of the corporation's stated capital, etc. or consolidated individual stated capital, etc. that corresponds to the corporation's shares or capital contributions that were basic causes of the delivery, with regard to the application of the provisions of this Act, the amount of the excess is deemed to be the amount listed in Article 23, paragraph (1), item (i):

- (i) merger (excluding a qualified merger);
  - (ii) company split by split-off (excluding a qualified company split by split-off);
  - (iii) return of the capital (meaning a dividend of surplus (limited to a dividend of surplus resulting from a decrease in capital surplus) on grounds other than that of a company split by split-off) or the distribution of residual assets due to a dissolution;
  - (iv) acquisition of its own shares or capital contributions (excluding an acquisition as a result of a 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 61-2, paragraph (14), items (i) through (iii) (Inclusion of Capital Gains or Losses on Securities in Gross Profits or Deductible Expenses) in the case falling under the case prescribed in the paragraph);
  - (v) cancellation of capital contributions (excluding a cancellation with regard to acquired capital contributions), refund of capital contributions, refund of equity due to the withdrawal of a member or any other contributor from the corporation, or extinguishment of shares or capital contributions by the issuing corporation without having acquired them; and
  - (vi) entity conversion (limited to an entity conversion accompanying the delivery of assets other than shares or capital contributions to the corporation that has effected the entity conversion).
- (2) Even in the case where an acquiring corporation had not allotted shares or delivered assets other than the shares as a result of the merger for tie-in shares (meaning the acquired corporation's shares (including capital contributions; hereinafter the same applies in this paragraph) that the acquiring corporation held as of immediately prior to the merger shares of a second acquired corporation that the first acquired corporation held as of immediately prior to the merger), the provisions of the preceding paragraph apply by deeming that the acquiring corporation has received the allotment of

shares, etc. (meaning the allotment of the shares or delivery of the assets as a result of the merger) as specified by Cabinet Order.

- (3) Necessary matters concerning the method of calculating the amount of the portion corresponding to the shares or capital contributions prescribed in paragraph (1) and the application of the provisions of the preceding two paragraphs are specified by Cabinet Order.

## **Division 2 Asset Valuation Gain**

(Exclusion of Asset Valuation Gains from Gross Profits)

Article 25 (1) In the case where a domestic corporation has revaluated its assets to increase their book value, the amount of the increase is excluded from gross profits, when calculating the amount of income of the domestic corporation for each business year.

- (2) In the case where an order on the confirmation of a reorganization plan has been rendered for a domestic corporation under the Corporate Reorganization Act (Act No. 154 of 2002) or the Act on Special Measures, etc. of Reorganization Procedure of Financial Institutions and the domestic corporation has revaluated its assets as specified in these Acts or has revaluated its assets otherwise as specified in Cabinet Order to increase their book value, the amount of the increase is included in gross profits, when calculating the amount of income for the business year containing the date of the revaluation, notwithstanding the provisions of the preceding paragraph.

- (3) In the case where an order on the confirmation of a rehabilitation plan has been rendered for a domestic corporation under the Civil Rehabilitation Act (Act No. 225 of 1999) or any equivalent event as specified by Cabinet Order has occurred, when the domestic corporation evaluates the value of its assets as specified by Cabinet Order, the amount specified by Cabinet Order as a valuation gain on the assets (excluding those specified by Cabinet Order) is included in gross profits, when calculating the amount of income for the business year containing the date of any of such events, notwithstanding the provisions of paragraph (1).

- (4) In the case where the provisions of paragraph (1) were applied, with regard to the assets whose increased value due to revaluation was not included in gross profits, it is deemed that the book value of the assets has not increased, when calculating the amount of income for each business year after the business year containing the date of the revaluation.

- (5) The provisions of paragraph (3) apply only in the case where a tax return contains a detailed statement concerning the inclusion in gross profits of the amount specified by Cabinet Order as the amount of the valuation gain prescribed in the paragraph (referred to as a "detailed statement of the

valuation gain" in the following paragraph) and is attached with documents specified by Ordinance of the Ministry of Finance (referred to as "valuation gain-related documents" in the following paragraph) (when with regard to the assets prescribed in Article 33, paragraph (3) (Exclusion of Asset Valuation Losses, etc. from Deductible Expenses), there is any amount specified by Cabinet Order as the amount of valuation loss prescribed in the paragraph (such case is referred to as the "case where there is any valuation loss" in the following paragraph), only in the case where a tax return contains a detailed statement of the valuation loss prescribed in paragraph (5) of the Article (referred to as a "detailed statement of the valuation loss" in the following paragraph) and the valuation loss-related documents prescribed in paragraph (5) of the Article (referred to as "valuation loss-related documents" in the following paragraph)).

- (6) Even in the case where a tax return has been filed without a detailed statement of the valuation gain (in the case where there is any valuation loss, without a detailed statement of the valuation gain or a detailed statement of the valuation loss) or without valuation gain-related documents (in the case where there is any valuation loss, without valuation gain-related documents or valuation loss-related documents), the district director of the tax office may apply the provisions of paragraph (3), when they find any unavoidable grounds for the person's failure to make entries of such a statement or to attach such documents.
- (7) Beyond what is provided for in the preceding three paragraphs, necessary matters concerning the application of the provisions of paragraphs (1) through (3) are specified by Cabinet Order.

### **Division 3 Refund**

(Exclusion of Refunds from Gross Profits)

Article 26 (1) In the case where a domestic corporation receives a refund of the following amount or the amount to be refunded is to be appropriated for the unpaid national tax or local tax, the amount to be refunded or to be appropriated is excluded from gross profits, when calculating the amount of income of the domestic corporation for each business year:

- (i) the amount excluded from deductible expenses, when calculating the amount of income for each business year pursuant to the provisions of Article 38, paragraph (1) or paragraph (2) (Exclusion of the Amount of Corporate Tax from Deductible Expenses);
- (ii) the amount excluded from deductible expenses, when calculating the amount of income for each business year pursuant to the provisions of Article 55, paragraph (3) (Exclusion of Expenses Related to Unlawful Acts from

- Deductible Expenses);
- (iii) a refund pursuant to the provisions of Article 78 (Refund of the Amount of Income Tax by Final Return), Article 81-29 (Refund of the Amount of Income Tax by Consolidated Final Return), Article 120 (Refund of the Amount of Income Tax upon Continuation), Article 133 (Refund of the Amount of Income Tax Due to a Reassessment Related to a Final Return or Consolidated Final Return), or Article 137 (Refund of the Amount of Income Tax Due to a Reassessment upon Continuation); and
  - (iv) a refund pursuant to the provisions of Article 80 (Refund by Carryback of Loss) or Article 81-31 (Refund by Carryback of Consolidated Operating Loss).
- (2) In the case where in each business year after the business year when a domestic corporation was subject to the provisions of Article 69, paragraphs (1) through (3) (Foreign Tax Credit), the amount of a foreign country's corporate tax (meaning the amount of a foreign country's corporate tax prescribed in Article 69, paragraph (1); hereinafter the same applies in this paragraph) that was used as the basis of the calculation of the amount to be credited under these provisions has been reduced (when the domestic corporation has received the transfer of the whole or a part of the business from an acquired corporation, etc. as prescribed in paragraph (5) of the Article as a result of a qualified organizational restructuring as prescribed in the paragraph, including the case where a reduction has been made on the portion of the foreign country's corporate tax to be paid by the acquired corporation, etc. that the domestic corporation is to pay for the income arising from the transferred business; hereinafter the same applies in this paragraph), or in the case where in each business year after the business year when the domestic corporation was subject to the provisions of Article 81-15, paragraphs (1) through (3) (Foreign Tax Credit in Consolidated Business Year), the amount of the foreign country's corporate tax that was used as the basis of the calculation of the amount to be credited under these provisions has been reduced, the portion of the reduction specified by Cabinet Order as the reduced portion of the creditable amount of the foreign country's corporate tax prescribed in Article 69, paragraph (1) or the individually creditable amount of the foreign country's corporate tax prescribed in Article 81-15, paragraph (1) (excluding the amount specified by Cabinet Order as the amount to be included in gross profits) is excluded from gross profits, when calculating the amount of income of the domestic corporation for each business year.
- (3) In the case where a first domestic corporation receives from a second domestic corporation an amount that has been calculated pursuant to the provisions of Article 81-18, paragraph (1) (Calculation of the Individually Attributed Amount of Consolidated Corporation Tax) as its payable amount of corporation tax on consolidated income for each consolidated business year or its payable

amount of penalty tax (excluding interest tax; the same applies in the following paragraph), the amount to be received is excluded from gross profits, when calculating the amount of income of the domestic corporation for each business year.

- (4) In the case where the second domestic corporation set forth in the preceding paragraph receives from the first domestic corporation set forth in the paragraph an amount that is calculated pursuant to the provisions of Article 81-18, paragraph (1) as its receivable amount from the reduction of corporation tax on consolidated income for each consolidated business year or the reduction of its payable amount of penalty tax, the amount to be received is excluded from gross profits, when calculating the amount of income of the second domestic corporation in question for each business year.
- (5) In the case where a domestic corporation receives a refund of the amount to be excluded from deductible expenses in the calculation of the amount of income for each business year, pursuant to the provisions of Article 55, paragraph (4), the amount to be refunded is excluded from gross profits, when calculating the amount of income of the domestic corporation for each business year.

(Inclusion in Gross Profits of a Foreign Subsidiary's Foreign Tax That Is Credited Against the Corporation Tax)

Article 28 In the case where the provisions of Article 69, paragraph (8) (Foreign Tax Credit) are applied to the amount of the foreign country's corporate tax to be imposed on a domestic corporation for the income of its foreign subsidiary prescribed in the paragraph (including the amount deemed to be the amount of the foreign country's corporate tax to be imposed on the foreign subsidiary's income pursuant to the provisions of paragraph (9) of the Article) in each business year, the amount calculated as specified by the Cabinet Order prescribed in paragraph (8) of the Article is included in gross profits, when calculating the amount of income of the domestic corporation for the business year specified by Cabinet Order.

#### **Subsection 4 Calculation of Deductible Expenses**

##### **Division 1 Valuation of Assets and Depreciation Allowance**

(Calculation of Cost of Sales of Inventories and Valuation Method)

Article 29 (1) When, with regard to a domestic corporation's inventories, calculating the amount to be included in deductible expenses in each business year in the calculation of the amount of income for the business year, pursuant to the provisions of Article 22, paragraph (3) (The Amount to be Included in Deductible Expenses in Each Business Year), the value of the inventories held

by the domestic corporation as of the end of the business year that were used as the basis of the calculation is to be the amount evaluated based on the valuation method that the domestic corporation selected for the inventories (in the case where the domestic corporation did not select any valuation method or did not evaluate the inventories based on the valuation method of their choice, the amount evaluated based on one of the valuation methods specified by Cabinet Order).

- (2) The 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 are specified by Cabinet Order.

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

Article 31 (1) With regard to depreciable assets held by a domestic corporation as of the end of each business year, the amount to be included in deductible expenses as the depreciation allowance thereof in the calculation the amount of income for the business year, pursuant to the provisions of Article 22, paragraph (3) (The Amount to be Included in Deductible Expenses in Each Business Year), is the portion of the amount that the domestic corporation accounted for as a loss as its depreciation allowance in the business year (hereinafter referred to as the "amount accounted for as a loss" in this Article) up to the amount calculated as specified by Cabinet Order based on the depreciation method that the domestic corporation selected for the assets from among the depreciation methods specified by Cabinet Order, in accordance with the date of the acquisition of assets and the category of their types (in the case where the domestic corporation did not select any depreciation method, based on one of depreciation methods as specified by Cabinet Order) (such calculated amount is referred to as the "maximum amount of depreciation" in the following paragraph).

- (2) In the case where a domestic corporation transfers its depreciable assets to a succeeding corporation in a company split, corporation receiving a capital contribution in kind, or transferee corporation as a result of a qualified company split by spin-off, qualified contribution in kind, or qualified post-formation contribution (referred to as a "qualified company split by spin-off, etc." through to paragraph (4)), when the amount equivalent to the amount accounted for as a loss was accounted for as a loss with regard to the depreciable assets, the portion of the amount accounted for as a loss (referred to as the "amount accounted for as a loss during the period" in the following paragraph and paragraph (4)) up to the amount equivalent to the maximum amount of depreciation calculated with regard to the depreciable assets as prescribed in the preceding paragraph by deeming the day prior to the date of

the qualified company split by spin-off, etc. to be the last day of the business year is included in deductible expenses, when calculating the amount of income for the business year containing the date of the qualified company split by spin-off, etc. (referred to as the "business year of the company split, etc." in paragraph (4)).

- (3) The provisions of the preceding paragraph apply only in the case where the domestic corporation set forth in the paragraph has submitted a document stating the amount accounted for as a loss during the period and other matters specified by Ordinance of the Ministry of Finance to the competent district director with jurisdiction over the place for tax payment, within two months after the date of the qualified company split by spin-off, etc.
- (4) Out of the amount accounted for as a loss for depreciable assets set forth in paragraph (1) in each business year prior to the business year in which the domestic corporation set forth in the paragraph accounted for the amount as a loss with regard to the depreciable assets (hereinafter referred to as the "business year of the depreciation" in this paragraph) (such amount accounted for includes, when the depreciable assets were transferred from an acquired corporation or splitting corporation (hereinafter referred to as a "acquired corporation, etc." in this paragraph) as a result of a qualified merger or qualified company split by split-off (hereinafter referred to as a "qualified merger, etc." in this paragraph), the portion of the amount accounted for as a loss in each business year prior to the business year containing the day prior to the date of the qualified merger, etc. of the acquired corporation, etc. that was excluded from deductible expenses in the calculation of the amount of income for the business year, and when the depreciable assets were transferred from a splitting corporation, corporation making a capital contribution in kind, or transferring corporation (hereinafter referred to as a "splitting corporation, etc." in this paragraph) as a result of a qualified company split by spin-off, etc., the amount recorded in the books as the amount accounted for as a loss during the period in the business year of the company split, etc. of the splitting corporation, etc., and the portion of the amount accounted for as a loss in each business year prior to the business year of the company split, etc. that was excluded from deductible expenses in the calculation of the amount of income for each business year prior to the business year of the company split, etc.; hereinafter the same applies in this paragraph), the amount accounted for as a loss includes the amount excluded from deductible expenses in the calculation of the amount of income for each business year prior to the business year of the depreciation; and the amount accounted for as a loss during the period includes the portion of the amount accounted for as a loss for depreciable assets set forth in paragraph (2) in each business year prior to the business year of the company split, etc. of the domestic corporation set as forth in the paragraph

that was excluded from deductible expenses in the calculation of the amount of income for the business year.

- (5) In the case referred to in the preceding paragraph, with regard to depreciable assets held by the domestic corporation (limited to depreciable assets transferred from an acquired corporation as a result of a qualified merger, depreciable assets falling under the category of assets evaluated by fair value prescribed in Article 61-11, paragraph (1) (Gains or Losses on the Fair Valuation of Assets Accompanying the Commencement of Consolidated Taxation) to which the provisions of the paragraph were applied, and other depreciable assets as specified by Cabinet Order), in the case where the amount specified by Cabinet Order as the amount recorded in the books as the value of the depreciable assets is less than the amount recorded in the acquired corporation's books immediately prior to the transfer, the book value immediately after the provisions of paragraph (1) of the Article were applied, or any other amount specified by Cabinet Order, the amount of the shortfall is deemed to be the amount accounted for as a loss in each business year prior to the business year specified by Cabinet Order.
- (6) Special provisions on depreciation methods that can be selected as set forth in paragraph (1), procedures for selecting a depreciation method, acquisition costs of depreciable assets that are used as the basis of the calculation of the depreciation allowance, and other matters necessary for the depreciation of depreciable assets are specified by Cabinet Order.

(Calculation of Depreciation Allowance of Deferred Assets and Depreciation Method)

- Article 32 (1) With regard to deferred assets held by a domestic corporation as of the end of each business year, the amount to be included in deductible expenses as the depreciation allowance thereof in the calculation the amount of income for the business year, pursuant to the provisions of Article 22, paragraph (3) (The Amount to be Included in Deductible Expenses in Each Business Year), is to be the portion of the amount that the domestic corporation accounted for as a loss as the depreciation allowance in the business year (hereinafter referred to as the "amount accounted for as a loss" in this Article) up to the amount calculated as specified by Cabinet Order based on the period during which the expenses related to the deferred assets continued to affect the calculation (such calculated amount is referred to as the "maximum amount of depreciation" in the following paragraph).
- (2) In the case where, as a result of a qualified company split by spin-off, qualified contribution in kind, or qualified post-formation contribution (hereinafter referred to as a "qualified company split by spin-off, etc." in this paragraph and the following paragraph), a domestic corporation hands over its

deferred assets to a succeeding corporation in a company split, corporation receiving a capital contribution in kind, or transferee corporation (hereinafter referred to as a "succeeding corporation in a company split, etc.") (such deferred assets are limited to those related to assets, liabilities, or contracts (referred to as "assets, etc." in paragraph (4)) to be transferred as a result of the qualified company split by spin-off, etc. to the succeeding corporation in a company split, etc.), when the amount equivalent to the amount accounted for as a loss was accounted for as a loss with regard to the deferred assets, the portion of the amount accounted for as a loss (referred to as the "amount accounted for as a loss during the period" in the following paragraph and paragraph (6)) up to the amount equivalent to the maximum amount of depreciation calculated with regard to the deferred assets as prescribed in the preceding paragraph by deeming the day prior to the date of the qualified company split by spin-off, etc. to be the last day of the business year is included in deductible expenses, when calculating the amount of income for the business year containing the date of the qualified company split by spin-off, etc. (referred to as the "business year of the company split, etc." in paragraph (6)).

- (3) The provisions of the preceding paragraph apply only in the case where the domestic corporation set forth in the paragraph has submitted a document stating the amount accounted for as a loss during the period and other matters specified by Ordinance of the Ministry of Finance to the competent district director with jurisdiction over the place for tax payment, within two months after the date of the qualified company split by spin-off, etc.
- (4) In the case where a domestic corporation has effected a qualified merger, qualified company split, qualified contribution in kind, or qualified post-formation contribution (hereinafter referred to as a "qualified organizational restructuring" in this paragraph), the deferred assets prescribed in the following items, in accordance with the category of qualified organizational restructuring listed in the relevant item, are to be succeeded to, at the book value as of immediately prior to the qualified organizational restructuring, by an acquiring corporation, succeeding corporation in a company split, corporation receiving a capital contribution in kind, or corporation receiving post-formation contribution involved in the qualified organizational restructuring:
  - (i) qualified merger: Deferred assets as of immediately prior to the qualified merger; and
  - (ii) qualified company split by split-off, qualified company split by spin-off, qualified contribution in kind, or qualified post-formation contribution (hereinafter referred to as a "qualified company split by split-off, etc." in this item and the following paragraph): The following deferred assets:
    - (a) Deferred assets specified by Cabinet Order as having a close relation to

the assets, etc. to be transferred to a succeeding corporation in a company split, corporation receiving a capital contribution in kind, or transferee corporation (hereinafter referred to as a "succeeding corporation in a company split, etc." in this item and the following paragraph) as a result of the qualified company split by split-off, etc.

(b) Deferred assets which have a relation to the assets, etc. to be transferred to a succeeding corporation in a company split, corporation receiving a capital contribution in kind, or transferee corporation as a result of the qualified company split by spin-off, qualified contribution in kind, or qualified post-formation contribution and to which the provisions of paragraph (2) were applied (excluding those listed in (a))

(c) Deferred assets which have a relation to the assets, etc. to be transferred to a succeeding corporation in a company split, etc. as a result of the qualified company split by split-off, etc. (excluding those listed in (a) and (b))

(5) The provisions of the preceding paragraph (limited to the part pertaining to item (ii), (c)) apply only in the case where the domestic corporation set forth in the paragraph has submitted a document stating the book value of the deferred assets listed in (c) of the item that are to be succeeded to by a succeeding corporation in a company split, etc. pursuant to the provisions of the preceding paragraph and other matters specified by Ordinance of the Ministry of Finance to the competent district director with jurisdiction over the place for tax payment, within two months after the date of the qualified company split by split-off, etc.

(6) Out of the amount accounted for as a loss for deferred assets set forth in paragraph (1) in each business year prior to the business year in which the domestic corporation set forth in the paragraph accounted for the amount as a loss with regard to the deferred assets (hereinafter referred to as the "business year of the depreciation" in this paragraph) (such amount accounted for includes, when the deferred assets were succeeded to from an acquired corporation or splitting corporation (hereinafter referred to as a "acquired corporation, etc." in this paragraph) as a result of a qualified merger or qualified company split by split-off (hereinafter referred to as a "qualified merger, etc." in this paragraph), the portion of the amount accounted for as a loss in each business year prior to the business year containing the day prior to the date of the qualified merger, etc. of the acquired corporation, etc. that was excluded from deductible expenses in the calculation of the amount of income for the business year, and when the deferred assets were succeeded to from a splitting corporation, corporation making a capital contribution in kind, or transferring corporation (hereinafter referred to as a "splitting corporation, etc." in this paragraph) as a result of a qualified company split by spin-off, etc.

as prescribed in paragraph (2), the amount recorded in the books as the amount accounted for as a loss during the period in the business year of the company split, etc. of the splitting corporation, etc., and the portion of the amount accounted for as a loss in each business year prior to the business year of the company split, etc. that was excluded from deductible expenses in the calculation of the amount of income for each business year prior to the business year of the company split, etc.; hereinafter the same applies in this paragraph), the amount accounted for as a loss includes the amount excluded from deductible expenses in the calculation of the amount of income for each business year prior to the business year of the depreciation; and the amount accounted for as a loss during the period includes the portion of the amount accounted for as a loss for deferred assets set forth in paragraph (2) in each business year prior to the business year of the company split, etc. of the domestic corporation set forth in the paragraph that was excluded from deductible expenses in the calculation of the amount of income for the business year.

- (7) In the case referred to in the preceding paragraph, with regard to the deferred assets held by the domestic corporation (limited to deferred assets succeeded to from an acquired corporation as a result of a qualified merger, deferred assets falling under the category of assets evaluated by fair value prescribed in Article 61-11, paragraph (1) (Gains or Losses on the Fair Valuation of Assets Accompanying the Commencement of Consolidated Taxation) to which the provisions of the paragraph were applied, and other deferred assets specified by Cabinet Order), in the case where the amount specified by Cabinet Order as the amount recorded in the books as their value is less than the amount recorded in the acquired corporation's books immediately prior to the succession, the book value immediately after the provisions of paragraph (1) of the Article were applied, or another amount as specified by Cabinet Order, the amount of the shortfall is deemed to be the amount accounted for as a loss in each business year prior to the business year specified by Cabinet Order.
- (8) Beyond what is provided for in the preceding paragraphs, necessary matters concerning the depreciation of deferred assets are specified by Cabinet Order.

## **Division 2 Asset Valuation Loss**

(Exclusion of Asset Valuation Losses from Deductible Expenses)

Article 33 (1) In the case where a domestic corporation has revaluated its assets to reduce their book value, the amount of the reduction is excluded from deductible expenses, when calculating the amount of income of the domestic corporation for each business year.

- (2) With regard to a domestic corporation's assets (excluding deposits, savings, loans, accounts receivable, and other claims (referred to as "deposits, etc." in the following paragraph)), when [1]the value of the assets has fallen below their book value due to significant damages caused by a disaster, [2]it has become necessary to reevaluate them pursuant to the provisions of the Corporate Reorganization Act or the Act on Special Measures, etc. of Reorganization Procedure of Financial Institutions, as an order on the confirmation of a reorganization plan has been rendered under these Acts, or [3]any other events specified by Cabinet Order have occurred, and when the domestic corporation has reevaluated the assets and accounted for as a loss in order to reduce their book value, the portion of the amount of the reduction up to the difference between the book value of the assets as of immediately prior to the revaluation and the value of the assets as of the end of the business year containing the date of the revaluation (in the case where the assets were reevaluated based on the provisions of those Acts, the amount of the reduction) is included in deductible expenses, when calculating the amount of income for the business year containing the date of the revaluation, notwithstanding the provisions of the preceding paragraph.
- (3) In the case where an order on the confirmation of a rehabilitation plan has been rendered for a domestic corporation under the Civil Rehabilitation Act or any equivalent event as specified by Cabinet Order has occurred, when the domestic corporation evaluates the value of its assets as specified by Cabinet Order, the amount specified by Cabinet Order as a valuation loss of the assets (excluding deposits, etc. or other assets as specified by Cabinet Order) is included in deductible expenses, when calculating the amount of income for the business year containing the date of any of such events, notwithstanding the provisions of paragraph (1).
- (4) In the case where the provisions of paragraph (1) were applied, with regard to the assets whose reduced value due to revaluation was not included in deductible expenses, it is deemed that the book value of the assets was not reduced, when calculating the amount of income for each business year after the business year containing the date of the revaluation.
- (5) The provisions of paragraph (3) apply only in the case where a tax return contains a detailed statement concerning the inclusion in deductible expenses of the amount specified by Cabinet Order as the amount of valuation loss prescribed in the paragraph (referred to as a "detailed statement of the valuation loss" in the following paragraph) and is attached with the documents specified by Ordinance of the Ministry of Finance (referred to as "valuation loss-related documents" in the following paragraph) (when with regard to the assets prescribed in Article 25, paragraph (3) (Exclusion of Asset Valuation Gains, etc. from Gross Profits), there is any amount specified by Cabinet Order

- as the amount of valuation gain prescribed in the paragraph (such case is referred to as the "case where there is any valuation gain" in the following paragraph), only in the case where a tax return contains a detailed statement of the valuation gain prescribed in paragraph (5) of the Article (referred to as a "detailed statement of the valuation gain" in the following paragraph) and the valuation gain-related documents prescribed in paragraph (5) of the Article (referred to as "valuation gain-related documents" in the following paragraph)).
- (6) Even in the case where a tax return has been filed without a detailed statement of the valuation loss (in the case where there is any valuation gain, without a detailed statement of the valuation loss or a detailed statement of the valuation gain) or without valuation loss-related documents (in the case where there is any valuation gain, without valuation loss-related documents or valuation gain-related documents), the district director of the tax office may apply the provisions of paragraph (3), when they find any unavoidable grounds for the person's failure to make entries of such a statement or to attach such documents.
- (7) Beyond what is provided for in the preceding three paragraphs, necessary matters concerning the application of the provisions of paragraphs (1) through (3) are specified by Cabinet Order.

### **Division 3 Remuneration for Officers**

(Exclusion of Remuneration for Officers from Deductible Expenses)

Article 34 (1) The amount of remuneration that a domestic corporation pays to its officers (such remuneration excludes a retirement allowance and any remuneration based on share options as prescribed in Article 54, paragraph (1) (Special Provisions on the Business Year for Vesting Expenses in Exchange for Share Options), and any other remuneration that is paid to officers who have duties as employees for carrying out such duties and that is subject to the provisions of paragraph (3); hereinafter the same applies in this paragraph) and that does not fall under any of the following categories of remuneration is excluded from deductible expenses, when calculating the amount of income of the domestic corporation for each business year:

- (i) remuneration that is paid for each specified period of not longer than one month (referred to as "regular remuneration" in the following item) and where the amount of each payment is the same in the business year, and any other remuneration specified by Cabinet Order as being equivalent thereto (referred to as "regular fixed remuneration" in the following item);
- (ii) remuneration that is paid based on a rule to pay a defined amount at specified times when officers have carried out their duties (excluding regular fixed remuneration and profit-related remuneration (meaning remuneration

which is calculated based on profit-related indicators; the same applies in the following item), and with regard to remuneration other than remuneration to be paid to officers to whom regular remuneration is not paid (limited to remuneration paid by a domestic corporation that does not fall under the category of family company), limited to such remuneration in the case where a notification concerning the details of the rule has been made to the competent district director with jurisdiction over the place for tax payment as specified by Cabinet Order); or

- (iii) profit-related remuneration that is paid by a domestic corporation that does not fall under the category of family company to its executive officers (meaning officers specified by Cabinet Order as those executing business; hereinafter the same applies in this item) and that meets the following requirements (limited to the case where profit-related remuneration that meets the following requirements is paid to all the other executive officers):
  - (a) That the calculation method is objective based on indicators on profits of the business year (limited to indicators entered in an annual securities report as prescribed in Article 24, paragraph (1) (Submission of Annual Securities Report) of the Financial Instruments and Exchange Act (referred to as an "annual securities report" in 3. below) (such calculation method is limited to a method that meets the following requirements):
    - 1. That the calculation method limits the ceiling to the defined amount and is similar to that of profit-related remuneration to be paid to other executive officers.
    - 2. That a compensation committee (meaning a compensation committee set forth in Article 404, paragraph (3) (Authority of Committees) of the Companies Act and excluding a committee in which an executive officer of the domestic corporation or a person who has a special relationship specified by Cabinet Order with the executive officer serves as a member) has made a decision on the calculation method, or any other procedures specified by Cabinet Order as the proper procedures equivalent thereto have been executed by the date specified by Cabinet Order.
    - 3. That the details of the calculation method have been entered in an annual securities report or have been disclosed in a manner as specified by Ordinance of the Ministry of Finance without delay on or after the date of the decision or the conclusion of the procedures set forth in 2. above.
  - (b) Any other requirements specified by Cabinet Order.
- (2) The portion of the amount of remuneration paid by a domestic corporation to its officers (excluding remuneration subject to the provisions of the preceding paragraph or the following paragraph) that is specified by Cabinet Order as an

amount which is unreasonably high is excluded from deductible expenses, when calculating the amount of income of the domestic corporation for each business year.

- (3) The amount of remuneration paid by a domestic corporation to its officers through accounting by concealing or falsifying facts is excluded from deductible expenses, when calculating the amount of income of the domestic corporation for each business year
- (4) Remuneration as prescribed in the preceding three paragraphs is to include profits resulting from a release from an obligation and other economic benefits.
- (5) Officers who have duties as employees as prescribed in paragraph (1) are officers (excluding the president, chief director or others specified by Cabinet Order) who hold any of the positions of department director, section chief, or other employees of a corporation and who are engaged in the duties of a full-time employee.
- (6) Beyond what is provided for in the preceding two paragraphs, necessary matters concerning the application of the provisions of paragraphs (1) through (3) are specified by Cabinet Order.

(Exclusion of Remuneration for the Officers of Specially Controlled Family Companies from Deductible Expenses)

Article 35 (1) The portion of the amount of remuneration (including profits resulting from a release from an obligation and other economic benefits and excluding retirement allowances) paid by a specially controlled family company (meaning a specially controlled family company in the case where the presiding officers of a family company (meaning the officers who preside over a corporation's business and limited to individuals; hereinafter the same applies in this paragraph) and persons specified by Cabinet Order as those who have a special relationship with those presiding officers (hereinafter referred to as "persons related to the presiding officers" in this paragraph) hold 90 percent or more of the total number or the total amount of the family company's issued shares or capital contributions (excluding the shares that the family company holds in itself and the capital contributions made thereby) or in other cases as specified by Cabinet Order (such specially controlled family company is limited to a company in which the number of the presiding officers and persons related to the presiding officers who are engaged in the regular running of the business exceeds 50 percent of the total number of officers who are engaged in the regular running of the business); hereinafter the same applies in this Article) to its presiding officers (such amount of remuneration is exclude the amount excluded from deductible expenses pursuant to the provisions of the preceding Article) that is calculated as specified by Cabinet Order based on the amount of the remuneration is excluded from deductible expenses, when

calculating the amount of income of the specially controlled family company for each business year.

- (2) The provisions of the preceding paragraph do not apply to a business year when the amount of base income (meaning the amount calculated as specified by Cabinet Order based on the amount of income or loss for each business year or each consolidated business year that starts within three years prior to the first day of the business year or the amount of individual income or individual loss prescribed in Article 81-18, paragraph (1) (Calculation of Individually Attributed Amount of Consolidated Corporation Tax)) does not exceed the amount specified by Cabinet Order nor to any other business years specified by Cabinet Order.
- (3) In the case referred to in paragraph (1), the determination as to whether the domestic corporation falls under the category of a specially controlled family company is based on its circumstances as of the end of the business year of the domestic corporation.
- (4) Beyond what is provided for in the preceding two paragraphs, necessary matters concerning the application of the provisions of paragraph (1) are specified by Cabinet Order.

(Exclusion of Excessive Remuneration for Employees from Deductible Expenses)

Article 36 The portion of the amount of remuneration paid by a domestic corporation to employees who have a special relationship as specified by Cabinet Order with its officers (including profits resulting from a release from an obligation and other economic benefits) that is specified by Cabinet Order as an amount which is unreasonably high is excluded from deductible expenses, when calculating the amount of income of the domestic corporation for each business year.

#### **Division 4 Contribution or Donation**

(Exclusion of Contributions or Donations from Deductible Expenses)

- Article 37 (1) The portion of the sum of the donations made by a domestic corporation in each business year (excluding the amount of donations subject to the provisions of the following paragraph) that exceeds the amount of the domestic corporation's stated capital, etc. as of the end of the business year or the amount calculated as specified by Cabinet Order based on the income for the business year is excluded from deductible expenses, when calculating the amount of income of the domestic corporation for each business year.
- (2) When a domestic corporation has made any donation in each business year to a consolidated corporation that has a consolidated full controlling interest in

the domestic corporation, the amount of such donation is excluded from deductible expenses, when calculating the amount of income of the domestic corporation for each business year.

- (3) In the case referred to in paragraph (1), when the amount of a donation as prescribed in the paragraph contains any of the following amounts, the total amount of donations listed in the following items is excluded from the sum of the donations prescribed in the paragraph:
- (i) the amount of a donation to the national or a local government (including port authorities as 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 by the donation exclusively or may enjoy any other special benefits therefrom, such donation is excluded); or
  - (ii) the amount of 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) That the donation is collected widely from the general public.
    - (b) That it is fully expected that the donation is appropriated to urgent expenses to serve in the promotion of education or science, the enhancement of culture, as a contribution to social welfare or any other improvement in the public interest.
- (4) In the case referred to in paragraph (1), when the amount of a donation as prescribed in the paragraph contains any amount of a donation made to a public service corporation, corporation in the public interest, etc. (excluding any of the general incorporated associations and general incorporated foundations listed in Appended Table 2; hereinafter the same applies in this paragraph and the following paragraph), or any other corporation established under special Acts that is specified by Cabinet Order as serving significantly in the promotion of education or science, the enhancement of culture, as a contribution to social welfare or any other improvement in the public interest, with regard to the business of such corporation's major purpose (excluding donations falling under any of the categories prescribed in the items of the preceding paragraph), the sum of such donations (in the case where the sum exceeds the amount of stated capital, etc. as of the end of the business year or the amount calculated as specified by Cabinet Order based on the income for the business year, the amount equivalent to the calculated amount) is excluded from the sum of the donations prescribed in paragraph (1); provided, however, that this does not apply to the amount of a donation made by a corporation in

the public interest, etc.

- (5) The amount that a corporation in the public interest, etc. has spent from among the assets belonging to its profit-making business for the purpose of a business other than the profit-making business (with regard to a public interest incorporated association or public interest incorporated foundation, the amount that it has spent from among the assets belonging to its profit-making business for the purpose of a business other than the profit-making business that is specified by Cabinet Order as a business related to the public interest) is deemed to be the amount of a donation related to its profit-making business and the provisions of paragraph (1) apply.
- (6) The amount that a domestic corporation has spent for the purpose of entrusting as trust property under a specified charitable trust (meaning a charitable trust as prescribed in Article 1 (Charitable Trust) of the Charitable Trust Act (Act No. 62 of 1922), for which it is certified, as specified by Cabinet Order, that a trust property as of the time of the termination of the trust is not vested in a settlor of the trust related to the trust property and the operation of the trust affairs meets the requirements specified by Cabinet Order) is deemed to be the amount of a donation, and the provisions of paragraph (1), paragraph (4), paragraph (9) and paragraph (10) apply. In this case, the term "paragraph)," in paragraph (4) is deemed to be replaced with "paragraph) (such amount includes the amount spent for the purpose of entrusting as trust property under a specified charitable trust as prescribed in paragraph (6) that is specified by Cabinet Order as serving significantly in the promotion of education or science, the enhancement of culture, as a contribution to social welfare or any other improvement in the public interest," and other necessary matters concerning procedures for seeking the application of the provisions of this paragraph are specified by Cabinet Order.
- (7) The amount of a donation as prescribed in the preceding paragraphs, irrespective of the donation having been made as a donation, contribution, gift, or under any other name, is to be the amount of monies in the case where a domestic corporation has made a gift or the gratuitous conveyance of monies or other assets or economic benefits (excluding expenses for advertising or providing samples or other equivalent expenses, and those deemed to be entertainment and social expenses, reception expenses, and welfare expenses; the same applies in the following paragraph), the value of the assets other than monies as of the time of the gift, or the value of the economic benefits as of the time of the conveyance.
- (8) In the case where a domestic corporation has transferred assets or conveyed economic benefits, when the price for the transfer or conveyance is low compared with the value of the assets as of the transfer or the value of the economic benefits as of the conveyance, the portion of the difference between

the price and the value that is deemed to have been, in effect, given as a gift or gratuitous conveyance is included in the amount of the donation set forth in the preceding paragraph.

- (9) The provisions of paragraph (3) and paragraph (4) apply only in the case where a tax return states the amount listed in the items of paragraph (3) or the amount of a donation as prescribed in paragraph (4) that is excluded from the sum of the donations prescribed in paragraph (1) and contains a detailed statement concerning the donations prescribed in the items of paragraph (3) or paragraph (4), and where documents specified by Ordinance of the Ministry of Finance are retained. In this case, the amount that is excluded from the sum of the donations prescribed in paragraph (1) pursuant to the provisions of paragraph (3) or paragraph (4) does not exceed the amount entered as the amount.
- (10) Even in the case where a tax return without entries for the matters or the attachment of a detailed statement set forth in the preceding paragraph, with regard to the whole or a part of the amount to be excluded from the sum of the donations prescribed in paragraph (1) pursuant to the provisions of paragraph (3) or paragraph (4), has been filed or where the documents set forth in the preceding paragraph are not retained, the district director of the tax office may apply the provisions of paragraph (3) or paragraph (4) to the amount for which there were no entries or attachments of the detailed statement or the documents were not retained, when they find any unavoidable grounds for the person's failure to make entries, attach the detailed statement, or retain the documents.
- (11) When the Minister of Finance has made a designation set forth in paragraph (3), item (ii), they make a public notification thereof.
- (12) Beyond what is provided for in paragraph (5) to the preceding paragraph, necessary matters concerning the application of the provisions of paragraphs (1) through (4) are specified by Cabinet Order.

#### **Division 5 Taxes and Duties**

(Exclusion of the Amount of Corporation Tax from Deductible Expenses)

Article 38 (1) The amount of corporation tax (excluding delinquent tax, additional tax for understatement, additional tax for failure to file, and substantial additional tax; hereinafter the same applies in this paragraph) that a domestic corporation is to pay is excluded from deductible expenses, except for the following corporation taxes, when calculating the amount of income of the domestic corporation for each business year:

- (i) corporation tax on a retirement pension fund;
- (ii) corporation tax corresponding to the amount listed in Article 19, paragraph

- (4), item (iii), (c) (The Amount Equivalent to Interest on Refund to be Paid by Amended Return) or Article 28, paragraph (2), item (iii), (c) (The Amount Equivalent to Interest on Refund to be Paid by Reassessment) of the Act on General Rules for National Taxes out of the amount to be paid pursuant to the provisions of Article 35, paragraph (2) (Payment by Amended Return) of the Act; and
- (iii) interest tax pursuant to the provisions of Article 75, paragraph (7) (Interest Tax in the Case of Extending the Due Date for Filing a Tax Return) (including the case where it is applied mutatis mutandis pursuant to Article 75-2, paragraph (6) or paragraph (8) (Interest Tax in the Case of Special Provisions on Extension of the Due Date for Filing a Tax Return), Article 81-23, paragraph (2) (Interest Tax in the Case of Extending the Due Date for Filing a Consolidated Tax Return), or Article 81-24, paragraph (3) or paragraph (6) (Interest Tax in the Case of Special Provisions on Extension of the Due Date for Filing a Consolidated Tax Return).
- (2) The following amounts that a domestic corporation is to pay are excluded from deductible expenses, when calculating the amount of income of the domestic corporation for each business year:
- (i) gift tax and inheritance tax pursuant to the provisions of Article 9-4 (Special Provisions on Trusts without Beneficiaries) or Article 66 (Taxation of Associations or Foundations without Juridical Personality) of the Inheritance Tax Act (Act No. 73 of 1950); and
- (ii) prefectural inhabitants' tax and municipal inhabitants' tax pursuant to the provisions of the Local Tax Act (including Tokyo inhabitants' tax and excluding tax pertaining to corporation tax on a retirement pension fund).
- (3) In the case where a first domestic corporation pays to a second domestic corporation the amount calculated pursuant to the provisions of Article 81-18, paragraph (1) (Calculation of the Individually Attributed Amount of Consolidated Corporation Tax) as the second domestic corporation's receivable amount for the reduction of corporation tax on consolidated income for each consolidated business year or the reduction of the second domestic corporation's payable amount for penalty tax (excluding interest tax; the same applies in the following paragraph), the amount that the first domestic corporation pays is excluded from deductible expenses when calculating its amount of income for each business year.
- (4) When the second domestic corporation set forth in the preceding paragraph pays to the first domestic corporation set forth in the paragraph the amount calculated pursuant to the provisions of Article 81-18, paragraph (1) as the second domestic corporation's payable amount of corporation tax on consolidated income for each consolidated business year or the second domestic corporation's payable amount of penalty tax, the amount that the second

domestic corporation pays is excluded from deductible expenses, when calculating its amount of income for each business year.

(Exclusion of the Amount of Tax to Be Paid for Secondary Tax Liability from Deductible Expenses)

Article 39 (1) The net operating loss incurred by a domestic corporation as a result of paying national tax or local tax (including the net operating loss arising from a right to reimbursement regarding the payment; hereinafter the same applies in this Article) is excluded from deductible expenses, when calculating the amount of income of the domestic corporation for each business year:

(i) national tax to be paid pursuant to the provisions of Article 33, Articles 35 to 39, or Article 41, paragraph (1) (Secondary Tax Liability of Members with Unlimited Liability) of the National Tax Collection Act (Act No. 147 of 1959) (including charges incurred in procedure of collection of the tax delinquency; hereinafter the same applies in this Article); and

(ii) local tax to be paid pursuant to the provisions of Article 11-2, Articles 11-4 to Article 11-8, or Article 12-2, paragraph (2) (Secondary Tax Liability of Members with Unlimited Liability) of the Local Tax Act.

(2) The net operating loss that a domestic corporation, which holds any of the amount deemed to be the amount listed in Article 23, paragraph (1), item (i) (Exclusion of Dividends Received from Gross Profits) pursuant to the provisions of Article 24, paragraph (1), item (iii) (The Amount Deemed to Be Dividends) (limited to the part pertaining to the distribution of residual assets due to dissolution) or the amount listed in Article 23, paragraph (1), item (iii) pertaining to the delivery of assets belonging to trust assets due to the termination of a trust that is excluded from gross profits in the calculation of the amount of income for each business year under the provisions of the paragraph, has incurred as a result of paying any of the following national tax or local tax, with regard to a corporation that has distributed residual assets pertaining to the amount deemed to be as above or a liquidation trustee as prescribed in Article 177 (Duties of Liquidation Trustees) of the Trust Act of the trust, is excluded from deductible expenses, when calculating the amount of income of the domestic corporation for each business year; provided, however, that in the case where the amount of the national tax or local tax exceeds the amount excluded from gross profits, this does not apply to the amount equivalent to the excess out of the net operating loss:

(i) national tax to be paid pursuant to the provisions of Article 34 (Secondary Tax Liability of Liquidators) of the National Tax Collection Act; and

(ii) local tax to be paid pursuant to the provisions of Article 11-3 (Secondary Tax Liability of Liquidators) of the Local Tax Act.

(Exclusion of Income Tax to Be Credited Against the Corporation Tax from Deductible Expenses)

Article 40 In the case where a domestic corporation seeks the application of the provisions of Article 68, paragraph (1) (Income Tax Credit), Article 78, paragraph (1) (Refund of Income Tax Amount, etc. by Final Return), or Article 133, paragraph (1) (Refund of Income Tax Amount, etc. Due to a Reassessment Related to a Final Return or Consolidated Final Return) with regard to the amount of income tax prescribed in Article 68, paragraph (1), the amount equivalent to the amount to be credited or refunded pursuant to these provisions is excluded from deductible expenses, when calculating the amount of income of the domestic corporation for each business year.

(Exclusion of Foreign Taxes Credited Against the Corporation Tax from Deductible Expenses)

Article 41 In the case where a domestic corporation seeks the application of the provisions of Article 69 (Foreign Tax Credit), Article 78, paragraph (1) (Refund of Income Tax Amount, etc. by Final Return), or Article 133, paragraph (1) (Refund of Income Tax Amount, etc. Due to a Reassessment Related to a Final Return or Consolidated Final Return) with regard to the creditable amount of the foreign country's corporate tax prescribed in Article 69, paragraph (1), the creditable amount of the foreign country's corporate tax is excluded from deductible expenses, when calculating the amount of income of the domestic corporation for each business year.

### **Division 6 Advanced Depreciation by Reduction of Book Value of Assets**

(Inclusion in Deductible Expenses of the Depreciated Amount of Fixed Assets Acquired with National Subsidies.)

Article 42 (1) In the case where a domestic corporation (excluding a domestic corporation in liquidation; hereinafter the same applies in this Article) has received subsidies or benefits from the national or a local government or any other financial assistance as specified by Cabinet Order as being equivalent thereto (hereinafter referred to as "national subsidies, etc." through to Article 44) in each business year for the purpose of spending them to acquire or improve its fixed assets, and has acquired or improved its fixed assets with the national subsidies, etc. in line with such purpose in the relevant business year (limited to the case where it is determined that the national subsidies, etc. need not be returned by the end of the business year), when their book value has been reduced by accounting for a loss within the limit equivalent to the

amount of the national subsidies, etc. spent for the acquisition or improvement of its fixed assets (hereinafter such limit is referred to as the "advanced depreciation limit" in this paragraph) or the amount not exceeding the advanced depreciation limit has been booked in such a manner as to save it as a reserve (including in a manner as specified by Cabinet Order) in the final settlement of the accounts in the business year, the amount equivalent to the amount reduced or booked as above is included in deductible expenses, when calculating the amount of income for the business year.

- (2) In the case where a domestic corporation has acquired fixed assets which are delivered in lieu of national subsidies, etc. in each business year, when their book value has been reduced by accounting for losses within the limit equivalent to the value of the fixed assets (hereinafter such limit is referred to as the "advanced depreciation limit" in this paragraph) or the amount not exceeding the advanced depreciation limit has been booked in such a manner as to save it as a reserve (including in a manner as specified by Cabinet Order) in the final settlement of the accounts in the business year, the amount equivalent to the amount reduced or booked as above is included in deductible expenses, when calculating the amount of income for the business year.
- (3) The provisions of the preceding two paragraphs apply only in the case where a tax return contains a detailed statement concerning the inclusion in deductible expenses of the amount equivalent to the amount reduced or booked as prescribed in these provisions.
- (4) Even in the case where a tax return without 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 they find any unavoidable grounds for the person's failure to make entries for such matters.
- (5) In the case where a domestic corporation transfers, as a result of a qualified company split by spin-off, qualified contribution in kind, or qualified post-formation contribution (hereinafter referred to as a "qualified company split by spin-off, etc." in this Article), any of the fixed assets that it has acquired or improved with national subsidies, etc. (limited to national subsidies, etc. that the domestic corporation has received during the period from the beginning of the business year containing the date of the qualified company split by spin-off, etc. to immediately prior to the qualified company split by spin-off, etc.) (such fixed assets are limited to those in line with the purpose of the national subsidies, etc.; hereinafter the same applies in this paragraph) to a succeeding corporation in a company split, corporation receiving a capital contribution in kind, or transferee corporation (referred to as a "succeeding corporation in a company split, etc." in the following paragraph) (limited to the case where it is determined that the national subsidies, etc. need not be returned by the time immediately prior to the qualified company split by spin-off, etc.), when the

book value of the fixed assets has been reduced to within the limit equivalent to the amount of national subsidies, etc. spent for the acquisition or improvement thereof, the amount equivalent to the amount reduced as above is included in deductible expenses, when calculating the amount of income for the business year.

- (6) In the case where a domestic corporation transfers, as a result of a qualified company split by spin-off, etc., any of the fixed assets as prescribed in paragraph (2) (limited to those acquired during the period from the beginning of the business year containing the date of the qualified company split by spin-off, etc. to immediately prior to the qualified company split by spin-off, etc.; hereinafter the same applies in this paragraph) to a succeeding corporation in a company split, etc., when the book value of the fixed assets has been reduced to within the limit equivalent to the value of the fixed assets, the amount equivalent to the amount reduced as above is included in deductible expenses, when calculating the amount of income for the business year.
- (7) The provisions of the preceding two paragraphs apply only in the case where the domestic corporation prescribed in these provisions has submitted documents stating the amount equivalent to the reduced amount prescribed in these provisions and other matters specified by Ordinance of the Ministry of Finance to the competent district director with jurisdiction over the place for tax payment, within two months after the date of the qualified company split by spin-off, etc.
- (8) In the case where an acquiring corporation, succeeding corporation in a company split, corporation receiving a capital contribution in kind, or transferee corporation has received the transfer of any of the fixed assets to which the provisions of paragraph (1), paragraph (2), paragraph (5), or paragraph (6) had been applied under an acquired corporation, splitting corporation, corporation making a capital contribution in kind, or transferring corporation, as a result of a qualified merger, qualified company split, qualified contribution in kind, or qualified post-formation contribution, the acquisition cost of the fixed assets and other necessary matters concerning the application of the provisions of the preceding paragraphs are specified by Cabinet Order.

(Inclusion in Deductible Expenses of Special Accounts pertaining to National Subsidies)

Article 43 (1) In the case where a domestic corporation (excluding a domestic corporation in liquidation; hereinafter the same applies in this Article) receives national subsidies, etc. in each business year (excluding a business year containing the day preceding the date of the merger of an acquired corporation (excluding a qualified merger; referred to as a "non-qualified merger" in the following paragraph and paragraph (3)) for the purpose of spending such

subsidies to acquire or improve its fixed assets (limited to the case where it has not been determined that the national subsidies, etc. need not be returned by the end of the business year), when the amount not exceeding the amount equivalent to the national subsidies, etc. has been booked in such a manner as to establish a special account (including in a manner as specified by Cabinet Order) in the final settlement of the accounts in the business year, the amount equivalent to the amount booked as above is included in deductible expenses, when calculating the amount of income for the business year.

- (2) A domestic corporation that has established a special account set forth in the preceding paragraph must, in the case where it has been determined either that national subsidies, etc. should be returned or need not be returned, or where the domestic corporation has been dissolved as a result of a non-qualified merger, or in other cases as specified by Cabinet Order, dispose of the portion of the special account pertaining to the national subsidies, etc. that has been calculated as specified by Cabinet Order.
- (3) The amount of the special account set forth in paragraph (1) that is to be disposed of under the preceding paragraph or the amount of the special account that has been disposed of without falling under the provisions of the preceding paragraph (excluding the amount to be succeeded to by an acquiring corporation, succeeding corporation in a company split, corporation receiving a capital contribution in kind, or transferee corporation (referred to as a "acquiring corporation, etc." in paragraph (8) and paragraph (10)) pursuant to the provisions of paragraph (8)) is included in gross profits, when calculating the amount of income, respectively, for the business year containing the day on which the former amount is to be disposed of (in the case where the domestic corporation prescribed in the preceding paragraph has been dissolved as a result of a non-qualified merger, containing the day preceding the date of the non-qualified merger) or for the business year containing the day on which the latter amount was disposed of.
- (4) The provisions of paragraph (1) apply only in the case where a tax return contains a detailed statement concerning the inclusion in deductible expenses of the amount equivalent to the booked amount prescribed in the paragraph.
- (5) Even in the case where a tax return without 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 they find any unavoidable grounds for the person's failure to make entries for such matters.
- (6) In the case where a domestic corporation has effected a qualified company split by spin-off, qualified contribution in kind, or qualified post-formation contribution (hereinafter referred to as a "qualified company split by spin-off, etc." in this Article) and has received national subsidies, etc. for the purpose of spending them to acquire or improve its fixed assets (limited to national

subsidies, etc. for which it has not been determined that they need not be returned by the time immediately prior to the qualified company split by spin-off, etc.; hereinafter the same applies in this paragraph) during the period from the beginning of the business year containing the date of the qualified company split by spin-off, etc. to immediately prior to the qualified company split by spin-off, etc. (limited to the case where any of the following requirements is met), when a special account equivalent to that which is set forth in paragraph (1) has been established within the limit equivalent to the amount of national subsidies, etc. to be spent for the acquisition or improvement of the fixed assets (hereinafter such special account is referred to as a "special account during the period" in this Article), the amount equivalent to the amount of the special account during the period established as above is included in deductible expenses, when calculating the amount of income for the business year:

(i) that the domestic corporation transfers any of the fixed assets that it has acquired or improved with the national subsidies, etc. (limited to fixed assets in line with the purpose of the national subsidies, etc.) to a succeeding corporation in a company split, corporation receiving a capital contribution in kind, or transferee corporation (hereinafter referred to as a "succeeding corporation in a company split, etc." in this Article) as a result of the qualified company split by spin-off, etc.; or

(ii) that a succeeding corporation in a company split, etc. involved in a qualified company split by spin-off, etc. is expected to acquire or improve its fixed assets with the national subsidies, etc. in line with the purpose thereof.

(7) The provisions of the preceding paragraph apply only in the case where the domestic corporation set forth in the paragraph has submitted documents stating the amount equivalent to the special account during the period and other matters specified by Ordinance of the Ministry of Finance to the competent district director with jurisdiction over the place for tax payment, within two months after the date of the qualified company split by spin-off, etc.

(8) In the case where a domestic corporation has effected a qualified merger, qualified company split, qualified contribution in kind, or qualified post-formation contribution (hereinafter referred to as a "qualified organizational restructuring" in this paragraph), the amount of a special account or special account during the period prescribed in the following items is to be succeeded to by an acquiring corporation, etc. involved in the qualified organizational restructuring, in accordance with the category of the following qualified organizational restructuring:

(i) qualified merger: The amount of a special account set forth in paragraph (1) pertaining to national subsidies, etc. (limited to those for which it has not been determined that they need not be returned by the time immediately prior to the qualified organizational restructuring; hereinafter the same

- applies in this paragraph) that the domestic corporation holds as of immediately prior to the qualified merger;
- (ii) qualified company split by split-off: The portion prescribed respectively as follows, in accordance with the category of the following cases, out of the amount of a special account set forth in paragraph (1) pertaining to national subsidies, etc. that the domestic corporation holds as of immediately prior to the qualified company split by split-off:
    - (a) In the case where the domestic corporation has transferred any of the fixed assets that it has acquired or improved with the national subsidies, etc. (limited to fixed assets in line with the purpose of the national subsidies, etc.) to a succeeding corporation in a company split as a result of the qualified company split by split-off: The amount of a special account pertaining to the national subsidies, etc. that have been spent for acquiring or improving the fixed assets
    - (b) In the case where a succeeding corporation in a company split involved in the qualified company split by split-off is expected to acquire or improve its fixed assets with the national subsidies, etc. in line with the purpose thereof: The amount of a special account pertaining to the national subsidies, etc. that is to be spent for acquiring or improving the fixed assets; and
  - (iii) qualified company split by spin-off, etc.: The portion prescribed respectively as follows, in accordance with the category of the following cases, out of the amount of a special account set forth in paragraph (1) pertaining to national subsidies, etc. that the domestic corporation holds as of immediately prior to the qualified company split by spin-off, etc. and the amount of the special account during the period pertaining to national subsidies, etc. that the domestic corporation established at the time of the qualified company split by spin-off, etc.:
    - (a) In the case where the domestic corporation has transferred any of the fixed assets that it has acquired or improved with the national subsidies, etc. (limited to fixed assets in line with the purpose of the national subsidies, etc.) to a succeeding corporation in a company split, etc. as a result of the qualified company split by spin-off, etc.: The amount of a special account pertaining to the national subsidies, etc. that have been spent for acquiring or improving the fixed assets
    - (b) In the case where a in a company split, etc. involved in the qualified company split by spin-off, etc. is expected to acquire or improve its fixed assets with the national subsidies, etc. in line with the purpose thereof: The amount of a special account pertaining to the national subsidies, etc. that are to be spent for acquiring or improving the fixed assets.
- (9) With regard to a domestic corporation that has established a special account

set forth in paragraph (1) and has effected a qualified merger, qualified contribution in kind, or qualified post-formation contribution (hereinafter referred to as a "qualified company split, etc." in this paragraph) (excluding a domestic corporation that has established both the special account and a special account during the period and carries over only the amount of the special account during the period to a succeeding corporation in a company split, etc. as a result of a qualified company split by spin-off, etc.), the provisions of the preceding paragraph apply only in the case where the domestic corporation that has established the special account has submitted documents stating the amount of the special account to be carried over to a succeeding corporation in a company split, etc. as a result of a qualified company split, etc. 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, within two months after the date of the qualified company split, etc.

(10) The amount of a special account set forth in paragraph (1) or the amount of a special account during the period that an acquiring corporation, etc. has succeeded to pursuant to the provisions of paragraph (8) is deemed to be the amount of a special account set forth in paragraph (1) that the acquiring corporation, etc. has established pursuant to the provisions of the paragraph.

(11) Necessary matters concerning the application of the provisions of the preceding paragraphs in the case where a merger, company split, contribution in kind to the capital of the receiving corporation, or post-formation contribution of assets and/or liabilities (meaning the post-formation contribution of assets and/or liabilities prescribed in Article 2, item (xii)-6 (Definitions)) has been effected are specified by Cabinet Order.

(Inclusion in Deductible Expenses of the Depreciated Amount of Fixed Assets Acquired with National Subsidies Where a Special Account Has Been Established)

Article 44 (1) In the case where a domestic corporation that holds the amount of a special account set forth in paragraph (1) of the preceding Article (excluding the amount already having been disposed of) has acquired or improved its fixed assets with national subsidies, etc. in line with the purpose thereof (in the case where the domestic corporation has succeeded to the amount of the special account from an acquired corporation, splitting corporation, corporation making a capital contribution in kind, or transferring corporation (hereinafter referred to as a "acquired corporation, etc." in this paragraph and paragraph (6)), pursuant to the provisions of Article 43, paragraph (8) (hereinafter such case is referred to as the "case where there was any succession" in this paragraph), including the case where the acquired corporation, etc. has

acquired or improved such fixed assets with national subsidies, etc.;

hereinafter the same applies in this paragraph and paragraph (4)), and where it has been determined that the whole or a part of the national subsidies, etc. spent for the acquisition or improvement need not be returned in a business year after the business year containing the date of the acquisition or improvement (in the case where there was any succession, in a business year after the business year containing the date of a qualified organizational restructuring as prescribed in Article 43, paragraph (8) (referred to as a "qualified organizational restructuring" in paragraph (6)), when the book value of the fixed assets has been reduced by accounting for losses within the limit of the amount calculated, as specified by Cabinet Order, as the portion of the special account as of the date of the determination that pertains to the national subsidies, etc. for which it has been determined that they need not be returned (hereinafter such limit is referred to as the "advanced depreciation limit" in this paragraph and paragraph (4)) or the amount not exceeding the advanced depreciation limit has been booked in such a manner as to save it as a reserve (including in a manner as specified by Cabinet Order) in the final settlement of the accounts in the business year, the amount equivalent to the amount reduced or booked as above is included in deductible expenses, when calculating the amount of income for the business year.

- (2) The provisions of the preceding paragraph apply only in the case where a tax return contains a detailed statement concerning the inclusion in deductible expenses of the amount reduced or booked as prescribed in the paragraph.
- (3) Even in the case where a tax return without 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 they find any unavoidable grounds for the person's failure to make entries for such matters.
- (4) In the case where a domestic corporation that holds the amount of a special account set forth in paragraph (1) has effected a qualified company split by spin-off, qualified contribution in kind, or qualified post-formation contribution (hereinafter referred to as a "qualified company split by spin-off, etc." in this paragraph and the following paragraph) and where the domestic corporation has acquired or improved its fixed assets with the national subsidies, etc. in line with the purpose thereof immediately prior to the qualified company split by spin-off, etc. (limited to the case where it has determined that the whole or a part of the national subsidies, etc. spent for the acquisition or improvement need not be returned during the period from the beginning of the business year containing the date of the qualified company split by spin-off, etc. to immediately prior to the qualified company split by spin-off, etc. and where the fixed assets acquired or improved are to be transferred to a succeeding corporation in a company split, corporation receiving a capital contribution in

kind, or transferee corporation as a result of the qualified company split by spin-off), when the book value of the fixed assets has been reduced to within the advanced depreciation limit, the amount equivalent to the amount reduced as above is included in deductible expenses, when calculating the amount of income for the business year.

- (5) The provisions of the preceding paragraph apply only in the case where the domestic corporation prescribed in the paragraph has submitted documents stating the amount equivalent to the reduced amount prescribed in the paragraph and other matters specified by Ordinance of the Ministry of Finance to the competent district director with jurisdiction over the place for tax payment, within two months after the date of the qualified company split by spin-off, etc.
- (6) In the case where an acquiring corporation, succeeding corporation in a company split, corporation receiving a capital contribution in kind, or transferee corporation has received the transfer of any of the fixed assets to which the provisions of paragraph (1) or paragraph (4) had been applied under an acquired corporation, etc., as a result of a qualified organizational restructuring, the acquisition cost of the fixed assets and other necessary matters concerning the application of the provisions of the preceding paragraphs are specified by Cabinet Order.

(Inclusion in Deductible Expenses of the Depreciated Amount of Fixed Assets Acquired through Payment by the Users)

Article 45 (1) In the case where a domestic corporation (excluding a domestic corporation in liquidation; hereinafter the same applies in this Article) that conducts any of the following businesses has received monies or materials in each business year, for the purpose of establishing the facilities necessary for conducting the business, from persons who consume electricity, gas or water, persons who receive a heat supply, persons who use railway or rail track services or wire broadcasting telephone services, or other persons who enjoy benefits from such facilities (hereinafter referred to as the "users" in this Article) and has acquired fixed assets comprising such facilities with the monies or materials in the business year, when the book value of the fixed assets has been reduced by accounting for losses within the limit of the amount equivalent to that of the monies paid or the value of the materials provided (hereinafter such limit is referred to as the "advanced depreciation limit" in this paragraph) or the amount not exceeding the advanced depreciation limit has been booked in such a manner as to save it as a reserve (including in a manner as specified by Cabinet Order) in the final settlement of the accounts in the business year, the amount equivalent to the amount reduced or booked as above is included in deductible expenses, when calculating the amount of

income for the business year:

- (i) the general electricity business prescribed in Article 2, paragraph (1), item (i) (Definitions) of the Electricity Business Act (Act No. 170 of 1964), wholesale electricity business prescribed in item (iii) of the paragraph, or specified electricity business prescribed in item (v) of the paragraph;
  - (ii) the general gas utility business prescribed in Article 2, paragraph (1) (Definitions) of the Gas Business Act (Act No. 51 of 1954) or community gas utility business prescribed in paragraph (3) of the Article;
  - (iii) the water utility business prescribed in Article 3, paragraph (2) (Definitions) of the Waterworks Act (Act No. 177 of 1957);
  - (iv) the heat supply business prescribed in Article 2, paragraph (2) (Definitions) of the Heat Supply Business Act (Act No. 88 of 1972);
  - (v) the railway business prescribed in Article 2, paragraph (1) (Definitions) of the Railway Business Act (Act No. 92 of 1986);
  - (vi) the transport business conducted by laying rail tracks prescribed in Article 1, paragraph (1) (Coverage of the Act on Rail Tracks) of the Act on Rail Tracks (Act No. 76 of 1921);
  - (vii) the business pertaining to wire broadcasting telephone services prescribed in Article 2, paragraph (2) (Definitions) of the Act on Wire Broadcasting Telephone Business (Act No. 152 of 1957); and
  - (viii) businesses equivalent to those listed in the preceding items that are specified by Cabinet Order.
- (2) In the case where the domestic corporation set forth in the preceding paragraph has received the delivery of fixed assets comprising the facilities necessary for conducting the businesses listed in the items of the paragraph in each business year from the users of the business, when the book value of the fixed assets has been reduced by accounting for losses within the limit of the amount equivalent to the value of the fixed assets (hereinafter such limit is referred to as the "advanced depreciation limit" in this paragraph) or the amount not exceeding the advanced depreciation limit has been booked in such a manner as to save it as a reserve (including in a manner as specified by Cabinet Order) in the final settlement of the accounts in the business year, the amount equivalent to the amount reduced or booked as above is included in deductible expenses, when calculating the amount of income for the business year.
- (3) The provisions of the preceding two paragraphs apply only in the case where a tax return contains a detailed statement concerning the inclusion in deductible expenses of the amount reduced or booked as prescribed in these provisions.
- (4) Even in the case where a tax return without 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 they find any unavoidable grounds for the person's failure to make entries for such matters.

- (5) In the case where the domestic corporation set forth in the preceding paragraph transfers, as a result of a qualified company split by spin-off, qualified contribution in kind, or qualified post-formation contribution (hereinafter referred to as a "qualified company split by spin-off, etc." in this Article), its fixed assets (limited to fixed assets that the domestic corporation acquired by receiving monies or materials, for the purpose of establishing the facilities necessary for conducting the business listed in paragraph (1), from the users of the business during the period from the beginning of the business year containing the date of the qualified company split by spin-off, etc. to immediately prior to the qualified company split by spin-off, etc. and that comprise the facilities) to a succeeding corporation in a company split, corporation receiving a capital contribution in kind, or transferee corporation (referred to as a "succeeding corporation in a company split, etc." in the following paragraph), when the book value of the fixed assets has been reduced to within the amount equivalent to that of the monies paid or the value of the materials provided, the amount equivalent to the amount reduced as above is included in deductible expenses, when calculating the amount of income for the business year.
- (6) In the case where the domestic corporation set forth in paragraph (1) transfers, as a result of a qualified company split by spin-off, etc., fixed assets comprising the facilities necessary for conducting the business listed in the items of the paragraph (limited to the fixed assets that the domestic corporation acquired from the users of the business during the period from the beginning of the business year containing the date of the qualified company split by spin-off, etc. to immediately prior to the qualified company split by spin-off, etc.) to a succeeding corporation in a company split, etc., when the book value of the fixed assets has been reduced to within the amount equivalent to the value of the fixed assets, the amount equivalent to the amount reduced as above is included in deductible expenses, when calculating the amount of income for the business year.
- (7) The provisions of the preceding two paragraphs apply only in the case where the domestic corporation prescribed in these provisions has submitted documents stating the amount equivalent to the reduced amount prescribed in these provisions and any other matters as specified by Ordinance of the Ministry of Finance to the competent district director with jurisdiction over the place for tax payment, within two months after the date of the qualified company split by spin-off, etc.
- (8) In the case where an acquiring corporation, succeeding corporation in a company split, corporation receiving a capital contribution in kind, or

transferee corporation has received the transfer of any of the fixed assets to which the provisions of paragraph (1), paragraph (2), paragraph (5), or paragraph (6) had been applied under an acquired corporation, splitting corporation, corporation making a capital contribution in kind, or transferring corporation, as a result of a qualified merger, qualified company split, qualified contribution in kind, or qualified post-formation contribution, acquisition cost of the fixed assets and other necessary matters concerning the application of the provisions of the preceding paragraphs are specified by Cabinet Order.

(Inclusion in Deductible Expenses of the Depreciated Amount of Fixed Assets  
Acquired by a Non-investment Partnership with Allotment Monies)

Article 46 (1) In the case where cooperatives, etc. that do not hold capital contributions allots the expenses for acquiring or improving its fixed assets to be used for its business to its partners or members in each business year and has acquired or improved any fixed assets to be used for its business with the monies paid based on such allotment in the business year (hereinafter referred to as "allotment monies" in this paragraph), when the book value of the fixed assets has been reduced by accounting for losses within the limit equivalent to the amount of the allotment monies spent for the acquisition or improvement of the fixed assets (hereinafter such limit is referred to as the "advanced depreciation limit" in this paragraph) or the amount not exceeding the advanced depreciation limit has been booked in such a manner as to save it as a reserve in the final settlement of the accounts in the business year, the amount equivalent to the amount reduced or booked as above is included in deductible expenses, when calculating the amount of income for the business year.

(2) The provisions of the preceding paragraph apply only in the case where a tax return contains a detailed statement concerning the inclusion in deductible expenses of the amount equivalent to the amount reduced or booked as prescribed in the paragraph.

(3) Even in the case where a tax return without 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 they find any unavoidable grounds for the person's failure to make entries for such matters.

(Inclusion in Deductible Expenses of the Depreciated Amount of Fixed Assets  
Acquired with Insurance Monies)

Article 47 (1) In the case where a domestic corporation (excluding a domestic corporation in liquidation; hereinafter the same applies in this Article) has received, in each business year, insurance monies, mutual aid monies, or compensation for damages that is specified by Cabinet Order (referred to as

"insurance monies, etc." through to Article 49) for any loss of or damage to its fixed assets (in the case where the domestic corporation has effected a qualified merger, qualified company split, qualified contribution in kind, or qualified post-formation contribution (hereinafter referred to as a "qualified organizational restructuring" in this paragraph and paragraph (8)) through which the domestic corporation becomes an acquiring corporation, succeeding corporation in a company split, corporation receiving a capital contribution in kind, or transferee corporation (referred to as a "acquiring corporation, etc." in paragraph (8)), such fixed assets include those owned by the acquired corporation, splitting corporation, corporation making a capital contribution in kind, or transferring corporation (referred to as a "acquired corporation, etc." in paragraph (8)) involved in the qualified organizational restructuring; hereinafter referred to as "owned fixed assets" in this Article), and has acquired the same type of fixed assets substituting the owned fixed assets that were lost (hereinafter referred to as "substituted assets" in this Article) with the insurance monies, etc. (excluding the acquisition through a lease transaction that is specified by Cabinet Order as a transaction wherein the ownership is not transferred out of those prescribed in Article 64-2, paragraph (3) (Calculation of the Amount of Income of the Act pertaining to Lease Transactions); hereinafter the same applies in this paragraph and paragraph (5)), or has improved the owned fixed assets that were damaged or assets to be substituted assets in the business year, when the book value of the fixed assets has been reduced by accounting for losses within the limit equivalent to the gain pertaining to insurance monies, etc. spent for the acquisition or improvement of the fixed assets (hereinafter such limit is referred to as the "advanced depreciation limit" in this paragraph) or the amount not exceeding the advanced depreciation limit has been booked in such a manner as to save it as a reserve (including in a manner as specified by Cabinet Order) in the final settlement of the accounts in the business year, the amount equivalent to the amount reduced or booked as above is included in deductible expenses, when calculating the amount of income for the business year.

- (2) In the case where a domestic corporation has received the delivery of substituted assets in lieu of insurance monies, etc. for the loss of or damage to its owned fixed assets in each business year, when the book value of the substituted assets has been reduced by accounting for losses within the limit of the amount calculated as specified by Cabinet Order as the amount of the gain pertaining to the substituted assets (hereinafter such limit is referred to as the "advanced depreciation limit" in this paragraph) or the amount not exceeding the advanced depreciation limit has been booked in such a manner as to save it as a reserve (including in a manner as specified by Cabinet Order) in the final settlement of the accounts in the business year, the amount equivalent to the

amount reduced or booked as above is included in deductible expenses, when calculating the amount of income for the business year.

- (3) The provisions of the preceding two paragraphs apply only in the case where a tax return contains a detailed statement concerning the inclusion in deductible expenses of the amount equivalent to the amount reduced or booked as prescribed in these provisions.
- (4) Even in the case where a tax return without 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 they find any unavoidable grounds for the person's failure to make entries for such matters.
- (5) In the case where a domestic corporation transfers, as a result of a qualified company split by spin-off, qualified contribution in kind, or qualified post-formation contribution (hereinafter referred to as a "qualified company split by spin-off, etc." in this Article), the fixed assets (limited to substituted assets that the domestic corporation acquired with the insurance monies, etc. it had received for the loss of or damage to its owned fixed assets during the period from the beginning of the business year containing the date of the qualified company split by spin-off, etc. to immediately prior to the qualified company split by spin-off, etc., or any of its owned fixed assets which had been damaged and that it improved with the insurance monies, etc. it had received for the loss or damage during the period or assets to become substituted assets; hereinafter the same applies in this paragraph) to a succeeding corporation in a company split, corporation receiving a capital contribution in kind, or transferee corporation (referred to as a "succeeding corporation in a company split, etc." in the following paragraph), when the book value of the fixed assets has been reduced to within the amount equivalent to the advanced depreciation limit prescribed in paragraph (1), the amount equivalent to the amount reduced as above is included in deductible expenses, when calculating the amount of income for the business year.
- (6) In the case where a domestic corporation transfers, as a result of a qualified company split by spin-off, etc., substituted assets (limited to assets which have been delivered to the domestic corporation in lieu of insurance monies, etc. for the loss of or damage to its owned fixed assets during the period from the beginning of the business year containing the date of the qualified company split by spin-off, etc. to immediately prior to the qualified company split by spin-off, etc.; hereinafter the same applies in this paragraph) to a succeeding corporation in a company split, etc., when the book value of the substituted assets has been reduced to within the amount equivalent to the advanced depreciation limit prescribed in paragraph (2), the amount equivalent to the amount reduced as above is included in deductible expenses, when calculating the amount of income for the business year.

- (7) The provisions of the preceding two paragraphs apply only in the case where the domestic corporation prescribed in these provisions has submitted documents stating the amount equivalent to the reduced amount prescribed in these provisions and other matters specified by Ordinance of the Ministry of Finance to the competent district director with jurisdiction over the place for tax payment, within two months after the date of the qualified company split by spin-off, etc.
- (8) In the case where an acquiring corporation, etc. has received the transfer of any of the fixed assets to which the provisions of paragraph (1), paragraph (2), paragraph (5), or paragraph (6) had been applied under an acquired corporation, etc. as a result of a qualified organizational restructuring, the acquisition cost of the fixed assets and other necessary matters concerning the application of the provisions of the preceding paragraphs are specified by Cabinet Order.

(Inclusion in Deductible Expenses of a Special Account for a Gain on Insurance Claims)

Article 48 (1) In the case where a domestic corporation (excluding a domestic corporation in liquidation; hereinafter the same applies in this Article) that is to receive the payment of insurance monies, etc. intends to make an acquisition or improvement as prescribed in paragraph (1) of the preceding Article with the insurance monies, etc. during the period up to the day preceding the day on which two years have elapsed from the day following the last day of the business year in which it receives the payment (excluding a business year containing the day preceding the date of a merger (excluding a qualified merger; referred to as a "non-qualified merger" in the following paragraph and paragraph (3)) of an acquired corporation) (in the case where it is difficult to acquire the substituted assets prescribed in paragraph (1) of the preceding Article as prescribed in the paragraph by the date due to any disaster or other unavoidable circumstances, during the period up to the day designated by the competent district director with jurisdiction over the place for tax payment as specified by Cabinet Order (referred to as the "designated date" in paragraph (6) and paragraph (8)) (such case includes the case where the domestic corporation has effected a qualified merger through which it becomes an acquired corporation, and where the acquiring corporation involved in the qualified merger intends to make the acquisition or improvement or other cases specified by Cabinet Order), when the amount not exceeding the amount calculated as a gain pertaining to the insurance monies, etc to be spent for the acquisition or improvement as specified by Cabinet Order has been booked in such a manner as to establish a special account (including in a manner as specified by Cabinet Order) in the final settlement of the accounts in the

business year, the amount equivalent to the amount booked as above is included in deductible expenses, when calculating the amount of income for the business year.

- (2) A domestic corporation that has established a special account set forth in the preceding paragraph must, in the case where it has acquired substituted assets as prescribed in paragraph (1) of the preceding Article as specified in the paragraph, or where the domestic corporation has been dissolved as a result of a non-qualified merger, or in other cases as specified by Cabinet Order, dispose of the portion of the special account pertaining to the insurance monies, etc. that has been calculated as specified by Cabinet Order.
- (3) The amount of the special account set forth in paragraph (1) that is to be disposed of under the preceding paragraph or the amount of the special account that has been disposed of without falling under the provisions of the preceding paragraph (excluding the amount to be succeeded to by an acquiring corporation, succeeding corporation in a company split, corporation receiving a capital contribution in kind, or transferee corporation (referred to as a "acquiring corporation, etc." in paragraph (8) and paragraph (10)) pursuant to the provisions of paragraph (8)) is included in gross profits, when calculating the amount of income, respectively, for the business year containing the day on which the former amount is to be disposed of (in the case where the domestic corporation prescribed in the preceding paragraph has been dissolved as a result of a non-qualified merger, containing the day preceding the date of the non-qualified merger) or for the business year containing the day on which the latter amount was disposed of.
- (4) The provisions of paragraph (1) apply only in the case where a tax return contains a detailed statement concerning the inclusion in deductible expenses of the amount equivalent to the booked amount prescribed in the paragraph.
- (5) Even in the case where a tax return without 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 they find any unavoidable grounds for the person's failure to make entries for such matters.
- (6) In the case where a domestic corporation has effected a qualified company split by spin-off, qualified contribution in kind, or qualified post-formation acquisition (hereinafter referred to as a "qualified company split by spin-off, etc." in this Article) and has received the payment of insurance monies, etc. during the period from the beginning of the business year containing the date of the qualified company split by spin-off, etc. to immediately prior to the qualified company split by spin-off, etc. (limited to the case where the succeeding corporation in a company split, corporation receiving a capital contribution in kind, or transferee corporation (referred to as a "succeeding corporation in a company split, etc." in paragraph (8) and paragraph (9))

involved in the qualified company split by spin-off, etc. is expected to make an acquisition or improvement as prescribed in paragraph (1) of the preceding Article with the insurance monies, etc. during the period from the date of the qualified company split by spin-off, etc. to the day preceding the day on which two years have elapsed from the day following the last day of the business year (in the case where any date is designated, up to the designated date), when a special account equivalent to that which is set forth in paragraph (1) has been established within the limit equivalent to the amount of insurance monies, etc. to be spent for the acquisition or improvement (hereinafter such special account is referred to as a "special account during the period" in this Article), the amount equivalent to the amount of the special account during the period established as above is included in deductible expenses, when calculating the amount of income for the business year:

- (7) The provisions of the preceding paragraph apply only in the case where the domestic corporation set forth in the paragraph has submitted documents stating the amount equivalent to the special account during the period and other matters specified by Ordinance of the Ministry of Finance to the competent district director with jurisdiction over the place for tax payment, within two months after the date of the qualified company split by spin-off, etc.
- (8) In the case where a domestic corporation has effected a qualified merger, qualified company split, qualified contribution in kind, or qualified post-formation contribution (hereinafter referred to as a "qualified organizational restructuring" in this paragraph), the amount of a special account or special account during the period as prescribed in the following items is to be succeeded to by an acquiring corporation, etc. involved in the qualified organizational restructuring, in accordance with the category of the following qualified organizational restructuring:
  - (i) qualified merger: The amount of a special account set forth in paragraph (1) pertaining to insurance monies, etc. that the domestic corporation holds as of immediately prior to the qualified merger;
  - (ii) qualified company split by split-off: The portion of the amount of a special account set forth in paragraph (1) pertaining to the insurance monies, etc. that the domestic corporation holds as of immediately prior to the qualified company split by split-off, which pertains to the insurance monies, etc. to be spent for the acquisition or improvement prescribed in paragraph (1) of the preceding Article that is expected to be made by the succeeding corporation in a company split involved in the qualified company split by split-off during the acquisition/improvement period (meaning the period from the date of the qualified company split by split-off to the day preceding the day on which two years have elapsed from the day following the last day of the business year in which the splitting corporation involved in the qualified company split by

- split-off received the payment of the insurance monies, etc. (in the case where any date is designated, up to the designated date)); or
- (iii) qualified company split by spin-off, etc.: The portion of the amount of a special account set forth in paragraph (1) pertaining to the insurance monies, etc. that the domestic corporation holds as of immediately prior to the qualified company split by spin-off, etc. which pertains to the insurance monies, etc. to be spent for the acquisition or improvement prescribed in paragraph (1) of the preceding Article that is expected to be made by the succeeding corporation in a company split, etc. involved in the qualified company split by spin-off, etc. during the acquisition/improvement period (meaning the period from the date of the qualified company split by spin-off, etc. to the day preceding the day on which two years have elapsed from the day following the last day of the business year in which the splitting corporation, corporation making a capital contribution in kind, or corporation effecting the post-formation contribution involved in the qualified company split by spin-off, etc. received the payment of the insurance monies, etc. (in the case where any date is designated, up to the designated date)) and the amount of the special account during the period pertaining to insurance monies, etc. that the domestic corporation established upon the qualified company split by spin-off, etc.
- (9) With regard to a domestic corporation that has established a special account set forth in paragraph (1) and has effected a qualified merger, qualified contribution in kind, or qualified post-formation contribution (hereinafter referred to as a "qualified company split, etc." in this paragraph) (excluding a domestic corporation that has established both the special account and a special account during the period and carries over only the amount of the special account during the period to a succeeding corporation in a company split, etc. as a result of a qualified company split by spin-off, etc.), the provisions of the preceding paragraph apply only in the case where the domestic corporation that has established the special account has submitted documents stating the amount of the special account to be carried over to a succeeding corporation in a company split, etc. as a result of a qualified company split, etc. and other matters specified by Ordinance of the Ministry of Finance to the competent district director with jurisdiction over the place for tax payment, within two months after the date of the qualified company split, etc.
- (10) The amount of a special account set forth in paragraph (1) or the amount of a special account during the period that an acquiring corporation, etc. has succeeded to pursuant to the provisions of paragraph (8) is deemed to be the amount of a special account set forth in paragraph (1) that the acquiring corporation, etc. has established pursuant to the provisions of the paragraph.

(11) Necessary matters concerning the application of the provisions of the preceding paragraphs in the case where a merger, company split, contribution in kind to the capital of the receiving corporation, or post-formation contribution (meaning the post-formation contribution prescribed in Article 2, item (xii)-6 (Definitions)) has been effected are specified by Cabinet Order.

(Inclusion in Deductible Expenses of the Depreciated Amount of Fixed Assets Acquired with Insurance Monies, etc. Where a Special Account Has Been Established)

Article 49 (1) In the case where a domestic corporation that holds the amount of a special account set forth in paragraph (1) of the preceding Article (excluding the amount already having been disposed of) has made an acquisition or improvement as prescribed in the paragraph during the period prescribed in the paragraph (in the case where the amount of the special account was the amount succeeded to from an acquired corporation pursuant to the provisions of paragraph (8) of the preceding Article or in other cases as specified by Cabinet Order, during the period specified by Cabinet Order; referred to as the "designated acquisition period" in paragraph (4)), when the book value of the fixed assets pertaining to the acquisition or improvement has been reduced by accounting for losses to within the limit of the amount calculated, as specified by Cabinet Order, as the portion of the special account as of the date of the acquisition or improvement that pertains to the insurance monies, etc. spent for the acquisition or improvement (hereinafter such limit is referred to as the "advanced depreciation limit" in this paragraph and paragraph (4)) or the amount not exceeding the advanced depreciation limit has been booked in such a manner as to save it as a reserve (including in a manner as specified by Cabinet Order) in the final settlement of the accounts in the business year, the amount equivalent to the amount reduced or booked as above is included in deductible expenses, when calculating the amount of income for the business year.

(2) The provisions of the preceding paragraph apply only in the case where a tax return contains a detailed statement concerning the inclusion in deductible expenses of the amount reduced or booked as prescribed in the paragraph.

(3) Even in the case where a tax return without 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 they find any unavoidable grounds for the person's failure to make entries for such matters.

(4) In the case where a domestic corporation that holds the amount of a special account set forth in paragraph (1) has effected a qualified company split by spin-off, qualified contribution in kind, or qualified post-formation contribution (hereinafter referred to as a "qualified company split by spin-off, etc." in this

paragraph and the following paragraph) and where the domestic corporation has made an acquisition or improvement as prescribed in paragraph (1) during the period from the beginning of the business year containing the date of the qualified company split by spin-off, etc. to immediately prior to the qualified company split by spin-off, etc. (limited to the case where the acquisition or improvement has been made during the designated acquisition period pertaining to the acquisition or improvement, and the acquired or improved fixed assets are to be transferred to a succeeding corporation in a company split, corporation receiving a capital contribution in kind, or transferee corporation as a result of the qualified company split by spin-off, etc.), when the book value of the fixed assets has been reduced to within the advanced depreciation limit, the amount equivalent to the amount reduced as above is included in deductible expenses, when calculating the amount of income for the business year.

- (5) The provisions of the preceding paragraph apply only in the case where the domestic corporation prescribed in the paragraph has submitted documents stating the amount equivalent to the reduced amount prescribed in the paragraph and other matters as specified by Ordinance of the Ministry of Finance to the competent district director with jurisdiction over the place for tax payment, within two months after the date of the qualified company split by spin-off, etc.
- (6) In the case where an acquiring corporation, succeeding corporation in a company split, corporation receiving a capital contribution in kind, or transferee corporation has received the transfer of any of the fixed assets to which the provisions of paragraph (1) or paragraph (4) had been applied under an acquired corporation, splitting corporation, corporation making a capital contribution in kind, or transferring corporation, as a result of a qualified merger, qualified company split, qualified contribution in kind, or qualified post-formation contribution, acquisition cost of the fixed assets and other necessary matters concerning the application of the provisions of the preceding paragraphs are specified by Cabinet Order.

(Inclusion in Deductible Expenses of the Depreciated Amount of Assets  
Acquired through Exchange)

Article 50 (1) In the case where a domestic corporation (excluding a domestic corporation in liquidation; hereinafter the same applies in this Article) has, in each business year, exchanged any of the following fixed assets that it had owned for one year or longer (including fixed assets that the domestic corporation had received from an acquired corporation, splitting corporation, corporation making a capital contribution in kind, or transferring corporation (hereinafter referred to as a "acquired corporation, etc." in this paragraph and

paragraph (7)) as a result of a qualified merger, qualified company split, qualified contribution in kind, or qualified post-formation contribution (hereinafter referred to as a "qualified organizational restructuring" in this paragraph and paragraph (7)) and that had been owned by the acquired corporation, etc. and the domestic corporation for one year or longer in total) with the relevant fixed assets listed as follows that other persons had owned for one year or longer (including fixed assets that the other persons had received from an acquired corporation, etc. as a result of qualified organizational restructuring and that had been owned by the acquired corporation, etc. and the other persons for one year or longer in total) (such fixed assets exclude those deemed to have been acquired for the purpose of exchanging them with other assets), and has used the following assets that it acquired through the exchange (hereinafter referred to as the "acquired assets" in this Article) for the same usage as that of the relevant assets listed as follows that it transferred through the exchange (hereinafter referred to as the "transferred assets" in this Article) immediately prior to the transfer, when the book value of the acquired assets has been reduced by accounting for losses within the limit of the amount calculated as specified by Cabinet Order as the amount of gain on the exchange, the amount equivalent to the amount reduced as above is included in deductible expenses, when calculating the amount of income for the business year:

- (i) land (including superficies and rights of lease for owning a building or structure and rights concerning cultivation on agricultural land as prescribed in Article 2, paragraph (1) (Definition) 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; and
  - (v) mining rights (including mining lease rights, rights of quarrying, or any other rights to dig or quarry soil and stone.
- (2) The provisions of the preceding paragraph and paragraph (5) do not apply in the case where the difference between the value of the acquired assets and that of the transferred assets at the time of an exchange set forth in these provisions exceeds 20 percent of the larger value of either of these.
- (3) The provisions of paragraph (1) apply only in the case where a tax return contains a detailed statement concerning the inclusion in deductible expenses of the amount reduced as prescribed in the paragraph.
- (4) Even in the case where a tax return without 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 they find any unavoidable grounds for the person's failure to make entries for such matters.

- (5) In the case where a domestic corporation transfers, as a result of a qualified company split by spin-off, qualified contribution in kind, or qualified post-formation contribution (hereinafter referred to as a "qualified company split by spin-off, etc." in this paragraph and the following paragraph), any acquired assets (limited to assets that had been acquired through an exchange as prescribed in paragraph (1) during the period from the beginning of the business year containing the date of the qualified company split by spin-off, etc. to immediately prior to the qualified company split by spin-off, etc. and used for the same usage as that of the transferred assets immediately prior to the transfer) to a succeeding corporation in a company split, corporation receiving a capital contribution in kind, or transferee corporation, when the book value of the acquired assets has been reduced to within the amount equivalent to the calculated amount prescribed in paragraph (1), the amount equivalent to the amount reduced as above is included in deductible expenses, when calculating the amount of income for the business year.
- (6) The provisions of the preceding paragraph apply only in the case where the domestic corporation set forth in the paragraph has submitted documents stating the amount equivalent to the reduced amount prescribed in the paragraph and other matters specified by Ordinance of the Ministry of Finance to the competent district director with jurisdiction over the place for tax payment, within two months after the date of the qualified company split by spin-off, etc.
- (7) In the case where an acquiring corporation, succeeding corporation in a company split, corporation receiving a capital contribution in kind, or transferee corporation has received the transfer of any of the fixed assets to which the provisions of paragraph (1) or paragraph (5) had been applied under an acquired corporation, etc. as a result of a qualified organizational restructuring, acquisition cost of the fixed assets and other necessary matters concerning the application of the provisions of the preceding paragraphs are specified by Cabinet Order.

### **Division 7 Reserve**

(Reserve for Bad Debts)

Article 52 (1) In the case where a domestic corporation is granted a grace period for payment or is allowed an installment payment of their monetary claims, based on the order on the confirmation of a reorganization plan, pursuant to the provisions of the Corporate Reorganization Act, or in any other cases specified by Cabinet Order, the amount credited to the reserve for bad debts in each business year, by accounting for losses, to be the prospective net operating loss on monetary claims, part of which are expected to generate loss

due to bad debts or on any other equivalent grounds (in the case where there are other monetary claims for the debtor of the monetary claims (excluding any monetary claims to be transferred to a succeeding corporation in a company split as a result of a company split by split-off that does not fall under the category of a qualified company split by split-off), including this other monetary claims and excluding any monetary claims to be transferred to an acquiring corporation or succeeding corporation in a company split (referred to as a "acquiring corporation, etc." in the following paragraph) as a result of a merger that does not fall under the category of a qualified merger or a company split by split-off that does not fall under the category of a qualified company split by split-off (referred to as a "non-qualified merger, etc." in the following paragraph); hereinafter such monetary claims are referred to as "individually assessed monetary claims" in this Article) is included in deductible expenses, when calculating the amount of income for the business year, up to the amount calculated as specified by Cabinet Order, based on the portion of the amount credited for which it is deemed that there is little chance of the collection or payment of the individually assessed monetary claims as of the end of the business year (such calculated amount is referred to as the "limit to individual credit reserve for bad debts" in paragraph (5)).

- (2) The amount that a domestic corporation has credited to the reserve for bad debts in each business year, by accounting for losses, to be the prospective net operating loss due to the bad debts of their accounts receivable, loans, or any other equivalent monetary claims (excluding individually assessed monetary claims and monetary claims to be transferred to an acquiring corporation, etc. as a result of a non-qualified merger, etc.; hereinafter referred to as "collectively assessed monetary claims" in this paragraph), is included in deductible expenses, when calculating the amount of income for the business year, up to the amount calculated as specified by Cabinet Order, based on the amount of collectively assessed monetary claims as of the end of the business year and the net operating loss due to the bad debts of the accounts receivable, loans, or any other equivalent monetary claims.
- (3) The provisions of the preceding two paragraphs apply only in the case where a tax return contains a detailed statement concerning the inclusion in deductible expenses of the amount credited to the reserve for bad debts prescribed in these provisions.
- (4) Even in the case where a tax return without 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) and paragraph (2), when they find any unavoidable grounds for the person's failure to make entries for such matters.
- (5) In the case where a domestic corporation transfers individually assessed

monetary claims to a succeeding corporation in a company split, corporation receiving a capital contribution in kind, or transferee corporation as a result of a qualified company split by spin-off, qualified contribution in kind, or qualified post-formation contribution (hereinafter referred to as a "qualified company split by spin-off, etc." in this Article), when an account equivalent to the reserve for bad debts set forth in paragraph (1) (hereinafter referred to as the "reserve for bad debts during the period" in this Article) has been established with regard to the individually assessed monetary claims, the portion of the amount equivalent to the amount of the reserve for bad debts during the period established as above is included in deductible expenses, when calculating the amount of income for the business year containing the date of the qualified company split by spin-off, etc.," up to the amount equivalent to the limit to individual credit reserve for bad debts calculated as prescribed in paragraph (1) with regard to the individually assessed monetary claims by deeming the time immediately prior to the qualified company split by spin-off, etc. to be the end of the business year.

(6) The provisions of the preceding paragraph apply only in the case where the domestic corporation set forth in the paragraph has submitted documents stating the amount equivalent to the amount of the reserve for bad debts during the period and other matters specified by Ordinance of the Ministry of Finance to the competent district director with jurisdiction over the place for tax payment, within two months after the date of the qualified company split by spin-off, etc.

(7) In the case where a domestic corporation has effected a qualified merger, qualified company split, qualified contribution in kind, or qualified post-formation contribution (hereinafter referred to as a "qualified organizational restructuring" in this paragraph and paragraph (10)), the amount of the reserve for bad debts or the reserve for bad debts during the period prescribed in the following items, in accordance with the category of qualified organizational restructuring listed in the relevant item, is to be succeeded to by an acquiring corporation, succeeding corporation in a company split, corporation receiving a capital contribution in kind, or transferee corporation (referred to as a "acquiring corporation, etc." in paragraph (10)) involved in the qualified organizational restructuring:

(i) qualified merger: The amount of the reserve for bad debts prescribed in paragraph (1) or paragraph (2) that was included in deductible expenses, when calculating the amount of income for the business year containing the day preceding the date of the qualified merger, pursuant to these provisions;

(ii) qualified company split by split-off: The portion of the amount of the reserve for bad debts prescribed in paragraph (1) or paragraph (2) that was included in deductible expenses, when calculating the amount of income for

- the business year containing the day preceding the date of the qualified company split by split-off, pursuant to these provisions, which was calculated, as specified by Cabinet Order, as the portion pertaining to monetary claims to be transferred to a succeeding corporation in a company split involved in the qualified company split by split-off; or
- (iii) qualified company split by spin-off, etc.: The amount of the reserve for bad debts during the period that was included in deductible expenses, when calculating the amount of income for the business year containing the date of the qualified company split by spin-off, etc, pursuant to the provisions of paragraph (5).
- (8) With regard to the application of the provisions of paragraph (1), paragraph (2) and paragraph (5), individually assessed monetary claims and collectively assessed monetary claims do not include any monetary claims that a domestic corporation holds against a consolidated corporation that has a consolidated full controlling interest in the domestic corporation.
- (9) The amount of the reserve for bad debts prescribed in paragraph (1) or paragraph (2) that was included in deductible expenses, when calculating the amount of income for each business year (excluding the amount succeeded to by a succeeding corporation in a company split involved in a qualified company split by split-off pursuant to the provisions of paragraph (7)), is included in gross profits, when calculating the amount of income for the business year following the business year.
- (10) The amount of the reserve for bad debts or the reserve for bad debts during the period succeeded to by an acquiring corporation, etc. pursuant to the provisions of paragraph (7) is included in gross profits, when calculating the amount of income for the business year containing the date of a qualified organizational restructuring of the acquiring corporation, etc.
- (11) In the case where a specified ordinary corporation prescribed in Article 10-3, paragraph (1) (Application of this Act in the Case of Revising the Scope of Taxable Income, etc.) falls under the category of a corporation in the public interest, etc., the provisions of paragraph (1) and paragraph (2) do not apply to the business year containing the day preceding the day on which the corporation falls under the category.
- (12) Beyond what is provided for in paragraph (3), paragraph (4), and paragraph (6), necessary matters concerning the application of the provisions of paragraph (1), paragraph (2), paragraph (5), and paragraph (7) to the preceding paragraph are specified by Cabinet Order.

(Reserve for Loss on Returned Goods)

Article 53 (1) With regard to a domestic corporation that conducts a publishing business or any other business as specified by Cabinet Order (hereinafter

referred to as a "relevant business" in this Article) and who continuously concludes special agreements on redemption of most of their inventories for a sale related to the relevant business at the value at the time of the sale thereof or any other special agreements specified by Cabinet Order, the amount credited to the reserve for losses on returned goods at the end of each business year, by accounting for losses, to be the prospective net operating loss due to the redemption of the inventories (excluding inventories related to a business to be transferred to an acquiring corporation or succeeding corporation in a company split as a result of a merger that does not fall under the category of a qualified merger or a company split by split-off that does not fall under the category of a qualified company split by split-off), under the special agreements, is included in deductible expenses, when calculating the amount of income for the business year, up to the amount calculated as specified by Cabinet Order, based on the actual amount of the redemption of the inventories related to the relevant business under the special agreements in recent years (such calculated amount is referred to as the "limit to credit reserve for loss on returned goods" in paragraph (4)).

(2) The provisions of the preceding paragraph apply only in the case where a tax return contains a detailed statement concerning the inclusion in deductible expenses of the amount credited to the reserve for loss on returned goods.

(3) Even in the case where a tax return without 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 they find any unavoidable grounds for the person's failure to make entries for such matters.

(4) In the case where a domestic corporation transfers the whole or a part of the relevant business to a succeeding corporation in a company split, corporation receiving a capital contribution in kind, or transferee corporation as a result of a qualified company split by spin-off, qualified contribution in kind, or qualified post-formation contribution (referred to as a "qualified company split by spin-off, etc." through to paragraph (6)), when an amount equivalent to the reserve for loss on returned goods set forth in paragraph (1) (hereinafter referred to as the "reserve for loss on returned goods during the period" in this Article) has been established with regard to the relevant business to be transferred, the portion of the amount equivalent to the amount of the reserve for loss on returned goods during the period established as above is included in deductible expenses, when calculating the amount of income for the business year containing the date of the qualified company split by spin-off, etc., up to the amount equivalent to the limit to credit reserve for loss on returned goods calculated as prescribed in paragraph (1) by deeming the time immediately prior to the qualified company split by spin-off, etc. to be the end of the business year.

- (5) The provisions of the preceding paragraph apply only in the case where the domestic corporation set forth in the paragraph has submitted documents stating the amount equivalent to the reserve for loss on returned goods during the period and any other matters as specified by Ordinance of the Ministry of Finance to the competent district director with jurisdiction over the place for tax payment, within two months after the date of the qualified company split by spin-off, etc.
- (6) In the case where a domestic corporation has effected a qualified merger, qualified company split, qualified contribution in kind, or qualified post-formation contribution (hereinafter referred to as a "qualified organizational restructuring" in this paragraph and paragraph (8)), the amount of the reserve for loss on returned goods or the reserve for loss on returned goods during the period prescribed in the following items, in accordance with the category of qualified organizational restructuring listed in the relevant item, is to be succeeded to by an acquiring corporation, succeeding corporation in a company split, corporation receiving a capital contribution in kind, or transferee corporation (referred to as a "acquiring corporation, etc." in paragraph (8)) involved in the qualified organizational restructuring:
- (i) qualified merger: The amount of the reserve for loss on returned goods prescribed in paragraph (1) that was included in deductible expenses, when calculating the amount of income for the business year containing the day preceding the date of the qualified merger, pursuant to the provisions of the paragraph;
  - (ii) qualified company split by split-off: The portion of the amount of the reserve for loss on returned goods prescribed in paragraph (1) that was included in deductible expenses, when calculating the amount of income for the business year containing the day preceding the date of the qualified company split by split-off, pursuant to the provisions of the paragraph, which was calculated, as specified by Cabinet Order, as the portion pertaining to the relevant business to be transferred to a succeeding corporation in a company split involved in the qualified company split by split-off; or
  - (iii) qualified company split by spin-off, etc.: The amount of the reserve for loss on returned goods during the period that was included in deductible expenses, when calculating the amount of income for the business year containing the date of the qualified company split by spin-off, etc, pursuant to the provisions of paragraph (4).
- (7) The amount of the reserve for loss on returned goods prescribed in paragraph (1) that was included in deductible expenses, when calculating the amount of income for each business year (excluding the amount succeeded to by a succeeding corporation in a company split involved in a qualified company split by split-off pursuant to the provisions of the preceding paragraph), is included

in gross profits, when calculating the amount of income for the business year following the business year.

- (8) The amount of the reserve for loss on returned goods or the reserve for loss on returned goods during the period succeeded to by an acquiring corporation, etc. pursuant to the provisions of paragraph (6) is included in gross profits, when calculating the amount of income for the business year containing the date of a qualified organizational restructuring of the acquiring corporation, etc.
- (9) In the case where a specified ordinary corporation as prescribed in Article 10-3, paragraph (1) (Application of this Act in the Case of Revising the Scope of Taxable Income, etc.) comes to fall under the category of a corporation in the public interest, etc., the provisions of paragraph (1) do not apply to the business year containing the day preceding the day on which the corporation comes to fall under the category.
- (10) Beyond what is provided for in paragraph (2), paragraph (3), and paragraph (5), necessary matters concerning the application of the provisions of paragraph (1), paragraph (4), and paragraph (6) through the preceding paragraph are specified by Cabinet Order.

#### **Division 7-2 Expenses, etc. in Exchange for Share Options**

(Special Provisions on the Business Year for Vesting Expenses in Exchange for Share Options)

Article 54 (1) In the case where a domestic corporation receives the provision of services from an individual and has issued, as the consideration for the expenses for providing the services, share options (limited to share options that offset the claims arising on the individual as the consideration for providing the services, in lieu of the payment in exchange for the share options) (including the case where a domestic corporation that is an acquiring corporation, succeeding corporation in a company split, wholly owning parent corporation in a share exchange, or wholly owning parent corporation in a share transfer (referred to as a "acquiring corporation, etc." in the following paragraph) involved in a merger, company split, share exchange, or share transfer (hereinafter referred to as a "merger, etc." in this paragraph) has delivered its own share options (referred to as "succeeding share options" in the following paragraph and paragraph (3)) to a person who holds the share options of the acquired corporation, splitting corporation, wholly owned subsidiary corporation in the share exchange, or wholly owned subsidiary corporation in the share transfer involved in the merger, etc.), the provisions of this Act apply by deeming that the domestic corporation had received the provision of the services as of the day on which the grounds occurred for the emergence of the amount to be included in the individual's gross revenue or

revenue from employment income as prescribed in the Income Tax Act or other income prescribed in other laws and regulations on income tax, with regard to the provision of the services, pursuant to the provisions of the Income Tax Act and other laws and regulations on income tax (such grounds are referred to as "grounds for taxation on earnings, etc." in the following paragraph).

- (2) In the case prescribed in the preceding paragraph, when no grounds for taxation on earnings, etc. occur with regard to an individual for the provision of the services set forth in the paragraph, the amount of expenses for the provision of the services incurred by a domestic corporation that has issued share options set forth in the paragraph (including a domestic corporation that is an acquiring corporation, etc. having delivered succeeding share options; hereinafter referred to as an "issuing corporation" in this Article) is excluded from deductible expenses, when calculating the amount of income of the issuing corporation for each business year.
- (3) In the case prescribed in the preceding paragraph, when share options (including succeeding share options) set forth in paragraph (1) have become extinct, the amount of gain on the extinction is excluded from gross profits, when calculating the amount of income of the issuing corporation for each business year.
- (4) The issuing corporation must attach to a tax return a detailed statement concerning the value of the share options per share at the time of issuance, the number of the issued share options, the number of the share options exercised in the business year, and other circumstances which affect the share options.
- (5) In the case where a domestic corporation issues share options and where the amount of monies to be paid in exchange for the share options (including the value of assets other than monies to be delivered in lieu of the payment of monies and the amount of claims to be offset; hereinafter the same applies in this paragraph) does not reach the value of the share options at the time of issuance (including the case where the domestic corporation has issued the share options without compensation) or where the amount of monies to be paid in exchange for the share options exceeds the value of the share options at the time of issuance, the amount equivalent to the shortfall (in the case where the domestic corporation has issued the share options without compensation, the value of the share options at the time of issuance) or the amount equivalent to the excess is excluded from deductible expenses or gross profits, when calculating the amount of income of the domestic corporation for each business year.
- (6) Beyond what is provided for in paragraph (4), necessary matters concerning the application of the provisions of paragraphs (1) through (3) or the preceding paragraph are specified by Cabinet Order.

### Division 7-3 Expenses Related to Unlawful Acts

(Exclusion of Expenses Related to Unlawful Acts from Deductible Expenses)

- Article 55 (1) In the case where a domestic corporation reduces or attempts to reduce the burden of corporation tax by concealing or falsifying the whole or a part of the facts that are to be used as the basis of the calculation of the amount of its income, loss, or corporation tax (hereinafter referred to as "acts of concealing or falsifying" in this paragraph and the following paragraph), the amount of expenses required for the acts of concealing or falsifying or the net operating loss arising from the acts of concealing or falsifying is excluded from deductible expenses, when calculating the amount of income of the domestic corporation for each business year.
- (2) The provisions of the preceding paragraph apply mutatis mutandis to the case where a domestic corporation reduces or attempts to reduce the burden of taxes other than corporation tax that it is due to pay through any acts of concealing or falsifying.
- (3) The following amounts that a domestic corporation pays are excluded from deductible expenses, when calculating the amount of income of the domestic corporation for each business year:
- (i) in the case of national taxes, delinquent tax, additional tax for understatement, additional tax for failure to file, additional tax on non-payment, and substantial additional tax and delinquency tax under the provisions of the Stamp Tax Act (Act No. 23 of 1967); and
  - (ii) 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 (excluding a delinquent charge collected under Article 65 (Delinquent Charge in the Case of Extending Due Date for Payment of Corporations' Prefectural Inhabitants Tax), Article 72-45-2 (Delinquent Charge in the Case of Extending Due Date for Payment of Corporations' Enterprise Tax), or Article 327 (Delinquent Charge in the Case of Extending Due Date for Payment of Corporations' Municipal Inhabitants Tax) of the Act).
- (4) The following amounts that a domestic corporation pays are excluded from deductible expenses, when calculating the amount of income of the domestic corporation for each business year:
- (i) 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;
  - (ii) surcharge and delinquent charge under the provisions of the Act on Emergency Measures for Stabilization of National Life (Act No. 121 of 1973);

- (iii) surcharge and delinquent charge under the provisions of the Act on Prohibition of Monopolization and Maintenance of Fair Trade (Act No. 54 of 1947);
  - (iv) surcharge and delinquent charge under the provisions of Chapter VI-2 (Surcharge) of the Financial Instruments and Exchange Act; and
  - (v) surcharge and delinquent charge under the provisions of the Certified Public Accountant Act (Act No. 103 of 1948).
- (5) 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 Profit, etc. to Foreign Public Officials, etc.) of the Unfair Competition Prevention Act (Act No.47 of 1993), and the value of assets other than monies which is provided by a domestic corporation, and the amount of expenses equivalent to the total of the economic benefits or the net operating loss (including the amount of expenses required for the provision thereof or the net operating loss on the provision thereof), is excluded from deductible expenses, when calculating the amount of income of the domestic corporation for each business year.

#### **Division 8 Losses Carried Forward**

(Carryover of Losses in a Business Year When a Blue Return Has Been Filed)

Article 57 (1) In the case where a domestic corporation that files a final return form shows any net operating loss that arose in a business year starting within seven years prior to the first day of each of its business years (such amount excludes the amount that was included in deductible expenses in the calculation of the amount of income for the business year prior to each relevant business year under this paragraph and the amount that was used as the basis of the calculation of the amount to be refunded under Article 80 (Refund by Carryback of Loss)), the amount equivalent to the loss is included in deductible expenses, when calculating the amount of income for each relevant business year; provided, however, that in the case where the amount equivalent to the loss exceeds the amount of income for each relevant business year calculated without applying the provisions of the main clause to the loss (in the case where there is any amount which is equivalent to any loss that had arisen in a business year prior to the business year when the loss arose and which is to be included in deductible expenses when calculating the amount of income for each relevant business year under the main clause or Article 58, paragraph (1) (Carryover of Losses Due to a Disaster in a Business Year When a Blue Return Has Not Been Filed), exceeds the amount that remains after deducting the amount to be included in deductible expenses from the calculated income), the provisions of the main clause do not apply to the amount of the excess.

- (2) In the case where a qualified merger, etc. (meaning a qualified merger or what is specified by Cabinet Order as a company split by split-off categorized into a merger that falls under the category of a qualified company split by split-off (hereinafter referred to as a "quasi-merger qualified company split by split-off" in this Article); hereinafter the same applies in this paragraph and the following paragraph) has been effected, when an acquired corporation or splitting corporation (hereinafter referred to as a "acquired corporation, etc." in this paragraph and the following paragraph) involved in the qualified merger, etc. shows any net operating loss that arose in each of the business years starting within seven years prior to the date of the qualified merger, etc. (hereinafter referred to as a "business year within preceding seven years") (such net operating loss is limited to the net operating loss only in the case where the acquired corporation, etc. has filed a final return in a blue return for the business year within preceding seven years when the loss arose (such loss includes a loss which was deemed to be that of the acquired corporation, etc. under this paragraph or paragraph (6) and exclude a loss which was deemed not to exist under paragraph (5) or paragraph (9); the same applies in the following paragraph, paragraph (4), and paragraph (9)) or meets any other requirements as specified by Cabinet Order, and excludes the amount included in deductible expenses when calculating the amount of income for a business year within preceding seven years of the acquired corporation, etc. under the preceding paragraph and the amount used as the basis of the calculation of the amount to be refunded under Article 80; hereinafter referred to as the "amount of unappropriated loss" in this paragraph), with regard to the application of the provisions of the preceding paragraph in each business year after the business year containing the date of the qualified merger, etc. (hereinafter referred to as the "business year of the merger, etc." in this paragraph and the following paragraph) of an acquiring corporation or succeeding corporation in a company split (hereinafter referred to as a "acquiring corporation, etc." in this paragraph and the following paragraph) involved in the qualified merger, etc., the amount of unappropriated loss that arose in the business year within preceding seven years is deemed to be the net operating loss that arose in each business year of the acquiring corporation, etc. containing the first day of the business years within preceding seven years when the amount of the respective unappropriated loss arose (or the amount of the unappropriated loss that arose in the business year within preceding seven years of the acquired corporation, etc. starting on or after the first day of the business year of the merger, etc. of the acquiring corporation, etc. is deemed to be the net operating loss that arose in the business year preceding the business year of the merger, etc.).
- (3) In the case where an acquired corporation, etc. and an acquiring corporation, etc. involved in a qualified merger, etc. (in the case where the acquiring

corporation, etc. is a corporation established as a result of the qualified merger, etc., another acquired corporation, etc. involved in the qualified merger, etc.; the same applies in item (i)) have a specified capital relationship (meaning a relationship whereby one of the corporations directly or indirectly holds 50 percent or more of the total number or total amount of the other corporation's issued shares or capital contributions (excluding the shares that the second corporation holds in itself and the capital contributions made thereby) or any other relationship as specified by Cabinet Order; hereinafter the same applies in this paragraph and paragraph (5)), and the specified capital relationship occurred on or after the day five years prior to the first day of the business year of the merger, etc. pertaining to the qualified merger, etc. of the acquiring corporation, etc., when the qualified merger, etc. does not fall under the category that is specified by Cabinet Order as a qualified merger, etc. for the purpose of conducting business jointly, the amount of unappropriated loss prescribed in the preceding paragraph does not include the following loss of the acquired corporation, etc.:

- (i) the net operating loss that arose in each business year of the acquired corporation, etc. prior to the business year under specified capital relationship (meaning the business year in which the specified capital relationship occurred between the acquired corporation, etc. and the acquiring corporation, etc.; the same applies in the following item) that falls under a business year within preceding seven years (excluding the amount that the acquired corporation, etc. has included in deductible expenses in the calculation of the amount of income for a business year within preceding seven years under paragraph (1) and the amount that it has used as the basis of the calculation of the amount to be refunded under Article 80; the same applies in the following item); and
  - (ii) the portion of the net operating loss that arose in each business year of the acquired corporation, etc. after the business year under specified capital relationship that falls under a business year within preceding seven years, which is specified by Cabinet Order as the amount of the portion consisting of the amount equivalent to the net operating loss on transfer of specified assets prescribed in Article 62-7, paragraph (2) (Exclusion of the Net Operating Losses on the Transfer of Specified Assets from Deductible Expenses)
- (4) With regard to the application of the provisions of paragraph (1) in each business year of a splitting corporation involved in a quasi-merger qualified company split by split-off after the business year containing the date of the quasi-merger qualified company split by split-off, the net operating loss that arose in each business year prior to the business year is deemed not to exist.
- (5) In the case where a qualified merger, qualified company split, or qualified

contribution in kind (hereinafter referred to as a "qualified merger, etc." in this paragraph) has been effected between a domestic corporation set forth in paragraph (1) and a corporation with a specified capital relationship (meaning a corporation that has a specified capital relationship with the domestic corporation; hereinafter the same applies in this paragraph), with the domestic corporation as an acquiring corporation, succeeding corporation in a company split, or corporation receiving a capital contribution in kind, and the specified capital relationship occurred on or after the day five years prior to the first day of the business year containing the date of the qualified merger, etc. (hereinafter referred to as the "business year of the merger, etc." in this paragraph) of the domestic corporation, when the qualified merger, etc. does not fall under the category that is specified by Cabinet Order as a qualified merger, etc. for the purpose of conducting business jointly, with regard to the application of the provisions of paragraph (1) in each business year of the domestic corporation after the business year of the merger, etc., the following loss out of the amount of the domestic corporation's loss prescribed in the paragraph (including the amount deemed to be the amount of the domestic corporation's loss under paragraph (2) or the following paragraph and excluding the amount deemed not to exist under this paragraph or paragraph (9); hereinafter the same applies in this paragraph) is deemed not to exist:

- (i) the net operating loss that arose in each business year of the domestic corporation prior to the business year under specified capital relationship (meaning the business year containing the day on which the specified capital relationship occurred between the domestic corporation and the corporation with a specified capital relationship; the same applies in the following item) that falls under a business year within preceding seven years (meaning each business year starting within seven years prior to the first day of the business year of the merger, etc.; hereinafter the same applies in this paragraph) (such net operating loss excludes the amount included in deductible expenses in the calculation of the amount of income for a business year within preceding seven years under paragraph (1) and the amount used as the basis of the calculation of the amount to be refunded under Article 80; the same applies in the following item); or
- (ii) the portion of the net operating loss that arose in each business year of the domestic corporation after the business year under specified capital relationship that falls under a business year within preceding seven years, which is specified by Cabinet Order as the amount of the portion of the loss consisting of the amount equivalent to the net operating loss on transfer of specified assets prescribed in Article 62-7, paragraph (2).

(6) In the case where a domestic corporation has effected a company split by split-off with the domestic corporation as a splitting corporation (limited to a

company split by split-off that the domestic corporation, which is a consolidated corporation, effects during the period from the day following the first day of the consolidated parent corporation's business year (meaning the consolidated parent corporation's business year prescribed in Article 15-2, paragraph (1) (Meaning of Consolidated Business Year); hereinafter the same applies in this paragraph and paragraph (9)) to the last day thereof), or in the case where a domestic corporation has had the approval set forth in Article 4-2 (Consolidated Taxpayer) rescinded pursuant to the provisions of Article 4-5, paragraph (2) (Rescission of Approval for Consolidated Taxation) (with regard to a consolidated parent corporation, excluding the case where it has had the approval rescinded as a result of having effected a merger with the consolidated parent corporation as an acquired corporation, and with regard to a consolidated subsidiary corporation, excluding the case where it has had the approval rescinded as a result of having effected a merger with the consolidated subsidiary corporation as an acquired corporation as of the first day of the consolidated parent corporation's business year), or where a domestic corporation has obtained approval set forth in Article 4-5, paragraph (3) (hereinafter referred to as the "case of the rescission, etc. of approval" in this paragraph), when there is any individually attributed amount of consolidated operating loss (meaning the individually attributed amount of consolidated operating loss prescribed in Article 81-9, paragraph (5) (Carryover of Consolidated Operating Loss); hereinafter the same applies in this paragraph and the following paragraph) of the domestic corporation that arose in each business year starting within seven years prior to the first day of the business year containing the day preceding the date of the company split by split-off or in each consolidated business year starting within seven years prior to the first day of the business year containing the day following the last day of the final consolidated business year in the case of the rescission, etc. of approval, with regard to the application of the provisions of paragraph (1) in each business year after the business year containing the preceding day or the business year containing the following day, the individually attributed amount of consolidated operating loss is deemed to be the net operating loss that arose in the domestic corporation's business year that contains the first day of the consolidated business year in which the individually attributed amount of consolidated operating loss arose.

- (7) In the case where an acquired corporation involved in a qualified merger is a consolidated corporation (with regard to a consolidated subsidiary corporation, limited to a consolidated subsidiary corporation that effects a qualified merger, with itself as an acquired corporation, as of the day following the last day of a consolidated business year) or where a splitting corporation involved in a quasi-merger qualified company split by split-off is a consolidated corporation

(limited to a consolidated corporation that effects a quasi-merger qualified company split by split-off, with itself as a splitting corporation, as of the day following the last day of its consolidated business year), the provisions of paragraph (2) and paragraph (3) apply by deeming the individually attributed amount of consolidated operating loss of such consolidated corporation that arose in each consolidated business year starting within seven years prior to the date of the qualified merger or quasi-merger qualified company split by split-off of such consolidated corporation to be the net operating loss that arose in a business year within preceding seven years as prescribed in paragraph (2), deeming a consolidated tax return to be a blue return, and deeming the consolidated business year in which the individually attributed amount of consolidated operating loss arose to be the business year of the acquired corporation or splitting corporation.

- (8) In the case prescribed in the preceding paragraph, when a consolidated corporation that becomes an acquired corporation or splitting corporation involved in a qualified merger or quasi-merger qualified company split by split-off set forth in the paragraph shows any net operating loss that arose in each business year prior to each consolidated business year, as prescribed in the paragraph, that falls under a business year within preceding seven years as prescribed in paragraph (2), the provisions of the paragraph do not apply to the net operating loss.
- (9) In the case falling under any of the following cases, with regard to the application of the provisions of paragraph (1) in a business year listed in the relevant item of a domestic corporation set forth in the paragraph, the net operating loss prescribed in the relevant item is deemed not to exist:
- (i) in the case where a domestic corporation which is a consolidated corporation has effected a company split by split-off (excluding any of the company split by split-offs listed as follows), with itself as the splitting corporation, each business year after the business year containing the day preceding the date of the company split by split-off: The net operating loss that arose in each business year prior to the business year containing the preceding day (including the amount that was deemed to be the net operating loss that arose in each business year prior to each of the business years, under paragraph (2) or paragraph (6), in each of the business years; hereinafter the same applies in this paragraph):
    - (a) A company split by split-off that the domestic corporation effects on the first day of the consolidated parent corporation's business year
    - (b) A company split by split-off that the consolidated parent corporation or the domestic corporation, which is a consolidated subsidiary corporation as prescribed in Article 81-9, paragraph (2), item (ii), effects during the period from the day following the first day of the consolidated parent corporation's

- first business year to the last day thereof
- (c) A company split by split-off that the domestic corporation effects during the period from the day following the first day of the first year of the application for the approval of consolidation as prescribed in Article 4-3, paragraph (6) (Application for Approval for Consolidated Taxation) to the day preceding the day on which the domestic corporation obtains the approval set forth in Article 4-2 for the application set forth in Article 4-3, paragraph (1) that it filed under the provisions of Article 4-3, paragraph (6);
- (ii) in the case where a domestic corporation which is a consolidated subsidiary corporation has effected a merger (limited to a merger, wherein another consolidated corporation which has a consolidated full controlling interest in the domestic corporation is an acquiring corporation, and excluding any of the mergers listed as follows), with itself as an acquired corporation, in the consolidated parent corporation's first business year (in the case where the domestic corporation is a corporation listed in Article 4-3, paragraph (9), item (i) or Article 4-3, paragraph (11), item (i), in the consolidated parent corporation's business year following the consolidated parent corporation's first business year, and in the case where the domestic corporation is another domestic corporation as prescribed in Article 4-2 that has come to have a full controlling interest as prescribed in the Article in the consolidated parent corporation in the consolidated parent corporation's business year (excluding a corporation listed in the item), during the period from the day on which the domestic corporation came to have the full controlling interest to the last day of the consolidated parent corporation's business year; hereinafter referred to as the "consolidated parent corporation's first business year" in this item), the business year containing the day preceding the date of the merger: The net operating loss that arose in each business year prior to the business year
- (a) A merger that the domestic corporation effects on the first day of the consolidated parent corporation's first business year
- (b) A merger that the domestic corporation effects during the period from the day following the first day of the consolidated parent corporation's first business year to the last day thereof, wherein a consolidated subsidiary corporation as prescribed in Article 81-9, paragraph (2), item (ii) is an acquired corporation; or
- (iii) in the case where a domestic corporation which is a consolidated corporation has had the approval set forth in Article 4-2 rescinded under Article 4-5, paragraph (1) or paragraph (2), or has obtained the approval set forth in Article 4-5, paragraph (3) after the last day of the first consolidated business year prescribed in Article 15-2, paragraph (1), each business year after the final consolidated business year: The net operating loss that arose

- in each business year prior to the consolidated business year.
- (10) In the case where a domestic corporation which is a consolidated subsidiary corporation falls under any of the following cases in the single consolidated corporation's business year (in the case where the domestic corporation has effected a company split by split-off (excluding those listed in item (i), (a) or (c) of the preceding paragraph) with itself as a splitting corporation, meaning the business year containing the day preceding the date of the company split by split-off, and in the case where the domestic corporation has had the approval set forth in Article 4-2 rescinded under Article 4-5, paragraph (2) (limited to the part pertaining to item (iv) or item (v)), meaning the business year containing the day preceding the date of the rescission), the provisions prescribed in each of the following items do not apply to the net operating loss listed in the relevant item:
- (i) in the case where a domestic corporation has effected a qualified merger, etc. as prescribed in paragraph (2) with itself as an acquiring corporation, etc. as prescribed in the paragraph (limited to a qualified merger, etc., wherein a corporation which does not have a consolidated full controlling interest in the domestic corporation (excluding a corporation specified by Cabinet Order as a corporation that shows any loss deemed to be the amount of consolidated operating loss; hereinafter referred to as an "uncontrolled corporation" in this paragraph) is an acquired corporation, etc. as prescribed in paragraph (2)), the amount of the uncontrolled corporation's unappropriated loss prescribed in the paragraph: Paragraph (2) and paragraph (3); and
  - (ii) in the case where a domestic corporation has effected a qualified merger or qualified company split set forth in paragraph (5) with itself as an acquiring corporation or succeeding corporation in a company split (limited to a qualified merger or qualified company split, wherein an uncontrolled corporation is an acquired corporation or splitting corporation), the amount of the domestic corporation's loss prescribed in the paragraph: Paragraph (5).
- (11) The provisions of paragraph (1) apply only in the case where the domestic corporation set forth in the paragraph filed a final return with a blue return for the business year in which the net operating loss (excluding the amount deemed to be the net operating loss of the domestic corporation under paragraph (2) or paragraph (6)) arose and filed a tax return thereafter on a continuous basis (in the case of applying the provisions of paragraph (1) to the amount deemed to be the net operating loss of the domestic corporation under paragraph (2) or paragraph (6), only in the case where the domestic corporation filed a tax return for the business year containing the day following the last day of the business year of the merger, etc. set forth in paragraph (2) or the final consolidated business year prescribed in paragraph (6) and filed a tax return thereafter on a continuous basis).

(12) In the case where the acquiring corporation, etc. set forth in paragraph (2) is a corporation that was established as a result of a qualified merger, etc. as set forth in the paragraph, necessary matters concerning the application of the provisions of paragraph (1) and the application of the other provisions of the paragraph to paragraph (10) are specified by Cabinet Order.

(Non-application of a Carryover of Losses for a Corporation Showing a Loss. That Is Controlled by Specified Shareholders)

Article 57-2 (1) In the case where a domestic corporation that has become subject to a specified controlling interest of a second person (meaning a relationship whereby the second person holds directly or indirectly 50 percent or more of the total number or the total amount of the issued shares of or capital contributions to the domestic corporation (excluding the shares that the domestic corporation holds in itself and the capital contributions made thereby) or any other relationship as specified by Cabinet Order and excluding a relationship that occurred on any grounds specified by Cabinet Order; hereinafter the same applies in this paragraph) and that holds, in the business year containing the day on which the domestic corporation became subject to the specified controlling interest (hereinafter such day is referred to as the "day on which it became subject to control" and such business year is referred to as a "business year under specified controlling interest" in this paragraph), the net operating loss that arose in each business year prior to the business year under specified controlling interest (such net operating loss is include the amount which was deemed to be the net operating loss of the domestic corporation under paragraph (2) or paragraph (6) of the preceding Article and is limited to the amount to which the provisions of paragraph (1) of the Article apply; hereinafter the same applies in this Article) or assets with a valuation loss (meaning assets held by the domestic corporation as of the day it became subject to control which are specified by Cabinet Order as those whose value as of the day on which the corporation became subject to control does not reach their book value) (such domestic corporation includes a corporation that was a consolidated corporation showing a loss, etc. as prescribed in Article 81-9-2, paragraph (1) (Non-application of the Carryover of Consolidated Operating Losses for a Consolidated Corporation Showing a Loss, etc. That Is Controlled by Specified Shareholders, etc.) (hereinafter referred to as a "consolidated corporation showing a loss, etc." in this Article) as of the last day of the last consolidated business year when it had corporation tax imposed on its consolidated income for each consolidated business year; hereinafter such domestic corporation is referred to as a "corporation showing a loss, etc." in this Article) falls under any of the following circumstances, up to the day preceding the day on which five years have elapsed since the day that the

corporation became subject to control (in the case of the consolidated corporation showing a loss, etc., from the day specified by Cabinet Order; hereinafter such day is referred to as the "specified day on which the corporation became subject to control" in this paragraph and item (i) of the following paragraph) (in the case where the corporation showing a loss, etc. falls under the case specified by Cabinet Order as a case where it has ceased to be subject to the specified controlling interest, a release from an obligation as specified by Cabinet Order or other acts (referred to as a "release from an obligation" in item (iii)) have been made for obligation of the corporation showing a loss, etc., or any other events as specified by Cabinet Order have occurred, up to the day on which those events occurred), the provisions of paragraph (1) of the preceding Article do not apply to the net operating loss that arose in each business year prior to the business year containing the day on which the corporation showing a loss, etc. came to fall under any of the following circumstances (in the case where the corporation showing a loss, etc. falls under any of the circumstances listed in item (iv), containing the day preceding a qualified merger, etc. as prescribed in the item; such day is referred to as the "relevant day" in the following paragraph) (hereinafter such business year containing the relevant day is referred to as the "applicable business year" in this Article) in each business year after the applicable business year:

- (i) in the case where a corporation showing a loss, etc. had not conducted any business immediately prior to the specified day on which it became subject to control (including the case where it had been in liquidation), and it starts a business on or after the specified day on which it became subject to control (including the circumstances that the corporation showing a loss, etc. in liquidation continues its business);
- (ii) in the case where a corporation showing a loss, etc. has abolished or is expected to abolish the whole of the business it had conducted immediately prior to the specified day on which it became subject to control (hereinafter referred to as the "former business" in this paragraph) on or after the specified day on which it became subject to control, and it accepts monies or other assets by borrowing funds or capital contributions that exceed approximately five times the size of the business (meaning the amount of sales, the amount of income, or any other size of business as specified by Cabinet Order, in accordance with the type of business; the same applies in the following item and item (v)) of the former business as of immediately prior to the specified day on which it became subject to control (including the acceptance of assets as a result of a merger or company split; referred to as the "borrowing of funds, etc." in the following item);
- (iii) in the case where a second person or a person who has a relationship as

- specified by Cabinet Order with the second person (hereinafter referred to as a "related person" in this item) has acquired claims against a corporation showing a loss, etc. specified by Cabinet Order (hereinafter referred to as "specified claims" in this item) from a person other than the second person or related person (including the case where they have acquired specified claims prior to the specified day on which the corporation became subject to control and excluding the case where a release from an obligation is expected to be made with regard to the specified claims on or after the specified day on which the corporation became subject to control and any other case as specified by Cabinet Order; referred to as the "case where special claims have been acquired" in the following item), and the corporation showing a loss, etc. borrows funds, etc. that exceed approximately five times the size of the business of the former business as of immediately prior to the specified day on which it became subject to control;
- (iv) in the case prescribed in item (i) or item (ii) or in the case where special claims have been acquired as set forth in the preceding item, and a corporation showing a loss, etc. effects a qualified merger, etc. as prescribed in paragraph (2) of the preceding Article (referred to as a "qualified merger, etc." in item (i) of the following paragraph and paragraph (4)) in which it becomes an acquired corporation or splitting corporation;
- (v) in the case where a corporation showing a loss, etc. has become subject to the specified controlling interest and, as a result, all its members who serve as officers as of immediately prior to the specified day on which it became subject to control (limited to the president and other officers specified by Cabinet Order) have resigned (or have ceased to execute the business) and approximately 20 percent or more of the total number of employees who had been engaged in the business of the corporation showing a loss, etc. immediately prior to the specified day on which it became subject to control (hereinafter referred to as "former employees" in this item) have ceased to be employees of the corporation showing a loss, etc., the size of the non-engaged business of the corporation showing a loss, etc. (meaning the business that the former employees, in effect, cease to be engaged in on or after the specified day on which it became subject to control) exceeds approximately five times the size of the former business as of immediately prior to the specified day on which the corporation became subject to control (excluding the case specified by Cabinet Order); and
- (vi) any of the circumstances specified by Cabinet Order as being similar to those listed in the preceding items.
- (2) In the case where a corporation showing a loss, etc. effects a merger, company split, or contribution in kind to the capital of the receiving corporation on or after the relevant day (including the relevant day prescribed in Article 81-9-2,

paragraph (1)), the provisions prescribed in each of the following items do not apply to the net operating loss or individually attributed amount of consolidated operating loss (meaning the individually attributed amount of consolidated operating loss prescribed in paragraph (6) of the preceding Article; hereinafter the same applies in this Article) listed in the relevant item:

- (i) in the case where a corporation showing a loss, etc. effects a qualified merger, etc. with itself as an acquiring corporation or succeeding corporation in a company split, the net operating loss or individually attributed amount of consolidated operating loss that arose in each business year or each consolidated business year prior to the business year or consolidated business year containing the day preceding the date of the qualified merger, etc. of an acquired corporation or splitting corporation involved in the qualified merger, etc. (in the case where the qualified merger, etc. is to be effected after the day on which three years have elapsed from the first day of the applicable business year or applicable consolidated business year (meaning an applicable consolidated business year as prescribed in Article 81-9-2, paragraph (1); hereinafter the same applies in this Article) of the corporation showing a loss, etc. (in the case where the day on which three years have elapsed falls after the day on which five years have elapsed since the specified day on which it became subject to control, after the day on which five years have elapsed), limited to the portion of the net operating loss or individually attributed amount of consolidated operating loss, which arose in a business year or consolidated business year starting prior to the first day of the applicable business year or applicable consolidated business year: Paragraph (2), paragraph (3), and paragraph (7) of the preceding Article; or
  - (ii) in the case where a corporation showing a loss, etc. effects a qualified merger, etc. as prescribed in paragraph (5) of the preceding Article with itself as an acquiring corporation, succeeding corporation in a company split, or corporation receiving a capital contribution in kind, the net operating loss that arose in each business year prior to the applicable business year of the corporation showing a loss, etc.: Paragraph (5) of the preceding Article.
- (3) In the case where a consolidated corporation showing a loss, etc. effects a company split by split-off as prescribed in paragraph (6) of the preceding Article on or after the relevant day prescribed in Article 81-9-2, paragraph (1), or falls under the case of the rescission, etc. of the approval prescribed in paragraph (6) of the preceding Article, the provisions of the paragraph do not apply to the individually attributed amount of consolidated operating loss that arose in each consolidated business year prior to the applicable consolidated business year of the consolidated corporation showing a loss, etc.
- (4) In the case where a qualified merger, etc. is effected between a domestic

corporation and a corporation showing a loss, etc. or a consolidated corporation showing a loss, etc., with the domestic corporation as an acquiring corporation or succeeding corporation in a company split, the provisions of paragraph (2), paragraph (3), and paragraph (7) of the preceding Article do not apply to the net operating loss or individually attributed amount of consolidated operating loss that arose in each business year or each consolidated business year prior to the applicable business year or applicable consolidated business year of the corporation showing a loss, etc. or consolidated corporation showing a loss, etc.

(5) Necessary matters concerning the application of the provisions of the preceding paragraphs are specified by Cabinet Order.

(Carryover of Losses Due to a Disaster in the Business Year When a Blue Return Has Not Been Filed)

Article 58 (1) When a domestic corporation that files a tax return shows any net operating loss that arose in a business year starting within seven years prior to the first day of each of its business years (such amount excludes the amount to which the provisions of Article 57, paragraph (1) (Carryover of Losses in a Business Year When a Blue Return Has Been Filed) or Article 80 (Refund by Carryback of Loss) apply) and such net operating loss includes any amount specified by Cabinet Order that relates to the loss of inventories, fixed assets or deferred assets specified by Cabinet Order that was caused by an earthquake, storm and flood, fire or any other disaster as specified by Cabinet Order (hereinafter referred to as the " net operating loss caused by a disaster" in this Article), the amount equivalent to the net operating loss caused by a disaster is included in deductible expenses, when calculating the amount of income for the relevant each business year; provided, however, that in the case where the amount equivalent to the net operating loss caused by a disaster exceeds the amount of income for each relevant business year calculated without applying the provisions of the main clause to the loss (in the case where there is any amount which is equivalent to any loss that had arisen in a business year prior to the business year when the net operating loss caused by a disaster arose and which is to be included in deductible expenses when calculating the amount of income for each relevant business year under the main clause or Article 57, paragraph (1), exceeds the amount that remains after deducting the amount to be included in deductible expenses from the calculated income), the provisions of the main clause do not apply to the amount of the excess.

(2) In the case where a qualified merger, etc. (meaning a qualified merger or what is specified by Cabinet Order as a company split by split-off categorized into a merger that falls under the category of a qualified company split by split-off (hereinafter referred to as a "quasi-merger qualified company split by

split-off" in paragraph (3)); hereinafter the same applies in this Article) has been effected, when an acquired corporation or splitting corporation (hereinafter referred to as a "acquired corporation, etc." in this paragraph) involved in the qualified merger, etc. shows any net operating loss caused by a disaster that arose in each business year starting within seven years prior to the date of the qualified merger, etc. (hereinafter referred to as a "business year within preceding seven years") (such amount is limited to the net operating loss caused by a disaster only in the case where the acquired corporation, etc. has filed a tax return containing a detailed statement concerning the calculation of the net operating loss prescribed in paragraph (6) for the business year within preceding seven years when the loss arose or meets any other requirements as specified by Cabinet Order, and excludes the amount included in deductible expenses when calculating the amount of income for a business year within preceding seven years of the acquired corporation, etc. under the preceding paragraph; hereinafter referred to as the "amount of unappropriated loss caused by a disaster" in this paragraph), with regard to the application of the provisions of the preceding paragraph in each business year after the business year containing the date of the qualified merger, etc. (hereinafter referred to as the "business year of the merger, etc." in this paragraph) of an acquiring corporation or succeeding corporation in a company split (hereinafter referred to as a "acquiring corporation, etc." in this paragraph) involved in the qualified merger, etc., the amount of unappropriated loss caused by a disaster that arose in the business year within preceding seven years is deemed to be the net operating loss caused by a disaster that arose in each business year of the acquiring corporation, etc. containing the first day of the business years within preceding seven years when the amount of respective unappropriated loss caused by a disaster arose (or the amount of unappropriated loss caused by a disaster that arose in the business year within preceding seven years of the acquired corporation, etc. starting on or after the first day of the business year of the merger, etc. of the acquiring corporation, etc. is deemed to be the net operating loss caused by a disaster that arose in the business year preceding the business year of the merger, etc.).

(3) With regard to the application of the provisions of paragraph (1) in each business year of a splitting corporation involved in a quasi-merger qualified company split by split-off after the business year containing the date of the quasi-merger qualified company split by split-off, the net operating loss caused by a disaster that arose in each business year prior to the business year is deemed not to exist.

(4) In the case prescribed in any of the following items, with regard to the application of the provisions of paragraph (1) in a business year listed in the

relevant item of a domestic corporation set forth in the paragraph, the net operating loss caused by a disaster as prescribed in the relevant item is deemed not to exist:

- (i) in the case where a domestic corporation which is a consolidated corporation has effected a company split by split-off (excluding any of the company split by split-offs listed in Article 57, paragraph (9), item (i), (a) through (c)) with itself as a splitting corporation, each business year after the business year containing the day preceding the date of the company split by split-off: The net operating loss caused by a disaster that arose in each business year prior to the business year containing the preceding day;
  - (ii) in the case where a domestic corporation which is a consolidated subsidiary corporation has effected a merger (limited to a merger, wherein another consolidated corporation, which has a consolidated full controlling interest in the domestic corporation, is an acquiring corporation, and excluding any of the mergers listed in Article 57, paragraph (9), item (ii), (a) or (b)) with itself as an acquired corporation in the consolidated parent corporation's first business year prescribed in Article 57, paragraph (9), item (ii), the business year containing the day preceding the date of the merger: The net operating loss caused by a disaster that arose in each business year prior to the business year; or
  - (iii) in the case where a domestic corporation which is a consolidated corporation has had the approval set forth in Article 4-2 (Consolidated Taxpayer) rescinded under Article 4-5, paragraph (1) or paragraph (2) (Rescission of Approval for Consolidated Taxation), or has obtained the approval set forth in Article 4-5, paragraph (3) after the last day of the first consolidated business year prescribed in Article 15-2, paragraph (1) (Meaning of Consolidated Business Year), each business year after the last consolidated business year: The net operating loss caused by a disaster that arose in each business year prior to the consolidated business year.
- (5) In the case where the domestic corporation, which is a consolidated subsidiary corporation, has effected a qualified merger, etc. (limited to a qualified merger, etc., wherein a corporation which does not have a consolidated full controlling interest in the domestic corporation (excluding a corporation specified by Cabinet Order as a corporation that shows any loss caused by a disaster deemed to be the amount of consolidated operating loss; hereinafter referred to as an "uncontrolled corporation" in this paragraph) is an acquired corporation, etc. as prescribed in paragraph (2)) with itself as an acquiring corporation, etc. as prescribed in the paragraph in the single consolidated corporation's business year prescribed in Article 57, paragraph (10), the provisions of paragraph (2) do not apply to the amount of unappropriated loss caused by a disaster as prescribed in the paragraph of the uncontrolled corporation.

- (6) The provisions of paragraph (1) apply only in the case where a domestic corporation set forth in the paragraph filed a tax return containing a detailed statement concerning the calculation of the net operating loss prescribed in paragraph (1) for the business year in which the net operating loss arose caused by a disaster (excluding the amount deemed to be the net operating loss caused by a disaster of the domestic corporation under paragraph (2)) arose and filed a tax return thereafter on a continuous basis (in the case of applying the provisions of paragraph (1) to the amount deemed to be the net operating loss caused by a disaster of the domestic corporation under paragraph (2), only in the case where the domestic corporation filed a tax return for the business year of the merger, etc. set forth in paragraph (2) and filed a tax return thereafter on a continuous basis).
- (7) In the case where an acquiring corporation, etc. set forth in paragraph (2) is a corporation established as a result of a qualified merger, etc., necessary matters concerning the application of the provisions of paragraph (1) and the application of other provisions of the paragraph to paragraph (5) are specified by Cabinet Order.

(Inclusion in Deductible Expenses of the Net Operating Loss Where Corporate Reorganization Caused a Release from Obligation)

- Article 59 (1) In the case where an order on the commencement of reorganization proceedings has been rendered against a domestic corporation under the Corporate Reorganization Act or the Act on Special Measures, etc. of Reorganization Procedure of Financial Institutions (referred to as the "Corporate Reorganization Act, etc." in item (iii)), when the domestic corporation falls under any of the following cases, the portion of the net operating loss that arose in each business year prior to the business year containing the day on which the domestic corporation came to fall under the relevant case (hereinafter referred to as the "applicable year" in this paragraph) (such net operating loss includes the amount of individual loss prescribed in Article 81-18, paragraph (1) (Calculation of Individually Attributed Amount of Consolidated Corporation Tax) that arose in a consolidated business year (in the case where any consolidated operating loss arose in the consolidated business year, such amount plus the portion of the consolidated operating loss attributed to the domestic corporation)) and that is equivalent to the amount specified by Cabinet Order, up to the sum of the amount prescribed in the relevant item, is included in deductible expenses, when calculating the amount of income for the applicable year:
- (i) in the case where persons holding claims specified by Cabinet Order against a domestic corporation (excluding consolidated corporations that have a consolidated full controlling interest in the domestic corporation) granted a

release from an obligation with regard to the claims when the order on the commencement of reorganization proceedings was rendered (including the case where the claims have become extinct on grounds other than those of a release from an obligation and any profits arise on the extinct obligation): That amount for which a release from an obligation was granted (including the amount of the profits);

- (ii) in the case where, accompanying the order on the commencement of reorganization proceedings, monies or other assets were donated by officers, etc. of a domestic corporation (meaning persons who are or were its officers or shareholders, etc. and excluding consolidated corporations that have a consolidated full controlling interest in the domestic corporation; the same applies in item (ii) of the following paragraph): The amount of monies and the value of assets other than monies that the corporation received; or
- (iii) in the case where a domestic corporation has revaluated its assets as prescribed in Article 25, paragraph (2) (Exclusion of Asset Valuation Gains from Gross Profits) (limited to the part pertaining to revaluation under the provisions of the Corporate Reorganization Act, etc.; hereinafter the same applies in this item): The amount to be included in gross profits in the calculation of the amount of income for the applicable year under the provisions of the paragraph (in the case where there is any amount to be included in deductible expenses in the calculation of the amount of income for the applicable year under Article 33, paragraph (2) (Exclusion of Asset Valuation Losses, etc. from Deductible Expenses) (limited to the part pertaining to revaluation under the provisions of the Corporate Reorganization Act, etc.), the amount that remains after deducting the amount to be included in deductible expenses from the amount to be included in gross profits).

- (2) In the case where an order on the commencement of rehabilitation proceedings has been rendered for a domestic corporation under the Civil Rehabilitation Act or any equivalent event as specified by Cabinet Order has occurred, when the domestic corporation falls under any of the following cases, the portion of the net operating loss that arose in each business year prior to the business year containing the day on which the domestic corporation came to fall under the relevant case (in the case of falling under the case listed in item (iii), prior to the business year in which the domestic corporation came to fall under such case; hereinafter such business year is referred to as the "applicable year" in this paragraph) (such net operating loss includes the amount of individual loss prescribed in Article 81-18, paragraph (1) that arose in a consolidated business year (in the case where any consolidated operating loss arose in the consolidated business year, such amount plus the portion of the consolidated operating loss attributed to the domestic corporation)) and

that is equivalent to the amount specified by Cabinet Order, up to the sum of the amount prescribed in the relevant item (in the case where such sum exceeds the amount of income for the applicable year calculated without applying the provisions of this paragraph (in the case of falling under the case listed in item (iii), without applying the provisions of Article 57, paragraph (1) (Carryover of Losses in a Business Year When a Blue Return Has Been Filed), paragraph (1) of the preceding Article and this paragraph), the amount obtained after deducting the amount of the excess), is included in deductible expenses, when calculating the amount of income for the applicable year:

- (i) in the case where persons holding claims specified by Cabinet Order against a domestic corporation (excluding consolidated corporations that have a consolidated full controlling interest in the domestic corporation) granted a release from an obligation with regard to the claims when such event occurred (including the case where the claims have become extinct on grounds other than a release from an obligation and any profits arising on the extinct obligation): That amount for which a release from an obligation was granted (including the amount of the profits);
  - (ii) in the case where, accompanying the occurrence of such event, monies or other assets were donated by the officers, etc. of a domestic corporation: The amount of monies and the value of assets other than monies that the corporation received; or
  - (iii) in the case where the domestic corporation is subject to the provisions of Article 25, paragraph (3) or Article 33, paragraph (3): The amount obtained by subtracting the amount to be included in deductible expenses in the calculation of the amount of income for the applicable year under Article 33, paragraph (3) from the amount to be included in gross profits in the calculation of the amount of income for the applicable year under Article 25, paragraph (3).
- (3) The provisions of the preceding two paragraphs apply only in the case where a tax return contains a detailed statement concerning the inclusion in deductible expenses of the amount equivalent to the net operating loss prescribed in these provisions and is attached with documents as specified by Ordinance of the Ministry of Finance.
- (4) Even in the case where a tax return without entries for the matters or the attachment of documents 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 they find any unavoidable grounds for the person's failure to make entries of such statement or to attach such documents.

#### **Division 9 Dividend to Contractors**

(Inclusion of Dividends to Policyholders Incurred by Insurance Companies in Deductible Expenses)

Article 60 (1) The amount that an insurance company as prescribed in the Insurance Business Act distributes to its policyholders in each business year based on an insurance contract is included in deductible expenses, when calculating the amount of income for the business year; provided, however, that the amount exceeds the amount specified by Cabinet Order, this does not apply to the amount of the excess.

(2) The insurance company set forth in the preceding paragraph must attach to a tax return the documents containing a detailed statement concerning the calculation of the amount to be included in deductible expenses under the paragraph.

(Dividends Made on the Basis of the Volume of Business with Cooperatives Incurred by Cooperatives)

Article 60-2 (1) The following amounts for which a cooperative, etc. makes a resolution to pay at the time of settling the accounts for each business year are included in deductible expenses, when calculating the amount of income of for the business year:

(i) the amount to be distributed to the partners or other members, in accordance with the quantity or value of the goods that they dealt with, or the volume of the services of the cooperative, etc. that they used in the business year; and

(ii) the amount to be distributed to the partners or other members, in accordance with the level at which they were engaged in the business of the cooperative, etc. in the business year.

(2) The provisions of the preceding paragraph apply only in the case where a tax return contains a detailed statement concerning the inclusion in deductible expenses of the amount listed in the items of the paragraph.

(3) Even in the case where a tax return without 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 they find any unavoidable grounds for the person's failure to make entries for such matters.

**Division 10 Net Operating Loss on Transfer of Assets of Corporations Showing a Loss Controlled by Specified Shareholders**

(Exclusion from Deductible Expenses of the Net Operating Losses on the Transfer of Assets of a Corporation Showing a Loss That Is Controlled by a Specified Shareholder)

Article 60-3 (1) With regard to a corporation showing a loss, etc. as prescribed in

Article 57-2, paragraph (1) (Non-application of the Carryover of Losses for a Corporation Showing a Loss, etc. That Is Controlled by Specified Shareholders, etc.) (with regard to a consolidated corporation showing a loss, etc. as prescribed in the paragraph, limited to such a corporation that held assets with a valuation loss as prescribed in Article 81-9-2, paragraph (1) (Non-application of the Carryover of Consolidated Operating Losses by a Consolidated Corporation Showing a Loss, etc. That Is Controlled by Specified Shareholders, etc.) as of the specified day on which it became subject to control prescribed in Article 57-2, paragraph (1); hereinafter such corporation is referred to as a "corporation showing a loss, etc." in this paragraph and the following paragraph), in the case where, during the period from the first day of the applicable business year prescribed in Article 57-2, paragraph (1) or applicable consolidated business year prescribed in Article 81-9-2, paragraph (1) (hereinafter referred to as the "applicable business year, etc." in this paragraph) of the corporation showing a loss, etc. until the day on which three years have elapsed since the first day (in the case where the day on which three years have elapsed falls after the day on which five years have elapsed since the specified day on which the corporation became subject to control, the period until the day on which five years have elapsed), (in the case where each business year ending during the period is subject to the provisions of Article 61-11, paragraph (1) (Gains or Losses on the Fair Valuation of Assets Accompanying the Commencement of Consolidated Taxation), Article 61-12, paragraph (1) (Gains or Losses on the Fair Valuation of Assets Accompanying Participation in Consolidated Taxation), or Article 62-9, paragraph (1) (Gains or Losses on the Fair Valuation of Assets Held by a Wholly Owned Subsidiary Corporation Involved in Non-qualified Share Exchange), during the period from the first day of the applicable business year, etc. until the last day of the business year immediately prior to the commencement of the consolidation prescribed in Article 61-11, paragraph (1), the business year immediately prior to participation in the consolidation prescribed in Article 61-12, paragraph (1), or the business year subject to the provisions of Article 62-9, paragraph (1); hereinafter referred to as the "applicable period" in this paragraph and the following paragraph), any net operating loss arises due to a transfer, revaluation, bad debts, removal, or any other equivalent grounds (hereinafter referred to as "specified grounds such as transfer" in this paragraph) of specified assets (meaning the portion specified by Cabinet Order of assets held by the corporation showing a loss, etc. as of the specified day on which it became subject to control and assets transferred to the corporation showing a loss, etc. as a result of a qualified company split or qualified contribution in kind, wherein the second person as prescribed in Article 57-2, paragraph (1) is a splitting corporation or corporation making a capital contribution in kind, or

as a result of a qualified merger, qualified company split, or qualified contribution in kind, wherein a related person as prescribed in item (iii) of the paragraph is an acquired corporation, splitting corporation, or corporation making a capital contribution in kind; hereinafter the same applies in this Article), the net operating loss (in the case where there are any profits resulting from a transfer or revaluation of specified assets that arise during the applicable period of the business year containing the day on which the specified grounds such as the transfer occurred, the amount that remains after deducting the amount of profits) is excluded from deductible expenses, when calculating the amount of income of the corporation showing a loss, etc. for each business year.

- (2) In the case where a corporation showing a loss, etc. has transferred its specified assets (limited to those falling under the category of assets with a valuation loss as prescribed in Article 57-2, paragraph (1)), as a result of a qualified merger, qualified company split, qualified contribution in kind, or qualified post-formation contribution (hereinafter referred to as a "qualified organizational restructuring" in this Article), wherein the corporation itself is an acquired corporation, splitting corporation, corporation making a capital contribution in kind, or transferring corporation, to a merging corporation, succeeding corporation in a company split, corporation receiving a capital contribution in kind, or transferee corporation (hereinafter referred to as a "acquiring corporation, etc." in this Article), the provisions of the preceding paragraph apply by deeming that the acquiring corporation, etc. is a corporation showing a loss, etc. subject to the provisions of the paragraph.
- (3) Necessary matters concerning the calculation of the net operating loss on the transfer of specified assets that an acquiring corporation set forth in the preceding paragraph has received as a result of a qualified organizational restructuring and other necessary matters concerning the application of the provisions of paragraph (1) are specified by Cabinet Order.

#### **Subsection 5 Calculation of Amount of Profit or Loss**

##### **Division 1 Capital Gains or Losses and Gains or Losses on the Fair Valuation of Commodities for Short-term Trading**

(Inclusion in Gross Profits or Deductible Expenses of Capital Gains or Losses and Gains or Losses on the Fair Valuation of Commodities for Short-Term Trading)

Article 61 (1) In the case where a domestic corporation has transferred any commodities for short-term trading (meaning commodities as specified by Cabinet Order as assets acquired for the purpose of profit from short-term price fluctuations (excluding securities); hereinafter the same applies in this

Article) (excluding the case where the commodities for short-term trading have been transferred to an acquiring corporation, succeeding corporation in a company split, or corporation receiving a capital contribution in kind as a result of a merger, company split, or qualified contribution in kind; hereinafter the same applies in this paragraph), capital gain (meaning the difference between the amount listed in item (i) and the amount listed in item (ii) when the former exceeds the latter) or capital loss (meaning the difference between the amount listed in item (i) and the amount listed in item (ii) when the latter exceeds the former) on the transfer is included in gross profits or deductible expenses, when calculating the amount of income for the business year containing the day on which a contract for the transfer was concluded:

- (i) the amount of consideration for the transfer of the commodities for short-term trading;
  - (ii) the amount of cost for the transfer of the commodities for short-term trading (meaning the amount obtained by multiplying the amount calculated based on the method that the domestic corporation selected for calculating the book value per unit of the commodities for short-term trading (in the case where the domestic corporation did not select any calculation method or did not calculate the book value based on the calculation method of their choice, the amount calculated based on one of the calculation methods specified by Cabinet Order) by the number of the commodities for short-term trading that it has transferred).
- (2) With regard to commodities for short-term trading held by a domestic corporation as of the end of a business year, the amount evaluated by the fair value method (meaning the method by categorizing commodities for short-term trading held as of the end of a business year by type and brand (hereinafter referred to as "types, etc." in this paragraph) and calculating the current value of commodities of the same type as specified by Cabinet Order, and thereby to deem the calculated amount to be their fair value at that time (referred to as the "fair value" in the following paragraph)) is to be their fair value at that time.
- (3) In the case where a domestic corporation holds any commodities for short-term trading as of the end of a business year, the valuation gain therefrom (meaning, in the case where the fair value of the commodities for short-term trading exceeds their book value at that time (hereinafter referred to as the "book value at the end of the period" in this paragraph), the amount of the excess) or the valuation loss therefrom (meaning, in the case where the book value at the end of the period of the commodities for short-term trading exceeds their fair value, the amount of the excess) is included in gross profits or deductible expenses, when calculating the amount of income for the business year, notwithstanding the provisions of Article 25, paragraph (1) (Exclusion of

Asset Valuation Gains from Gross Profits) or Article 33, paragraph (1)  
(Exclusion of Asset Valuation Losses, etc. from Deductible Expenses).

- (4) In the case where a domestic corporation holds any commodities for short-term trading, when it has abolished all of the operations to buy and sell commodities for short-term trading for the purpose prescribed in paragraph (1), the amount of income of the domestic corporation for each business year is calculated by deeming that the domestic corporation transferred, as of the time of the abolition, the commodities for short-term trading for their value at that time and acquired assets other than commodities for short-term trading for their value.
- (5) Methods for calculating the acquisition cost that is to be used as the basis of the calculation of book values per unit of commodities for short-term trading, the type of methods for calculating book values per unit of commodities for short-term trading, procedures to select the calculation methods, disposition of valuation gain or loss prescribed in paragraph (3) in the following business year, and other necessary matters concerning the application of the provisions of the preceding paragraphs are specified by Cabinet Order.

#### **Division 1-2 Capital Gain or Loss and Gains or Losses on the Fair Valuation of Securities**

(Inclusion of Capital Gains or Losses on Securities in Gross Profits or Deductible Expenses)

Article 61-2 (1) In the case where a domestic corporation has transferred any securities (excluding the case where the securities have been transferred to an acquiring corporation, succeeding corporation in a company split, or corporation receiving a capital contribution in kind as a result of a merger, company split, or qualified contribution in kind; hereinafter the same applies in this Article), capital gain (meaning the difference between the amount listed in item (i) and the amount listed in item (ii) when the former exceeds the latter) or capital loss (meaning the difference between the amount listed in item (i) and the amount listed in item (ii) when the latter exceeds the former) on the transfer is included in gross profits or deductible expenses, when calculating the amount of income for the business year containing the day on which a contract for the transfer was concluded (in the case where the transfer was due to payment of a dividend of surplus or on any other grounds specified by Ordinance of the Ministry of Finance, containing the day on which the dividend of surplus became effective or any other day as specified by the Ordinance of the Ministry of Finance):

- (i) the amount of consideration for the transfer of the securities (in the case where there is any amount that is deemed to be the amount listed in Article

- 23, paragraph (1), item (i) (Exclusion of Dividends Received from Gross Profits) pursuant to the provisions of Article 24, paragraph (1) (The Amount Deemed to Be Dividends), the amount that remained after deducting the amount equivalent to the deemed amount);
- (ii) the amount of the cost of the transfer of the securities (meaning the amount obtained by multiplying the amount calculated based on the method that the domestic corporation selected for calculating the book value per unit of the securities (in the case where the domestic corporation did not select any calculation method or did not calculate the book value based on the calculation method of their choice, the amount calculated based on one of the calculation methods specified by Cabinet Order) by the number of the securities that it has transferred).
- (2) In the case where a domestic corporation has received the delivery of old shares (meaning shares (including capital contributions; hereinafter the same applies in this Article) held by the domestic corporation) as a result of a merger of the corporation that had issued the old shares (such merger is limited to a merger in which shareholders, etc. of the corporation have not received the delivery of assets other than either of an acquiring corporation's shares or shares of a corporation that has a relationship with an acquiring corporation as specified by Cabinet Order as a relationship whereby the corporation holds the whole of the issued shares of or capital contributions to the acquiring corporation (excluding the shares that the acquiring corporation holds in itself and the capital contributions made thereby; hereinafter referred to as "issued shares, etc." in this Article) (such assets exclude monies or other assets delivered as dividends, etc. of surplus to the shareholders, etc. and monies or other assets to be delivered to the shareholders, etc. who oppose the merger as the consideration based on their demand that their shares be purchased from them as prescribed in Article 2, item (xii)-8 (Definitions)), with regard to the application of the provisions of the preceding paragraph, the amount listed in item (i) of the paragraph is deemed to be the amount equivalent to the book value of the old shares as of immediately prior to the merger.
- (3) The provisions of the preceding two paragraphs apply by deeming that an acquiring corporation has received the allotment of shares, etc. as prescribed in Article 24, paragraph (2) for its tie-in shares prescribed in the paragraph even in the case prescribed in the paragraph.
- (4) In the case where a domestic corporation has received, as a result of a company split by split-off effected by the corporation that had issued old shares (meaning shares held by the domestic corporation; hereinafter the same applies in this paragraph), the delivery of shares of the succeeding corporation in a company split or other assets, the provisions of paragraph (1) apply by deeming that the domestic corporation has transferred the portion of the old shares

corresponding to the assets and liabilities transferred to the succeeding corporation in a company split as a result of the company split by split-off. In this case, with regard to the application of the provisions of paragraph (1) where the domestic corporation has received the delivery of shares of the succeeding corporation in a company split or other assets, as a result of the company split by split-off (excluding a company split by split-off in which the shareholders, etc. of a splitting corporation have not received the delivery of assets other than either of the shares of a succeeding corporation in a company split or the shares of a corporation that has a relationship with a succeeding corporation in a company split as specified by Cabinet Order as a relationship whereby the corporation holds the whole of the issued shares, etc. of the succeeding corporation in a company split (hereinafter referred to as the "parent corporation" in this paragraph) (such assets exclude monies or other assets other than assets as a consideration for a split as prescribed in Article 2, item (xii)-9 that have been delivered as dividends, etc. of surplus as prescribed in item (xii)-8 of the Article to the shareholders, etc.) (hereinafter such company split by split-off is referred to as a "company split by split-off without delivery of monies, etc." in this paragraph)), the amount listed in paragraph (1), item (ii) is deemed to be the amount calculated, as specified by Cabinet Order, based on the book value of the old shares as of immediately prior to the company split by split-off (hereinafter such calculated amount is referred to as the "book value corresponding to split net assets"); and with regard to the application of paragraph (1) where the domestic corporation has received the delivery of shares of the succeeding corporation in a company split or shares of the parent corporation, as a result of the company split by split-off (limited to a company split by split-off without the delivery of monies, etc.), the amounts listed in the items of paragraph (1) is deemed to be the book values corresponding to split net assets of the old shares as of immediately prior to the company split by split-off.

- (5) With regard to the application of the provisions of paragraph (1) in the case where a domestic corporation is deemed to have delivered shares or the acquiring parent corporation's shares as prescribed in Article 62-2, paragraph (2) (Succession of Assets, etc. at Book Value as a Result of Qualified Merger and Qualified Company Split by Split-Off) to the shareholders, etc. prescribed in the paragraph as prescribed in the paragraph, the amounts listed in the items of paragraph (1) are deemed to be the amounts equivalent to those specified by Cabinet Order as prescribed in paragraph (2) of the Article.
- (6) With regard to the application of the provisions of paragraph (1) in the case where a domestic corporation has delivered, as a result of a qualified company split by split-off with itself as a splitting corporation, shares of a succeeding corporation in a company split involved in the qualified company split by split-

off or shares of a succeeding parent corporation in a company split as prescribed in Article 2, item (xii)-11 (referred to as "shares of a succeeding parent corporation in a company split" in paragraph (8)) to its shareholders, etc., the amounts listed in the items of paragraph (1) are deemed to be the amounts equivalent to those specified by Cabinet Order as prescribed in Article 62-2, paragraph (3).

- (7) With regard to the application of the provisions of paragraph (1) in the case where a domestic corporation has delivered, as a result of a qualified merger with itself as an acquiring corporation, the acquiring parent corporation's shares as prescribed in Article 2, item (xii)-8, the amount listed in paragraph (1), item (i) is deemed to be the amount equivalent to the book value of the acquiring parent corporation's shares as of immediately prior to the qualified merger.
- (8) With regard to the application of the provisions of paragraph (1) in the case where a domestic corporation has delivered, as a result of a qualified company split with itself as a succeeding corporation in a company split, shares of a succeeding parent corporation in a company split, the amount listed in paragraph (1), item (i) is deemed to be the amount equivalent to the book value of the shares of a succeeding parent corporation in a company split as of immediately prior to the qualified company split.
- (9) With regard to the application of the provisions of paragraph (1) in the case where a domestic corporation has received, as a result of a share exchange effected by the corporation that had issued old shares (meaning shares held by the domestic corporation) (such share exchange excludes a share exchange in which the shareholders, etc. of the corporation have not received the delivery of assets other than either of the shares of a wholly owning parent corporation in a share exchange or the shares of a corporation that has a relationship with a wholly owning parent corporation in a share exchange as specified by Cabinet Order as a relationship whereby the corporation holds the whole of the issued shares, etc. of the wholly owning parent corporation in a share exchange (such assets exclude monies or other assets delivered as a dividend of surplus to the shareholders and monies or other assets to be delivered to the shareholders who oppose the share exchange as the consideration based on their demand that their shares be purchased from them)), the delivery of the shares, the amount listed in paragraph (1), item (i) is deemed to be the amount equivalent to the book value of the old shares as of immediately prior to the share exchange.
- (10) With regard to the application of the provisions of paragraph (1) in the case where a domestic corporation has delivered, as a result of a qualified share exchange with itself as a wholly owning parent corporation in a share exchange, shares of a wholly owning parent corporation in a share exchange as prescribed

in Article 2, item (xii)-16, the amount listed in paragraph (1), item (i) is deemed to be the amount equivalent to the book value of the shares of a wholly owning parent corporation as of immediately prior to the share exchange.

- (11) With regard to the application of the provisions of paragraph (1) in the case where a domestic corporation has received, as a result of a share transfer effected by the corporation that had issued old shares (meaning shares held by the domestic corporation) (such share transfer excludes a share transfer in which the shareholders, etc. of the corporation have not received the delivery of assets other than shares of a wholly owning parent corporation in a share transfer (such assets exclude monies or other assets to be delivered to the shareholders who oppose the share transfer as the consideration based on their demand that their shares be purchased from them)), the delivery of the shares, the amount listed in paragraph (1), item (i) is deemed to be the amount equivalent to the book value of the old shares as of immediately prior to the share transfer.
- (12) With regard to the application of the provisions of paragraph (1) in the case where a domestic corporation has received, as a result of a merger, company split, share exchange or share transfer (hereinafter referred to as "merger, etc." in this paragraph), wherein the corporation, which had issued share options (including bonds with share options; hereinafter referred to as "old share options, etc." in this paragraph) that the domestic corporation holds, is an acquired corporation, splitting corporation, wholly owned subsidiary corporation in a share exchange, or wholly owned subsidiary corporation in a share transfer, the delivery of only share options (including bonds with share options) of an acquiring corporation, succeeding corporation in a company split, wholly owning parent corporation in a share exchange, or wholly owning parent corporation in a share transfer, in lieu of the old share options involved in the merger, etc., the amount listed in paragraph (1), item (i) is deemed to be the amount equivalent to the book value of the old share options as of immediately prior to the merger, etc.
- (13) With regard to the application of the provisions of paragraph (1) in the case where a domestic corporation has received, upon an entity conversion effected by the corporation that had issued old shares (meaning shares held by the domestic corporation) (such entity conversion is limited to that in which only shares of the corporation have been delivered to its shareholders, etc.), the delivery of shares of the corporation, the amount listed in paragraph (1), item (i) is deemed to be the amount equivalent to the book value of the old shares as of immediately prior to the organizational change.
- (14) With regard to the application of the provisions of paragraph (1) in the case where a domestic corporation has transferred securities as listed in the following items on any of the grounds prescribed in the relevant item and has

received the delivery of the shares or share options of a corporation that has made the acquisition as prescribed in the relevant item on the grounds (excluding the case where it is deemed that the value of the shares or share options received is not close to the value of the transferred securities), the amount listed in paragraph (1), item (i) is deemed to be the amount equivalent to the book value of the securities listed in the relevant item as of immediately prior to the transfer (with regard to securities listed in item (iv), equivalent to the book value of the bonds with share options set forth in the item as of immediately prior to the transfer):

- (i) shares with a put option (meaning shares that shareholders, etc. may claim for the acquisition thereof, in the case where a corporation determines to that effect, as a feature of all or part of the shares it issues): The exercise of the claim related to the shares with a 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 the claim;
- (ii) shares subject to call (meaning shares that a corporation 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, as a feature of all or some of the shares it issues): The occurrence of the grounds for acquisition, in the case where only the shares of a corporation that makes the acquisition are issued to shareholders, etc. whose shares are acquired as a consideration for the acquisition due to the occurrence of the grounds for acquisition related to the shares subject to call (in the case where all the shares subject to acquisition are acquired, including the case where only the shares and share options of a corporation that makes the acquisition are delivered to the shareholders, etc. whose shares are acquired as a consideration for the acquisition);
- (iii) class shares subject to wholly call (meaning a type of share in the case where a corporation that issued such shares determines that all such shares are 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 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 the shares) are delivered to the shareholders, etc. whose shares are acquired as a consideration for the acquisition by the resolution of acquisition related to the class shares subject to wholly call;
- (iv) bonds pertaining to bonds with share options: The exercise of the share options attached to the 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 the share options; or

(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; hereinafter the same applies in this item) or bonds with share options attached with share options subject to call: 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 those share options subject to call.

(15) With regard to the application of the provisions of paragraph (1) in the case where a domestic corporation has received, as a result of the consolidation of trusts related to old beneficial rights (meaning beneficial rights of a group investment trust held by the domestic corporation) (such consolidation of trusts is limited to that in which beneficiaries of the group investment trust have not received the delivery of assets other than the beneficial rights of a new trust involved in the consolidation of trusts (such assets exclude monies or other assets to be delivered to the beneficiaries who oppose the consolidation of trusts as the consideration based on their demand that their shares be purchased from them)), the delivery of the beneficial rights, the amount listed in paragraph (1), item (i) is deemed to be the amount equivalent to the book value of the old beneficiary rights as of immediately prior to the consolidation of trusts.

(16) In the case where a domestic corporation has received, as a result of the split of a trust related to old beneficial rights (meaning the beneficial rights of a group investment trust held by the domestic corporation; hereinafter the same applies in this paragraph), the delivery of the beneficial rights of a succeeding trust (meaning a trust that receives the transfer of a part of the trust property of another trust holding the same trustee as a result of a trust split; hereinafter the same applies in this paragraph) or other assets, the provisions of paragraph (1) apply by deeming that the domestic corporation has transferred the portion of the old beneficial rights corresponding to the assets and liabilities transferred to the succeeding trust as a result of the trust split. In this case, with regard to the application of the provisions of paragraph (1) where the domestic corporation has received the delivery of the beneficial rights of a succeeding trust or other assets, as a result of the trust split (limited to a trust split in which beneficiaries of the split trust (meaning a trust that transfers, as a result of a trust split, a part of its trust property as

the trust property of another trust holding the same trustee or a new trust) have received the delivery of assets other than the beneficial rights of a succeeding trust (such assets exclude monies or other assets to be delivered to the beneficiaries who oppose the trust split as the consideration based on their demand that their shares be purchased from them) (hereinafter such trust split is referred to as a "trust split with delivery of monies, etc." in this paragraph)), the amount listed in paragraph (1), item (ii) is deemed to be the amount calculated, as specified by Cabinet Order, based on the book value of the old beneficial rights as of immediately prior to the trust split (hereinafter such calculated amount is referred to as the "book value corresponding to split net assets"); and with regard to the application of paragraph (1) where the domestic corporation has received the delivery of the beneficial rights of a succeeding trust, as a result of the trust split (excluding a trust split with delivery of monies, etc.), the amounts listed in the items of paragraph (1) is deemed to be the book values corresponding to split net assets of the old beneficial rights as of immediately prior to the trust split.

(17) With regard to the application of the provisions of paragraph (1) in the case where a domestic corporation has received the delivery of monies or other assets as a Return of the capital or the distribution of residual assets due to the dissolution of a corporation that had issued shares that the domestic corporation holds as prescribed in Article 24, paragraph (1), item (iii) (hereinafter referred to as a "refund, etc." in this paragraph), the amount listed in paragraph (1), item (ii) is deemed to be the amount calculated, as specified by Cabinet Order, based on the book value of the shares as of immediately prior to the refund, etc.

(18) With regard to the application of the provisions of paragraph (1) in the case where a domestic corporation has received the delivery of monies or other assets as a Return of the capital contributions of a corporation that it holds (limited to capital contributions without any provisions concerning the number of units; hereinafter referred to as "owned capital contributions" in this paragraph) (hereinafter such refund is simply referred to as a "refund" in this paragraph), the amount listed in paragraph (1), item (ii) is deemed to be the amount equivalent to the amount obtained by multiplying the book value of the owned capital contributions as of immediately prior to the refund by the rate that the capital contributions pertaining to the refund accounts for among the amount of the owned capital contributions as of immediately prior to the refund.

(19) With regard to the application of the provisions of paragraph (1) in the case where a domestic corporation has sold securities and has bought back securities of the same issue thereafter to complete a settlement by way of short selling (meaning a transaction wherein a person sells securities without

holding them and buys back securities of the same issue thereafter to complete the settlement or other transactions specified by Ordinance of the Ministry of Finance and excluding those falling under the category of a margin transaction or a when issued transaction as prescribed in the following paragraph), the capital gain prescribed in the paragraph is deemed to be the difference between the amount listed in item (i) and the amount listed in item (ii) when the former exceeds the latter, the capital loss prescribed in the paragraph is deemed to be the difference between the amount listed in item (i) and the amount listed in item (ii) when the latter exceeds the former, and the day on which a contract for the transfer was concluded as prescribed in the paragraph is to be the day on which a buyback contract pertaining to the settlement was concluded:

- (i) the amount obtained by multiplying the amount calculated based on the method specified by Cabinet Order as the method for calculating the amount of consideration for the transfer per unit of the securities that the domestic corporation sold by the number of securities that it bought back thereafter;
- (ii) the amount of consideration for the buy-back of securities that the domestic corporation bought back.

(20) With regard to the application of the provisions of paragraph (1) in the case where a domestic corporation has sold or bought shares and has bought or sold shares of the same issue thereafter to complete settlement by way of a margin transaction as prescribed in Article 156-24, paragraph (1) (License and Application of License) of the Financial Instruments and Exchange Act or a when issued transaction (meaning a transaction wherein a person sells or buys securities prior to the issuance thereof and which is specified by Ordinance of the Ministry of Finance), the capital gain prescribed in the paragraph is to be the difference between the amount listed in item (i) and the amount listed in item (ii) when the former exceeds the latter, the capital loss prescribed in the paragraph is to be the difference between the amount listed in item (i) and the amount listed in item (ii) when the latter exceeds the former, and the day on which a contract for the transfer was concluded as prescribed in the paragraph is to be the day on which a contract for buying or selling pertaining to the settlement was concluded:

- (i) the amount of consideration for the selling of the shares that the domestic corporation sold;
- (ii) the amount of consideration for the buying of the shares that the domestic corporation bought.

(21) In the case where a domestic corporation holds securities for buying and selling as prescribed in paragraph (1), item (i) of the following Article, securities which are STRIPS bonds as prescribed in Article 90, paragraph (1) (Definitions) of the Act on Transfer of Bonds, Shares, etc., or any other securities as specified by Cabinet Order (hereinafter referred to as "specified

securities" in this paragraph), when the domestic corporation has abolished all of its operations to buy and sell securities for the purpose prescribed in the item, separate trading of principal and interest prescribed in paragraph (1) of the Article has been conducted, or any other events as specified by Cabinet Order have occurred, the amount of the income of the domestic corporation for each business year is calculated by deeming that the domestic corporation transferred the specified securities and acquired securities other than the specified securities as of the time when the events occurred, as specified by Cabinet Order.

(22) In the case where a domestic corporation intends to deliver, as a result of a merger, company split, or share exchange (hereinafter referred to as a "merger, etc." in this paragraph) with itself as the acquiring corporation, succeeding corporation in a company split, or wholly owning parent corporation in a share exchange, the parent corporation's shares (meaning the shares of a corporation that is expected to fall under the category of a corporation that has a relationship with the domestic corporation specified by Cabinet Order as a relationship whereby the corporation holds the whole of the issued shares, etc. of the domestic corporation, as of the day on which a contract for the merger, etc. is concluded (hereinafter referred to as the "contract date" in this paragraph); hereinafter the same applies in this paragraph), when the domestic corporation holds the parent corporation's shares as of the contract date or has received the transfer of the parent corporation's shares as a result of a qualified merger, wherein the domestic corporation is an acquiring corporation, or on any other grounds specified by Cabinet Order after the contract date, the amount of the income of the domestic corporation for each business year is calculated by deeming that the domestic corporation transferred such parent corporation's shares (excluding the equivalent number of shares specified by Cabinet Order as exceeding the number that the domestic corporation is expected to deliver; hereinafter the same applies in this paragraph) at their value as of the contract date or the day on which the domestic corporation received the transfer (hereinafter referred to as the "contract date, etc." in this paragraph) and acquired such parent corporation's shares at their value, as of the contract date, etc.

(23) Methods for calculating the acquisition cost that is to be used as the basis of the calculation of book values per unit of securities, the type of methods for calculating book values per unit of securities, procedures to select calculation methods, and other necessary matters concerning the application of the provisions of the preceding paragraphs are specified by Cabinet Order.

(Inclusion of Valuation Gains or Losses on Securities for Buying and Selling in Gross Profits or Deductible Expenses)

Article 61-3 (1) With regard to securities held by a domestic corporation as of the end of a business year, the amounts prescribed in the following items, in accordance with the category of the securities listed as follows, are to be their fair value at that time:

- (i) securities for buying and selling (meaning the securities specified by Cabinet Order as those acquired for the purpose of profit from short-term price fluctuations; hereinafter the same applies in this paragraph and the following paragraph): The amount evaluated by the fair value method (meaning the method by categorizing securities held as of the end of a business year by issue and calculating the current value of securities of the same issue as specified by Cabinet Order, and thereby deeming the calculated amount to be their fair value at that time (referred to as the "fair value" in the following paragraph));or
  - (ii) securities not for buying and selling (meaning securities other than securities for buying and selling): The amount evaluated by the cost method (meaning the method deeming that the book value of the securities held as of the end of a business year (hereinafter referred to as "securities held at the end of the period" in this item) at that time (with regard to securities with provisions concerning the redemption date and redemption price, the amount adding or subtracting the portion of the difference between the book value and the redemption price that is to be allotted to the business year, as specified by Cabinet Order) to be the fair value at that time of the securities held at the end of the period).
- (2) In the case where a domestic corporation holds securities for buying and selling as of the end of a business year, the valuation gain therefrom (meaning, in the case where the fair value of the securities for buying and selling exceeds their book value at that time (hereinafter referred to as the "book value at the end of the period" in this paragraph), the amount of the excess) or a valuation loss therefrom (meaning, in the case where the book value at the end of the period of the securities for buying and selling exceeds their fair value, the amount of the excess) is included in gross profits or deductible expenses, when calculating the amount of income for the business year, notwithstanding the provisions of Article 25, paragraph (1) (Exclusion of Asset Valuation Gains from Gross Profits) or Article 33, paragraph (1) (Exclusion of Asset Valuation Losses from Deductible Expenses).
- (3) Disposition of valuation gain or loss prescribed in the preceding paragraph in the next business year, and other necessary matters concerning the application of the provisions of the preceding two paragraphs are specified by Cabinet Order.

(Inclusion of the Amount Equivalent to Profits or Losses on Short Selling of

Securities in Gross Profits or Deductible Expenses)

Article 61-4 (1) In the case where a domestic corporation has conducted the short selling of securities prescribed in Article 61-2, paragraph (19) (Calculation of Capital Gain or Loss on Short Selling of Securities), the margin transaction prescribed in paragraph (20) of the Article (referred to as a "margin transaction" in the following paragraph), the when issued transaction prescribed in paragraph (20) of the Article (referred to as a "when issued transaction" in the following paragraph), or the underwriting of securities prescribed in Article 2, paragraph (8), item (vi) (Definitions) of the Financial Instruments and Exchange Act (excluding the underwriting of securities for the purpose of acquiring securities not for buying and selling as prescribed in paragraph (1), item (ii) of the preceding Article), when any of such transactions have not been settled as of the end of a business year, the amount equivalent to the profit or loss calculated, as specified by Ordinance of the Ministry of Finance, by deeming that such transactions were settled at that time, is included in gross profits or deductible expenses, when calculating the amount of income for the business year.

(2) In the case where a domestic corporation has acquired securities based on a contract for a margin transaction, etc. (meaning a margin transaction (limited to buying) and a when issued transaction (limited to buying); hereinafter the same applies in this paragraph) (excluding the case where the domestic corporation has acquired the securities based on a contract for a margin transaction, etc. subject to the provisions of Article 61-6, paragraph (1) (Deferment of Profit or Loss by Deferred Hedge Accounting)), the difference between the value of the securities as of the time of the acquisition and the amount that the domestic corporation paid as the consideration for the acquisition of the securities based on a contract for margin transactions, etc. that had caused the acquisition is included in gross profits or deductible expenses, when calculating the amount of income for the business year containing the date of the acquisition.

(3) The disposition of the amount equivalent to the profit or loss set forth in paragraph (1) in the next business year, and other necessary matters concerning the application of the provisions of the preceding two paragraphs are specified by Cabinet Order.

**Division 2 Amount Equivalent to Profit or Loss on Derivative Transactions**

(Inclusion of the Amount Equivalent to Profits or Losses on Derivative Transactions in Gross Profits or Deductible Expenses)

Article 61-5 (1) In the case where a domestic corporation has conducted

derivative transactions (meaning transactions promising the payment or receipt of the amount of monies calculated based on the difference between the numeric value, which has been agreed upon between the parties in advance as the interest rate, price of currency, price of goods or numeric value of another index, and the actual numeric value of such index at a certain time in the future, or transactions similar thereto, which are specified by Ordinance of the Ministry of Finance; hereinafter the same applies in this paragraph and the following paragraph), when any of those transactions have not been settled as of the end of a business year (excluding transactions based on a foreign exchange futures contract as prescribed in Article 61-8, paragraph (2) (Conversion of Transactions in a Foreign Currency with the Amount in Japanese Yen Determined under a Foreign Exchange Futures Contract, etc.) in the case where the provisions of the paragraph apply and other transactions specified by Ordinance of the Ministry of Finance; hereinafter referred to as "unsettled derivative transactions" in this paragraph), the amount equivalent to the profit or loss calculated, as specified by Ordinance of the Ministry of Finance, by deeming that the unsettled derivative transactions were settled at the time, is included in gross profits or deductible expenses, when calculating the amount of income for the business year.

- (2) In the case where a domestic corporation has acquired assets other than monies based on a contract for derivative transactions (excluding the case where the domestic corporation has acquired the assets based on a contract for derivative transactions subject to the provisions of paragraph (1) of the following Article), the difference between the value of the assets as of the time of the acquisition and the amount that the domestic corporation paid as the consideration for the acquisition of the assets based on a contract for derivative transactions that had caused the acquisition is included in gross profits or deductible expenses, when calculating the amount of income for the business year containing the date of the acquisition.
- (3) The disposition of the amount equivalent to the profit or loss set forth in paragraph (1) in the next business year, and other necessary matters concerning the application of the provisions of the preceding two paragraphs are specified by Cabinet Order.

### **Division 3 Time to Record the Profit or Loss by Hedge Accounting**

(Deferment of Profit or Loss by Deferred Hedge Accounting)

Article 61-6 (1) In the case where a domestic corporation has conducted derivative transactions, etc. so as to decrease the net operating loss listed as follows (hereinafter referred to as the "net operating loss on hedged assets, etc." in this paragraph and paragraph (3)) (excluding the case where the

provisions of paragraph (1) of the next Article apply and limited to the case where the domestic corporation has stated, in books and documents, to the effect that the derivative transactions, etc. aimed to decrease the net operating loss on hedged assets, etc. and has entered other matters specified by an Ordinance of the Ministry of Finance, as specified by an Ordinance of the Ministry of Finance), when any of the assets or liabilities prescribed in item (i), or monies prescribed in item (ii), with which the net operating loss on hedged assets, etc. is to be decreased, have neither been transferred, extinguished, received, nor paid during the period from the time of the derivative transactions, etc. to the end of a business year, and when it falls under the case specified by a Cabinet Order as the case where the derivative transactions, etc. are deemed to be effective to decrease the net operating loss on hedged assets, etc., the portion of the amount of profit or loss from the derivative transactions, etc. (meaning the amount of profit or loss on the settlement of the derivative transactions, etc. (referred to as the "profit or loss on settlement" in paragraph (4)), the amount equivalent to the profit or loss prescribed in Article 61-4, paragraph (1) (Inclusion of the Amount Equivalent to Profits or Losses on the Short Selling, etc. of Securities in Gross Profits or Deductible Expenses), the amount equivalent to the profit or loss prescribed in paragraph (1) of the preceding Article, and the amount equivalent to the difference prescribed in Article 61-9, paragraph (2) (Inclusion in Gross Profits or Deductible Expenses of the Difference from the Conversion of Assets, etc. in a Foreign Currency at the End of the Period)), which has been calculated, as specified by Cabinet Order, as the effective portion in order to decrease the net operating loss on hedged assets, etc., is excluded from gross profits or deductible expenses, when calculating the amount of income for the business year, notwithstanding the provisions of Article 61-4, paragraph (1), paragraph (1) of the preceding Article, and Article 61-9, paragraph (2):

- (i) loss that is likely to arise due to fluctuations in the value of the assets (excluding commodities for short-term trading as prescribed in Article 61, paragraph (1) (Inclusion in Gross Profits or Deductible Expenses of Capital Gains or Losses and Gains or Losses on the Fair Valuation of Commodities for Short-Term Trading) and securities for buying and selling as prescribed in Article 61-3, paragraph (1), item (i) (Inclusion of Valuation Gains or Losses on Securities for Buying and Selling); the same applies in the following item in Gross Profits or Deductible Expenses) or liabilities (such fluctuations excludes those arising due to fluctuations in foreign exchange rates in the value of the assets or liabilities listed in the items of Article 61-9, paragraph (1), which is to be converted into Japanese yen as prescribed in Article 61-8, paragraph (1) (Conversion of Transactions in a Foreign Currency) by a conversion method at the current exchange rate prescribed in

- Article 61-9, paragraph (1), item (i), (b) (such assets or liabilities are referred to as "assets, etc. converted at the current exchange rate" in the following item)); and
- (ii) loss that is likely to arise due to fluctuations in the amount of monies that is to be received or paid upon the acquisition or transfer of assets, the occurrence or extinguishment of liabilities, receipt or payment of interest, or any other equivalent settlement (such fluctuations excludes those arising due to fluctuations in foreign exchange rates related to the assets, etc. converted at the current exchange rate).
- (2) The derivative transactions, etc. prescribed in the preceding paragraph mean the following transactions (excluding transactions based on a foreign exchange futures contract, etc. as prescribed in Article 61-8, paragraph (2) in the case of being subject to the provisions of the paragraph and transactions as specified by Ordinance of the Ministry of Finance as prescribed in paragraph (1) of the preceding Article):
- (i) derivative transactions as prescribed in paragraph (1) of the preceding Article;
  - (ii) short selling of securities as prescribed in Article 61-2, paragraph (19) (Calculation of Capital Gain or Loss on Short Selling of Securities) and margin transactions and when issued transactions as prescribed in paragraph (20) of the Article; and
  - (iii) transactions wherein assets, etc. in a foreign currency as prescribed in Article 61-9, paragraph (2) are to be acquired or are to occur.
- (3) In the case where a domestic corporation has received, as a result of a qualified merger, qualified company split, qualified contribution in kind, or qualified post-formation contribution (referred to as a "qualified organizational restructuring" through to Article 61-8), the transfer of a contract for derivative transactions, etc. as prescribed in paragraph (1) (hereinafter referred to as "derivative transactions, etc." in this paragraph) that has been conducted so as to decrease the net operating loss on hedged assets, etc. from an acquired corporation, splitting corporation, corporation making a capital contribution in kind, or transferring corporation (referred to as a "acquired corporation, etc." through to Article 61-8), and has received, as a result of the qualified organizational restructuring, the transfer of assets or liabilities prescribed in paragraph (1), item (i) (limited to assets or liabilities with which the net operating loss on hedged assets, etc. is to be decreased through the derivative transactions, etc.) or has come to receive or pay the monies prescribed in item (ii) of the paragraph (limited to monies with which the net operating loss on hedged assets, etc. is to be decreased through the derivative transactions, etc.) (where an acquired corporation, etc. involved in the qualified organizational restructuring subject to the provisions of paragraph (1) had already settled the

derivative transactions, etc. that it had conducted so as to decrease the net operating loss on hedged assets, etc. prior to the qualified organizational restructuring, in the case where the domestic corporation has received, as a result of the qualified organizational restructuring, the transfer of assets or liabilities prescribed in item (i) of the paragraph (limited to assets or liabilities with which the net operating loss on hedged assets, etc. is to be decreased through the derivative transactions, etc.) from the acquired corporation, etc., or has come to receive or pay the monies prescribed in item (ii) of the paragraph (limited to monies with which the net operating loss on hedged assets, etc. is to be decreased through the derivative transactions, etc.)), when the acquired corporation, etc. has stated, in books and documents, to the effect prescribed in paragraph (1) and has entered other matters as prescribed in the paragraph, regarding the derivative transactions, etc. wherein the contract has been transferred (where the settlement had been made, the derivative transactions, etc. wherein the settlement had been made; hereinafter the same applies in this paragraph), as specified by Ordinance of the Ministry of Finance as prescribed in the paragraph, with regard to the application of the provisions of this Article in each business year after the business year containing the date of the qualified organizational restructuring, it is deemed that the domestic corporation has conducted the derivative transactions and has made the entry so as to decrease the net operating loss on hedged assets, etc. pertaining to the assets or liabilities prescribed in paragraph (1), item (i) that it has received as a result of the qualified organizational restructuring or the monies prescribed in item (ii) of the paragraph that it has come to receive or pay as a result of the qualified organizational restructuring.

- (4) The disposition of the portion of the profit or loss on settlement calculated as specified by Cabinet Order as prescribed in paragraph (1) in each business year after the next business year, and other necessary matters concerning the application of the provisions of the preceding three paragraphs are specified by Cabinet Order.

(Recording of Valuation Gain or Loss of Securities Not for Buying and Selling by Market Value Hedge Accounting)

Article 61-7 (1) In the case where a domestic corporation has conducted derivative transactions, etc. (meaning derivative transactions, etc. as prescribed in paragraph (2) of the preceding Article; hereinafter the same applies in this Article) so as to decrease the net operating loss that is likely to arise due to fluctuations in the value of its securities not for buying and selling (meaning securities not for buying and selling as prescribed in Article 61-3, paragraph (1), item (ii) (Inclusion of Valuation Gains or Losses on Securities for Buying and Selling in Gross Profits or Deductible Expenses); hereinafter

the same applies in this Article) (such fluctuations exclude those arising due to fluctuations in foreign exchange rates in the value of the securities listed in Article 61-9, paragraph (1), item (ii), (b), which is to be converted into Japanese yen as prescribed in paragraph (1) of the following Article (hereinafter the amount converted into Japanese yen is referred to as the "amount in Japanese yen" in this paragraph) by the conversion method at the current exchange rate prescribed in Article 61-9, paragraph (1), item (i), (b) (Inclusion in Gross Profits or Deductible Expenses of Profits or Losses on the Difference from the Conversion of Assets in a Foreign Currency at the End of the Period)) (hereinafter such net operating loss is referred to as the " net operating loss on hedged securities" in this Article), (limited to the case where the domestic corporation has stated, in books and documents, to the effect that the securities not for buying and selling are to be evaluated or converted into the amount in Japanese yen as specified by Cabinet Order, and has entered other matters as specified by Ordinance of the Ministry of Finance as specified by Ordinance of the Ministry of Finance), when the securities not for buying and selling have not been transferred during the period from the time of the derivative transactions, etc. to the end of a business year, and when it falls under the case specified by Cabinet Order as a case where the derivative transactions, etc. are deemed to be effective to decrease the net operating loss on hedged securities, the portion of the difference between the value and the book value of the securities not for buying and selling, which has been calculated, as specified by Cabinet Order, as the portion corresponding to the amount of profit or loss prescribed in paragraph (1) of the preceding Article that arises from the derivative transactions, etc., is included in gross profits or deductible expenses, when calculating the amount of income for the business year

- (2) In the case where a domestic corporation has received, as a result of a qualified organizational restructuring, the transfer of a contract for derivative transactions, etc. that has been conducted so as to decrease the net operating loss on hedged securities from an acquired corporation, etc., and has received, as a result of the qualified organizational restructuring, the transfer of securities not for buying and selling (limited to those with which the net operating loss on hedged securities is to be decreased through the derivative transactions, etc.) (where an acquired corporation, etc. involved in the qualified organizational restructuring subject to the provisions of the preceding paragraph had already settled derivative transactions, etc. that it had conducted so as to decrease the net operating loss on hedged securities prior to the qualified organizational restructuring, in the case where the domestic corporation has received, as a result of the qualified organizational restructuring, the transfer of securities not for buying and selling (limited to

those with which the net operating loss on hedged securities is to be decreased through the derivative transactions, etc.) from the acquired corporation, etc.), when the acquired corporation, etc. has stated, in books and documents, to the effect prescribed in the preceding paragraph and has entered other matters as prescribed in the paragraph, regarding the derivative transactions, etc. wherein the contract has been transferred (where the settlement had been made, the derivative transactions, etc. wherein the settlement had been made; hereinafter the same applies in this paragraph), as specified by Ordinance of the Ministry of Finance as prescribed in the paragraph, with regard to the application of the provisions of this Article in each business year after the business year containing the date of the qualified organizational restructuring, it is deemed that the domestic corporation has conducted the derivative transactions and has made the entry so as to decrease the net operating loss on hedged securities pertaining to the securities not for buying and selling that it has received as a result of the qualified organizational restructuring.

- (3) The disposition of the amount calculated as specified by Cabinet Order as prescribed in paragraph (1) in the next business year, and other necessary matters concerning the application of the provisions of the preceding two paragraphs are specified by Cabinet Order.

#### **Division 4 Conversion of Transactions in a Foreign Currency**

(Conversion of Transactions in a Foreign Currency)

Article 61-8 (1) In the case where a domestic corporation has conducted transactions in a foreign currency (meaning the buying and selling of assets, provision of services, lending and borrowing of monies, payments of dividend of surplus or other transactions whose payment is made in a foreign currency; hereinafter the same applies in this Division), the amount in Japanese yen (meaning the amount of that foreign currency converted into Japanese yen; hereinafter the same applies in this Division) of the transactions in a foreign currency is to be the amount converted at the foreign exchange rate as of the time when the transactions in a foreign currency were conducted.

- (2) In the case where a domestic corporation has determined the amount in Japanese yen of the assets or liabilities that have been acquired or have arisen from transactions in a foreign currency (excluding the acquisition and transfer of commodities for short-term trading as prescribed in Article 61, paragraph (1) (Inclusion in Gross Profits or Deductible Expenses of Capital Gains or Losses and Gains or Losses on the Fair Valuation of Commodities for Short-Term Trading) or securities for buying and selling as prescribed in Article 61-3, paragraph (1), item (i) (Inclusion of Valuation Gains or Losses on Securities for Buying and Selling in Gross Profits or Deductible Expenses); the same applies

in the following paragraph) under a foreign exchange futures contract, etc. (meaning a contract as specified by Ordinance of the Ministry of Finance to be a contract which determines the amount in Japanese yen of the assets or liabilities to be acquired or which will arise from transactions in a foreign currency; hereinafter the same applies in this Division), when the domestic corporation stated, in books and documents, to the effect, as specified by Ordinance of the Ministry of Finance, as of the day on which the foreign exchange futures contract, etc. was concluded, the amount in Japanese yen of the assets or liabilities is to be the amount converted pursuant to the provisions of the preceding paragraph.

(3) In the case where a domestic corporation has received, as a result of a qualified organizational restructuring, the transfer of a foreign exchange futures contract, etc. from an acquired corporation, etc. so as to determine the amount in Japanese yen of the assets or liabilities to be acquired from the acquired corporation, etc. or which will arise from transactions in a foreign currency, and has come to conduct the transactions in a foreign currency (limited to transactions causing the acquisition or occurrence of the assets or liabilities whose amount in Japanese yen is to be determined under the foreign exchange futures contract) as a result of the qualified organizational restructuring, when the acquired corporation, etc. stated, in books and documents, to the effect prescribed in the preceding paragraph, regarding the foreign exchange futures contract, etc., as specified by Ordinance of the Ministry of Finance as prescribed in the paragraph, as of the day on which the contract, etc. was concluded, with regard to the application of the provisions of this Article in each business year after the business year containing the date of the qualified organizational restructuring, it is deemed that the domestic corporation has concluded the foreign exchange futures contract, etc. and has made the entry so as to determine the amount in Japanese yen of the assets or liabilities.

(4) Necessary matters concerning the application of the provisions of the preceding three paragraphs are specified by Cabinet Order.

(Inclusion in Gross Profits or Deductible Expenses of Profits or Losses on the Difference from the Conversion of Assets in a Foreign Currency at the End of the Period)

Article 61-9 (1) In the case where a domestic corporation holds the following assets and liabilities (hereinafter referred to as "assets, etc. in a foreign currency" in this Division) as of the end of a business year, the amount in Japanese yen of the assets, etc. in a foreign currency as of the time is to be the amount converted by the method specified in the following items in accordance with the category of the assets, etc. in a foreign currency (with regard to the

assets, etc. in a foreign currency listed in item (i), item (ii)(b), and item (iii), by a method that the domestic corporation selected from those prescribed in these provisions, and when the domestic corporation had not selected any method, by a method from those prescribed in these provisions that is specified by Cabinet Order):

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

(a) Conversion method on an accrual basis (meaning a method to convert the amount of assets, etc. in a foreign currency held as of the end of a business year (hereinafter referred to as "at the end of the period" in this item) at the foreign exchange rate used for converting the amount of transactions in a foreign currency that caused the acquisition or occurrence of the assets, etc. in a foreign currency into Japanese yen pursuant to the provisions of paragraph (1) of the preceding Article and deem the converted amount (with regard to the portion of the assets, etc. in a foreign currency to which the provisions of paragraph (2) of the Article applied upon converting the amount of transactions in a foreign currency that caused the acquisition or occurrence thereof into Japanese yen, the amount in Japanese yen determined under a foreign exchange futures contract, etc.) to be the amount in Japanese yen of the assets, etc. in a foreign currency as of the end of the period; the same applies in the following item and item (iii))

(b) Conversion method at the current exchange rate (meaning a method to convert the amount of assets, etc. in a foreign currency held as of the end of the period at the foreign exchange rate as of the end of the period and deem the converted amount (with regard to the portion of the assets, etc. in a foreign currency to which the provisions of paragraph (2) of the preceding Article applied upon converting the amount of transactions in a foreign currency that caused the acquisition or occurrence thereof into Japanese yen, the amount in Japanese yen determined under a foreign exchange futures contract, etc.) to be the amount in Japanese yen of the assets, etc. in a foreign currency as of the end of the period; the same applies in this paragraph and the following paragraph)

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

(a) Securities for buying and selling as prescribed in Article 61-3, paragraph (1), item (i) (Inclusion of Valuation Gains or Losses on Securities for Buying and Selling in Gross Profits or Deductible Expenses): Conversion

- method at the current exchange rate
- (b) Securities not for buying and selling as prescribed in Article 61-3, paragraph (1), item (ii) (limited to those with provisions concerning a redemption date and redemption price): Conversion method on an accrual basis or conversion method at the current exchange rate
  - (c) Securities other than those listed in (a) and (b): Conversion method on an accrual basis
  - (iii) deposits in a foreign currency: Conversion method on an accrual basis or conversion method at the current exchange rate
  - (iv) foreign currency: Conversion method at the current exchange rate
- (2) In the case where a domestic corporation holds assets, etc. in a foreign currency (limited to those whose amount is converted into Japanese yen by the conversion method at the current exchange rate; hereinafter the same applies in this paragraph) as of the end of a business year, the amount equivalent to the difference between the amount of the assets, etc. in a foreign currency that is conversion into Japanese yen by the conversion method at the current exchange rate and their book value as of the time is included in gross profits or deductible expenses, when calculating the amount of income for the business year.
- (3) The Conversion of the amount of assets, etc. in a foreign currency into Japanese yen in the case where the foreign exchange rates fluctuate significantly, procedures for selecting a method to be used to convert the amount of assets, etc. in a foreign currency into Japanese yen, disposition of the amount equivalent to the difference set forth in the preceding paragraph in the next business year, and other necessary matters concerning the application of the provisions of the preceding two paragraphs are specified by Cabinet Order.

(Allocation of Premium or Discount on Forward Exchange Contracts)

Article 61-10 (1) When the provisions of Article 61-8, paragraph (2) (Conversion of Transactions in a Foreign Currency with the Amount in Japanese Yen Determined under a Foreign Exchange Futures Contract) have been applied to assets, etc. in a foreign currency (excluding securities not for buying and selling as prescribed in Article 61-3, paragraph (1), item (i) (Inclusion of Valuation Gains or Losses on Securities for Buying and Selling in Gross Profits or Deductible Expenses); the same applies through to paragraph (4)) that a domestic corporation holds as of the end of a business year, upon converting the amount of transactions in a foreign currency that caused the acquisition or occurrence thereof into Japanese yen, in the calculation of the amount of income for each business year between the business year containing the day on which the foreign exchange futures contract, etc. for the assets, etc. in a foreign

currency was concluded (in the case where the day is prior to the date of the transactions in a foreign currency that caused the acquisition or occurrence of the assets, etc. in a foreign currency, containing the day on which the transactions in a foreign currency were conducted) and the business year containing the day on which the Japanese currency is to be received or paid due to the settlement of the assets, etc. in a foreign currency, the portion of the premium or discount on forward exchange contracts (meaning the difference between the amount of the assets, etc. in a foreign currency that is converted into Japanese yen as determined under a foreign exchange futures contract, etc. and their amount converted at the foreign exchange rate as of the time of the transactions in a foreign currency that caused the acquisition or occurrence thereof) that has been calculated, as specified by Cabinet Order, as the amount to be allocated to each of the business years (referred to as the "allocated premium or discount on forward exchange contracts" in the following paragraph) is included in gross profits or deductible expenses.

(2) In the case where a domestic corporation has transferred, as a result of a qualified company split by spin-off, a qualified contribution in kind, or qualified post-formation contribution (hereinafter referred to as a "qualified company split by spin-off, etc." in this paragraph and the following paragraph), assets, etc. in a foreign currency (limited to those to which the provisions of Article 61-8, paragraph (2) applied upon converting the amount of transactions in a foreign currency that caused the acquisition or occurrence thereof into Japanese yen; hereinafter the same applies in this paragraph) and the foreign exchange futures contract, etc. that determined the amount in Japanese yen of the assets, etc. in a foreign currency to a succeeding corporation in a company split, corporation receiving a capital contribution in kind, or transferee corporation (referred to as a "succeeding corporation in a company split, etc." in the following paragraph), the amount equivalent to the allocated premium or discount on forward exchange contracts calculated pursuant to the provisions of the preceding paragraph, when deeming the day preceding the date of the qualified company split by spin-off, etc. to be the last day of a business year, is included in gross profits or deductible expenses, when calculating the amount of income for the business year containing the date of the qualified company split by spin-off, etc.

(3) In the case where assets, etc. in a foreign currency are short-term assets, etc. in a foreign currency (meaning the portion of the assets, etc. in a foreign currency for which the due date for the receipt or payment of the Japanese currency due to the settlement thereof falls on a day up to the day preceding the day on which one year has elapsed from the day following the last day of the business year (in the case where the assets, etc. in a foreign currency are to be transferred to a succeeding corporation in a company split, etc. as a result of

a qualified company split by spin-off, etc., from the day following the day preceding the qualified company split by spin-off, etc.)), the premium or discount on the forward exchange contracts prescribed in paragraph (1) may be included in gross profits or deductible expenses, when calculating the amount of income for the business year, notwithstanding the provisions of the paragraph.

- (4) In the case where a domestic corporation has received, as a result of a qualified merger, qualified company split, qualified contribution in kind, or qualified post-formation contribution (hereinafter referred to as a "qualified organizational restructuring" in this paragraph), the transfer of assets, etc. in a foreign currency (limited to those for which an acquired corporation, splitting corporation, corporation making a capital contribution in kind, or transferring corporation (hereinafter referred to as a "acquired corporation, etc." in this paragraph) was subject to the provisions of Article 61-8, paragraph (2) upon converting the amount of transactions in a foreign currency that caused the acquisition or occurrence thereof into Japanese yen) and the foreign exchange futures contract, etc. that determined the amount in Japanese yen of the assets, etc. in a foreign currency from an acquired corporation, etc., with regard to the application of the provisions of this Article in each business year after the business year containing the date of the qualified organizational restructuring, it is deemed that the domestic corporation has been subject to the provisions of the paragraph upon converting the amount of transactions in a foreign currency that caused the acquisition or occurrence of the assets, etc. in a foreign currency into Japanese yen.
- (5) The procedures when intending to seek the application of the provisions of paragraph (3) and other necessary matters concerning the application of the provisions of the preceding paragraphs are specified by Cabinet Order.

#### **Subsection 6 Calculation of Amount of Income Pertaining to Organizational Restructuring**

(Transfer of Assets at Fair Value as a Result of Merger and Company Split)  
Article 62 (1) When a domestic corporation has transferred, as a result of a merger or company split, its assets and liabilities to an acquiring corporation or succeeding corporation in a company split, the amount of income of the domestic corporation for each business year is calculated by deeming that the assets and liabilities transferred to the acquiring corporation or succeeding corporation have been transferred at their value as of the merger or company split. In this case, it is deemed that the domestic corporation (excluding a domestic corporation holding no stated capital or capital contributions), which has transferred the assets and liabilities as a result of the merger, has

acquired new shares, etc. (meaning shares (including capital contributions; hereinafter the same applies in this paragraph and the following Article) and other assets of the acquiring corporation that it has delivered as a result of the merger (such shares and other assets include those of the acquiring corporation that is deemed to have received the allotment of shares prescribed in Article 61-2, paragraph (3) (Inclusion in Gross Profits or Deductible Expenses of Capital Gains or Losses or Gains or Losses on the Fair Valuation of Securities), under the paragraph, in the case prescribed in the paragraph)) from the acquiring corporation at their fair value and then immediately has delivered the new shares, etc. to its shareholders, etc.

- (2) With regard to the assets and liabilities transferred to an acquiring corporation or succeeding corporation in a company split, as a result of a merger or company split by split-off, capital gain (meaning the excess amount when the amount of consideration for the transfer exceeds the amount of cost ) or capital loss (meaning the excess amount when the amount of cost for the transfer exceeds the amount of consideration) on the transfer as a result of the transfer is included in gross profits or deductible expenses, when calculating the amount of income for the final business year pertaining to the merger or company split by split-off (meaning the business year containing the day preceding the date of an acquired corporation's merger; the same applies in paragraph (1) of the following Article) or for the business year prior to the company split (meaning the business year containing the day preceding the date of an acquiring corporation's company split by split-off; the same applies in paragraph (1) of the following Article).
- (3) The calculation of the amount of cost prescribed in the preceding paragraph and other necessary matters concerning the application of the provisions of the preceding two paragraphs are specified by Cabinet Order.

(Succession of Assets at Book Value as a Result of Qualified Merger and Qualified Company Split by Split-Off)

Article 62-2 (1) When a domestic corporation has transferred, as a result of a qualified merger or qualified company split by split-off, its assets and liabilities to an acquiring corporation or succeeding corporation in a company split, the amount of income of the domestic corporation for each business year is calculated by deeming that the domestic corporation has succeeded to the transferred assets and liabilities to the acquiring corporation or succeeding corporation in a company split at the amount specified by Cabinet Order as their book value as of the end of the final business year pertaining to the qualified merger or qualified company split by split-off or the business year prior to the company split, notwithstanding the provisions of paragraph (1) and paragraph (2) of the preceding Article.

- (2) In the case referred to in the preceding paragraph (limited to the part pertaining to a qualified merger), it is deemed that the domestic corporation (excluding a domestic corporation holding no stated capital or capital contributions), which has transferred its assets and liabilities as a result of the qualified merger set forth in the paragraph (excluding the qualified merger in the case where the acquiring corporation set forth in the paragraph is a corporation holding no stated capital or capital contributions), has acquired shares of the acquiring corporation set forth in the preceding paragraph or the acquiring parent corporation's shares as prescribed in Article 2, item (xii)-8 (Definitions) (including shares of the acquiring corporation that is deemed to have received the allotment of shares prescribed in Article 61-2, paragraph (3) (Inclusion in Gross Profits or Deductible Expenses of Capital Gains or Losses or Gains or Losses on the Fair Valuation of Securities), under the paragraph, in the case prescribed in the paragraph, or the acquiring parent corporation's shares) from the acquiring corporation at the amount specified by Cabinet Order based on the book value of the assets and liabilities transferred as a result of the qualified merger, and then has delivered the shares or acquiring parent corporation's shares immediately to its shareholders, etc., notwithstanding the provisions of the second sentence of paragraph (1) of the preceding Article.
- (3) In the case referred to in paragraph (1) (limited to the part pertaining to a qualified company split by split-off), the value of the shares of the succeeding corporation in a company split set forth in the paragraph delivered by the succeeding corporation in a company split to the domestic corporation set forth in the paragraph or of the shares of a succeeding parent corporation in a company split as prescribed in Article 2, item (xii)-11 as of the time of the delivery is to be the amount specified by Cabinet Order based on the book value of the assets and liabilities transferred as a result of the qualified company split by split-off.
- (4) The value of the assets and liabilities that an acquiring corporation or succeeding corporation in a company split is to succeed to and other necessary matters concerning the application of the provisions of the preceding three paragraphs are specified by Cabinet Order.

(Transfer of Assets at Book Value as a Result of Qualified Company Split by Split-Off)

Article 62-3 (1) When a domestic corporation has transferred its assets and liabilities to a succeeding corporation in a company split, as a result of a qualified company split by split-off, the amount of income of the domestic corporation for each business year is calculated by deeming that the domestic corporation has transferred the assets and liabilities to the succeeding

corporation in a company split at their book value as of immediately prior to the qualified company split by split-off, notwithstanding the provisions of Article 62, paragraph (1) (Transfer of Assets at Fair Value as a Result of Merger and Company Split).

- (2) The acquisition cost of the assets and liabilities of a succeeding corporation in a company split and other necessary matters concerning the application of the provisions of the preceding paragraph are specified by Cabinet Order.

(Transfer of Assets at Book Value as a Result of Qualified contribution in kind)

Article 62-4 (1) When a domestic corporation has transferred its assets or has also transferred its liabilities with its assets to a corporation receiving a capital contribution in kind, as a result of a qualified contribution in kind, the amount of income of the domestic corporation for each business year is calculated by deeming that the domestic corporation has transferred the assets and liabilities to the corporation receiving a capital contribution in kind at their book value as of immediately prior to the qualified contribution in kind.

- (2) The acquisition cost of the assets and liabilities of a corporation receiving a capital contribution in kind and other necessary matters concerning the application of the provisions of the preceding paragraph are specified by Cabinet Order.

(Transfer of Assets at a Fair Value as a Result of a Qualified Post-Formation Contribution and Inclusion of Gains or Losses on the Book Value Adjustment of Shares in Gross Profits or Deductible Expenses)

Article 62-5 (1) When a domestic corporation has transferred its assets or has also transferred its liabilities with its assets to a transferee corporation, as a result of a qualified post-formation contribution, the gain on the book value adjustment (meaning the amount equivalent to the excess amount when the amount of cost of the transfer of the transferred assets and liabilities (meaning the sum of the amount of cost and other expenses; hereinafter the same applies in this paragraph) exceeds the amount of consideration; the same applies in the following paragraph) or the loss on the book value adjustment (meaning the amount equivalent to the excess amount when the amount of consideration for the transfer of the transferred assets and liabilities exceeds the amount of cost, etc.; the same applies in the following paragraph) is included in gross profits or deductible expenses, when calculating the amount of income for the business year containing the date of the transfer as a result of the transfer.

- (2) In the case referred to in the preceding paragraph, the amount equivalent to the gain on the book value adjustment is added to or the amount equivalent to the loss on the book value adjustment is subtracted from the book value, as of the time of the transfer prescribed in the preceding paragraph, of the shares

(including capital contributions; the same applies in paragraph (1) of the following Article) of the transferee corporation involved in the qualified post-formation contribution held by the domestic corporation set forth in the paragraph.

- (3) The book value of the assets and liabilities of a transferee corporation and other necessary matters concerning the application of the provisions of the preceding two paragraphs are specified by Cabinet Order.

(Company Split for Delivering Shares to the Splitting Corporation and the Splitting Corporation 's Shareholders)

Article 62-6 (1) When a splitting corporation has effected a company split, whereby it delivers only a part of the shares and other assets of a succeeding corporation in a company split, which it receives as a result of the company split, to its shareholders, etc., the provisions of this Act apply by deeming that both the company split by split-off and company split by spin-off have been effected.

- (2) Necessary matters concerning the application of the provisions of the preceding paragraph are specified by Cabinet Order.

(Exclusion of Losses on the Transfer of Specified Assets from Deductible Expenses)

Article 62-7 (1) In the case where a specific qualified merger, etc. (meaning a qualified merger, qualified company split, or qualified contribution in kind that does not fall under the category specified by Cabinet Order as a qualified merger, etc. for the purpose of conducting business jointly as prescribed in Article 57, paragraph (5); hereinafter the same applies in this Article) has been effected between a domestic corporation and a corporation with a specified capital relationship (meaning a corporation that has a specified capital relationship (meaning a specified capital relationship as prescribed in Article 57, paragraph (3) (Carryover of Losses in a Business Year When a Blue Return Has Been Filed); hereinafter the same applies in this Article) with the domestic corporation), with the domestic corporation as an acquiring corporation, succeeding corporation in a company split, or corporation receiving a capital contribution in kind, when the specified capital relationship was established on or after the day five years prior to the first day of the business year containing the date of the domestic corporation's relevant specific qualified merger, etc. (hereinafter referred to as the "business year of a specific qualified merger, etc." in this paragraph), the net operating loss on the transfer of specified assets that arises during the domestic corporation's applicable period (meaning the period from the first day of the business year of a specific qualified merger, etc. up to the day on which three years have

elapsed therefrom (where the day is after the day on which five years have elapsed from the day on which the specified capital relationship was established, up to the day on which five years have elapsed) (in the case where each business year ending during the period is subject to the provisions of Article 61-11, paragraph (1) (Gains or Losses on the Fair Valuation of Assets Accompanying the Commencement of Consolidated Taxation), Article 61-12, paragraph (1) (Gain or Loss on the Fair Valuation of Assets Accompanying Participation in Consolidated Taxation), or Article 62-9, paragraph (1) (Gains or Losses on the Fair Valuation of Assets Held by Wholly Owned Subsidiary Corporations Involved in a Non-qualified Share Exchange), the period from the first day of the business year of a specific qualified merger, etc. up to the last day of the business year immediately prior to the commencement of consolidation as prescribed in Article 61-11, paragraph (1), the business year immediately prior to the participation in the consolidation prescribed in Article 61-12, paragraph (1), or the business year subject to the provisions of Article 62-9, paragraph (1))) is excluded from deductible expenses, when calculating the amount of income of the domestic corporation for each business year.

- (2) The net operating loss on the transfer of specified assets as prescribed in the preceding paragraph means the sum of the amounts listed as follows:
  - (i) the amount obtained by deducting the total profits resulting from a transfer or revaluation of the assets that the domestic corporation set forth in the preceding paragraph has received from the corporation with a specified capital relationship set forth in the paragraph, as a result of a specific qualified merger, etc., and which the corporation with a specified capital relationship had owned prior to the day on which the specified capital relationship was established (referred to as the "date of the occurrence of a specified capital relationship" in the following item) (such assets exclude those specified by Cabinet Order; hereinafter referred to as the "specified succeeded assets" in this item) from the total loss arising due to the transfer, revaluation, bad debts, or removal of the specified succeeded assets, or any other equivalent grounds; and
  - (ii) the amount obtained by deducting the total profits resulting from the transfer or revaluation of the assets that the domestic corporation set forth in the preceding paragraph had owned prior to the date of the occurrence of a specified capital relationship (such assets exclude those specified by Cabinet Order; hereinafter referred to as the "specified owned assets" in this item) from the total loss arising due to the transfer, revaluation, bad debts, removal or on any other equivalent grounds of the specified owned assets.
- (3) The provisions of the preceding two paragraphs apply mutatis mutandis to the case where a specific qualified merger, etc. aiming to establish a corporation has been effected between an acquired corporation, etc. (meaning

an acquired corporation, splitting corporation, or corporation making a capital contribution in kind; hereinafter the same applies in this paragraph) that has a specified capital relationship and another acquired corporation, etc., and when the specified capital relationship was established on or after the day five years prior to the date of the specific qualified merger, etc. In this case, the term "the domestic corporation's applicable period" in paragraph (1) is deemed to be replaced with "the applicable period of a domestic corporation established as a result of the specific qualified merger, etc."; the term "from the corporation with a specified capital relationship set forth in the paragraph, as a result of a specific qualified merger, etc." in item (i) of the preceding paragraph is deemed to be replaced with "from the acquired corporation, etc. prescribed in the following paragraph involved in a specific qualified merger, etc. (excluding another acquired corporation, etc. as prescribed in the following item), as a result of the specific qualified merger, etc. "; the term "the corporation with a specified capital relationship" in the item is deemed to be replaced with "the acquired corporation, etc."; and the term "the assets that the domestic corporation set forth in the preceding paragraph had owned prior to the date of the occurrence of a specified capital relationship" in item (ii) of the preceding paragraph is deemed to be replaced with "the assets that the domestic corporation set forth in the preceding paragraph has received from another acquired corporation, etc. involved in a specific qualified merger, etc., as a result of the specific qualified merger, etc., and which the other acquired corporation etc, had owned prior to the date of the occurrence of the specified capital relationship."

- (4) When a corporation with a specified capital relationship as prescribed in paragraph (1) or an acquired corporation, etc. as prescribed in the preceding paragraph is a corporation showing a loss, etc. as prescribed in Article 60-3, paragraph (1) (Exclusion from Deductible Expenses of the Net Operating Losses on the Transfer of Assets of a Corporation Showing a Loss That Is Controlled by a Specified Shareholder) (referred to as a "corporation showing a loss, etc." in the following paragraph and paragraph (6)) as of immediately prior to a specific qualified merger, etc., and when the specific qualified merger, etc. is effected during the applicable period prescribed in paragraph (1) of the Article, the provisions of paragraph (1) pertaining to the specific qualified merger, etc. (including the case applied mutatis mutandis pursuant to the preceding paragraph; the same applies in paragraph (6)) do not apply to the assets that the domestic corporation set forth in paragraph (1) has received from the corporation with a specified capital relationship or acquired corporation, etc., as a result of the specific qualified merger, etc.
- (5) When the domestic corporation set forth in paragraph (1) is a corporation showing a loss, etc., and when a specific qualified merger, etc. is effected

during the applicable period prescribed in Article 60-3, paragraph (1), the provisions of paragraph (1) pertaining to the specific qualified merger, etc. do not apply to the assets that the domestic corporation owns.

- (6) When the domestic corporation set forth in paragraph (1) becomes a corporation showing a loss, etc. after a specific qualified merger, etc., and when the applicable period prescribed in Article 60-3, paragraph (1) has started, the applicable period prescribed in paragraph (1) is to end on the day preceding the day on which the applicable period prescribed in Article 60-3, paragraph (1) starts.
- (7) In the case where a domestic corporation, which is a consolidated subsidiary corporation, has effected a specific qualified merger, etc. (limited to a qualified merger or qualified company split, wherein the domestic corporation is an acquiring corporation or succeeding corporation in a company split, and wherein a corporation that does not have a consolidated full controlling interest in the domestic corporation (excluding a corporation specified by Cabinet Order as prescribed in Article 57, paragraph (10), item (i)) is an acquired corporation or splitting corporation), the provisions of paragraph (1) pertaining to the specific qualified merger, etc. do not apply to the domestic corporation's specified owned assets prescribed in paragraph (2), item (ii).
- (8) The calculation of the net operating loss prescribed in paragraph (2), item (i) and other necessary matters concerning the application of the provisions of the preceding paragraphs are specified by Cabinet Order.

(Inclusion in Deductible Expenses of an Adjustment Account for Assets Transferred as a Result of a Non-qualified Merger)

Article 62-8 (1) In the case where a domestic corporation has received, as a result of a non-qualified merger, etc. (meaning a merger that does not fall under the category of a qualified merger, a company split that does not fall under the category of a qualified company split, a contribution in kind to the capital of the receiving corporation that does not fall under the category of a qualified contribution in kind, or an acceptance of business, which is specified by Cabinet Order; hereinafter the same applies in this Article), the transfer of the assets or liabilities from an acquired corporation, splitting corporation, corporation making a capital contribution in kind, or other corporation specified by Cabinet Order (hereinafter referred to as a "acquired corporation, etc." in this Article), when the sum of the amount of monies and the value of assets other than monies (in the case of a merger that does not fall under the category of a qualified merger, the value of the new shares, etc. prescribed in Article 62, paragraph (1) (Transfer of Assets, etc. at Fair Value as a Result of Merger and Company Split)) (such sum includes the amount equivalent to the donation prescribed in Article 37, paragraph (7) (Exclusion of Contributions

and Donations from Deductible Expenses) that has been paid by the acquired corporation, etc. upon the non-qualified merger, etc. and excludes the amount equivalent to the donation prescribed in the paragraph that has been paid to the acquired corporation; referred to as the "consideration for a non-qualified merger, etc." in paragraph (3)) exceeds the market net value of the transferred assets and liabilities (meaning the amount obtained by deducting the sum of the liabilities (including the amount of the liability adjustment account prescribed in the following paragraph; hereinafter the same applies in this paragraph) from the sum of the acquisition costs of the assets (with regard to goodwill, limited to that which is specified by Cabinet Order; hereinafter the same applies in this paragraph); the same applies in paragraph (3)), the portion of the excess amount (where the sum of the acquisition costs of the assets does not reach the sum of the liabilities, the amount adding the shortfall) that is specified by Cabinet Order is to be the amount of the asset adjustment account.

- (2) In the case where a domestic corporation has received, as a result of a non-qualified merger, etc., the transfer of assets or liabilities from an acquired corporation, etc. involved in the non-qualified merger, etc., when the domestic corporation falls under any of the following cases, the amount specified in the relevant item is to be the amount of the liability adjustment account, in accordance with the category listed as follows:
- (i) with regard to the employees that the domestic corporation has succeeded to from the acquired corporation, etc. upon the non-qualified merger, etc., when the domestic corporation has assumed any retirement allowance debts (meaning that a domestic corporation promises to calculate the amount of retirement allowance to pay to the employees that it has succeeded to upon a non-qualified merger, etc. due to their retirement after the non-qualified merger, etc. or on any other grounds, taking into account their period of service and other work performance prior to the non-qualified merger, etc., and assumes the accompanying burdens; hereinafter the same applies in this Article): The amount specified by Cabinet Order as the amount pertaining to the assumption of retirement allowance debts (referred to as the "amount of assumed retirement allowance debts" in paragraph (6), item (i)); or
  - (ii) with regard to future debts pertaining to the business that the domestic corporation has received from the acquired corporation, etc. as a result of the non-qualified merger, etc. (limited to debts that have a significant influence on the profits from the business and excluding debts related to the assumption of retirement allowance debts set forth in the preceding item and debts that have already been determined to be performed and which are expected to be performed approximately within three years from the date of the non-qualified merger, etc., when the domestic corporation has assumed

the burdens for performing the debts: The amount specified by Cabinet Order as the amount equivalent to the debts (referred to as the "estimated amount of short-term significant debts" in paragraph (6), item (ii)).

- (3) In the case where a domestic corporation has received, as a result of a non-qualified merger, etc., a transfer of the assets or liabilities from an acquired corporation, etc. involved in the non-qualified merger, etc., when the consideration for the non-qualified merger, etc. pertaining to the non-qualified merger, etc. is less than the market net value of the assets and liabilities transferred from the acquired corporation, etc., the amount of the shortfall is to be the amount of the liability adjustment account.
- (4) A domestic corporation that holds the amount of the asset adjustment account set forth in paragraph (1) must reduce the amount equivalent to the amount obtained by dividing the initial amount of each asset adjustment account (meaning the amount deemed to be the amount of the asset adjustment account pursuant to the provisions of the paragraph as of the time of a non-qualified merger, etc.) by 60 and then multiplying the number of months in the relevant business year (in the case where the domestic corporation effects a merger (excluding a qualified merger) with itself as an acquired corporation, equivalent to the amount as of the end of the business year containing the day preceding the date of the merger) for the business year (in the case where the domestic corporation effects the merger, for the business year containing the day preceding the date of the merger).
- (5) The amount equivalent to the amount of the asset adjustment account to be reduced pursuant to the provisions of the preceding paragraph is included in deductible expenses, when calculating the amount of income for the business year containing the day on which it was determined that the amount should be reduced.
- (6) A domestic corporation that holds the amount of the liability adjustment account prescribed in paragraph (2) must, when falling under any of the following cases, reduce the amount specified in the relevant item, in accordance with the category of each of the following cases, with regard to the amount of the liability adjustment account, for the business year containing the day on which the domestic corporation came to fall under the case (where the day is the date of a merger with itself as an acquired corporation, for the business year containing the day preceding the date of the merger):
  - (i) in the case where any of the employees on behalf of whom the domestic corporation has assumed retirement allowance debts (meaning the employees prescribed in paragraph (2), item (i) on behalf of whom a domestic corporation assumes retirement allowance debts; hereinafter the same applies in this item and paragraph (9)) have ceased to be the domestic corporation's employees due to retirement or on any other grounds (excluding

- the case where the employees fall under either of the cases prescribed in paragraph (9), item (i), (a) or paragraph (9), item (ii), (a)), or where the domestic corporation pays a retirement allowance to any of such employees: The portion of the amount of the liability adjustment account pertaining to the amount of assumed retirement allowance debts (referred to as the "amount of the liability adjustment account for retirement allowance debts" in paragraph (9) and paragraph (10)) that is specified by Cabinet Order as the amount pertaining to those employees on behalf of whom the domestic corporation has assumed retirement allowance debts; or
- (ii) in the case where any loss pertaining to the estimated amount of short-term significant debts has arisen, where three years have elapsed from the date of a non-qualified merger, etc., or where the domestic corporation effects a merger (excluding a qualified merger) with itself as an acquired corporation: The portion of the amount of the liability adjustment account pertaining to the estimated amount of short-term significant debts (hereinafter referred to as the "amount of the liability adjustment account for short-term significant debts" in this Article) that is equivalent to the amount of the loss (where the three years have elapsed or where the merger is effected, equivalent to the amount of the liability adjustment account for short-term significant debts).
- (7) A domestic corporation that holds the amount of the liability adjustment account set forth in paragraph (3) (hereinafter referred to as the "amount of the liability adjustment account for difference" in this Article) must reduce the amount equivalent to the amount obtained by dividing the initial amount of each liability adjustment account for difference (meaning the amount deemed to be the amount of the liability adjustment account for difference pursuant to the provisions of the paragraph as of the time of a non-qualified merger, etc.) by 60 and then multiplying the number of months in the relevant business year (in the case where the domestic corporation effects a merger (excluding a qualified merger) with itself as an acquired corporation, equivalent to the amount as of the end of the business year containing the day preceding the date of the merger) for the business year (in the case where the domestic corporation effects the merger, for the business year containing the day preceding the date of the merger).
- (8) The amount equivalent to the amount of the liability adjustment account to be reduced pursuant to the provisions of the preceding two paragraphs is included in gross profits, when calculating the amount of income for the business year containing the day on which it was determined that the amount should be reduced.
- (9) In the case where a domestic corporation has effected a qualified merger, qualified company split, qualified contribution in kind, or qualified post-

formation contribution (hereinafter referred to as "qualified organizational restructuring" in this Article), with itself as an acquired corporation, splitting corporation, corporation making a capital contribution in kind, or transferring corporation, the amount of the asset adjustment account and liability adjustment account specified in the following items is to be succeeded to by an acquiring corporation, succeeding corporation in a company split, corporation receiving a capital contribution in kind, or transferee corporation (referred to as a "acquiring corporation, etc." in the following paragraph and paragraph (12)), in accordance with the category of qualified organizational restructuring listed in the relevant item:

- (i) qualified merger: The amount of the asset adjustment account as of immediately prior to the qualified merger and the amount of the liability adjustment account listed as follows:
  - (a) In the case where the domestic corporation has effected the qualified merger, which has caused the employees, on behalf of whom the domestic corporation has assumed retirement allowance debts, to engage in a business of the acquiring corporation involved in the qualified merger (limited to the case where the acquiring corporation has assumed retirement allowance debts), the portion of the amount of the liability adjustment account for retirement allowance debts that is specified by Cabinet Order as the amount pertaining to the employees
  - (b) The amount of the liability adjustment account for short-term significant debts
  - (c) The amount of the liability adjustment account for difference;
- (ii) qualified company split, qualified contribution in kind, or qualified post-formation contribution (hereinafter referred to as a "qualified company split, etc." in this item): The amount of the liability adjustment account listed as follows as of immediately prior to the qualified company split, etc.
  - (a) In the case where the domestic corporation has effected the qualified company split, etc., which has caused the employees, on behalf of whom the domestic corporation has assumed retirement allowance debts, to engage in a business of the succeeding corporation in a company split, corporation receiving a capital contribution in kind, or transferee corporation (referred to as a "succeeding corporation in a company split, etc." in (a)) involved in the qualified company split, etc. (limited to the case where the succeeding corporation in a company split, etc. has assumed retirement allowance debts), the portion of the amount of the liability adjustment account for retirement allowance debts that is specified by Cabinet Order as the amount pertaining to the employees
  - (b) The amount specified by Cabinet Order as the amount of the liability adjustment account for short-term significant debts that is closely related

to the business or the assets or liabilities transferred as a result of the qualified company split, etc.

- (10) The amount of the asset adjustment account, the amount of the liability adjustment account for retirement allowance debts, the amount of the liability adjustment account for short-term significant debts, and the amount of the liability adjustment account for short-term significant debts that an acquiring corporation, etc. has succeeded to pursuant to the provisions of the preceding paragraph are deemed to be the amount of the asset adjustment account, the amount of the liability adjustment account for retirement allowance debts, the amount of the liability adjustment account for short-term significant debts, and the amount of the liability adjustment account for short-term significant debts, respectively, that the acquiring corporation, etc. has as of the time of the qualified organizational restructuring set forth in the paragraph.
- (11) The number of months set forth in paragraph (4) and paragraph (7) is calculated in accordance with the calendar and a division of less than one month is counted as one month.
- (12) Beyond what is provided for in the preceding paragraph, the calculation of the amount to be reduced pursuant to the provisions of paragraph (4), with regard to the amount of the asset adjustment account that an acquiring corporation, etc. set forth in paragraph (10) has succeeded to as a result of qualified organizational restructuring, and other necessary matters concerning the application of the provisions of paragraphs (1) through (10) are specified by Cabinet Order.

(Gains or Losses on the Fair Valuation of Assets Held by Wholly Owned

Subsidiary Corporations in a share exchange Involved in Non-qualified Share Exchange)

Article 62-9 (1) In the case where a domestic corporation has effected a share exchange or share transfer (excluding a qualified share exchange and qualified share transfer; hereinafter referred to as a "non-qualified share exchange, etc." in this paragraph), with itself as a wholly owned subsidiary corporation in a share exchange or wholly owned subsidiary corporation in a share transfer, a valuation gain (meaning the difference between the value as of immediately prior to the non-qualified share exchange, etc. and the book value at the time, when the former exceeds the latter) or a valuation loss (meaning the difference between the value as of immediately prior to the non-qualified share exchange, etc. and the book value at the time, when the latter exceeds the former) arising from the assets evaluated by fair value that the domestic corporation holds as of immediately prior to the non-qualified share exchange, etc. (such assets mean fixed assets, land (including any right on land and excluding land that falls under the category of fixed assets), securities, monetary claims, and

deferred assets other than those specified by Cabinet Order) is included in gross profits or deductible expenses, when calculating the amount of income for the business year containing the date of the non-qualified share exchange, etc.

(2) Necessary matters concerning the application of the provisions of the preceding paragraph are specified by Cabinet Order.

### **Subsection 7 Special Provisions on the Business Year for Vesting Profits and Expenses**

(Business Year for Vesting Profits from and Expenses for Long-Term Installment Sales)

Article 63 (1) In the case where a domestic corporation has sold assets in a manner that falls under the category of long-term installment sales, etc. or transferred assets, has contracted for construction work (including manufacturing work), or has provided services (excluding contracts for long-term, large-scale construction work as prescribed in paragraph (1) of the following Article; hereinafter referred to as the "sales, etc. of assets" in this Article), when the amount of profit and expenses related to the sales, etc. of assets has been settled on a deferred payment basis, as specified by Cabinet Order, in the final settlement of the accounts in each business year from the business year containing the date of the delivery of the subject matter or the provision of services related to the sales, etc. of assets, the amount of profit and expenses settled is included in gross profits and deductible expenses, when calculating the amount of income for each of the business years; provided, however, that in the case where the amount of profit and expenses related to the sales, etc. of assets was not settled on a deferred payment basis in the final settlement of the accounts in any business year after the business year containing the date, or where the provisions of paragraph (3) or paragraph (4) were applied, this does not apply to business years after the business year pertaining to the settlement in which the amount was not settled or after the business year when any of these provisions were applied.

(2) In the case where a domestic corporation has delivered the lease assets prescribed in Article 64-2, paragraph (1) (Calculation of the Amount of Income Related to Lease Transactions) through lease transactions as prescribed in paragraph (3) of the Article (hereinafter the delivery of such lease assets is referred to as the "lease transfer in this Article), the amount specified by Cabinet Order as the amount of profit and expenses for each business year after the business year containing the date of the 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, is included in gross profits and deductible expenses, when calculating

the amount of income for each of the business years, notwithstanding the provisions of the preceding paragraph; provided, however, that in the case where the provisions of the following paragraph or paragraph (4) were applied to the amount of profit and expenses related to the lease transfer in any of the business years after the business year containing the date of the lease transfer, this does not apply to business years after the business year when any of these provisions were applied.

- (3) In the case where a second domestic corporation as prescribed in Article 61-11, paragraph (1) (Gains or Losses on the Fair Valuation of Assets Accompanying the Commencement of Consolidated Taxation) that has a consolidated full controlling interest as prescribed in the paragraph or a second domestic corporation as prescribed in Article 61-12, paragraph (1) (Gains or Losses on the Fair Valuation of Assets Accompanying Participation in Consolidated Taxation) was subject to the provisions of the preceding two paragraphs in the business year immediately prior to commencement of consolidation as prescribed in Article 61-11, paragraph (1) (hereinafter referred to as the "business year immediately prior to the commencement of consolidation" in this paragraph) or in the business year immediately prior to the participation in the consolidation prescribed in Article 61-12, paragraph (1) (hereinafter referred to as the "business year immediately prior to participation in the consolidation" in this paragraph), the amount of profits and expenses related to the sales, etc. of assets or the lease transfer subject to the provisions of the preceding two paragraphs (excluding the amount to be included in gross profits and deductible expenses, when calculating the amount of income or consolidated income for each business year or each consolidated business year prior to the business year immediately prior to the commencement of consolidation or business year immediately prior to participation in the consolidation and the amount to be included in gross profits and deductible expenses, when calculating the amount of income for the business year immediately prior to the commencement of consolidation or the business year immediately prior to participation in the consolidation, pursuant to the provisions of the preceding two paragraphs), except for the amount related to a contract that meets the requirements specified by Cabinet Order as a contract under which the difference between the amount of profit and the amount of expenses is small, or any other contract as specified by Cabinet Order, is included in gross profits and deductible expenses, when calculating the amount of income for the business year immediately prior to the commencement of consolidation or business year immediately prior to the participation in the consolidation.
- (4) In the case where a domestic corporation set forth in paragraph (1) of the preceding Article was subject to the provisions of paragraph (1) or paragraph

- (2) in the business year containing the date of a non-qualified share exchange, etc. as prescribed in paragraph (1) of the preceding Article (excluding a business year subject to the provisions of the preceding paragraph; hereinafter referred to as the "business year of the non-qualified share exchange, etc." in this paragraph), the amount of profit and expenses related to the sales, etc. of assets or lease the transfer subject to the provisions of paragraph (1) or paragraph (2) (excluding the amount to be included in gross profits and deductible expenses, when calculating the amount of income or consolidated income for each business year or each consolidated business year prior to the business year of the non-qualified share exchange, etc. and the amount to be included in gross profits and deductible expenses, when calculating the amount of income for the business year, pursuant to the provisions of paragraph (1) or paragraph (2)), except for the amount related to a contract that meets the requirements specified by Cabinet Order as a contract under which the difference between the amount of profit and the amount of expenses is small, or any other contract as specified by Cabinet Order, is included in gross profits and deductible expenses, when calculating the amount of income for the business year of the non-qualified share exchange, etc.
- (5) With regard to the application of the provisions of paragraph (1) or paragraph (2), the sales, etc. of assets or the lease transfer do not include the sales or transfer of the assets for capital gain or loss adjustment prescribed in Article 61-13, paragraph (1) (Adjustment of Gains and Loss on Transactions among Consolidated Corporations in Business Year Prior to Company Split) which a domestic corporation has made to a consolidated corporation that has a consolidated full controlling interest in the domestic corporation (limited to the sales or transfer that has caused the application of the provisions of Article 81-10, paragraph (1) (Adjustment of Gains and Loss on Transactions among Consolidated Corporations)).
- (6) Long-term installment sales, etc. as prescribed in paragraph (1) means the sales, etc. of assets under conditions meeting the following requirements, based on a contract that defines the conditions, and the lease transfer:
- (i) that a consideration is received in three or more installments, by way of a monthly installment, annual installment, or any other installment payment;
  - (ii) that the period from the next day of the due date of the delivery or provision of the subject matter or services related to the sales, etc. of assets up to the due date of the last installment payment is two years or more; and
  - (iii) any other requirements as specified by Cabinet Order.
- (7) The provisions of paragraph (2) apply only in the case where a tax return for the business year containing the date of the lease transfer contains a detailed statement concerning the inclusion in gross profits and deductible expenses of the amount specified by Cabinet Order as the amount of profit and expenses

prescribed in the paragraph.

- (8) Even in the case where a tax return without 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 they find any unavoidable grounds for the person's failure to make entries for such matters.
- (9) Special provisions on the disposition of the amount of profits and expenses related to the sales, etc. of assets that fall under the category of long-term installment sales, etc. as prescribed in paragraph (1), in the case where a qualified merger, qualified company split, qualified contribution in kind, or qualified post-formation contribution has been effected, and other necessary matters concerning the application of the provisions of paragraphs (1) through (5) are specified by Cabinet Order.

(Business Year for Vesting of Profit and Expenses Related to Contract for Construction Work)

Article 64 (1) When a domestic corporation has contracted for long-term, large-scale construction work (meaning construction work (including manufacturing work and the development of software; hereinafter the same applies in this Article), for which the period between the date of the start of construction and the due date of the delivery of the subject matter defined under the contract for the 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 applies in this Article), the portion of profit and expenses related to the contract for the large-scale construction work, which is calculated by way of a percentage of the completion method specified by Cabinet Order as the amount of profit and expenses for each business year from the business year containing the date of the start of construction up to the business year preceding the business year containing the date of the delivery of the subject matter, is included in gross profits and deductible expenses, when calculating the amount of income for each of the business years.

- (2) In the case where a domestic corporation has contracted for construction work (limited to construction work for which the subject matter is not delivered within the business year containing the date of the start of construction (hereinafter referred to as the "business 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 applies in this Article), when the amount of profit 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 in the final settlement of the accounts in each business year from the business year of starting construction up to the

business year preceding the business year containing the date of the delivery of the subject matter, the amount of profit and expenses settled is included in gross profits and deductible expenses, when calculating the amount of income for each of the business years; provided, however, that in the case where the amount of profit and expenses related to the contract for construction work was not settled by way of a percentage of the completion method in the final settlement of the accounts in any business year after the business year of starting construction, this does not apply to business years after the business year following the business year pertaining to the settlement in which the amount was not settled.

- (3) Special provisions on the disposition of the amount of profit and expenses related to a contract for large-scale construction work or construction work, in the case where a qualified merger, qualified company split, qualified contribution in kind, or qualified post-formation contribution has been effected, and other necessary matters concerning the application of the provisions of the preceding two paragraphs are specified by Cabinet Order.

### **Subsection 8 Lease Transactions**

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

Article 64-2 (1) In the case where a domestic corporation has conducted lease transactions, the amount of income for each business year of the domestic corporation that is the lessor or lessee of the assets, which are the object of the lease transactions (hereinafter referred to as "lease assets" in this paragraph), is calculated, by deeming that the lease assets were traded at the time of their delivery from the lessor to the lessee.

- (2) In the case where a domestic corporation has traded 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 a chain of transactions substantially cover the borrowing and lending of monies, in light of the type of assets, developments leading to the trade and lease, and any other circumstances, the amount of income for each business year of the domestic corporation that is the transferee or transferor is calculated, by deeming that the assets were not traded but monies was lent from the transferee to the transferor.

- (3) Lease transactions as prescribed in the preceding two paragraphs mean 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) that the contract for the lease cannot be canceled in the middle of the lease period or the contract is equivalent to such contract; and

- (ii) that 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 the assets.
- (4) Matters necessary for the determination as to whether a domestic corporation 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 necessary matters concerning the application of the provisions of the preceding three paragraphs are specified by Cabinet Order.

### **Subsection 9 Calculation of the Amount of Income Related to Trust Subject to Corporate Taxation**

- Article 64-3 (1) In the case where a specified trust that issues beneficiary certificates as prescribed in Article 2, item (xxix), (c) (Definitions) has come to fall under the category of a trust subject to corporate taxation, the amount specified by Cabinet Order as the amount equivalent to the undistributed profit as of immediately prior to the time when it came to fall under such category is included in gross profits, when calculating the amount of income of a trust corporation under the trust subject to corporate taxation (meaning a trust corporation as prescribed in Article 4-7 (Application of This Act to Trust Corporations); hereinafter the same applies in this Article) for the business year containing the day on which it came to fall under such category.
- (2) In the case where a domestic corporation has become a beneficiary as prescribed in Article 12, paragraph (1) (Vesting of Assets and Liabilities in Trust Property and Profit and Expenses to Be Attributed to Trust Property) (such beneficiary includes a person who is deemed to be a beneficiary as prescribed in paragraph (1) of the Article pursuant to the provisions of paragraph (2) of the Article and exclude a beneficiary under liquidation proceedings) of a trust subject to corporate taxation (limited to a trust listed in Article 2, item (xxix)-2, (b)) and thereby the trust subject to corporate taxation has ceased to fall under the category of trusts listed in (b) of the item (excluding the case where the trust subject to corporate taxation falls under the category of trusts listed in (a) or (c) of the item), the amount of income of the domestic corporation for each business year is calculated, by deeming that the domestic corporation has succeeded to the assets and liabilities in the trust property from the trust corporation at their book value as of immediately prior to the time when the trust ceased to fall under the category.
- (3) In the case where the domestic corporation set forth in the preceding paragraph is deemed to have succeeded to the assets and liabilities pursuant to the provisions of the paragraph, the amount of profit or loss arising from the succession is not excluded from gross profits or deductible expenses, when

calculating the amount of income of the domestic corporation for the business year containing the day on which it succeeded to the assets and liabilities.

- (4) When a trust corporation under a trust subject to corporate taxation has transferred the assets and liabilities related to the trust subject to corporate taxation, as a result of a change of trustees of the trust subject to corporate taxation, the amount of income of the trust corporation for each business year is calculated by deeming that the transferred assets and liabilities has been succeeded to by the trustee after the change at their book value as of immediately prior to the change.
- (5) The value of the assets and liabilities that are to be succeeded to by the trustee after the change set forth in the preceding paragraph, pursuant to the provisions of the paragraph, and any other necessary matters concerning the calculation of the amount of income of a trust corporation or its beneficiaries for each business year are specified by Cabinet Order.

**Subsection 10 Calculation of the Amount of Income in the Case Where  
a Corporation in the Public Interest Changes to an Ordinary  
Corporation**

- Article 64-4 (1) In the case where a domestic corporation, which is a general incorporated association, general incorporated foundation, or medical corporation (limited to a corporation in the public interest, etc.; referred to as a "specified corporation in the public interest, etc." in the following paragraph), has come to fall under the category of an ordinary corporation, the amount equivalent to the amount calculated, as specified by Cabinet Order, as the accumulated amount of income arising from a business other than its profit-making business prior to the day on which it came to fall under such category (hereinafter referred to as the "transition date" in this paragraph and paragraph (3)) (the amount of income is referred to as the "accumulated amount of income" in paragraph (3)) or to the amount calculated, as specified by Cabinet Order, as the accumulated net operating loss arising from a business other than its profit-making business prior to the transition date (the net operating loss is referred to as the "accumulated net operating loss " in paragraph (3)) is included in gross profits or deductible expenses, when calculating the amount of income of the domestic corporation for the business year containing the transition date.
- (2) In the case where a qualified merger has been effected, with a specified corporation in the public interest, etc. as an acquired corporation and with a domestic corporation that is an ordinary corporation as an acquiring corporation, the amount equivalent to the amount calculated, as specified by Cabinet Order, as the accumulated amount of income arising from a business

other than the acquired corporation's profit-making business prior to the qualified merger (referred to as the "accumulated amount of income prior to merger" in the following paragraph) or to the amount calculated, as specified by Cabinet Order, as the accumulated net operating loss arising from a business other than the profit-making business prior to the qualified merger (referred to as the "accumulated net operating loss prior to merger" in the following paragraph) is included in gross profits or deductible expenses, when calculating the amount of income of the domestic corporation for the business year containing the date of the qualified merger.

- (3) With regard to the application of the provisions of the preceding two paragraphs in the case where a domestic corporation set forth in paragraph (1) is a corporation that has come to fall under the category of an ordinary corporation due to the cancellation of its public interest corporation authorization as prescribed in Article 29, paragraph (1) and paragraph (2) (Cancellation of Public Interest Corporation Authorization) of the Act on Authorization of Public Interest Incorporated Associations and Public Interest Incorporated Foundations (Act No. 49 of 2006), pursuant to the provisions of paragraph (1) or paragraph (2) of the Article, in the case where a domestic corporation set forth in the preceding paragraph is an acquiring corporation involved in a qualified merger as prescribed in the paragraph, wherein a public interest incorporated association or public interest incorporated foundation is an acquired corporation, or any other case falling under the case specified by Cabinet Order, the amount equivalent to the amount specified by Cabinet Order as the amount which is to be paid for the purpose of public interest on or after the transition date or the date of the qualified merger is deducted from the accumulated amount of income or accumulated amount of income prior to merger or is added to the accumulated net operating loss or accumulated net operating loss prior to merger, as specified by Cabinet Order.
- (4) The provisions of the preceding paragraph apply only in the case where a tax return contains a detailed statement concerning the amount specified by Cabinet Order as prescribed in the paragraph and the calculation thereof, and is attached with documents as specified by Ordinance of the Ministry of Finance
- (5) Even in the case where a tax return without entries for the matters or the attachment of documents set forth in the preceding paragraph has been filed, the district director of the tax office may apply the provisions of paragraph (3), when they find any unavoidable grounds for the person's failure to make entries of such statement or to attach such documents.
- (6) Beyond what is provided for in the preceding two paragraphs, the disposition in the business year in which a domestic corporation has paid the amount specified by Cabinet Order as prescribed in paragraph (3), and other necessary

matters concerning the application of the provisions of paragraphs (1) through (3) are specified by Cabinet Order.

### **Subsection 11 Details of Calculation of the Amount of Income for Each Business Year**

(Details of Calculation of the Amount of Income for Each Business Year)

Article 65 Beyond what is provided for in Subsection 2 to the preceding Subsection (Calculation of the Amount of Income), the necessary matters concerning the calculation of the amount of income for each business year are specified by Cabinet Order

### **Section 2 Calculation of Tax Amount** **Subsection 1 Tax Rate**

(Tax Rate for Corporation Tax on Income for Each Business Year)

Article 66 (1) The amount of corporation tax imposed on an ordinary corporation, general incorporated association, etc. (meaning a general incorporated association, general incorporated foundation, public interest incorporated association or public interest incorporated foundation as listed in Appended Table 2; the same applies in the following paragraph and paragraph (3)), or an association or foundation without juridical personality, which is a domestic corporation, on its income for each business year, is to be the amount calculated by multiplying the amount of income for each business year by a tax rate of 30 percent.

- (2) In the case referred to in the preceding paragraph, with regard to an amount of eight million yen per annum or less out of the amount of income of an ordinary corporation whose amount of stated capital or amount of capital contributions is not more than 100 million yen or which holds no capital or capital contributions as of the end of each business year (excluding a mutual company as prescribed in the Insurance Business Act) or of a general incorporated association, etc. or an association or foundation without juridical personality, the applicable tax rate is 22 percent, notwithstanding the provisions of the paragraph.
- (3) The amount of corporation tax imposed on a corporation in the public interest, etc. (excluding a general incorporated association, etc.) or cooperative, etc. on its income for each business year is to be the amount calculated by multiplying the amount of income for each business year by a tax rate of 22 percent.
- (4) With regard to the application of paragraph (2) to a corporation whose business year is less than one year, the term "amount of eight million yen per annum" in the paragraph is deemed to be replaced with "amount calculated by

dividing eight million yen by 12 and then multiplying the result by the number of months of the business year."

- (5) The number of months set forth in the preceding paragraph is calculated according to the calendar and a division of less than one month is counted as one month.
- (6) The provisions of paragraph (2) do not apply to a trust corporation as prescribed in Article 4-7 (Application of This Act to Trust Corporations).

(Special Tax Rate for Specified Family Companies)

Article 67 (1) In the case where a specified family company (meaning a controlled company which is judged to be a controlled company, even after excluding shareholders, etc. that are corporations not falling under the category of a controlled company out of its shareholders, etc. who are used as the basis for the judgment as to whether the company is a controlled company (excluding a company whose amount of stated capital or amount of capital contributions are not more than 100 million yen); hereinafter the same applies in this Article) holds retained income for each business year that exceeds the allowance for retained income, the amount of corporation tax imposed on the specified family company on its income for each business year is to be the amount obtained by categorizing the excess amount of retained income into the amounts listed in the following items and multiplying the respective amounts by the rates specified in the relevant items, and then adding the sum of such amounts to the amount of corporation tax calculated pursuant to the provisions of paragraph (1) or paragraph (2) of the preceding Article, notwithstanding these provisions:

- (i) the amount not more than 30 million yen per annum: 10 percent;
  - (ii) the amount over 30 million yen per annum but not more than 100 million yen per annum: 15 percent; or
  - (iii) the amount over 100 million yen per annum: 20 percent.
- (2) A controlled company as prescribed in the preceding paragraph means a company in the case where one of its shareholders, etc. (excluding the shares that the company holds in itself and the capital contributions made thereby) or individuals and corporations with a special relationship therewith as specified by Cabinet Order hold more than 50 percent of the total number or total amount of the company's issued shares or capital contributions (excluding the shares that the company holds in itself and the capital contributions made thereby) or in any other case as specified by Cabinet Order.
- (3) Retained income as prescribed in paragraph (1) means the amount obtained by adding up the amount of corporation tax calculated, pursuant to the provisions of paragraph (1) or paragraph (2), with regard to the amount of income for the business year (where there is any amount to be credited under

the following Article to Article 70-2 (Tax Credit), the amount of corporation tax that remains after crediting the amount) and the amounts calculated, as specified by Cabinet Order, as those of prefectural inhabitants' tax and municipal inhabitants' tax (including Tokyo inhabitants' tax) under the provisions of the Local Tax Act that are related to the amount of corporation tax, and then deducting the sum from the amount retained out of the sum of the following amounts (referred to as the "amount of income, etc." in paragraph (5)):

- (i) the amount of income for the business year (for the final business year or business year prior to a company split as prescribed in Article 62, paragraph (2) (Transfer of Assets at Fair Value as a Result of Merger and Company Split), the amount of income in the case of being calculated without applying the provisions of the paragraph);
  - (ii) the amount that was excluded from gross profits in the calculation of the amount of income for the business year, pursuant to the provisions of Article 23 (Exclusion of Dividends Received from Gross Profits) (excluding the portion of the amount specified by Cabinet Order that is related to dividends, etc. that a specified family company that is a consolidated corporation receives from another consolidated corporation (limited to a consolidated corporation that has a consolidated full controlling interest in the specified family company));
  - (iii) the amount to be refunded or to be appropriated as prescribed in Article 26, paragraph (1) (Exclusion of Refunds from Gross Profits), the amount specified by Cabinet Order as the reduced portion of the amount prescribed in paragraph (2) of the Article, the payable amount of penalty tax (excluding interest tax; hereinafter the same applies in this item) to be received and the reduction of the payable amount of penalty tax, and the amount to be refunded as prescribed in paragraph (5) of the Article; and
  - (iv) the amount that was included in deductible expenses in the calculation of the amount of income for the business year, pursuant to the provisions of Article 57 (Carryover of Losses in a Business Year When a Blue Return Has Been Filed), Article 58 (Carryover of Losses Due to a Disaster in the Business Year When a Blue Return Has Not Been Filed), or Article 59 (Inclusion in Deductible Expenses of the Net Operating Loss Where a Corporate Reorganization Has Caused a Release from Obligation).
- (4) With regard to the calculation of the amount that a specified family company has retained as prescribed in the preceding paragraph, the amount of dividend of surplus or profit by the specified family company (limited to a dividend for which the date of a resolution for the payment thereof falls within the period from the day following the last day of the business year containing the base date for the payment thereof to the date of the final settlement of the accounts

for the business year containing the base date (excluding a dividend specified by Cabinet Order)) (in the case where the dividend of surplus or profit is made with assets other than monies, the amount equivalent to the book value of the assets as of the end of the business year containing the base date (where the assets were acquired after the last day of the business year containing the base date, the acquisition cost thereof)) is to have been paid in the business year containing the base date.

- (5) The allowance for retained income as prescribed in paragraph (1) is the largest amount out of those listed as follows:
- (i) the amount equivalent to 40 percent of the amount of income, etc. for the business year;
  - (ii) 20 million yen per annum; or
  - (iii) in the case where the amount of retained earnings as of the end of the business year (excluding the amount of the portion pertaining to the amount of income, etc. for the business year) is less than 25 percent of the stated capital or capital contributions at the time, the amount equivalent to the shortfall.
- (6) With regard to the application of the provisions of paragraph (1) and the preceding paragraph to a specified family company whose business year is less than one year, the term "30 million yen per annum" in paragraph (1) is deemed to be replaced with "amount calculated by dividing 30 million yen by 12 and then multiplying the result by the number of months of the business year;" the term "100 million yen per annum" in the paragraph is deemed to be replaced with "amount calculated by dividing 100 million yen by 12 and then multiplying the result by the number of months of the business year;" and the term "20 million yen per annum" in the preceding paragraph is deemed to be replaced with "amount calculated by dividing 20 million yen by 12 and then multiplying the result by the number of months of the business year."
- (7) The number of months set forth in the preceding paragraph is calculated according to the calendar and a division less than one month is to be counted as one month.
- (8) In the case referred to in paragraph (1), the determination as to whether the company falls under the category of a specified family company set forth in the paragraph is based on its circumstances as of the end of the company's relevant business year.
- (9) The amount to be excluded from the retained amount prescribed in paragraph (3), and other necessary matters concerning the application of the provisions of paragraphs (1) through (5) are specified by Cabinet Order.

## **Subsection 2 Tax Credit**

(Income Tax Credit)

- Article 68 (1) In the case where a domestic corporation receives interest, etc., dividends, etc., monies for payment, interest, profits, margin profits, distributions of profit, or monetary awards prescribed in the items of Article 174 (Tax Base for a Domestic Corporation's Income Tax) of the Income Tax Act (hereinafter referred to as "interest and dividends, etc." in this Article), the amount of income tax to be imposed thereon pursuant to the provisions of the Act is credited against the amount of corporation tax on its income for the business year, as specified by Cabinet Order.
- (2) The provisions of the preceding paragraph do not apply to the amount of income tax set forth in the paragraph to be imposed on interest and dividends, etc. which a corporation in the public interest, etc. or an association or foundation without juridical personality receives and which arises from a business other than its profit-making business or assets belonging thereto
- (3) The provisions of paragraph (1) apply only in the case where a tax return contains a detailed statement concerning the amount of credit to be received pursuant to the provisions of the paragraph and the calculation thereof. In this case, the amount to be credited under the provisions of the paragraph does not exceed the amount entered as the amount.
- (4) Even in the case where a tax return without entries for the matters set forth in the preceding paragraph, with regard to the whole or a part of the amount of income tax prescribed in paragraph (1), has been filed, the district director of the tax office may apply the provisions of paragraph (1) to the amount for which such matters were not entered, when they find any unavoidable grounds for the person's failure to make such entries.

(Foreign Tax Credit)

- Article 69 (1) In the case where a domestic corporation is to pay any foreign country's corporate tax (meaning a tax imposed under foreign laws or regulations that is equivalent to corporation tax and is specified by Cabinet Order; hereinafter the same applies in this Article) for each business year (excluding the case where a domestic corporation is to pay any foreign country's corporate 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 the foreign country's corporate tax (excluding the amount specified by Cabinet Order as the part whose burden on the income is high; hereinafter referred to as the "creditable amount of the foreign country's corporate tax" in this Article) is credited against the amount of corporation tax on income for the business year, to the extent of the portion calculated as specified by Cabinet Order as income for the business year corresponding to that whose sources are located outside Japan, out of the amount of income for

the business year calculated pursuant to the provisions of Article 66, paragraphs (1) through (3) (Tax Rate for Corporation Tax on Income for Each Business Year) (hereinafter such portion is referred to as the "limitation on a creditable amount" in this Article).

- (2) In the case where the creditable amount of the foreign country's corporate tax that a domestic corporation is to pay in each business year exceeds the sum of the limitation on the creditable amount for the business year and the amount specified by Cabinet Order as the limitation on a creditable amount for local tax, when the limitation on the creditable amount for each business year within the preceding three years (meaning each business year that starts within three years prior to the first day of the business year; hereinafter the same applies in this Article) contains the amount specified by Cabinet Order as the portion to be carried over to the business year (hereinafter referred to as the "limitation on the creditable amount to be carried over" in this paragraph and paragraph (17)), the amount of the excess is credited against corporation tax for the business year, to the extent of the limitation on the creditable amount to be carried over, as specified by Cabinet Order.
- (3) In the case where the creditable amount of the foreign country's corporate tax that a domestic corporation is to pay in each business year is less than the limitation on the creditable amount for the business year, when the creditable amount of the foreign country's corporate tax to be paid in each business year within the preceding three years contains an amount as specified by Cabinet Order as the portion to be carried over to the business year (hereinafter referred to as the "creditable amount of the foreign country's corporate tax to be carried over" in this paragraph and paragraph (17)), the creditable amount of the foreign country's corporate tax to be carried over is credited against corporation tax on income for the business year, to the extent of the amount that remains after crediting the creditable amount of the foreign country's corporate tax to be paid in the business year from the limitation on the creditable amount, as specified by Cabinet Order.
- (4) In the case where there is any consolidated business year that starts within three years prior to the first day of the business year when a domestic corporation is to pay the creditable amount of the foreign country's corporate tax, when there is an individually attributed limitation on a consolidated creditable amount (meaning the individually attributed limitation on a consolidated creditable amount prescribed in Article 81-15 (1) (Foreign Tax Credit in Consolidated Business Year); hereinafter the same applies in this Article) for the consolidated business year, with regard to the application of the provisions of paragraph (2), the individually attributed limitation on the consolidated creditable amount is deemed to be the limitation on the creditable amount for each business year within the preceding three years that

corresponds to the period of the consolidated business year, and in the case where there is any consolidated business year that starts within three years prior to the first day of the business year when a domestic corporation is to pay the creditable amount of the foreign country's corporate tax, when there is an individually creditable amount for a foreign country's corporate tax (meaning the individually creditable amount of the foreign country's corporate tax prescribed in Article 81-15, paragraph (1); hereinafter the same applies in this Article) that the domestic corporation has come to pay in the consolidated business year, with regard to the application of the provisions of the preceding paragraph, the individually creditable amount of the foreign country's corporate tax is deemed to be the creditable amount of the foreign country's corporate tax that it has come to pay in each business year within the preceding three years that corresponds to the period of the consolidated business year.

(5) In the case where a domestic corporation has received, as a result of a qualified merger, qualified company split, qualified contribution in kind, qualified post-formation contribution (hereinafter referred to as a "qualified organizational restructuring" in this paragraph and paragraph (10)), the transfer of the whole or a part of the business from an acquired corporation, splitting corporation, corporation making a capital contribution in kind, or transferring corporation (referred to as a "acquired corporation, etc." in paragraph (10)), with regard to the application of the provisions of paragraph (2) and paragraph (3) in each business year after the business year containing the date of the domestic corporation's qualified organizational restructuring, in accordance with the category of qualified organizational restructuring listed in the following items, the amount specified in the relevant item is deemed to be the domestic corporation's limitation on the creditable amount in each business year within the preceding three years and the creditable amount of the foreign country's corporate tax that the domestic corporation has come to pay in each of the business years within the preceding three years, as specified by Cabinet Order:

(i) qualified merger: The limitation on the creditable amount and the individually attributed limitation on the consolidated creditable amount; and the creditable amount of a foreign country's corporate tax and individually creditable amount of a foreign country's corporate tax for the acquired corporation involved in the qualified merger for each business year within three years prior to the merger (meaning each business year or each consolidated business year starting within three years prior to the date of a qualified merger);

(ii) qualified company split by split-off: The amount calculated, as specified by Cabinet Order, as the portion of the limitation on the creditable amount and

the individually attributed limitation on the consolidated creditable amount; and the creditable amount of the foreign country's corporate tax and individually creditable amount of a foreign country's corporate tax for the splitting corporation involved in the qualified company split by split-off for each business year within three years prior to the company split (meaning each business year or each consolidated business year starting within three years prior to the date of a qualified company split by split-off; the same applies in paragraph (7)), which is related to the business that the domestic corporation has received as a result of the qualified company split by split-off; and

- (iii) qualified company split by spin-off, qualified contribution in kind, or qualified post-formation contribution (hereinafter referred to as a "qualified company split by spin-off, etc." in this item): The amount calculated, as specified by Cabinet Order, as the portion of the limitation on the creditable amount and the individually attributed limitation on the consolidated creditable amount; and the creditable amount of the foreign country's corporate tax and individually creditable amount of a foreign country's corporate tax for a splitting corporation, corporation making a capital contribution in kind, or transferring corporation involved in the qualified company split by spin-off, etc. for each business year within three years prior to the company split, etc. (meaning each business year or each consolidated business year starting within three years prior to the first day of the business year containing the date of a qualified company split by spin-off, etc. or each consolidated business year or each business year starting within three years prior to the first day of the consolidated business year containing the date of a qualified company split by spin-off; the same applies in paragraph (7)), which is related to the business that the domestic corporation has received as a result of the qualified company split by spin-off, etc.
- (6) With regard to a domestic corporation that has received, as a result of a qualified company split, a qualified contribution in kind, or qualified post-formation contribution (hereinafter referred to as a "qualified company split, etc." in this paragraph and the following paragraph), the transfer of a business from a splitting corporation, corporation making a capital contribution in kind, or transferring corporation (referred to as a "splitting corporation, etc." in the following paragraph) involved in the qualified company split, etc., the provisions of the preceding paragraph apply only in the case where the domestic corporation has submitted documents stating the amount deemed to be the limitation on the creditable amount and the creditable amount of the foreign country's corporate tax of the domestic corporation for each business year within the preceding three years and any other matters as specified by Ordinance of the Ministry of Finance to the competent district director with

jurisdiction over the place for tax payment, within three months after the date of the qualified company split, etc.

- (7) In the case where a succeeding corporation in a company split, corporation receiving a capital contribution in kind, transferee corporation (hereinafter referred to as a "succeeding corporation in a company split, etc." in this paragraph) involved in a qualified company split, etc. is subject to the provisions of paragraph (5) or Article 81-15, paragraph (5), with regard to the application of the provisions of paragraph (2) and paragraph (3) in each business year after the business year containing the date of the qualified company split, etc. of the splitting corporation, etc. involved in the qualified company split, etc., out of the limitation on the creditable amount and the creditable amount of the foreign country's corporate tax for each business year within three years prior to the company split or each business year within three years prior to the company split, etc. of the splitting corporation, etc., the amount deemed to be the limitation on the creditable amount of the succeeding corporation in a company split, etc. for each business year within the preceding three years under paragraph (5), the amount deemed to be the individually attributed limitation on the consolidated creditable amount of the succeeding corporation in a company split, etc. for each consolidated business year within the preceding three years (meaning each consolidated business year within the preceding three years prescribed in paragraph (2) of the Article; hereinafter the same applies in this paragraph) under paragraph (5) of the Article, the amount deemed to be the creditable amount of the foreign country's corporate tax that the succeeding corporation in a company split, etc. has come to pay in the each business year within the preceding three years under paragraph (5), and the amount deemed to be the individually creditable amount of the foreign country's corporate tax that the succeeding corporation in a company split, etc. has come to pay in each of the consolidated business years within the preceding three years under paragraph (5) of the Article are deemed not to exist.
- (8) In the case where a domestic corporation receives, from a foreign subsidiary (meaning a foreign corporation, out of whose total issued shares or capital contributions (excluding the shares that the company holds in itself and the capital contributions made thereby), 25 percent or more in terms of the number or amount of shares or contributions that are held by the domestic corporation and which meets the other requirements specified by Cabinet Order), any amount of dividend of surplus (limited to that which pertains to shares or capital contributions and excluding that which is caused by a decrease in the amount of capital surplus or as a result of a company split by split-off), dividend of profit (excluding that which is caused as a result of a company split by split-off), or distribution of surplus (limited to that which pertains to capital contributions) (hereinafter referred to as the "amount of dividends, etc." in this

Article), the amount calculated, as specified by Cabinet Order, as the portion of a foreign country's corporate tax to be imposed on the foreign subsidiary's income that corresponds to the amount of dividends, etc. (excluding the part where the burden of the sum with the creditable amount of the foreign country's corporate tax to be imposed, by using the amount of dividends, etc. as the tax base, is relatively higher compared with the amount of dividends, etc.) is deemed to be the creditable amount of the foreign country's corporate tax that the domestic corporation pays, as specified by Cabinet Order, and the provisions of paragraphs (1) through (3) apply.

(9) In the case where a domestic corporation has received any amount of dividends, etc. from a foreign subsidiary as prescribed in Article 81-15, paragraph (8) in each consolidated business year, when a foreign country's corporate tax is imposed on the foreign subsidiary's income during the period of each business year starting after the last day of the consolidated business year containing the date of the receipt thereof, the amount of dividends, etc. is deemed to be the amount of dividends, etc. that the domestic corporation has received from a foreign subsidiary as prescribed in the preceding paragraph in each business year; the individually creditable amount of the foreign country's corporate tax to be imposed by using the amount of dividends, etc. as the tax base is deemed to be the creditable amount of the foreign country's corporate tax prescribed in the paragraph; and the amount of the foreign country's corporate tax to be imposed on the income of a foreign subsidiary prescribed in paragraph (8) of the Article is deemed to be the amount of the foreign country's corporate tax to be imposed on income of a foreign subsidiary prescribed in the preceding paragraph; and the provisions of the paragraph apply.

(10) The application of the provisions of paragraphs (1) through (3) in the following cases is specified by Cabinet Order: in the case where, in each business year (excluding the period falling under the category of consolidated business years; hereinafter the same applies in this paragraph) after the business year in which the provisions of paragraphs (1) through (3) have applied to the whole or a part of the amount of the foreign country's corporate tax that a domestic corporation has come to pay (including the amount deemed to be the portion that the domestic corporation pays under paragraph (8) out of the amount of the foreign country's corporate tax to be imposed on the income of a foreign subsidiary prescribed in the paragraph (including the amount deemed to be the amount of the foreign country's corporate tax to be imposed on the income of the foreign subsidiary under the provisions of the preceding paragraph)), the amount of the foreign country's corporate tax has been reduced (in the case where the domestic corporation had received, as a result of a qualified organizational restructuring, the transfer of the whole or a part of a business from an acquired corporation, etc., including the case where the

amount of the foreign country's corporate tax that the domestic corporation has come to pay with regard to income pertaining to the business transferred to the domestic corporation out of the amount of the foreign country's corporate tax that the acquired corporation, etc. has come to pay; hereinafter the same applies in this paragraph); and in the case where, in each business year after the consolidated business year in which the provisions of Article 81-15, paragraphs (1) through (3) have applied to the whole or a part of the amount of the foreign country's corporate tax that the domestic corporation has come to pay (including the amount deemed to be the portion that the domestic corporation pays under paragraph (8) of the Article out of the amount of the foreign country's corporate tax to be imposed on the income of a foreign subsidiary prescribed in the paragraph (including the amount deemed to be the amount of the foreign country's corporate tax to be imposed on the income of the foreign subsidiary under the provisions of paragraph (9) of the Article)), the amount of the foreign country's corporate tax has been reduced.

(11) In the case where a domestic corporation receives any amount of dividends, etc. from a foreign subsidiary as prescribed in paragraph (8), when the foreign subsidiary receives, from a foreign second-tier subsidiary (meaning a foreign corporation, out of whose total issued shares or capital contributions (excluding the shares that the company holds in itself and the capital contributions made thereby), 25 percent or more in terms of the number or amount are held by the domestic corporation indirectly through the foreign subsidiary and which meets any other requirements specified by Cabinet Order), any amount of dividend of surplus (limited to that which pertains to shares or capital contributions and excluding that which is caused by a decrease in the amount of capital surplus or as a result of a company split by split-off), dividend of profit (excluding that which is caused as a result of a company split by split-off), or distribution of surplus (limited to that which pertains to capital contributions) (including what is specified by Cabinet Order as being equivalent to such dividends or distribution; hereinafter referred to as the "amount of dividends, etc. from the foreign second-tier subsidiary" in this paragraph), the amount calculated, as specified by Cabinet Order, as the portion of the foreign country's corporate tax to be imposed on the foreign second-tier subsidiary's income that corresponds to the amount of dividends, etc. from the foreign second-tier subsidiary is deemed to be the amount of the foreign country's corporate tax to be imposed on the income of the foreign subsidiary, as specified by Cabinet Order, and the provisions of paragraph (8) apply.

(12) In the case where a domestic corporation has received any amount of dividends, etc. from a foreign subsidiary as prescribed in Article 81-15, paragraph (8) in each consolidated business year, when the foreign country's

corporate tax is imposed on the foreign second-tier subsidiary's income during the period of each business year starting after the last day of the consolidated business year containing the date of the receipt thereof, the amount of dividends, etc. received from the foreign subsidiary is deemed to be the amount of dividends, etc. from a foreign subsidiary prescribed in paragraph (8) in each business year; the amount of dividends, etc. from the foreign second-tier subsidiary is deemed to be the amount of dividends, etc. from a foreign second-tier subsidiary as prescribed in the preceding paragraph; and the amount of the foreign country's corporate tax to be imposed is deemed to be the amount of the foreign country's corporate tax to be imposed on the income of a foreign second-tier subsidiary prescribed in the paragraph; and the provisions of the paragraph apply.

(13) With regard to the application of the provisions of Article 28 (Inclusion in Gross Profits of the Amount of a Foreign Country's Corporate Tax Imposed on a Foreign Subsidiary) in the case where the provisions of paragraph (11) apply (including the case where they apply by deeming the amounts as prescribed in the preceding paragraph), the term "the provisions of paragraph (9) of the Article" in the Article is deemed to be replaced with "the provisions of paragraph (9) of the Article and the amount deemed to be the amount of the foreign country's corporate tax to be imposed on the foreign subsidiary's income pursuant to the provisions of paragraph (11) of the Article (including the case where they apply by deeming the amounts as prescribed in paragraph (12) of the Article)."

(14) The calculation of the creditable amount of the foreign country's corporate tax in the following cases and other necessary matters concerning the application of the provisions of paragraph (11) are specified by Cabinet Order: in the case where, during the period of each business year (excluding the period falling under the category of consolidated business years; hereinafter the same applies in this paragraph) after the business year in which the provisions of paragraphs (1) through (3) have applied, by applying the provisions of paragraph (8), to the whole or a part of the portion that is deemed to be the amount of the foreign country's corporate tax to be imposed on the income of a foreign subsidiary prescribed in the paragraph, pursuant to the provisions of paragraph (11), out of the amount of the foreign country's corporate tax to be imposed on the income of a foreign second-tier subsidiary as prescribed in the paragraph (including the amount deemed to be the amount of the foreign country's corporate tax to be imposed on the income of the foreign second-tier subsidiary under paragraph (12)), the amount of the foreign country's corporate tax pertaining to the foreign second-tier subsidiary has been reduced; and in the case where, during the period of each business year after the consolidated business year in which the provisions of Article 81-15,

paragraphs (1) through (3) have applied, by applying the provisions of paragraph (8) of the Article, to the whole or a part of the portion that is deemed to be the amount of the foreign country's corporate tax to be imposed on the income of a foreign subsidiary as prescribed in the paragraph, pursuant to the provisions of paragraph (11) of the Article, out of the amount of the foreign country's corporate tax to be imposed on the income of a foreign second-tier subsidiary as prescribed in the paragraph (including the amount deemed to be the amount of the foreign country's corporate tax to be imposed on the income of the foreign second-tier subsidiary under paragraph (12) of the Article), the amount of the foreign country's corporate tax pertaining to the foreign second-tier subsidiary has been reduced.

- (15) The provisions of the preceding paragraphs do not apply to the creditable amount of the foreign country's corporate tax that a corporation in the public interest, etc. or an association or foundation without juridical personality, which is a domestic corporation, pays with regard to profit arising from a business other than its profit-making business or assets belonging thereto or the amount of dividends, etc. that it receives from a foreign subsidiary as prescribed in paragraph (8) with regard to shares or capital contributions pertaining to the business.
- (16) The provisions of paragraph (1) apply only in the case where a tax return contains a detailed statement concerning the amount to be credited under the paragraph and the calculation thereof and is attached with documents certifying that the creditable amount of the foreign country's corporate tax has been imposed and other documents as specified by Ordinance of the Ministry of Finance. In this case, the amount to be credited under the paragraph does not exceed the amount entered as the amount.
- (17) The provisions of paragraph (2) and paragraph (3) apply only in the case where, with regard to each business year or each consolidated business year after the oldest business year or consolidated business year pertaining to the limitation on a creditable amount to be carried over or the creditable amount of a foreign country's corporate tax to be carried over, a domestic corporation has filed a tax return that states the limitation on the creditable amount for each of the business years and the creditable amount of the foreign country's corporate tax that the domestic corporation has come to pay in each of the business years, or a consolidated tax return that states the individually attributed limitation on the consolidated creditable amount for each of the consolidated business years and the individually creditable amount of the foreign country's corporate tax that the domestic corporation has come to pay in each of the consolidated business years; and has entered the amount to be credited under these provisions in the tax return for the business year for which the domestic corporation seeks the application of these provisions,

attaching thereto documents containing the matters to be the basis of the calculation of the limitation on the creditable amount to be carried over or the creditable amount of the foreign country's corporate tax to be carried over and other documents as specified by Ordinance of the Ministry of Finance. In this case, the amount to be credited under these provisions does not exceed the amount calculated based on the amount entered in the tax return for each of the business years as the limitation on the creditable amount for each of the business years and the creditable amount of the foreign country's corporate tax that the domestic corporation has come to pay in each of the business years, or the amount entered in the consolidated tax return for each of the consolidated business years as the individually attributed limitation on the consolidated creditable amount for each of the consolidated business years and the individually creditable amount of the foreign country's corporate tax that the domestic corporation has come to pay in each of the consolidated business years.

- (18) Even in the case where a tax return or consolidated tax return without entries for the matters set forth in the preceding two paragraphs, with regard to the whole or a part of the amount to be credited or the limitation on a creditable amount, etc. under paragraphs (1) through (3) (meaning the limitation on a creditable amount or the creditable amount of the foreign country's corporate tax; or the individually attributed limitation on a consolidated creditable amount or the individually creditable amount of the foreign country's corporate tax prescribed in the preceding paragraph), or without the attachment of documents set forth in the preceding two paragraphs has been filed, the district director of the tax office may apply the provisions of paragraphs (1) through (3) to the amount for which such matters were not entered or such documents were not attached, when they find any unavoidable grounds for the person's failure to make such entries or to attach such documents.
- (19) Beyond what is provided for in paragraph (6), paragraph (10), paragraph (11), and paragraph (14) to the preceding paragraph, other necessary matters concerning the application of the provisions of paragraphs (1) through (5), paragraphs (7) through (9), paragraph (12), and paragraph (13) are specified by Cabinet Order.

(Corporation Tax Credit Due to a Reassessment after Fictitious Accounting)  
Article 70 (1) In the case where the amount of income, which was entered in a tax return that a domestic corporation had filed, for each business year (excluding the business year prior to the company split of the domestic corporation that is a consolidated corporation (meaning a business year containing the day preceding a company split by split-off that a domestic

corporation effected, with itself as a splitting corporation, during the period from the day following the first day of a consolidated parent corporation's business year as prescribed in Article 15-2, paragraph (1) (Meaning of Consolidated Business Year) to the last day thereof; hereinafter the same applies in this paragraph and the following paragraph)) exceeds the amount of income to be used as the tax base for the business year, and the excess contains an amount based on fictitious accounting, when the district director of the tax office has made a reassessment of corporation tax on income for the business year, out of the amount paid as corporation tax on income for the business year that is specified by Cabinet Order, the portion to be reduced due to the reassessment that pertains to the amount settled based on the fictitious accounting is credited sequentially from corporation tax on income for each business year that starts within five years from the first day of the business year containing the date of the reassessment (each such business year excludes the business year prior to the company split and each business year after consolidation (meaning each business year that starts after the last day of a consolidated business year, if any, that starts after the last day of the business year containing the date of the reassessment; hereinafter the same applies in this paragraph) of the domestic corporation that is a consolidated corporation, and include each business year that ends on or after the date of the qualified merger of an acquiring corporation involved therein in the case where the domestic corporation which has been dissolved as a result of the qualified merger after the date of the reassessment (each such business year excludes the business year prior to the company split and each business year after consolidation of the domestic corporation that is a consolidated corporation)), notwithstanding the provisions of Articles 56 through 58 (Refund/Appropriation) of the Act on General Rules for National Taxes.

(2) In the case where, due to a reassessment as prescribed in the preceding paragraph or Article 81-16, paragraph (1) or paragraph (2) (Credit for Corporation Tax in Consolidated Business Year due to Reassessment of Fictitious accounting), a reassessment has been made to reduce the amount of income for each business year that starts after the last day of the business year or consolidated business year pertaining to the former reassessment of a domestic corporation that had carried out fictitious accounting (such each business year excludes the business year prior to the company split of the domestic corporation that is a consolidated corporation), when the portion of the amount of income to be reduced due to the latter reassessment contains the amount based on fictitious accounting in the business year or consolidated business year pertaining to the former reassessment prescribed in these provisions, the amount is deemed to be the amount that the domestic corporation settled based on fictitious accounting in each of the business years,

and the provisions of the preceding paragraph apply.

- (3) The provisions of the preceding two paragraphs apply mutatis mutandis to the case where, after a domestic corporation set forth in paragraph (1) has been dissolved, a reassessment as prescribed in the paragraph has been made with regard to the domestic corporation's income for the business year prescribed in the paragraph or a reassessment as prescribed in the preceding paragraph to reduce the amount of income for each business year has been made. In this case, in paragraph (1), the term "the first day of the business year containing the date of the reassessment" is deemed to be replaced with "the first day of the business year containing the date of the reassessment of an acquiring corporation involved in a qualified merger wherein the domestic corporation is an acquired corporation;" the term "of the domestic corporation that is a consolidated corporation," and the term "after consolidation of the domestic corporation that is a consolidated corporation" are deemed to be replaced with "of the acquiring corporation that is a consolidated corporation," and "after consolidation of the acquiring corporation that is a consolidated corporation," respectively; and the term "the domestic corporation dissolved as a result of the qualified merger" is deemed to be replaced with "the acquiring corporation dissolved as a result of the qualified merger, wherein the acquiring corporation is an acquired corporation;" and in the preceding paragraph, the term "a domestic corporation that had carried out fictitious accounting" is deemed to be replaced with "an acquiring corporation involved in a qualified merger, wherein a domestic corporation, which had carried out fictitious accounting, is an acquired corporation;" and the term "the domestic corporation" is deemed to be replaced with "the acquiring corporation."

(Order for Tax Credit)

Article 70-2 With regard to a credit for corporation tax pursuant to the provisions of this Subsection, a credit under the preceding Article is made first and then a credit under Article 68 and Article 69 (Income Tax Credit) is to be made.

### **Section 3 Filing of Returns, Payment and Refunds**

#### **Subsection 1 Interim Return**

(Interim Return)

Article 71 (1) In the case where a business year of an ordinary corporation (excluding an ordinary corporation in liquidation), which is a domestic corporation (such business year excludes the first business year after the establishment of a newly established ordinary corporation, which is a domestic corporation, other than that which was established as a result of a qualified

merger (excluding a merger in which acquired corporations are all corporations in the public interest, etc. that are not engaged in any profit-making business; the same applies in the following paragraph and paragraph (3)), the business year that contains the day on which any corporation in the public interest, etc. (limited to a corporation that is not engaged in any profit-making business) came to fall under the category of an ordinary corporation, the business year that contains the day on which any consolidated subsidiary corporation has had the approval set forth in Article 4-2 (Consolidated Taxpayers) rescinded pursuant to the provisions of Article 4-5, paragraph (1) or paragraph (2) (limited to the part pertaining to item (iv) or item (v)) (Rescission of Approval for Consolidated Taxation) rescinded (excluding the case where the approval was rescinded on the first day of the consolidated parent corporation's business year prescribed in Article 15-2, paragraph (1) (Meaning of Consolidated Business Year)), and the business year that contains the day preceding the date of a company split by split-off effected by a consolidated corporation with itself as a splitting corporation (excluding the case where the company split by split-off was effected on the first day of the consolidated parent corporation's business year prescribed in Article 15-2, paragraph (1))), exceeds six months, the ordinary corporation must file a return containing the following matters to the district director of the tax office, within two months after the day on which six months have elapsed from the first day of the business year; provided, however, that the filing of the return is not required when the amount listed in item (i) is not more than 100,000 yen or there is no such amount:

(i) the amount obtained by dividing the amount listed in Article 74, paragraph (1), item (ii) (Corporation Tax Pertaining to Final Return) that is to be entered in a tax return for the business year preceding the business year and which has become determined by the day preceding the day on which six months have elapsed from the first day of the business year, by the number of months of the preceding business year, and then multiplying the results by six (in the case where the period of the preceding business year falls under a consolidated business year, the amount obtained by dividing the individually attributed payable amount of consolidated corporation tax (meaning the amount calculated, pursuant to the provisions of Article 81-18, paragraph (1) (Calculation of Individually Attributed Amount of Consolidated Corporation Tax), as the amount of corporation tax on consolidated income for each consolidated business year to be paid; the same applies in item (i) of the following paragraph) pertaining to the ordinary corporation for the consolidated business year that pertains to the amount listed in Article 81-11, paragraph (1), item (ii) (Corporation Tax Pertaining to Consolidated Final Return), which has become determined by the day preceding the day on which six months have elapsed from the first day of the business year and is

- to be entered in a consolidated tax return for the consolidated business year, by the number of months of the consolidated business year of the ordinary corporation containing the day preceding the first day of the business year, and then multiplying the results by six); and
- (ii) the basis of the calculation of the amount listed in the preceding item and other matters as specified by Ordinance of the Ministry of Finance.
- (2) In the case referred to in the preceding paragraph, when an ordinary corporation set forth in the paragraph is an acquiring corporation involved in a qualified merger (excluding a merger aiming to establish a corporation; hereinafter the same applies in this paragraph) and has effected the qualified merger within the period listed in the following items, the amount listed in item (i) of the preceding paragraph that is to be entered in an interim return for the business year, which the ordinary corporation is to file, is to be the amount obtained by adding the amount specified in the following items to the amount calculated pursuant to the provisions of item (i) of the preceding paragraph, notwithstanding the provisions of the item:
- (i) the business year preceding the business year: The amount obtained by dividing the following amount pertaining to the most recent business year or consolidated business year; the amount listed in Article 74, paragraph (1), item (ii) which is to be entered in a tax return for each of an acquired corporation's business years (excluding a business year of less than six months) that ended after the day one year prior to the first day of the ordinary corporation's the business year, and which has become determined by the day preceding the day on which six months have elapsed from the first day of the ordinary corporation's the business year; or the individually attributed payable amount of consolidated corporation tax of an acquired corporation for each of its consolidated business years (excluding a consolidated business year less of than six months) that ended after the day one year prior to the first day, which pertains to the amount listed in Article 81-22, paragraph (1), item (ii) that has become determined by the day preceding the day on which six months have elapsed and is to be entered in a consolidated tax return for each consolidated business year (hereinafter such amount pertaining to the most recent business year or consolidated business year is referred to as the "amount of determined corporation tax of an acquired corporation, etc." in this Article); by the number of months of the acquired corporation's business year or consolidated business year that was used as the basis of the calculation, and then multiplying the results by the number obtained by multiplying six and the rate of the number of months of the period from the first day of the preceding business year to the day preceding the date of the qualified merger; or
- (ii) the period from the first day of the business year to the day preceding the

day on which six months have elapsed from the date: The amount obtained by dividing the amount of determined corporation tax of an acquired corporation, etc. by the number of months of the acquired corporation's business year or consolidated business year that was used as the basis of the calculation, and then multiplying the results by the number of months of the period from the date of the qualified merger to the day preceding the day on which six months have elapsed.

- (3) In the case referred to in paragraph (1), when an ordinary corporation set forth in the paragraph is an acquiring corporation involved in a qualified merger (limited to a merger aiming to establish a corporation), the amount listed in item (i) of the paragraph that is to be entered in an interim return for the first business year after the establishment, which the ordinary corporation is to file, is the sum of the amounts obtained by dividing the respective amounts of determined corporation tax of acquired corporations, etc. by the number of months of the acquired corporation's business year or consolidated business year that was used as the basis of the calculation, and then multiplying the results by six, notwithstanding the provisions of the item.
- (4) The number of months set forth in the preceding three paragraphs is calculated in accordance with the calendar and a division of less than one month is counted as one month.

(Matters to be Entered in Interim Return in the Case of Provisional Settlement of Accounts)

Article 72 (1) In the case where an ordinary corporation (excluding a trust corporation as prescribed in Article 4-7 (Application of This Act to Trust Corporations)), which is a domestic corporation and is to file an interim return, deems the period of six months after the first day of the business year as one business year and has calculated the amount of income or loss that is to be used as the tax base for the period, the ordinary corporation may enter the following matters in the interim return that it files, in lieu of the matters listed in the items of paragraph (1) of the preceding Article:

- (i) the amount of income or loss;
- (ii) the amount of corporation tax calculated in the case where the provisions of the preceding Section (Calculation of Tax Amount) (excluding Article 67 (Special Tax Rate for Specified Family Companies) and Article 70 (Corporation Tax Credit Due to a Reassessment after Fictitious Accounting)) apply to the amount of income listed in the preceding item, by deeming the period as one business year; and
- (iii) the basis of the calculation of the amount listed in the preceding two items and any other matters as specified by Ordinance of the Ministry of Finance.
- (2) An interim return containing the matters prescribed in the preceding

paragraph must be attached with a balance sheet as of the last day of the prescribed period in the paragraph, a profit and loss statement for the period, and other documents as specified by Ordinance of the Ministry of Finance.

(3) With regard to the calculation of the amount of income or loss that is to be used as the tax base for the period prescribed in paragraph (1) and the amount of corporation tax listed in item (ii) of the paragraph, the term "the final settlement of the accounts" in Article 2, item (xxv) (Definitions) is deemed to be replaced with "the settlement of accounts;" the terms "(a) tax return" and "the final settlement of the accounts" in Section 1, Subsection 3, Subsection 4, Subsection 7, and Subsection 10 (Calculation of Tax Base) (excluding Article 57, paragraph (2), paragraph (7), and paragraph (11) (Requirements for the Carryover of Losses in a Business Year When a Blue Return Has Been Filed) and Article 58, paragraph (2) and paragraph (6) (Requirements for the Carryover of Losses Arising from a Disaster in the Business Year When a Blue Return Has Not Been Filed)) are deemed to be replaced with "(an) interim return" and "the settlement of accounts," respectively; the term "a tax return" in Article 68, paragraph (3) and paragraph (4) (Income Tax Credit) and Article 69, paragraph (16) (Foreign Tax Credit) is deemed to be replaced with "an interim return;" the term "in the tax return for the business year" in paragraph (17) of the Article is deemed to be replaced with "in the interim return for the business year;" and the term "a tax return" in paragraph (18) of the Article is deemed to be replaced with "an interim return, tax return."

(Special Provisions on Cases Where an Interim Return is Not Filed)

Article 73 In the case where an ordinary corporation, which is a domestic corporation and is to file an interim return, has failed to file an interim return by the due date, it is deemed that the ordinary corporation has filed an interim return containing the matters listed in the items of Article 71, paragraph (1) (Matters to be Entered in Interim Return Based on Performance in the Previous Period) to the district director of the tax office within the due date, and the provisions of this Act apply.

## **Subsection 2 Final Returns**

(Final Returns)

Article 74 (1) A domestic corporation (excluding an ordinary corporation that is a domestic corporation in liquidation and a cooperative, etc. in liquidation) must file a return containing the following matters, based on the final settlement of the accounts, to the district director of the tax office, within two months after the day following the last day of each business year:

(i) the amount of income or loss that is to be used as the tax base for the

- business year;
- (ii) the amount of corporation tax calculated by applying the provisions of the preceding Section (Calculation of Tax Amount) to the amount of income listed in the preceding item;
  - (iii) in the case where there is any amount to be credited under Article 68 and Article 69 (Income Tax Credit) that remains even after a credit in the calculation of the amount of corporation tax listed in the preceding item, the remaining amount;
  - (iv) in the case where a domestic corporation is a corporation that has filed an interim return for the business year, the amount that remains after crediting the amount of interim payment related to the return against the amount of corporation tax listed in item (ii);
  - (v) in the case where there is any amount of interim payment as prescribed in the preceding item that remains even after a credit in the calculation of the amount listed in the item, the remaining amount; and
  - (vi) the basis of the calculation of the amount listed in the preceding items and other matters as specified by Ordinance of the Ministry of Finance.
- (2) A return under the preceding paragraph must be attached with a balance sheet, a profit and loss statement for the business year, and other documents as specified by Ordinance of the Ministry of Finance.

(Extension of the Due Date for Filing a Tax Return)

- Article 75 (1) In the case where a domestic corporation, which is to file a return under paragraph (1) of the preceding Article, is recognized to be unable to file the return by the due date prescribed in the paragraph because the account cannot be settled due to any disaster or on other unavoidable grounds (excluding the grounds prescribed in paragraph (1) of the following Article), the competent district director with jurisdiction over the place for tax payment may extend the due date by designating a particular date based on an application by the domestic corporation, except in the case where the due date has been extended pursuant to the provisions of Article 11 (Extension of the Due Date due to Disaster) of the Act on General Rules for National Taxes.
- (2) An application set forth in the preceding paragraph must be filed, within 45 days from the day following the last day of the business year pertaining to a return as prescribed in the paragraph, with an application form stating the grounds why the account would not be settled by the due date for filing the return, the date that the domestic corporation seeks the designation, and any other matters as specified by Ordinance of the Ministry of Finance.
- (3) In the case where an application form set forth in the preceding paragraph has been filed, the district director of the tax office may deny the application when they find the grounds for the application to be inappropriate.

- (4) In the case where an application form set forth in paragraph (2) has been filed, when the district director of the tax office makes a disposition to extend the due date set forth in paragraph (1) or to deny the application set forth in the preceding paragraph, they notify the domestic corporation that has filed the application to that effect, in writing.
- (5) In the case where an application form set forth in paragraph (2) has been filed, when no disposition has been made to extend the due date set forth in paragraph (1) nor to deny the application set forth in paragraph (3), within two months from the day following the last day of the business year pertaining to a return as prescribed in paragraph (1), the due date set forth in the paragraph is deemed to have been extended, by deeming the date that the domestic corporation seeks the designation pertaining to the application as the date set forth in the paragraph.
- (6) In the case where a domestic corporation subject to the provisions of paragraph (1) has filed a return as prescribed in the paragraph to the district director of the tax office prior to the date designated under the paragraph, it is deemed that the day on which the return was filed was deemed to be the date set forth in the paragraph.
- (7) A domestic corporation subject to the provisions of paragraph (1) must pay interest tax equivalent to the amount obtained by multiplying the amount of corporation tax on income for the business year pertaining to a return as prescribed in the paragraph by the rate of 7.3 percent per annum, in accordance with the number of days from the day on which two months have elapsed from the day following the last day of the business year to the date designated under the paragraph, beyond the corporation tax that is to be used as the basis of the calculation of the interest tax.

(Special Provisions on Extension of the Due Date for Filing a Tax Return)

Article 75-2 (1) In the case where a domestic corporation, which is to file a return under Article 74, paragraph (1) (Final Return), is recognized to be unable to file the return for each business year after the business year, respectively, by the due date prescribed in the paragraph because the account cannot be settled since it has to be audited by an accounting auditor or on other grounds equivalent thereto, the competent district director with jurisdiction over the place for tax payment may extend the due date for filing a return for each of the business years by one month (in the case where it is deemed that an ordinary general meeting would not be convened for the settlement of each business year within three months from the day following the last day of the each business year due to special circumstances or where there are other unavoidable circumstances, by the period of months designated by the district director of the tax office), based on an application by the

domestic corporation.

- (2) An application set forth in the preceding paragraph must be filed, by the last day of the business year pertaining to a return as prescribed in the paragraph, with an application form stating the grounds as to why the account would not be settled by the due date for filing the return, and, if the domestic corporation seeks the designation set forth in the paragraph, the number of months that it seeks the designation, as well as any other matters as specified by Ordinance of the Ministry of Finance.
- (3) With regard to a domestic corporation subject to the provisions of paragraph (1), in the case where the district director of the tax office recognizes that the grounds or circumstances prescribed in the paragraph have ceased to exist or any change has occurred to the circumstances, they may revoke the disposition to extend the due date set forth in the paragraph or change the number of months for the designation set forth in the paragraph. In this case, when the revocation or change has been made, the disposition is to become effective for each business year after the business year containing the date of the disposition.
- (4) When the district director of the tax office makes a disposition set forth in the preceding paragraph, they notify the domestic corporation related to the disposition to that effect, in writing.
- (5) When a domestic corporation subject to the provisions of paragraph (1) wishes to stop receiving the application of the paragraph, with regard to the due date for filing a return prescribed in the paragraph for each business year after the business year, it must submit a report stating the first day of the business year and other matters as specified by Ordinance of the Ministry of Finance, to the competent district director with jurisdiction over the place for tax payment, by the last day of the business year. In this case, when the report has been submitted, the disposition to extend the due date set forth in the paragraph ceases to be effective for each business year after the business year.
- (6) The provisions of paragraphs (3) through (5) of the preceding Article apply *mutatis mutandis* to the case where an application form set forth in paragraph (2) has been filed, and the provisions of paragraph (7) of the Article apply *mutatis mutandis* to corporation tax on the income of a domestic corporation subject to the provisions of paragraph (1) for the business year pertaining to a return as prescribed in the paragraph. In this case, in paragraph (5) of the preceding Article, the term "two months" is deemed to be replaced with "15 days;" the term ", by deeming the date that the domestic corporation seeks the designation pertaining to the application to be the date set forth in the paragraph" is deemed to be replaced with "by one month (in the case where the domestic corporation has filed an application to the effect that it seeks the designation set forth in Article 75-2, paragraph (1), by the period of months

that it seeks the designation pertaining to the application);" and in paragraph (7) of the Article, the term "for the business year pertaining to a return as prescribed in the paragraph" is deemed to be replaced with "for each business year pertaining to the application;" the term "the business year" is deemed to be replaced with "the each business year;" and the term "the date designated under the paragraph" is deemed to be replaced with "the due date extended pursuant to the provisions of Article 75-2, paragraph (1)."

- (7) In the case where, with regard to a domestic corporation subject to the provisions of paragraph (1), any disaster has occurred or there are any other unavoidable grounds prior to the day on which two months have elapsed from the day following the last day of the business year, the provisions of the preceding Article and Article 11 (Extension of the Due Date due to Disaster) of the Act on General Rules for National Taxes may be applied only for the business year, by deeming that the provisions of paragraph (1) do not apply.
- (8) The provisions of the preceding Article apply mutatis mutandis to the case where a domestic corporation subject to the provisions of paragraph (1) is recognized to be unable to file a return as prescribed in the paragraph by the due date extended under the paragraph because the account cannot be settled due to any disaster or on other unavoidable grounds for the business year (excluding a business year pertaining to the application of the provisions of the preceding paragraph). In this case, the term "within 45 days from the day following the last day of the business year pertaining to a return" in paragraph (2) of the Article is deemed to be replaced with "by 15 days prior to the due date for a return;" the term "within two months from the day following the last day of the business year pertaining to a return" in paragraph (5) of the Article is deemed to be replaced with "by the due date for filing a return;" and in paragraph (7) of the Article, the term "must pay interest tax" is deemed to be replaced with "must pay, along with the interest tax under this paragraph which is applied mutatis mutandis pursuant to Article 75-2, paragraph (6), interest tax;" the term "in the paragraph" is deemed to be replaced with "in paragraph (1);" and the term "from the day on which two months have elapsed from the day following the last day of the business year to the date designated under the paragraph" is deemed to be replaced with "from the day following the due date for filing the return extended under Article 75-2, paragraph (1) to the date designated under paragraph (1)."

### **Subsection 3 Payment**

(Payment by Interim Return)

Article 76 When an ordinary corporation, which is a domestic corporation and which has filed an interim return, holds any amount listed in Article 71,

paragraph (1), item (i) (Matters to be Entered in Interim Return Based on Performance in the Previous Period) that it entered in the return (in the case where it has filed an interim return containing the matters listed in the items of Article 72, paragraph (1) (Matters to be Entered in Interim Return in the Case of Provisional Settlement of Accounts), any amount listed in item (ii) of the paragraph), it must pay corporation tax equivalent to the amount to the State.

(Payment by Final Return)

Article 77 When a domestic corporation, which has filed a return under Article 74, paragraph (1) (Final Return), holds any amount listed in item (ii) of the paragraph that it entered in the return (in the case falling under the provisions of item (iv) of the paragraph, any amount listed in the item), it must pay corporation tax equivalent to the amount to the State.

#### **Subsection 4 Refund**

(Refund of Income Tax)

- Article 78 (1) In the case where a tax return has been filed, when it states any amount listed in Article 74, paragraph (1), item (iii) (Insufficient Income Tax Credit), the district director of the tax office refunds tax equivalent to the amount to the domestic corporation that has filed the return.
- (2) 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 Refund) of the Act on General Rules for National Taxes, which is used as the basis of the calculation, is to be the period from the day following the due date for filing a tax return set forth in the preceding paragraph (in the case where the return is a return filed after the due date, from the day following the date of the filing thereof) 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 the date of appropriation, up to the day on which it becomes possible).
- (3) In the case where a refund pursuant to the provisions of paragraph (1) is appropriated for the unpaid portion of corporation tax on income for the business year pertaining to a tax return set forth in the paragraph, interest on the refund is not added to the portion of the refund to be used for appropriation and any delinquent tax and interest tax is to be exempted with regard to the portion of the corporation tax that is to be appropriated.
- (4) Beyond what is provided for in the preceding two paragraphs, procedures for a refund set forth in paragraph (1), methods for the appropriation of a refund

(including interest on a refund related thereto) pursuant to the provisions of the paragraph, and other necessary matters concerning the application of the provisions of the paragraph are specified by Cabinet Order.

(Refund of the Amount of Interim Payment)

Article 79 (1) In the case where an ordinary corporation, which is a domestic corporation and has filed an interim return, has filed a tax return for the business year pertaining to the interim return, when the tax return states any amount listed in Article 74, paragraph (1), item (v) (Insufficient Credit for Interim Payment), the district director of the tax office refunds the amount of interim payment equivalent to the amount to the ordinary corporation.

(2) In the case where the district director of the tax office makes a refund pursuant to the provisions of the preceding paragraph, when any delinquent tax has been paid with regard to the amount of interim payment pertaining to the interim return set forth in the paragraph, they also refund the amount calculated, as specified by Cabinet Order, as the portion of the delinquent tax that corresponds to the amount of interim payment to be refunded pursuant to the provisions of the 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 Refund) of the Act on General Rules for National Taxes, which is the basis of the calculation, is to be the period from the day following the day on which the amount of interim payment to be refunded, pursuant to the provisions of paragraph (1), was paid (in the case where the amount of interim payment was paid prior to the due date for payment, from the day following the due date for payment) 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 the date of appropriation, up to the day on which it becomes possible); provided, however, that in the case where a tax return set forth in the paragraph is a return filed after the due date, the number of days from the day following the due date for filing the return up to the date of the filing thereof is not included in the period.

(4) In the case where a refund pursuant to the provisions of paragraph (1) is appropriated for the unpaid portion of corporation tax on income for the business year pertaining to the amount of interim payment that was used as the basis of the calculation, interest on the refund is to not be added to the portion of the refund to be used for appropriation and any delinquent tax and interest tax are to be exempted with regard to the portion of the corporation tax that is to be appropriated.

(5) Interest on a refund is not added to a refund pursuant to the provisions of

paragraph (2).

- (6) Beyond what is provided for in the preceding three paragraphs, procedures for a refund set forth in paragraph (1) or paragraph (2), methods for the appropriation of a refund (including interest on a refund related thereto) pursuant to the provisions of paragraph (1), and other necessary matters concerning the application of the provisions of the paragraph or paragraph (2) are specified by Cabinet Order.

(Refund by Carryback of Loss)

Article 80 (1) In the case where a domestic corporation has any net operating loss arising in a business year for which it is to file a final return with a blue return (excluding the case falling under the provisions of paragraph (4)), the domestic corporation may, upon filing the return, simultaneously file, with the competent district director with jurisdiction over the place for tax payment, a claim for a refund of corporation tax equivalent to the amount obtained by multiplying the amount of corporation tax on income for any of the business years starting within one year prior to the first day of the business year pertaining to the loss (hereinafter referred to as the "business year showing a loss" in this Article) (any of such business years excludes each business year prior to the domestic corporation's consolidated business year; in the case where the domestic corporation, which is a consolidated corporation, has effected a company split by split-off (excluding a company split by split-off as listed in Article 57, paragraph (9), item (i), (a) and (c) (Carryover of Losses in a Business Year When a Blue Return Has Been Filed)), with itself as a splitting corporation, in the consolidated parent corporation's business year (meaning the consolidated parent corporation's business year prescribed in Article 15-2, paragraph (1) (Meaning of Consolidated Business Year); hereinafter the same applies in this paragraph), each business year prior to the business year containing the first day of the consolidated parent corporation's business year (in the case where the domestic corporation is a corporation listed in Article 4-3, paragraph (9), item (ii) or paragraph (11), item (ii) (Application for Approval for Consolidated Taxation), each business year prior to the business year prescribed in these items); and in the case where the domestic corporation, which is a consolidated subsidiary corporation, has effected a merger, with itself as an acquired corporation, in the consolidated parent corporation's first business year prescribed in Article 57, paragraph (9), item (ii) (such merger is limited to a merger, wherein another consolidated corporation, which has a consolidated full controlling interest in the domestic corporation, is an acquiring corporation, and exclude a merger listed in Article 57, paragraph (9), item (ii), (a)), each business year prior to the business year containing the first day of the consolidated parent corporation's first business year) (such

corporation tax excludes the amount of penalty tax, and in the case where there is any amount credited under Articles 68 to 70-2 (Tax Credit), the amount is added; hereinafter the same applies in this Article) by the rate accounted for by the amount equivalent to the net operating loss for the business year showing a loss out of the amount of income for the any of the business years (hereinafter referred to as a "business year with refunds" in this Article) (such net operating loss excludes the amount that is to be used as the basis of the calculation of the amount to be refunded with regard to corporation tax on income for another business year with refunds, pursuant to the provisions of this Article; the same applies in paragraph (4)).

- (2) In the case referred to in the preceding paragraph, when the provisions of this Article have already been applied to the amount of corporation tax on income for the relevant business year with refunds, the amount that remains after crediting the amount already refunded pursuant to these provisions against the amount is deemed to be the amount of corporation tax, and the amount that remains after deducting the net operating loss pertaining to the application of these provisions from the amount equivalent to the income for the business year with refunds to be the amount of income for the business year with refunds, and thereby applying the provisions of the paragraph.
- (3) The provisions of paragraph (1) apply only in the case where a domestic corporation set forth in the paragraph has filed a final return in a blue return on a continuous basis for each business year from the business year with refunds to the business year preceding the business year showing a loss, and where it has filed a final return in a blue return for the business year showing a loss by the due date (where the district director of the tax office has found any unavoidable circumstances, including in the case where the domestic corporation has filed the return after the due date).
- (4) The provisions of paragraph (1) and paragraph (2) apply mutatis mutandis to the case where a domestic corporation has been dissolved (excluding dissolution as a result of a qualified merger and dissolution after a quasi-merger qualified company split by split-off as prescribed in Article 57, paragraph (2)), the whole of its business has been transferred, an order on the commencement of reorganization proceedings has been rendered for it under the Corporate Reorganization Act or the Act on Special Measures of Reorganization Procedure of Financial Institutions, or any other equivalent event as specified by Cabinet Order has occurred (excluding the case where such event has occurred in the domestic corporation's consolidated business year), and when there is any net operating loss arising in any of the business years that ended within one year prior to the day on which the event occurred or in the business year containing the date (excluding the net operating loss that was included in deductible expenses in the calculation of the amount of

income for each business year pursuant to the provisions of the Article). In this case, in paragraph (1), the term "upon filing the return, simultaneously" is deemed to be replaced with "within one year after the day on which the event occurred," and the term "in paragraph (4)) " is deemed to be replaced with "in paragraph (4)); provided, however, that this is limited to the case where the domestic corporation has filed a final return in a blue return on a continuous basis for each business year from the business year with refunds to the business year showing a loss."

- (5) A domestic corporation that intends to file a claim for a refund of corporation tax pursuant to the provisions of paragraph (1) (including the case where it is applied mutatis mutandis pursuant to the preceding paragraph), it must submit a refund claim form stating the amount of corporation tax for which it wishes to receive a refund, the basis of the calculation thereof, and other matters as specified by an Ordinance of the Ministry of Finance.
- (6) When a refund claim form set forth in the preceding paragraph has been submitted, the district director of the tax office examines the net operating loss which caused the claim and other necessary matters and refunds corporation tax to the domestic corporation that has filed the application, to the extent of the amount pertaining to the claim, or notify it in writing that there are no grounds for filing a claim, based on the examination.
- (7) 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 Refund) of the Act on General Rules for National Taxes, which is used as the basis of the calculation, is to 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 under paragraph (1) (including the case where it is applied mutatis mutandis pursuant to paragraph (4)) was filed (in the case where the day on which the claim for a refund was filed is prior to the due date for filing a tax return as prescribed in the paragraph, from the due date), 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 the date of appropriation, up to the day on which it becomes possible).

#### **Subsection 5 Special Provisions on Requests for Reassessment**

(Special Provisions on Requests for Reassessment Due to Reassessment of the Previous Business Year's Corporation Tax)

Article 80-2 When a domestic corporation has, with regard to the amount listed in Article 74, paragraph (1), items (i) through (v) (Matters to be Entered in Tax Return) that is to be entered in a tax return or the amount listed in Article 81-

22, paragraph (1), items (i) through (v) (Matters to be Entered in Consolidated Tax Return) that is to be entered in a consolidated return, filed an amended return or received a reassessment or determination, and due to the filing of the amended return, or the reassessment or determination, has come to fall under the following cases, the domestic corporation may request a reassessment under Article 23, paragraph (1) (Request for Reassessment) of the Act on General Rules for National Taxes from the district director of the tax office, with regard to the amount prescribed in the each relevant item, only within two months from the day following the day on which it filed the amended return or received the notification of the reassessment or determination. In this case, the amended return prescribed in paragraph (3) of the Article must state the date of the submission of the amended return or the receipt of the notification of the reassessment or determination, beyond the matters prescribed in the paragraph:

- (i) in the case where the amount listed in Article 74, paragraph (1), item (ii) or item (iv), for the business year after the business year or consolidated business year pertaining to the amended return or the reassessment or determination, that was entered in a tax return or was determined for the business year (in the case where an amended tax return was filed or a reassessment was made with regard to the amount, the amount after the filing thereof or the reassessment) is in excess; or
- (ii) in the case where the net operating loss listed in Article 74, paragraph (1), item (i) or the amount listed in item (iii) or item (v) of the paragraph, for the business year after the business year or consolidated business year pertaining to the amended return or the reassessment or determination, that was entered in a tax return or was determined for the business year (in the case where an amended tax return was filed or a reassessment was made with regard to the amounts, the amounts after the filing thereof or the reassessment) falls short.

**Chapter I-2 Corporation Tax on Consolidated Income for Each Consolidated Business Year**

**Section 1 Tax Base and Calculation Thereof**

**Subsection 3 Calculation of Gross Profits or Deductible Expenses**

**Division 4 Contribution or Donation**

(Exclusion of Contributions and Donations in the Consolidated Business Year from Deductible Expenses)

Article 81-6 (1) The portion of the sum of the donations made by a consolidated corporation in each consolidated business year (excluding the amount of donations subject to the provisions of the following paragraph) that exceeds the

amount of the consolidated individual stated capital of the consolidated parent corporation related to the consolidated corporation as of the end of the consolidated business year or the amount calculated as specified by Cabinet Order based on the consolidated income for the consolidated business year is excluded from deductible expenses, when calculating the amount of consolidated income of the consolidated corporation for each consolidated business year.

- (2) When the amount of a donation made by a consolidated corporation in each consolidated business year contains any donation to another consolidated corporation that has a consolidated full controlling interest in the consolidated corporation, the amount of the donation is excluded from deductible expenses, when calculating the amount of income of the consolidated corporation for each consolidated business year.
- (3) In the case referred to in paragraph (1), when the amount of a donation as prescribed in the paragraph contains any donation listed in the items of Article 37, paragraph (3) (Exclusion of Contributions and Donations from Deductible Expenses), the sum of the donations is excluded from the sum of the donations prescribed in paragraph (1).
- (4) In the case referred to in paragraph (1), when the amount of a donation as prescribed in the paragraph contains any donation as prescribed in Article 37, paragraph (4), the sum of the donations (in the case where the sum exceeds the amount of the consolidated individual stated capital, etc. of the consolidated parent corporation related to the consolidated corporation set forth in paragraph (1) as of the end of the consolidated business year or the amount calculated as specified by Cabinet Order based on the consolidated income for the consolidated business year, the amount equivalent to the calculated amount) is excluded from the sum of the donations prescribed in paragraph (1).
- (5) The amount that a consolidated corporation has spent for the purpose of entrusting as trust property under a specified charitable trust as prescribed in Article 37 is deemed to be the amount of a donation, and the provisions of paragraph (1), the preceding paragraph, and the following paragraph applies. In this case, the term "any donation as prescribed in Article 37, paragraph (4)" in the preceding paragraph is deemed to be replaced with "any donation as prescribed in Article 37, paragraph (4) that is applied by replacing the terms pursuant to the provisions of paragraph (6) of the Article," and other necessary matters concerning procedures for seeking the application of the provisions of this paragraph are specified by Cabinet Order.
- (6) The provisions of Article 37, paragraphs (7) through (10) apply mutatis mutandis to the case where the provisions of the preceding paragraphs apply. In this case, the term "are retained" in paragraph (9) of the Article is deemed to be replaced with "are retained by the respective consolidated corporations

that have made a donation as prescribed in the items of paragraph (3) or a donation as prescribed in paragraph (4)."

- (7) The calculation of the portion of the amount excluded from deductible expenses under paragraph (1) or paragraph (2) that is to be attributed to each consolidated corporation and other necessary matters concerning the application of the provisions of these paragraphs are specified by Cabinet Order.

## **Section 2 Calculation of Tax Amount**

### **Subsection 1 Tax Rate**

(Special Tax Rate for Consolidated Specific Family Companies)

Article 81-13 (1)

- (2) The amount of consolidated retained income prescribed in the preceding paragraph means the amount that remains after deducting, from the retained portion of the sum of the following amounts (referred to as the "amount of consolidated income, etc." in paragraph (4)), the sum of the amount of corporation tax calculated as prescribed in paragraph (1) or paragraph (2) of the preceding Article, with regard to the amount of consolidated income for the consolidated business year (in the case where there is any amount to be credited under the following Article to Article 81-17 (Tax Credit), the amount of corporation tax that remains after crediting the amount) and the amounts calculated, as specified by Cabinet Order, as those of the prefectural inhabitants' tax and municipal inhabitants' tax (including the Tokyo inhabitants' tax) that are related to the adjusted individually attributed amount of consolidated corporation tax (meaning the amount calculated, pursuant to the provisions of Article 81-18, paragraph (1) (Calculation of Individually Attributed Amount of Consolidated Corporation Tax), to be the payable amount to be the burden or the receivable amount as the reduction prescribed in the paragraph) for the consolidated business year pursuant to the provisions of the Local Tax Act:
- (i) the amount of consolidated income for the consolidated business year (when there is any amount of capital gain or loss as prescribed in Article 62, paragraph (2) (Transfer of Assets at Fair Value as a Result of Merger and Company Split) that is to be added to or subtracted from the amount of individual gross profits or deductible expenses in the case of calculating such amount, the amount of consolidated income is to be the amount calculated by deeming that the capital gain or loss does not exist);
  - (ii) the amount excluded from gross profits in the calculation of the amount of consolidated income for the consolidated business year under Article 81-4 (Exclusion of Dividends Received in a Consolidated Business Year from Gross

- Profits) (excluding the portion of the amount of dividend prescribed in Article 23, paragraph (1) (Exclusion of Dividends Received from Gross Profits) that a consolidated corporation receives from another consolidated corporation (limited to a consolidated corporation that has a consolidated full controlling interest in the consolidated corporation));
- (iii) the sum of the amount to be refunded or to be appropriated as prescribed in Article 26, paragraph (1) (Exclusion of Refunds from Gross Profits) in the case of calculating the amount of individual gross profits (excluding the amount of the portion pertaining to item (i) of the paragraph), the amount to be refunded as prescribed in paragraph (5) of the Article, and the amount specified by Cabinet Order as the reduced portion as prescribed in Article 81-4-2 (Exclusion of Refunds from Foreign Taxes in a Consolidated Business Year from Gross Profits); and
- (iv) the sum of the amount included in deductible expenses in the calculation of the amount of consolidated income for the consolidated business year under Article 81-9 (Carryover of Consolidated Operating Loss), and the amount up to the sum prescribed in Article 59, paragraph (1) and paragraph (2) (Inclusion in Deductible Expenses of the Net Operating Losses Where a Corporate Reorganization Has Caused a Release from Obligation) in the case of calculating the amount of individual deductible expenses.
- (4) The amount of consolidated allowance for retained income as prescribed in paragraph (1) is the largest amount out of those listed as follows:
- (i) the amount equivalent to 40 percent of the amount of consolidated income, etc. for the consolidated business year;
- (ii) 20 million yen per annum; or
- (iii) in the case where the amount of consolidated retained earnings as of the end of the consolidated business year (excluding the amount of the portion pertaining to the amount of consolidated income, etc. for the consolidated business year) is less than 25 percent of the consolidated parent corporation's stated capital or capital contributions at the time, the amount equivalent to the shortfall.

### **Subsection 2 Tax Credit**

(Income Tax Credit in Consolidated Business Year)

Article 81-14 In the case where a consolidated corporation receives any interest, etc., dividends, etc., monies for payment, interest, profit, margin, distribution of profit, or monetary award as prescribed in the items of Article 174 (Tax Base for a Domestic Corporation's Income Tax) of the Income Tax Act, the amount of income tax to be imposed thereon pursuant to the provisions of the Act is credited against the amount of corporation tax on its consolidated income for

the consolidated business year, as specified by Cabinet Order.

(Foreign Tax Credit in Consolidated Business Years)

Article 81-15 (1) In the case where a consolidated corporation is to pay any foreign country's corporate tax (meaning a foreign country's corporate tax as prescribed in Article 69, paragraph (1) (Foreign Tax Credits); hereinafter the same applies in this Article) for each consolidated business year (excluding the case where a consolidated corporation is to pay any foreign country's corporate tax on income arising from transactions that are specified by Cabinet Order as prescribed in the paragraph), the amount of the portion of the foreign country's corporate tax (excluding the amount specified by Cabinet Order as the part whose burden on the income is high; hereinafter referred to as the "individually creditable amount of the foreign country's corporate tax" in this Article) is credited against the amount of corporation tax on consolidated income for the consolidated business year, up to the individually attributed limitation on a consolidated creditable amount (meaning the portion of the amount calculated pursuant to the provisions of Article 81-12, paragraphs (1) through (3) (Tax Rate for Corporation Tax on Consolidated Income for Each Consolidated Business Year), with regard to the amount of consolidated income for the consolidated business year, which is calculated as specified by Cabinet Order as consolidated income for the consolidated business year corresponding to that whose sources are located outside Japan, and which is calculated as specified by Cabinet Order as the amount attributed to each consolidated corporation; hereinafter the same applies in this Article).

(2) In the case where the individually creditable amount of a foreign country's corporate tax that a consolidated corporation is to pay in each consolidated business year exceeds the sum of the individually attributed limitation on the consolidated creditable amount for the consolidated business year and the amount specified by Cabinet Order as the individual limitation on a creditable amount for local tax, when the individually attributed limitation on the consolidated creditable amount for each consolidated business year within the preceding three years (meaning each consolidated business year that starts within three years prior to the first day of the consolidated business year; hereinafter the same applies in this Article) contains the amount specified by Cabinet Order as the portion to be carried over to the consolidated business year (hereinafter referred to as the "individual limitation on the creditable amount to be carried over" in this paragraph and paragraph (16)), the amount of the excess is credited against corporation tax for the consolidated business year, up to the individual limitation on the creditable amount to be carried over, as specified by Cabinet Order.

(3) In the case where the individually creditable amount of a foreign country's

corporate tax that a consolidated corporation is to pay in each consolidated business year is less than the individually attributed limitation on the consolidated creditable amount for the consolidated business year, when the individually creditable amount of the foreign country's corporate tax to be paid in each consolidated business year within the preceding three years contains an amount specified by Cabinet Order as the portion to be carried over to the consolidated business year (hereinafter referred to as the "individually creditable amount of the foreign country's corporate tax to be carried over" in this paragraph and paragraph (16)), the individually creditable amount of the foreign country's corporate tax to be carried over is credited against corporation tax on consolidated income for the consolidated business year, up to the amount that remains after deducting the individually creditable amount of the foreign country's corporate tax to be paid in the consolidated business year from the individually attributed limitation on the consolidated creditable amount, as specified by Cabinet Order.

- (4) In the case where business years that start within three years prior to the first day of the consolidated business year, in which a consolidated corporation is to pay the individually creditable amount of a foreign country's corporate tax, contain any business year that does not fall under the category of consolidated business years, when there is the limitation on a creditable amount (meaning the limitation on a creditable amount as prescribed in Article 69, paragraph (1); hereinafter the same applies in this Article) for the business year that does not fall under such category, with regard to the application of the provisions of paragraph (2), the limitation on the creditable amount is deemed to be the individually attributed limitation on the consolidated creditable amount for each consolidated business year within the preceding three years that corresponds to the period of the business year; and in the case where business years that start within three years prior to the first day of the consolidated business year, in which a consolidated corporation is to pay the individually creditable amount of the foreign country's corporate tax, contain any business year that does not fall under the category of consolidated business years, when there is any creditable amount of the foreign country's corporate tax (meaning the creditable amount of the foreign country's corporate tax prescribed in Article 69, paragraph (1); hereinafter the same applies in this Article) to be paid in the business year that does not fall under such category, with regard to the application of the provisions of the preceding paragraph, the creditable amount of the foreign country's corporate tax is deemed to be the individually creditable amount of the foreign country's corporate tax to be paid in each consolidated business year within the preceding three years that corresponds to the period of the business year.
- (5) In the case where a consolidated corporation has received, as a result of a

qualified merger, qualified company split, qualified contribution in kind, qualified post-formation contribution (hereinafter referred to as a "qualified organizational restructuring" in this paragraph and paragraph (10)), the transfer of the whole or a part of the business from an acquired corporation, splitting corporation, corporation making a capital contribution in kind, or transferring corporation (referred to as a "acquired corporation, etc." in paragraph (10)), with regard to the application of the provisions of paragraph (2) and paragraph (3) in each consolidated business year after the consolidated business year containing the date of the consolidated corporation's qualified organizational restructuring, in accordance with the category of qualified organizational restructuring listed in the following items, the amount specified in the relevant item is deemed to be the consolidated corporation's individually attributed limitation on the consolidated creditable amount in each consolidated business year within the preceding three years and the individually creditable amount of a foreign country's corporate tax that the consolidated corporation has come to pay in each of the consolidated business years within the preceding three years, as specified by Cabinet Order:

- (i) qualified merger: The individually attributed limitation on the consolidated creditable amount and the limitation on the creditable amount; and the individually creditable amount of a foreign country's corporate tax and the creditable amount of a foreign country's corporate tax for the acquired corporation involved in the qualified merger for each business year within three years prior to the merger (meaning each consolidated business year or each business year starting within three years prior to the date of a qualified merger);
- (ii) qualified company split by split-off: The amount calculated, as specified by Cabinet Order, as the portion of the individually attributed limitation on the consolidated creditable amount and the limitation on the creditable amount; and the individually creditable amount of a foreign country's corporate tax and the creditable amount of a foreign country's corporate tax for the splitting corporation involved in the qualified company split by split-off for each business year within three years prior to the company split (meaning each consolidated business year or each business year starting within three years prior to the date of a qualified company split by split-off; the same applies in paragraph (7)), which is related to the business that the consolidated corporation has received as a result of the qualified company split by split-off; or
- (iii) qualified company split by spin-off, qualified contribution in kind, or qualified post-formation contribution (hereinafter referred to as a "qualified company split by spin-off, etc." in this item): The amount calculated, as specified by Cabinet Order, as the portion of the individually attributed

limitation on the consolidated creditable amount and the limitation on the creditable amount; and the individually creditable amount of a foreign country's corporate tax and the creditable amount of the foreign country's corporate tax for the splitting corporation, corporation making a capital contribution in kind, or transferring corporation involved in the qualified company split by spin-off, etc. for each business year within three years prior to the company split, etc. (meaning each consolidated business year or each business year starting within three years prior to the first day of the consolidated business year containing the date of a qualified company split by spin-off, etc. or each business year or each consolidated business year starting within three years prior to the first day of the business year containing the date of a qualified company split by spin-off; the same applies in paragraph (7)), which is related to the business that the consolidated corporation has received as a result of the qualified company split by spin-off, etc.

- (6) With regard to a consolidated corporation that has received, as a result of a qualified company split, qualified contribution in kind, or qualified post-formation contribution (hereinafter referred to as a "qualified company split, etc." in this paragraph and the following paragraph), the transfer of a business from a splitting corporation, corporation making a capital contribution in kind, or transferring corporation (referred to as a "splitting corporation, etc." in the following paragraph) involved in the qualified company split, etc., the provisions of the preceding paragraph apply only in the case where the consolidated corporation (in the case where the consolidated corporation is a consolidated subsidiary corporation, the consolidated parent corporation related to the consolidated corporation) has submitted documents stating the amount deemed to be the individually attributed limitation on the consolidated creditable amount and the individually creditable amount of a foreign country's corporate tax for the consolidated corporation for each consolidated business year within the preceding three years and any other matters as specified by Ordinance of the Ministry of Finance to the competent district director with jurisdiction over the place for tax payment, within three months after the date of the qualified company split, etc.
- (7) In the case where a succeeding corporation in a company split, corporation receiving a capital contribution in kind, or transferee corporation (hereinafter referred to as a "succeeding corporation in a company split, etc." in this paragraph) involved in a qualified company split, etc. is subject to the provisions of paragraph (5) or Article 69, paragraph (5), with regard to the application of the provisions of paragraph (2) and paragraph (3) in each consolidated business year after the consolidated business year containing the date of the qualified company split, etc. of the splitting corporation, etc.

involved in the qualified company split, etc. out of the individually attributed limitation on the consolidated creditable amount and the individually creditable amount of a foreign country's corporate tax for each business year within three years prior to the company split or each business year within three years prior to the company split, etc. of the splitting corporation, etc., the amount deemed to be the individually attributed limitation on the consolidated creditable amount of the succeeding corporation in a company split, etc. for each consolidated business year within the preceding three years under paragraph (5), the amount deemed to be the limitation on the creditable amount of the succeeding corporation in a company split, etc. for each business year within the preceding three years (meaning each business year within the preceding three years prescribed in paragraph (2) of the Article; hereinafter the same applies in this paragraph) under paragraph (5) of the Article, the amount deemed to be the individually creditable amount of the foreign country's corporate tax that the succeeding corporation in a company split, etc. has come to pay in each of the consolidated business years within the preceding three years under paragraph (5), and the amount deemed to be the creditable amount of the foreign country's corporate tax that the succeeding corporation in a company split, etc. has come to pay in each of the business years within the preceding three years under paragraph (5) of the Article are deemed not to exist.

- (8) In the case where a consolidated corporation receives, from a foreign subsidiary (meaning a foreign corporation, out of whose total issued shares or capital contributions (excluding the shares that the company holds in itself and the capital contributions made thereby), the sum of the shares or capital contributions held by consolidated corporations account for 25 percent or more in terms of the number or amount and which meets other requirements as specified by Cabinet Order), any amount of dividends of surplus (limited to that which pertains to shares or capital contributions and excluding that which is caused by a decrease in the amount of capital surplus or as a result of a company split by split-off), dividends of profit (excluding that which is caused as a result of a company split by split-off), or distribution of surplus (limited to that which pertains to capital contributions) (hereinafter referred to as the "amount of dividends, etc." in this Article), the amount calculated, as specified by Cabinet Order, as the portion of the foreign country's corporate tax to be imposed on the foreign subsidiary's income that corresponds to the amount of dividends, etc. (excluding the part where the burden of the sum with the individually creditable amount of the foreign country's corporate tax to be imposed, by using the amount of dividends, etc. as the tax base, is relatively high compared with the amount of dividends, etc.) is deemed to be the individually creditable amount of the foreign country's corporate tax that the

consolidated corporation pays, as specified by Cabinet Order, and the provisions of paragraphs (1) through (3) apply.

(9) In the case where a domestic corporation has received any amount of dividends, etc. from a foreign subsidiary as prescribed in Article 69, paragraph (8) in each business year (excluding the period falling under the category of consolidated business years), when the foreign country's corporate tax is imposed on the foreign subsidiary's income during the period of each consolidated business year starting after the last day of the business year containing the date of the receipt thereof, the amount of dividends, etc. is deemed to be the amount of dividends, etc. that the consolidated corporation has received from a foreign subsidiary as prescribed in the preceding paragraph in each consolidated business year; the creditable amount of the foreign country's corporate tax to be imposed by using the amount of dividends, etc. as the tax base is deemed to be the individually creditable amount of the foreign country's corporate tax prescribed in the paragraph; and the amount of the foreign country's corporate tax to be imposed on the income of a foreign subsidiary prescribed in paragraph (8) of the Article is deemed to be the amount of the foreign country's corporate tax to be imposed on the income of a foreign subsidiary as prescribed in the preceding paragraph; and the provisions of the paragraph apply.

(10) The application of the provisions of paragraphs (1) through (3) in the following cases is specified by Cabinet Order: in the case where, in each consolidated business year after the consolidated business year in which the provisions of paragraphs (1) through (3) have applied to the whole or a part of the amount of the foreign country's corporate tax that a consolidated corporation has come to pay (including the amount deemed to be the portion that the consolidated corporation pays under paragraph (8) out of the amount of the foreign country's corporate tax to be imposed on the income of a foreign subsidiary as prescribed in the paragraph (including the amount deemed to be the amount of the foreign country's corporate tax to be imposed on the income of the foreign subsidiary under the provisions of the preceding paragraph)), the amount of the foreign country's corporate tax has been reduced (in the case where the consolidated corporation had received, as a result of a qualified organizational restructuring, the transfer of the whole or a part of a business from an acquired corporation, etc., including the case where the amount of the foreign country's corporate tax that the consolidated corporation has come to pay with regard to income pertaining to the business transferred to the consolidated corporation out of the amount of the foreign country's corporate tax that the acquired corporation, etc. has come to pay; hereinafter the same applies in this paragraph); and in the case where, in each consolidated business year after the business year in which the provisions of Article 69,

paragraphs (1) through (3) have been applied to the whole or a part of the amount of the foreign country's corporate tax that the consolidated corporation has come to pay (including the amount deemed to be the portion that the consolidated corporation pays under paragraph (8) of the Article out of the amount of the foreign country's corporate tax to be imposed on the income of a foreign subsidiary as prescribed in the paragraph (including the amount deemed to be the amount of the foreign country's corporate tax to be imposed on the income of the foreign subsidiary under the provisions of paragraph (9) of the Article)), the amount of the foreign country's corporate tax has been reduced.

(11) In the case where a consolidated corporation receives any amount of dividends, etc. from a foreign subsidiary as prescribed in paragraph (8), when the foreign subsidiary receives, from a foreign second-tier subsidiary (meaning a foreign corporation, out of whose total issued shares or capital contributions (excluding the shares that the company holds in itself and the capital contributions made thereby), the sum of the shares or capital contributions held by consolidated corporations indirectly through the foreign subsidiary account for 25 percent or more in terms of the number or amount and which meets any other requirements as specified by Cabinet Order), any amount of dividend of surplus (limited to that which pertains to shares or capital contributions and excluding that which is caused by a decrease in the amount of capital surplus or as a result of a company split by split-off), dividend of profit (excluding that which is caused as a result of a company split by split-off), or distribution of surplus (limited to that which pertains to capital contributions) (including what is specified by Cabinet Order as prescribed in Article 69, paragraph (11); hereinafter referred to as the "amount of dividends, etc. from the foreign second-tier subsidiary" in this paragraph), the amount calculated, as specified by Cabinet Order, as the portion of the foreign country's corporate tax to be imposed on the foreign second-tier subsidiary's income that corresponds to the amount of dividends, etc. from the foreign second-tier subsidiary is deemed to be the amount of the foreign country's corporate tax to be imposed on the income of the foreign subsidiary, as specified by Cabinet Order, and the provisions of paragraph (8) apply.

(12) In the case where a domestic corporation has received any amount of dividends, etc. from a foreign subsidiary as prescribed in Article 69, paragraph (8) in each business year (excluding the period falling under the category of consolidated business years), when the foreign country's corporate tax is imposed on the income of the foreign second-tier subsidiary during the period of each consolidated business year starting after the last day of the business year containing the date of the receipt thereof, the amount of dividends, etc. received from the foreign subsidiary is deemed to be the amount of dividends,

etc. from a foreign subsidiary as prescribed in paragraph (8) in each consolidated business year; the amount of dividends, etc. from the foreign second-tier subsidiary is deemed to be the amount of dividends, etc. from a foreign second-tier subsidiary as prescribed in the preceding paragraph; and the amount of the foreign country's corporate tax to be imposed is deemed to be the amount of the foreign country's corporate tax to be imposed on the income of a foreign second-tier subsidiary as prescribed in the paragraph; and the provisions of the paragraph apply.

(13) With regard to the application of the provisions of Article 81-5 (Inclusion in Gross Profits of the Amount of a Foreign Country's Corporate Tax Imposed on a Foreign Subsidiary That Is Credited from the Consolidated Corporation Tax Amount) in the case where the provisions of paragraph (11) apply (including the case where they apply by deeming the amounts as prescribed in the preceding paragraph), the term "the provisions of paragraph (9) of the Article" in the Article is deemed to be replaced with "the provisions of paragraph (9) of the Article and the amount deemed to be the amount of the foreign country's corporate tax to be imposed on the foreign subsidiary's income pursuant to the provisions of paragraph (11) of the Article apply (including the case where they apply by deeming the amounts as prescribed in paragraph (12) of the Article)."

(14) The calculation of the individually creditable amount of a foreign country's corporate tax in the following cases and other necessary matters concerning the application of the provisions of paragraph (11) are specified by Cabinet Order: in the case where, during the period of each consolidated business year after the consolidated business year, in which the provisions of paragraphs (1) through (3) have been applied, by applying the provisions of paragraph (8), to the whole or a part of the portion that is deemed to be the amount of the foreign country's corporate tax to be imposed on the income of a foreign subsidiary as prescribed in the paragraph, pursuant to the provisions of paragraph (11), out of the amount of the foreign country's corporate tax to be imposed on the income of a foreign second-tier subsidiary as prescribed in the paragraph (including the amount deemed to be the amount of the foreign country's corporate tax to be imposed on the income of the foreign second-tier subsidiary under paragraph (12)), the amount of the foreign country's corporate tax pertaining to the foreign second-tier subsidiary has been reduced; and in the case where, during the period of each consolidated business year after the business year in which the provisions of Article 69, paragraphs (1) through (3) have applied, by applying the provisions of paragraph (8) of the Article, to the whole or a part of the portion that is deemed to be the amount of the foreign country's corporate tax to be imposed on the income of a foreign subsidiary as prescribed in the paragraph, pursuant to the provisions of paragraph (11) of the Article, out of the amount of the foreign country's

corporate tax to be imposed on the income of a foreign second-tier subsidiary as prescribed in the paragraph (including the amount deemed to be the amount of the foreign country's corporate tax to be imposed on the income of the foreign second-tier subsidiary under paragraph (12) of the Article), the amount of the foreign country's corporate tax pertaining to the foreign second-tier subsidiary has been reduced.

- (15) The provisions of paragraph (1) apply only in the case where a consolidated tax return contains a detailed statement concerning the amount to be credited under the paragraph and the calculation thereof and is attached with documents certifying that the individually creditable amount of the foreign country's corporate tax has been imposed and other documents specified by Ordinance of the Ministry of Finance. In this case, the amount to be credited under the paragraph does not exceed the amount entered as the amount.
- (16) The provisions of paragraph (2) and paragraph (3) apply only in the case where, with regard to each consolidated business year or each business year after the oldest consolidated business year or business year pertaining to the individual limitation on a creditable amount to be carried over or the individually creditable amount of the foreign country's corporate tax to be carried over, a consolidated corporation has filed a consolidated tax return that states the individually attributed limitation on the consolidated creditable amount for each of the consolidated business years and the individually creditable amount of the foreign country's corporate tax that the consolidated corporation has come to pay in each of the consolidated business years, or a tax return that states the limitation on the creditable amount for each of the business years and the creditable amount of the foreign country's corporate tax that the consolidated corporation has come to pay in each of the business years; and has entered the amount to be credited under these provisions in the consolidated tax return for the consolidated business year for which the consolidated corporation seeks the application of these provisions, attaching thereto documents containing matters to be the basis of the calculation of the individual limitation on the creditable amount to be carried over or the individually creditable amount of the foreign country's corporate tax to be carried over and other documents as specified by Ordinance of the Ministry of Finance. In this case, the amount to be credited under these provisions does not exceed the amount calculated based on the amount entered in the consolidated tax return for each of the consolidated business years to be the individually attributed limitation on the consolidated creditable amount for each of the consolidated business years and the individually creditable amount of the foreign country's corporate tax that the consolidated corporation has come to pay in each of the consolidated business years, or the amount entered in the tax return for each of the business years as the limitation on the

creditable amount for each of the business years and the creditable amount of the foreign country's corporate tax that the consolidated corporation has come to pay in each of the business years.

- (17) Even in the case where a consolidated tax return or tax return without entries for the matters set forth in the preceding two paragraphs, with regard to the whole or a part of the amount to be credited or the limitation on the creditable amount, etc. under paragraphs (1) through (3) (meaning the individually attributed limitation on the consolidated creditable amount or the individually creditable amount of the foreign country's corporate tax; or the limitation on the creditable amount or the creditable amount of the foreign country's corporate tax prescribed in the preceding paragraph), or without the attachment of the documents set forth in the preceding two paragraphs has been filed, the district director of the tax office may apply the provisions of paragraphs (1) through (3) to the amount for which such matters were not entered or such documents were not attached, when they recognizes any unavoidable grounds for the person's failure to make such entries or to attach such documents.
- (18) Beyond what is provided for in paragraph (6), paragraph (10), paragraph (11), and paragraph (14) to the preceding paragraph, any other necessary matters concerning the application of the provisions of paragraphs (1) through (5), paragraphs (7) through (9), paragraph (12), and paragraph (13) are specified by Cabinet Order.

### **Section 3 Filing of Returns, Payment and Refunds**

#### **Subsection 3 Notification of Individually Attributed Amounts**

(Notification of Individually Attributed Amounts of a Consolidated Subsidiary Corporation)

Article 81-25 A consolidated subsidiary corporation must, by the due date for filing a return under Article 81-22, paragraph (1) (Consolidated Final Returns) for each consolidated business year, submit a document that states the payable amount of corporation tax or the receivable amount of the decrease in the corporation tax for the consolidated business year, which is calculated pursuant to the provisions of Article 81-18, paragraph (1) (Calculation of Individually Attributed Amount of Consolidated Corporation Tax), the basis of the calculation thereof, and any other matters as specified by Ordinance of the Ministry of Finance (referred to as the "individually attributed amount, etc." in the following paragraph), together with a balance sheet, a profit and loss statement, and other documents as specified by Ordinance of the Ministry of Finance for the consolidated business year, to the competent district director with jurisdiction over the location of the consolidated subsidiary corporation's

head office or principal office.

## **Chapter II Corporation Tax on Retirement Pension Funds**

### **Section 1 Tax Base and Calculation Thereof**

(Calculation of the Amount of Retirement Pension Funds)

Article 84 (1) The amount of retirement pension funds for each business year of a domestic corporation engaged in retirement pension services, etc. (meaning services for the management of a pension fund (meaning a pension fund as prescribed in Article 130-2, paragraph (2) (Contracts Concerning Expenses for Pension Payments and Lump Sum Payments) of the Welfare Pension Insurance Act (Act No. 115 of 1954); hereinafter the same applies in this paragraph, item (vii) of the following paragraph, and paragraph (3)) through the acceptance of a trust, life insurance, mutual aid life insurance, deposits, or savings under a welfare pension fund contract or through the buying and selling of securities or any other means, or through the acceptance of entrustment of the management of pension funds pertaining to such management; services for trusts, life insurance, or mutual aid life insurance under a contract for the management of assets in a defined benefit pension plan; services for the management of defined-benefit pension funds (meaning funds as prescribed in Article 59 (Funding of Reserves) under the Defined-Benefit Corporate Pension Act (Act No. 50 of 2001); hereinafter the same applies in this paragraph, item (vii) of the following paragraph, and paragraph (3)) through the acceptance of a trust, life insurance, mutual aid life insurance, deposits, or savings under a defined-benefit pension fund contract, or through the buying and selling of securities or any other means, or through the acceptance of entrustment of the management of defined-benefit pension funds pertaining to such management; services for the management of a trust, life insurance, mutual aid life insurance, or casualty insurance pertaining to a contract for the management of assets in a defined contribution pension plan; services for carrying out a private pension plan as prescribed in Article 2, paragraph (3) (Definitions) of the Defined-Contribution Pension Act (Act No. 88 of 2001); services for the management of a trust, life insurance, mutual aid life insurance, or casualty insurance under a benefits contract related to asset-building for wage earners; or services under entrustment with the management of a trust, life insurance, mutual aid life insurance, casualty insurance, deposits, or savings under a benefits contract related to an asset-building fund for wage earners, purchasing securities, and retaining purchased securities; hereinafter the same applies in this Chapter) is to be the amount obtained by dividing the amount of retirement pension funds as of the beginning of the business year by 12 and then multiplying the result by the number of months of the business year.

- (2) The amount of retirement pension funds prescribed in the preceding paragraph is to be the amount specified in the following items, in accordance with the category of corporations listed in the relevant items:
- (i) a domestic corporation engaged in services for trusts pertaining to welfare pension fund contracts, contracts for the management of assets in a defined benefit pension plan, contracts for the management of assets in a defined benefit pension fund, contracts for the management of assets in a defined contribution pension plan, benefits contracts related to asset-building for wage earners, or benefits contracts related to an asset-building fund for wage earners: The sum of the amounts listed as follows:
    - (a) The sum of the amounts calculated, as specified by Cabinet Order, as the amounts that remain after deducting, from the value of the trust properties pertaining to the relevant welfare pension fund contracts, the amounts pertaining to the contracts that the welfare pension fund or federation of corporate pension funds related to the contracts are to retain for providing benefits, assuming that it is to provide benefits at the equivalent level as prescribed in Article 132, paragraph (3) (Standard for Retirement Pension Benefits) of the Welfare Pension Insurance Act
    - (b) The sum of the amounts calculated, as specified by Cabinet Order, as the amounts that remain after deducting, from the value of the trust properties pertaining to the relevant contracts for the management of assets in a defined benefit pension plan, the portion of the premiums for the contracts that the beneficiaries of the trust have borne and that pertains to the trust properties
    - (c) The sum of the amounts calculated, as specified by Cabinet Order, as the amounts that remain after deducting, from the value of the trust properties pertaining to the relevant contracts for the management of assets in a defined benefit pension fund, the portion of the premiums for the contracts that subscribers or former subscribers of corporate pension funds pertaining to the contracts have borne and that pertains to the trust properties
    - (d) The sum of the amounts calculated, as specified by Cabinet Order, as the value of the trust properties pertaining to the relevant contracts for the management of assets in a defined contribution pension plan
    - (e) The sum of the amounts calculated, as specified by Cabinet Order, as the value of the trust properties pertaining to the relevant benefits contracts related to asset-building for wage earners or benefits contracts related to an asset-building fund for wage earners;
  - (ii) a domestic corporation engaged in services for life insurance pertaining to welfare pension fund contracts, contracts for the management of assets in a defined benefit pension plan, contracts for the management of assets in a

defined benefit pension fund, contracts for the management of assets in a defined contribution pension plan, benefits contracts related to asset-building for wage earners, or benefits contracts related to an asset-building fund for wage earners: The sum of the amounts listed as follows:

- (a) The sum of the amounts calculated, as specified by Cabinet Order, as the amounts that remain after deducting, from the amounts equivalent to the insurance reserves out of the amount funded as a liability reserves as prescribed in Article 116, paragraph (1) (Liability Reserves) of the Insurance Business Act (hereinafter referred to as the "amount of liability reserves" in this item and item (iv)) pertaining to relevant welfare pension fund contracts, the amounts pertaining to the contracts that the welfare pension funds or federation of corporate pension funds related to the contracts are to retain for providing benefits, assuming that it is to provide benefits at the equivalent level as prescribed in Article 132, paragraph (3) of the Welfare Pension Insurance Act
- (b) The sum of the amounts calculated, as specified by Cabinet Order, as the amounts that remain after deducting, from the amounts equivalent to the insurance reserves out of the amount of liability reserves pertaining to relevant contracts for the management of assets in a defined benefit pension plan or contracts for the management of assets in a defined benefit pension fund, the portion of the premiums for the contracts that the beneficiaries of the insurance benefits have borne and that pertains to the insurance reserves
- (c) The sum of the amounts calculated, as specified by Cabinet Order, as the amounts equivalent to the insurance reserves out of the amount of liability reserves pertaining to the relevant contracts for the management of assets in a defined contribution pension plan
- (d) The sum of the amounts calculated, as specified by Cabinet Order, as the amounts equivalent to the insurance reserves out of the amount of liability reserves pertaining to the relevant benefits contracts related to asset-building for wage earners or benefits contracts related to an asset-building fund for wage earners;
- (iii) a federation of agricultural cooperatives (meaning a federation of agricultural cooperatives that conducts a business set forth in Article 10, paragraph (1), item (x) (Mutual Aid Related Facilities) of the Agricultural Cooperatives Act (Act No. 132 of 1947)) engaged in services for mutual aid life insurance pertaining to welfare pension fund contracts, contracts for the management of assets in a defined benefit pension plan, contracts for the management of assets in a defined benefit pension fund, contracts for the management of assets in a defined contribution pension plan, benefits contracts related to asset-building for wage earners, or benefits contracts

related to an asset-building fund for wage earners (such services include services for mutual aid provided by deeming the occurrence of grounds to pay mutual aid monies pertaining to the services for mutual aid life insurance to be a mutual aid incident): The sum of the amounts listed as follows:

- (a) The sum of the amounts calculated, as specified by Cabinet Order, as the amounts that remain after deducting, from the amounts equivalent to the mutual aid premium reserves out of the amount funded as a liability reserves prescribed in Article 11-13 (Liability Reserves for Mutual Aid Activities) of the Agricultural Cooperatives Act (hereinafter referred to as the "amount of liability reserves" in this item) pertaining to the relevant welfare pension fund contracts, the amounts pertaining to the contracts that the welfare pension fund or federation of corporate pension funds related to the contracts are to retain for providing benefits, assuming that it is to provide benefits at the equivalent level as prescribed in Article 132, paragraph (3) of the Welfare Pension Insurance Act
  - (b) The sum of the amounts calculated, as specified by Cabinet Order, as the amounts that remain after deducting, from the amounts equivalent to the mutual aid premium reserves out of the amount of liability reserves pertaining to the relevant contracts for the management of assets in a defined benefit pension plan or contracts for the management of assets in a defined benefit pension fund, the portion of the premiums for the contracts that the beneficiaries of the mutual aid monies have borne and that pertains to the mutual aid premium reserves
  - (c) The sum of the amounts calculated, as specified by Cabinet Order, as the amounts equivalent to the mutual aid premium reserves out of the amount of liability reserves pertaining to the relevant contracts for the management of assets in a defined contribution pension plan
  - (d) The sum of the amounts calculated, as specified by Cabinet Order, as the amounts equivalent to the mutual aid premium reserves out of the amount of liability reserves pertaining to the relevant benefits contracts related to asset-building for wage earners or benefits contracts related to an asset-building fund for wage earners;
- (iv) a domestic corporation engaged in services for casualty insurance pertaining to contracts for the management of assets in a defined contribution pension plan, benefits contracts related to asset-building for wage earners, or benefits contracts related to asset-building funds for wage earners: The sum of the amounts listed as follows:
- (a) The sum of the amounts calculated, as specified by Cabinet Order, as the amounts equivalent to the refund reserves out of the amount of liability reserves pertaining to the relevant contracts for the management of assets in a defined contribution pension plan

- (b) The sum of the amounts calculated, as specified by Cabinet Order, as the amounts equivalent to the refund reserves out of the amount of liability reserves pertaining to the relevant benefits contracts related to asset-building for wage earners or benefits contracts related to an asset-building fund for wage earners;
- (v) a domestic corporation engaged in services for accepting deposits or savings pertaining to a welfare pension fund contracts, contracts for the management of assets in a defined benefit pension fund, or benefits contracts related to an asset-building fund for wage earners: The sum of the amounts listed as follows:
  - (a) The sum of the amounts calculated, as specified by Cabinet Order, as the amounts that remain after deducting, from the amount of deposits or savings pertaining to the relevant welfare pension fund contracts, the amounts pertaining to the contracts that the welfare pension fund or corporate pension association related to the contracts is to retain for providing benefits, assuming that it is to provide benefits at the equivalent level as prescribed in Article 132, paragraph (3) of the Welfare Pension Insurance Act
  - (b) The sum of the amounts calculated, as specified by Cabinet Order, as the amounts that remain after deducting, from the amounts of deposits or savings pertaining to the relevant contracts for the management of assets in a defined benefit pension fund, the portion of the premiums for the contracts that the subscribers or former subscribers of corporate pension funds pertaining to the contracts have borne and that pertains to the deposits or savings
  - (c) The sum of the amounts calculated, as specified by Cabinet Order, as the amounts of deposits or savings pertaining to the relevant benefits contracts related to an asset-building fund for wage earners;
- (vi) a domestic corporation engaged in services for accepting the consignment of purchasing securities pertaining to retaining benefits contracts related to an asset-building fund for wage earners and to retain purchased securities: The sum of the amounts calculated, as specified by Cabinet Order, as the value of the securities pertaining to the relevant benefits contracts related to an asset-building fund for wage earners;
- (vii) a domestic corporation engaged in services to operate pension benefit funds or defined-benefit pension funds by way of buying and selling of securities pertaining to welfare pension fund contracts or contracts for the management of assets in a defined benefit pension fund or by any other means and to accept the consignment of the management of pension benefit funds or defined-benefit pension funds pertaining to such operation: The sum of the amounts listed as follows:

- (a) The sum of the amounts calculated, as specified by Cabinet Order, as the amounts that remain after deducting, from the value of the securities and other assets pertaining to the relevant welfare pension fund contracts, the amounts pertaining to the contracts that the welfare pension fund or federation of corporate pension funds related to the contracts is to retain for providing benefits, assuming that it is to provide benefits at the equivalent level as prescribed in Article 132, paragraph (3) of the Welfare Pension Insurance Act
  - (b) The sum of the amounts calculated, as specified by Cabinet Order, as the amounts that remain after deducting, from the value of the securities and other assets pertaining to the relevant contracts for the management of assets in a defined benefit pension fund, the portion of the premiums for the contracts that subscribers or former subscribers of corporate pension funds pertaining to the contracts have borne and that pertains to the securities and other assets; or
  - (viii) a federation as prescribed in Article 2, paragraph (5) of the Defined-Contribution Pension Act that carries out a private pension plan as prescribed in paragraph (3) of the Article: The amount calculated, as specified by Cabinet Order, as the amount of the reserves prescribed in Article 61, paragraph (1), item (iii) (Entrustment of Affairs) of the Act.
- (3) A welfare pension fund contract as prescribed in the preceding two paragraphs means a contract concluded for the purpose of managing a pension benefit fund, pursuant to the provisions of Article 136-3, paragraph (1) (Management of Pension Benefit Funds) of the Welfare Pension Insurance Act, which pertains to its management by the means listed in Article 136-3, paragraph (1), item (i), item (ii), item (iv), or item (v) of the Act or a contract for trusts as prescribed in Article 130-2, paragraph (2) of the Act which is applied mutatis mutandis pursuant to Article 136-3, paragraph (2) of the Act; a contract for the management of assets in a defined benefit pension plan as prescribed in the preceding two paragraphs means a contract for trusts, life insurance, or mutual aid life insurance concluded pursuant to the provisions of Article 65, paragraph (1) (Contract Concerning Business Operators' Management and Management of Reserves) of the Act on Defined-Benefit Corporate Pensions; a contract for the management of assets in a defined benefit pension fund as prescribed in the preceding two paragraphs means a contract concluded pursuant to the provisions of Article 66, paragraph (1) (Contracts Concerning the Management of Fund Reserves) of the Act, concerning the management of defined-benefit pension funds by way of depositing trusts, life insurance, or mutual aid life insurance, or trusts as prescribed in paragraph (2) of the Article, or deposits or savings as prescribed in paragraph (4) of the Article, or the buying and selling of securities or by any

other means; a contract for the management of assets in a defined contribution pension plan as prescribed in the preceding two paragraphs means a contract for trusts, life insurance, mutual aid life insurance, or casualty insurance concluded pursuant to the provisions of Article 8, paragraph (1) (Conclusion of Assets Management Contracts) of the Act on Defined-Contribution Pensions; a benefits contract related to asset-building for wage earners as prescribed in the preceding two paragraphs means a contract for trusts, life insurance, mutual aid life insurance, or casualty insurance, as prescribed in Article 6-2, paragraph (1) (Benefits Contracts Related to Asset-Building for Wage Earners) of the Act on the Promotion of Asset-Building Among Wage Earners (Act No. 92 of 1971) (including a contract for mutual aid deeming the occurrence of grounds to pay mutual aid monies pertaining to the contract for mutual aid life insurance to be a mutual aid incident; hereinafter the same applies in this paragraph) or a contract for trusts concluded based on a contract concerning the delegation of the establishment of securities investment trusts prescribed in the paragraph; and a benefits contract related to an asset-building fund for wage earners as prescribed in the preceding two paragraphs means a contract for trusts, life insurance, mutual aid life insurance, or casualty insurance, prescribed in Article 6-3, paragraph (2) (Benefits Contracts Related to Asset-Building Funds for Wage Earners) of the Act, a contract for trusts concluded based on a contract concerning the delegation of the establishment of securities investment trusts prescribed in the paragraph, or a contract concerning the depositing of deposits or savings prescribed in paragraph (3) of the Article or concerning purchasing of securities.

- (4) The number of months set forth in paragraph (1) is calculated in accordance with the calendar and a division of less than one month is discarded.

(Special Provisions on Retirement Pension Services in a Succession)

Article 84-2 (1) In the case where a domestic corporation engaged in retirement pension services, etc. has transferred the whole or a part of its business concerning retirement pension services, etc. or has transferred the whole or a part of its business concerning retirement pension services, etc., as a result of a company split by spin-off, when the company split by spin-off or the transfer took place in the middle of the domestic corporation's business year, the amount of retirement pension funds prescribed in paragraph (1) of the preceding Article, for the domestic corporation's business year containing the date of the company split by spin-off or the transfer, is to be the sum of the amounts listed as follows, notwithstanding the provisions of the paragraph:

(i) the amount obtained by dividing the amount of the retirement pension funds prescribed in paragraph (2) of the preceding Article as of the beginning of the business year of the domestic corporation by 12 and then multiplying the

result by the number of months in the period from the first day of the business year to the day preceding the date of the company split by spin-off or the transfer; and

- (ii) the amount obtained by dividing the amount of the retirement pension funds prescribed in paragraph (2) of the preceding Article, calculated as of the time of the company split by spin-off or the transfer, that pertains to retirement pension services, etc. after the succession as a result of the company split by spin-off or the transfer by 12 and then multiplying the result by the number of months in the period from the date of the company split by spin-off or the transfer to the last day of the business year.
- (2) The number of months set forth in the preceding paragraph is calculated in accordance with the calendar and a division of less than one month is discarded.

(Special Provisions on Retirement Pension Services Succeeded To)

Article 85 (1) In the case where a domestic corporation engaged in retirement pension services, etc. has transferred the whole or a part of its business concerning retirement pension services, etc., or where it has transferred the whole or a part of its business concerning retirement pension services, etc., as a result of a merger or company split, when the merger, company split, or the transfer took place in the middle of the business year of the domestic corporation surviving the merger, in the middle of the business year of the domestic corporation that has succeeded to the business through the company split (excluding a corporation established through the company split), or in the middle of the business year of the domestic corporation that has received the transfer (hereinafter referred to as the "acquiring corporation, etc." in this paragraph), and when the acquiring corporation, etc. has succeeded to the whole or a part of the business concerning retirement pension services, etc., the amount of retirement pension funds prescribed in Article 84, paragraph (1) (Calculation of the Amount of Retirement Pension Funds), for the business year of the acquiring corporation, etc. that contains the date of the merger, company split, or the transfer, is to be the sum of the amounts listed as follows, notwithstanding the provisions of the paragraph:

- (i) the amount obtained by dividing the amount of the retirement pension funds prescribed in Article 84, paragraph (2) as of the beginning of the business year of the acquiring corporation, etc. by 12 and then multiplying the result by the number of months in the business year; and
- (ii) the amount obtained by dividing the amount of the retirement pension funds prescribed in Article 84, paragraph (2), calculated as of the time of the merger, company split, or the transfer, that pertains to retirement pension services, etc. that the acquiring corporation, etc. has succeeded to as a result

of the merger, company split, or the transfer by 12 and then multiplying the result by the number of months in the period from the date of the merger, company split, or the transfer to the last day of the business year.

- (2) The number of months set forth in the preceding paragraph is calculated in accordance with the calendar and a division of less than one month is discarded.

(Special Provisions on Abolished Retirement Pension Services)

Article 86 With regard to the application of the provisions of the preceding three Articles in the case where a domestic corporation engaged in retirement pension services, etc. has abolished its retirement pension services, etc. during a business year prescribed in these Articles, the term "the number of months of the business year" in Article 84, paragraph (1) (Calculation of the Amount of Retirement Pension Funds) is deemed to be replaced with "the number of months in the period from the first day of the business year to the date of the abolition of retirement pension services, etc."; the term "the number of months in the period from the date of the company split by spin-off or the transfer to the last day of the business year" in Article 84-2, paragraph (1), item (ii) (Special Provisions on Retirement Pension Services in a Succession) is deemed to be replaced with "the number of months in the period from the date of the company split by spin-off or the transfer to the date of the abolition of retirement pension services, etc."; the term "the number of months in the business year" in paragraph (1), item (i) of the preceding Article is deemed to be replaced with "the number of months in the period from the first day of the business year to the date of the abolition of retirement pension services, etc."; and the term "the number of months in the period from the date of the merger, company split, or the transfer to the last day of the business year" in item (ii) of the paragraph is deemed to be replaced with "the number of months in the period from the date of the merger, company split, or the transfer to the date of the abolition of retirement pension services, etc."

## **Section 2 Calculation of Tax Amount**

(Tax Rate for Corporation Tax on Retirement Pension Funds)

Article 87 The amount of corporation tax imposed on a domestic corporation for its retirement pension funds is to be the amount calculated by multiplying the amount of retirement pension funds for each business year by a tax rate of one percent.

## **Section 3 Filing of Returns and Payment**

(Interim Returns for Retirement Pension Funds)

Article 88 A domestic corporation engaged in retirement pension services, etc. must, when its business year exceeds six months, file a return containing the following matters with the district director of the tax office, within two months after the day on which six months have elapsed from the first day of the business year:

- (i) the amount of retirement pension funds calculated by deeming the period of six months after the first day of the business year as one business year, which is the tax base for the period;
- (ii) the amount of corporation tax calculated by applying the provisions of the preceding Article to the amount of retirement pension funds listed in the preceding item; and
- (iii) the basis of the calculation of the amount listed in the preceding two items and any other matters as specified by Ordinance of the Ministry of Finance.

(Final Returns for Retirement Pension Funds)

Article 89 A domestic corporation engaged in retirement pension services, etc. must file a return containing the following matters to the district director of the tax office, within two months after the day following the last day of each business year:

- (i) the amount of retirement pension funds which is the tax base for the business year;
- (ii) the amount of corporation tax calculated by applying the provisions of Article 87 (Tax Rate for Corporation Tax on Retirement Pension Funds) to the amount of retirement pension funds listed in the preceding item.
- (iii) in the case where the domestic corporation is a corporation that is to file a return under the preceding Article for the business year, the amount that remains after deducting, from the amount of corporation tax listed in the preceding item, the amount of corporation tax that the domestic corporation is to pay under the following Article (including the amount of corporation tax to be paid based on a return filed after the due date for the return or based on a determination made due to the failure to file such returns, and in the case where an amended return has been filed or a reassessment has been made for the amounts, the amount of corporation tax after the amended return was filed or the reassessment was made); and
- (iv) the basis of the calculation of the amount listed in the preceding three items and any other matters as specified by Ordinance of the Ministry of Finance.

(Payment by Interim Return for Retirement Pension Funds)

Article 90 When a domestic corporation, which has filed a return under Article

88 (Interim Return for Retirement Pension Funds), holds any amount listed in item (ii) of the Article that it entered in the return, it must pay corporation tax equivalent to the amount to the State.

(Payment by Final Return for Retirement Pension Funds)

Article 91 When a domestic corporation, which has filed a return under Article 89 (Final Return for Retirement Pension Funds), holds any amount listed in item (ii) of the Article that it entered in the return (in the case falling under the provisions of item (iii) of the Article, any amount listed in the item), it must pay corporation tax equivalent to the amount to the State.

### **Chapter III Corporation Tax on Liquidation Income and Special Provisions on Taxation in the Case of Continuation**

#### **Section 1 Corporation Tax on Liquidation Income in the Case of Dissolution**

##### **Subsection 1 Tax Base and Calculation Thereof**

(Calculation of the Amount of Liquidation Income as a Result of Dissolution)

Article 93 (1) The amount of liquidation income of a domestic ordinary corporation, etc. as a result of dissolution is to be the amount that remains after deducting, from the value of its residual property, the sum of the amount of stated capital, etc. (in the case where the domestic ordinary corporation, etc. has been dissolved on the last day of a consolidated business year (referred to as the "case of dissolution at the end of a consolidated business year" in the following paragraph), the amount of consolidated individual stated capital, etc.) as of the time of the dissolution and the amount of retained earnings, etc.

(2) The amount of retained earnings, etc. prescribed in the preceding paragraph means the sum of the amounts listed as follows:

- (i) the amount of retained earnings as of the time of dissolution (in the case of dissolution at the end of a consolidated business year, the amount of consolidated individual retained earnings, and when any amount specified by Cabinet Order arises due to the dissolution, including the amount);
- (ii) in the case where the domestic ordinary corporation has received any amount of dividends, etc. as prescribed in Article 23, paragraph (1) (Exclusion of Dividends Received, etc. from Gross Profits) (excluding any amount falling under the provisions of paragraph (3) of the Article) during the liquidation proceedings, the sum of the amounts listed as follows:
  - (a) The amount equivalent to 50 percent of the amount that remains after deducting, from the sum of the amounts of dividend, etc. pertaining to the shares, etc. that fall under neither of the shares, etc. of a consolidated corporation nor the shares, etc. of an affiliated corporation as prescribed in

Article 23, paragraph (1), the amount calculated, as specified by Cabinet Order, as the portion, which pertains to the shares, etc., of the amount of interest on liabilities (such interest includes what is specified by Cabinet Order as being equivalent thereto; hereinafter the same applies in this item) that the domestic ordinary corporation has paid during the liquidation proceedings

- (b) The amount that remains after deducting, from the sum of the amounts of dividend, etc. pertaining to the shares, etc. of an affiliated corporation prescribed in Article 23, paragraph (1), the amount calculated, as specified by Cabinet Order, as the portion, which pertains to the shares, etc. of an affiliated corporation, of the amount of interest on liabilities that the domestic ordinary corporation has paid during the liquidation proceedings
- (c) The amount of dividends, etc. pertaining to the shares, etc. of a consolidated corporation as prescribed in Article 23, paragraph (1); and
- (iii) the sum of the amount listed in Article 26, paragraph (1), items (ii) through (iv) (Exclusion of Refunds, etc. from Gross Profits) that has been refunded during the liquidation proceedings or has been appropriated for unpaid national tax or local tax; the portion, out of the amount of the foreign country's corporate tax prescribed in paragraph (2) of the Article that has been refunded during the liquidation proceedings, which is specified by Cabinet Order as the portion of the refunded amounts of the creditable amount of the foreign country's corporate tax and the individually creditable amount of the foreign country's corporate tax as prescribed in the paragraph; and the payable amount of penalty tax (excluding interest tax; hereinafter the same applies in this item) received during the liquidation proceedings, the reduction of the payable amount of penalty tax, and the amount excluded from deductible expenses prescribed in paragraph (5) of the Article, which have been refunded during the liquidation proceedings.

### **Subsection 2 Calculation of the Amount of Tax**

(Income Tax Credit for Corporation Tax on Liquidation Income in a Dissolution)

Article 100 In the case where a domestic ordinary corporation receives any interest, etc., dividends, etc., monies for payment, interest, profits, margin profits, distribution of profits, or monetary awards as prescribed in the items of Article 174 (Tax Base for a Domestic Corporation's Income Tax) of the Income Tax Act, the amount of income tax to be imposed thereon pursuant to the provisions of the Act is credited against the amount of corporation tax on the liquidation income of the domestic ordinary corporation, as specified by Cabinet Order.

### Subsection 3 Filing of Returns, Payment, and Refunds

(Return for Estimated Tax Due on Income during a Liquidation)

Article 102 A domestic ordinary corporation, etc. must file a return containing the following matters with the district director of the tax office, within two months after the day following the last day of each business year (excluding the business year containing the day on which its residual property is determined) while it is in liquidation (in the case where the last distribution or delivery of residual property is made within the period, up to the day preceding the day of the distribution or delivery):

- (i) the amount of income or loss calculated by deeming the income for the business year to be the income for each business year of a domestic ordinary corporation, etc. that has not been dissolved, which is to be used as the tax base for the business year;
- (ii) the amount of corporation tax calculated by deeming the income for the business year to be the income for each business year of a domestic ordinary corporation, etc. that has not been dissolved, and by applying the provisions of Chapter I, Section 2 (Calculation of Tax Amount) (excluding Article 67 (Special Tax Rate for Specified Family Companies) and Article 70 (Corporation Tax Credit Due to a Reassessment after Fictitious Accounting)) to the amount of income listed in the preceding item;
- (iii) in the case where a part of the residual property has been distributed or delivered within the business year, when there is any amount listed in paragraph (1), item (i) of the following Article that is to be entered in a return for estimated tax due on distribution of residual property pertaining to the distribution or delivery, the amount obtained by multiplying the amount (in the case where a part of the residual property has been distributed or delivered twice or more within the business year, the sum of the amounts pertaining to such distribution or delivery) by a rate of 30 percent (or 22 percent, with regard to cooperatives, etc.);
- (iv) the amount that remains after crediting the amount listed in the preceding item against the amount of corporation tax listed in item (ii);
- (v) in the case where there is any amount to be credited under Article 68 and Article 69 (Income Tax Credit) that remains even after a credit in the calculation of the amount of corporation tax listed in item (ii), the remaining amount (in the case where there is any amount listed in item (iii), the portion of the amount to be credited, which exceeds the amount that remains after crediting the amount listed in item (iii) against the amount of corporation tax listed in item (ii) calculated by deeming that the credit would not be made); and

- (vi) the basis of the calculation of the amount listed in the preceding items and any other matters as specified by Ordinance of the Ministry of Finance.

#### **Chapter IV Blue Returns**

(Blue Returns)

Article 121 (1) A domestic corporation may, when having obtained approval from the competent district director with jurisdiction over the place for tax payment, file a return listed as follows and an amended return related thereto via a blue return:

- (i) interim return;
- (ii) tax return; and
- (iii) return for estimated tax due for a liquidation accounting period.

(2) A domestic corporation that has obtained approval set forth in the preceding paragraph may also file a return listed as follows and an amended return related thereto via a blue return:

- (i) interim return for retirement pension funds;
- (ii) final return from for retirement pension funds;
- (iii) return for estimated tax due on the distribution of residual property; and
- (iv) tax return for liquidation.

(Application for Approval to File a Blue Return)

Article 122 (1) A domestic corporation (excluding a corporation subject to corporation tax on consolidated income as prescribed in Article 2, item (xvi) (Definitions)), which wishes to obtain approval set forth in paragraph (1) of the preceding Article for submitting the returns listed in the items of the paragraph in a blue return for each business year after the business year, must submit an application form stating the first day of the business year and any other matters as specified by Ordinance of the Ministry of Finance, to the competent district director with jurisdiction over the place for tax payment, by the day preceding the first day of the business year.

(2) In the case referred to in the preceding paragraph, when the business year falls under any of the business years listed in the following items, the due date for submitting an application form set forth in the paragraph is to be the day preceding the day specified in the relevant item, notwithstanding the provisions of the preceding paragraph:

- (i) the business year containing the day on which an ordinary corporation or cooperative, etc., which is a domestic corporation, was established: The earlier day of either the day on which three months have elapsed from the day or the last day of the business year;
- (ii) the business year containing the day on which a corporation in the public

- interest, etc. or an association or foundation without juridical personality, which is a domestic corporation, newly commenced a profit-making business: The earlier day of either the day on which three months have elapsed from the day or the last day of the business year;
- (iii) the business year containing the day on which an ordinary corporation or cooperative, etc. that used to be a corporation in the public interest, etc. (limited to a corporation that is not engaged in any profit-making business) came to fall under the category of an ordinary corporation or cooperative, etc.: The earlier day of either the day on which three months have elapsed from the day or the last day of the business year;
- (iv) in the case where the period from the following days to the last day of the business years prescribed in the preceding three items is less than three months: the day on which an ordinary corporation or cooperative, etc., which is a domestic corporation, was established; the day on which a corporation in the public interest, etc. or an association or foundation without juridical personality, which is a domestic corporation, newly commenced a profit-making business; or the day on which an ordinary corporation or cooperative, etc. that used to be a corporation in the public interest, etc. (limited to a corporation that is not engaged in any profit-making business) came to fall under the category of an ordinary corporation or cooperative, etc. (hereinafter referred to as the "date of establishment, etc." in this item); the business year following the business years prescribed in the preceding three items: The earlier day of either the day on which three months have elapsed from the date of establishment, etc. or the last day of the following business year.
- (v) in the case where a domestic corporation, which is a consolidated corporation, has effected a company split by split-off, with itself as an acquiring corporation (excluding the case where the company split by split-off was effected on the first day of the consolidated parent corporation's business year (meaning the consolidated parent corporation's business year prescribed in Article 15-2, paragraph (1) (Meaning of Consolidated Business Year)); the same applies in the following item and item (ix)), the business year containing the day preceding the date of the company split by split-off: The day on which two months have elapsed from the day following the last day of the business year;
- (vi) in the case where a domestic corporation has had the approval set forth in Article 4-2 (Consolidated Taxpayer) rescinded, pursuant to the provisions of Article 4-5, paragraph (2), item (iv) or item (v) (Rescission of Approval for Consolidated Taxation) (excluding the case where the approval was rescinded on the first day of the consolidated parent corporation's business year), the business year containing the day preceding the date of the rescission: The

day on which two months have elapsed from the day following the last day of the business year;

- (vii) in the case where a domestic corporation has had the approval set forth in Article 4-2 rescinded, pursuant to the provisions of the items of Article 4-5, paragraph (2), the business year containing the date of the rescission (hereinafter referred to as the "date of rescission" in this item and the following item): The earlier day of either the day on which three months have elapsed from the date of rescission or the day on which two months have elapsed from the day following the last day of the business year;
- (viii) in the case where the period from the first day of the business year listed in the preceding item of a domestic corporation set forth in the item to the last day thereof is less than three months, each business year after the business year (limited to a business year that starts by the day on which three months have elapsed from the date of rescission): The earlier day of either the day on which three months have elapsed from the date of rescission or the day on which two months have elapsed from the day following the last day of the business year; or
- (ix) the business year following the consolidated parent corporation's business year containing the day on which a domestic corporation, which has obtained approval set forth in Article 4-5, paragraph (3), obtained the approval: The earlier day of either the day on which three months have elapsed from the first day of the following business year and the last day of the following business year.

(Denial of Applications for Approval to File a Blue Return)

Article 123 In the case where an application form set forth in paragraph (1) of the preceding Article has been filed, the district director of the tax office may deny the application, when there is a fact falling under any of the following, with regard to the domestic corporation that has filed the application form:

- (i) books and documents pertaining to the business year prescribed in paragraph (1) of the preceding Article are not kept, recorded, or preserved as specified by Ordinance of the Ministry of Finance prescribed in Article 126, paragraph (1) (Books and Documents of Corporations Filing Blue Return);
- (ii) there are justifiable grounds for deeming that the books and documents that the domestic corporation 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 domestic corporation has submitted the application form within one year after the day on which it received a notice pursuant to the provisions of Article 127, paragraph (2) (Rescission of Approval to File a Blue Return) or it submitted a report prescribed in Article 128 (Cancellation of a

Blue Return); or

- (iv) in the case where the approval set forth in Article 4-2 (Consolidated Taxpayer) was rescinded pursuant to the provisions of Article 4-5, paragraph (1) (Rescission of Approval for Consolidated Taxation), the domestic corporation has submitted the application form within one year after the day on which the approval was rescinded.

(Notice of Approval for Filing a Blue Return)

Article 124 In the case where an application form set forth in Article 122, paragraph (1) (Application for Approval to File a Blue Return) has been submitted, the district director of the tax office, when giving their approval or denying the application, notifies the domestic corporation that made the application to that effect, in writing.

(Deemed Approval to File a Blue Return)

Article 125 In the case where an application form set forth in Article 122, paragraph (1) (Application for Approval to File a Blue Return) has been submitted, when neither the approval nor the denial of the application was decided on by the last day of the business year prescribed in the paragraph (with regard to a corporation that is to file an interim return for the business year, by the day on which six months have elapsed from the first day of the business year; with regard to a domestic corporation set forth in paragraph (2), item (v) or item (vi) of the Article, by the relevant day specified in these items; and with regard to a domestic corporation set forth in item (vii) or item (viii) of the paragraph, for which the days specified in these items fall after the last day of the business years listed in these items, by the day on which two months have elapsed from the day following the last day of the business year), it is deemed that the approval was given as of the day.

(Books and Documents of Corporations Filing Blue Returns)

Article 126 (1) A domestic corporation, which has obtained approval set forth in Article 121, paragraph (1) (Blue Returns), must keep books and documents, record transactions therein, and preserve the 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 they find it necessary, give the necessary instructions to a domestic corporation, which has obtained approval set forth in Article 121, paragraph (1), with regard to its books and documents prescribed in the preceding paragraph.

(Rescission of Approval to File a Blue Return)

Article 127 (1) In the case where there is any fact falling under the following items with regard to a domestic corporation which has obtained approval set forth in Article 121, paragraph (1) (Blue Returns), the competent district director with jurisdiction over the place for tax payment may rescind the approval retroactively to the business year specified in the relevant item. In this case, when the approval has been rescinded, the blue return related to the approval that the domestic corporation submitted on or after the first day of the business year (excluding a blue return for corporation tax which the domestic corporation had become obliged to pay prior to the day) is deemed to be a return other than a blue return:

- (i) the books and documents for the business year have not been kept, recorded, or preserved as specified by Ordinance of the Ministry of Finance prescribed in paragraph (1) of the preceding Article: the relevant business year;
  - (ii) the domestic corporation has failed to follow the instructions of the district director of the tax office given pursuant to the provisions of paragraph (2) of the preceding Article, with regard to the books and documents for the business year: the relevant business year;
  - (iii) there are justifiable grounds for deeming that the books and documents for the business year 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 business year;
  - (iv) the domestic corporation has failed to file a return under Article 74, paragraph (1) (Final Returns) or Article 102, paragraph (1) (Returns for Estimated Tax Due on Income during a Liquidation) by the due date: The business year pertaining to the return; or
  - (v) the approval set forth in Article 4-2 (Consolidated Taxpayers) was rescinded pursuant to the provisions of Article 4-5, paragraph (1) (Rescission of Approval for Consolidated Taxation): The business year containing the day preceding the day on which the approval was rescinded (in the case where the preceding day is the last day of the consolidated parent corporation's business year (meaning the consolidated parent corporation's business year prescribed in Article 15-2, paragraph (1) (Meaning of a Consolidated Business Year)), containing the day on which the approval was rescinded).
- (2) The district director of the tax office , when rescinding approval pursuant to the provisions of the preceding paragraph, notifies the domestic corporation set forth in the paragraph to that effect, in writing. In this case, the district director of the tax office must in addition, enter in the written notice, which of the items of the paragraph was the cause of the rescission.

(Cancellation of a Blue Return)

Article 128 A domestic corporation that has obtained approval set forth in

Article 121, paragraph (1) (Blue Return) must, when it wishes to stop filing a return as listed in the items of the paragraph via a blue return for each business year after the business year, submit a report stating the first day of the business year and any other matters as specified by Ordinance of the Ministry or Finance, to the competent district director with jurisdiction over the place for tax payment, within two months from the day following the last day of the business year. In this case, when the report has been submitted, the approval ceases to be effective with regard to each business year after the business year.

## **Chapter V Reassessment and Determination**

(Reassessment Related to a Blue Return)

- Article 130 (1) In the case where the district director of the tax office makes a reassessment with regard to the tax base of corporation tax, the net operating loss or consolidated operating loss pertaining to a blue return or consolidated tax return, etc. (meaning a consolidated interim return, consolidated tax return, or amended return related thereto; hereinafter the same applies in this Article) that a domestic corporation has filed, they examine the domestic corporation's books and documents (in the case of making a reassessment with regard to the tax base of corporation tax or the amount of consolidated operating loss pertaining to the consolidated tax return, etc., including the books and documents of the consolidated subsidiary corporations) and may make the reassessment only in the case where they find any errors in the calculation of the tax base of corporation tax, the net operating loss or consolidated operating loss pertaining to the blue return or consolidated tax return, etc., based on the results of the examination; provided, however, that in the case where the matters entered in the blue return or consolidated tax return, and the documents attached thereto clearly reveal that the calculation of the tax base or the net operating loss or consolidated operating loss are not in accordance with the provisions of this Act or there are any other errors in the calculation, the district director of the tax office is not precluded from making a reassessment without examining the books and documents.
- (2) In the case where the district director of the tax office makes a reassessment with regard to the tax base of corporation tax or the net operating loss or consolidated operating loss pertaining to a blue return or consolidated tax return, etc. that a domestic corporation has filed, they must additionally 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 131 In the case where the district director of the tax office makes a reassessment or determination with regard to corporation tax related to a domestic corporation, except for the case where they make a reassessment with regard to the tax base of corporation tax or the net operating loss pertaining to a blue return that a domestic corporation has filed, they may make a reassessment or determination by way of estimating the tax base of corporation tax (in the case of making a reassessment, estimating the tax base or the net operating loss or consolidated operating loss) related to the domestic corporation, in light of any increases and decreases in 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 of the domestic corporation (in the case of making a reassessment with regard to corporation tax on consolidated income for each consolidated business year, including such matters of consolidated subsidiary corporations).

(Rejection of Acts or Calculations by Family Companies)

Article 132 (1) In the case where the district director of the tax office makes a reassessment or determination with regard to corporation tax related to a corporation listed as follows, when it is found that any acts conducted or calculations made by the corporation would, if allowed, unreasonably reduce the burden of corporation tax, they may calculate the tax base of corporation tax related to the corporation, the net operating loss, or the amount of corporation tax, based on their own recognition, notwithstanding the acts or calculations:

- (i) a family company that is a domestic corporation; or
- (ii) a domestic corporation falling under all of (a) through (c) below:
  - (a) The domestic 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 the presiding official or any other individual who has a special relationship as specified by Cabinet Order with the presiding official (hereinafter referred to as the "director, etc." in this item) formerly conducted a business at the places of business as an individual
  - (c) The sum of the number or the amount of shares of or capital contributions to the domestic 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 domestic corporation's issued shares or capital contributions (excluding the shares that the

- corporation holds in itself and the capital contributions made thereby).
- (2) In the case referred to in the preceding paragraph, the determination as to whether a domestic corporation falls under the category of corporations listed in the items of the paragraph is to be based on the circumstances as of the time when the acts or calculation prescribed in the paragraph were actually conducted or made.
- (3) The provisions of paragraph (1) apply mutatis mutandis to the case where a reassessment or determination as prescribed in the paragraph is made and when the provisions of Article 157, paragraph (1) (Denial of Acts or Calculation by Family Companies) of the Income Tax Act, Article 64, paragraph (1) (Denial of Acts or Calculation by Family Companies) of the Inheritance Tax Act, or Article 32, paragraph (1) (Denial of Acts or Calculation by Family Companies) of the Land Value Tax Act were applied to the acts conducted or calculation made by a corporation listed in the items of paragraph (1).

(Rejection of Acts or Calculations Pertaining to Organizational Restructuring)  
Article 132-2 In the case where the district director of the tax office makes a reassessment or determination with regard to corporation tax related to a corporation listed as follows that was involved in a merger, company split, contribution in kind to the capital of the receiving corporation, post-formation contribution (meaning a post-formation contribution as prescribed in Article 2, item (xii)-6 (Definitions)), share exchange or share transfer (hereinafter referred to as a "merger, etc." in this Article), when it is found that any acts conducted or calculations made by the corporation would, if allowed, unreasonably reduce the burden of corporation tax, due to a decrease in the amount of profit or an increase in the net operating loss on the transfer of assets and liabilities transferred as a result of a merger, etc., an increase in the amount to be credited from corporation tax, a decrease in the amount of profit or an increase in the net operating loss on the transfer of shares (including capital contributions; the same applies in item (ii)) of a corporation listed in item (i) or item (ii), a decrease in the amount of deemed dividend (meaning the amount deemed to be the amount listed in Article 23, paragraph (1), item (i) (Exclusion of Dividends Received from Gross Profits) pursuant to the provisions of Article 24, paragraph (1) (The Amount Deemed to Be Dividends)), or due to other grounds, they may calculate the tax base of corporation tax related to the corporation, the net operating loss, or the amount of corporation tax, based on their own recognition, notwithstanding the acts or calculation:

(i) a corporation that has effected a merger, etc. or the corporation that was the counterparty thereto;

(ii) a corporation that has issued shares delivered as a result of a merger, etc.

(excluding a corporation listed in the preceding item); and  
(iii) a corporation that is a shareholder, etc. of a corporation listed in the preceding two items (excluding a corporation listed in the preceding two items).

(Refund of Income Tax Due to a Reassessment Related to a Final Return or a Consolidated Final Return)

Article 133 (1) In the case where a reassessment has been made with regard to corporation tax pertaining to a tax return or consolidated tax return that a domestic corporation has filed, when any amount listed in Article 74, paragraph (1), item (iii) (Insufficient Income Tax Credit) or Article 81-22, paragraph (1), item (iii) (Insufficient Income Tax Credit in a Consolidated Tax Return) has increased as a result of the reassessment, the district director of the tax office refunds tax equivalent to the amount of the increase to the domestic corporation.

(2) 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 is the basis of the calculation, is to be the period from the day following the due date for filing a tax return or consolidated tax return set forth in the preceding paragraph (in the case where such return is a return filed after the due date, from the following the day on which such return was filed) up to the day on which payment of the refund is decided or the day on which the refund is appropriated (in the case where appropriation has become possible before the date of appropriation, the day on which it becomes possible).

(3) In the case where a refund pursuant to the provisions of paragraph (1) is appropriated for the unpaid portion of the corporation tax on income for the business year pertaining to a tax return set forth in the paragraph or the corporation tax on consolidated income for the consolidated business year pertaining to a consolidated tax return set forth in the paragraph, interest on the refund is not added to the portion of the refund to be used for appropriation and any delinquent tax and interest tax are to be exempted with regard to the portion of the corporation tax that is to be appropriated.

(4) Beyond what is provided for in the preceding two paragraphs, methods for appropriation of a refund (including interest on a refund related thereto) pursuant to the provisions of paragraph (1), and other necessary matters concerning the application of the provisions of the paragraph are specified by Cabinet Order.

(Refund of Interim Payment Due to a Reassessment or Determination Related

to a Final Return or a Consolidated Final Return)

- Article 134 (1) With regard to an ordinary corporation which is a domestic corporation that has filed an interim return or consolidated interim return, in the case where a determination has been made with regard to corporation tax for the business year pertaining to the interim return or corporation tax for the consolidated business year pertaining to the consolidated interim return, when there is any amount listed in Article 74, paragraph (1), item (v) (Insufficient Credit for Interim Payment) or Article 81-22, paragraph (1), item (v) (Insufficient Credit for Interim Payment) related to the determination, the district director of the tax office refunds an interim payment equivalent to the amount to the ordinary corporation.
- (2) With regard to an ordinary corporation which is a domestic corporation that has filed an interim return or consolidated interim return, in the case where a reassessment has been made with regard to corporation tax for the business year pertaining to the interim return or corporation tax for the consolidated business year pertaining to the consolidated interim return, when any amount listed in Article 74, paragraph (1), item (v) or Article 81-22, paragraph (1), item (v) has increased as a result of the reassessment, the district director of the tax office refunds an interim payment equivalent to the amount of the increase to the ordinary corporation.
- (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 any delinquent tax has been paid with regard to the interim payment related to an interim return or consolidated interim return as prescribed in these provisions, they also refund the amount calculated, as specified by Cabinet order, as the portion of the delinquent tax that corresponds to the interim payment to be refunded under 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 is the basis of the calculation, is to be the period from the day following the day on which the interim payment to be refunded pursuant to the provisions of paragraph (1) or paragraph (2) was paid (in the case where the interim payment was paid prior to the due date for payment, from the day following the due date for payment) up to the day on which payment of the refund is decided or the day on which the refund is appropriated (in the case where appropriation has become possible before the date of appropriation, up to the day on which it becomes possible); provided, however, that, with regard to a refund listed in the following items, the number of days specified in the relevant item is not included in the period:
- (i) a refund under paragraph (1): The number of days from the day following

- the due date for filing a return under Article 74, paragraph (1) for the business year prescribed in paragraph (1) or a return under Article 81-22, paragraph (1) for the consolidated business year prescribed in paragraph (1), up to the day on which a determination set forth in paragraph (1) was made; and
- (ii) a refund under paragraph (2) (excluding a refund caused by a reassessment which does not fall under either of the following subitems): The number of days from the day following the due date for filing a return under Article 74, paragraph (1) for the business year prescribed in paragraph (2) or a return under Article 81-22, paragraph (1) for the consolidated business year prescribed in paragraph (2), up to the day specified in each of the following items for the category set forth in the relevant item:
- (a) In the case where a tax return or consolidated return pertaining to a reassessment set forth in paragraph (2) is a return filed after the due date: The day on which the 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.
- (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 corporation tax on income for the business year or the corporation tax on consolidated income for the consolidated business year related to the interim payment, which was used as the basis of the calculation of the amount of the refund, interest on the refund is not added to the portion of the refund to be used for appropriation and any delinquent tax and interest tax are exempted with regard to the portion of the corporation tax that is to be appropriated.
- (6) Interest on a refund is not added to a refund pursuant to the provisions of paragraph (3).
- (7) Beyond what is provided for in the preceding three paragraphs, methods for appropriation of a refund (including interest on a refund related thereto) pursuant to the provisions of paragraph (1) or paragraph (2), and other necessary matters concerning the application of the provisions of paragraphs (1) through (3) are specified by Cabinet Order.

### **Part III Corporation Taxes for Foreign Corporations**

#### **Chapter I Domestic Source Income**

(Domestic Source Income)

Article 138 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 through item (xi)) or any other income specified by Cabinet Order as arising from sources within Japan;
- (ii) consideration received by a corporation which conducts a business that has as its main content the provision of personal services in Japan and which is specified by a Cabinet Order, for the provision of the personal services;
  - (iii) consideration for the lending of real estate located in Japan, any right on real estate 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 estate, any right on real estate 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 as prescribed in Article 2, paragraph (1), item (iii) of the Income Tax Act (Definitions) or a domestic corporation;
  - (iv) interest, etc. prescribed in Article 23, paragraph (1) of the Income Tax Act (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 attributed to the business conducted by the foreign corporation in Japan, or any other interest specified by Cabinet Order
    - (c) Interest on deposits or savings prescribed in Article 2, paragraph (1), item (x) of the Income Tax Act which have been deposited with a business office, other office or any other equivalent thereto, located in Japan (hereinafter referred to as "business office" in this Article)
    - (d) Distribution of profits from a jointly operated trust trust, a bond investment trust or a publicly offered public and company bond investment trust (meaning a publicly offered public and company bond investment trust prescribed in Article 2, paragraph (1), item (xv)-3 of the Income Tax Act; hereinafter the same applies in (b) of the following item) which has been entrusted with a business office located in Japan;
  - (v) dividends, etc. prescribed in Article 24, paragraph (1) of the Income Tax Act (Dividend Income), which are listed in any of the following:
    - (a) Dividends of surplus, dividends of profit, distributions of surplus or interest on funds prescribed in Article 24, paragraph (1) of the Income Tax Act which are received from a domestic corporation
    - (b) Distributions of profit from an investment trust prescribed in Article 2, paragraph (1), item (xii)-2 of the Income Tax Act (excluding a public and company bond investment trust and a publicly offered public and company bond investment trust) or a specified trust that issues beneficiary

- certificates prescribed in Article 2, item (xxix), (c) (Definitions) 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 equivalents thereto), which pertains to the 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 the operations:
    - (a) Royalties for an industrial property right or any other right concerning technology, a production method involving special technology or any other equivalent thereto, or consideration for the transfer thereof
    - (b) Royalties for a copyright (including right of publication, neighboring right, and any other equivalent thereto), or consideration for the transfer thereof
    - (c) Royalties for machinery, equipment or any other tool specified by Cabinet Order;
  - (viii) monetary awards used to advertize a business conducted in Japan, which are specified by Cabinet Order;
  - (ix) pension received under a life insurance contract, casualty 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 the conclusion of contracts in Japan (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 the contract);
  - (x) any of the following monies for payment, interest, profit or margin profit:
    - (a) Monies for payments listed in Article 174, item (iii) of the Income Tax Act (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) Monies for payments listed in Article 174, item (iv) of the Income Tax Act, which pertain to installments prescribed in the item that have been accepted by a business office located in Japan
    - (c) Interest listed in Article 174, item (v) of the Income Tax Act, which pertains to a contract prescribed in the item that has been concluded via a business office located in Japan
    - (d) Profits listed in Article 174, item (vi) of the Income Tax Act, which pertain to a contract prescribed in the item that has been concluded via a business office located in Japan
    - (e) Margin profits listed in Article 174, item (vii) of the Income Tax Act, which pertain to deposits or savings that have been accepted by a business office located in Japan
    - (f) Margin profits listed in Article 174, item (viii) of the Income Tax Act,

which pertain to a contract prescribed in the 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; and

- (xi) 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 139 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 corporation that is subject to such convention, notwithstanding the Article, is governed by 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) through (xi) of the 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 is deemed to be the corresponding domestic source income listed in the relevant item.

(Details of Scope of Domestic Source Income)

Article 140 Beyond what is prescribed in the preceding two Articles, necessary matters concerning the scope of domestic source income are specified by Cabinet Order.

## **Chapter II Corporation Tax on Income for Each Business Year**

### **Section 1 Tax Base and Calculation Thereof**

(Tax Base for a Foreign Corporation's Corporation Tax on Income for Each Business Year)

Article 141 The tax base of corporation tax imposed on a foreign corporation for income for each business year is to be the amount of income categorized as domestic source income listed in each of the following items for the category of foreign corporation listed in the relevant item:

- (i) a foreign corporation that has, in Japan, branch offices, factories or any other fixed places for conducting a business which are specified by Cabinet Order: All domestic source income;
- (ii) a foreign corporation that 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 item) in Japan for more than one year (excluding a foreign corporation that falls under the preceding item): Any of the following domestic source income:

- (a) Domestic source income listed in Article 138, items (i) through (iii) (Domestic Source Income)
- (b) Domestic source income listed in Article 138, items (iv) through (xi), which is attributed to the business involving construction work, etc. that is conducted by the foreign corporation in Japan;
- (iii) a foreign corporation that has, in Japan, a person who is authorized to conclude a contract on its behalf or any other person equivalent to such an authorized person specified by Cabinet Order (hereinafter referred to as an "agent, etc." in this item) (excluding a foreign corporation that falls under item (i)): Any of the following domestic source income:
  - (a) Domestic source income listed in Article 138, items (i) through (iii)
  - (b) Domestic source income listed in Article 138, items (iv) through (xi), which is attributed to the business conducted by the foreign corporation in Japan via the agent, etc.; or
- (iv) a foreign corporation other than one listed in the preceding three items: Any of the following domestic source income:
  - (a) Domestic source income listed in Article 138, item (i) which has arisen from the utilization or holding of assets located in Japan or the transfer of real estate located in Japan, or any such income which is specified by Cabinet Order
  - (b) Domestic source income listed in Article 138, items (ii) and (iii).

(Calculation of the Amount of Income Categorized as Domestic Source Income)

Article 142 The amount of income of a foreign corporation categorized as domestic source income prescribed in the preceding Article is to be the amount calculated with respect to the income categorized as domestic source income, pursuant to the provisions of Cabinet Order and in accordance with the provisions of Part II, Chapter I, Section 1, Subsection 2 through Subsection 9 (Calculation of the Amount of Income for Each Business Year of Domestic Corporations) (excluding Article 46 (Inclusion in Deductible Expenses of the Amount of the Advanced Depreciation of Fixed Assets Acquired by Non-investment Partnerships Using Allotment Monies) and Article 60-2 (Inclusion in Deductible Expenses of Dividends on the Basis of the Volume of Business with Cooperatives Incurred by Cooperatives) as well as Subsection 5, Division 5 (Profits and Losses from the Valuation of Assets at Market Value upon Commencement of Consolidated Taxation) and Division 6 (Profits and Losses from Transactions between Consolidated Corporations in the Business Year Prior to Division), and Subsection 11 (Details of Calculation of the Amount of

Income for Each Business Year).

## **Section 2 Calculation of the Amount of Tax**

(Tax Rate for a Foreign Corporation's Corporation Tax on Income for Each Business Year)

Article 143 (1) The amount of corporation tax imposed on a foreign corporation for income for each business year is to be the amount calculated by multiplying the amount of income categorized as domestic source income prescribed in Article 141 (Tax Base for a Foreign Corporation's Corporation Tax) by a tax rate of 30 percent.

(2) In the case referred to in the preceding paragraph, with regard to the part of the amount that is eight million yen per annum or less out of the amount of income categorized as domestic source income prescribed in Article 141 of a foreign corporation whose amount of stated capital or amount of capital contributions is not more than 100 million yen at the end of each business year or which has no capital or investment at the end of each business year (excluding a foreign corporation specified by Cabinet Order as being equivalent to a mutual company prescribed in the Insurance Business Act) or of an association or foundation without juridical personality, the applicable tax rate is 22 percent, notwithstanding the provisions of the paragraph.

(3) With regard to the application of the preceding paragraph to a foreign corporation whose business year is less than one year, the phrase "amount that is eight million yen per annum" in the paragraph is deemed to be replaced with "amount that is calculated by dividing eight million yen by 12 and then multiplying the result by the number of months of the relevant business year."

(4) The number of months set forth in the preceding paragraph is calculated according to the calendar; a division of less than one month is counted as one month.

(5) The provisions of paragraph (2) do not apply to a trust corporation prescribed in Article 4-7 (Application of This Act to Trust Corporations).

(Income Tax Credit)

Article 144 The provisions of Article 68 (Income Tax Credit for Domestic Corporations) apply mutatis mutandis in the case where a foreign corporation receives, in each business year, payment of domestic source income listed in each item of Article 141 (Tax Base for a Foreign Corporation's Corporation Tax) for the category of foreign corporation listed in the relevant item, on which income tax is to be imposed pursuant to the provisions of the Income Tax Act (excluding dividends, etc. listed in Article 161, item (v) of the Act (Dividends Received from Domestic Corporations) and which is specified by

Cabinet Order). In this case, the phrase "amount of income tax" in Article 68, paragraph (1) is deemed to be replaced with "amount of income tax (in the case of income tax collected pursuant to the provisions of Article 212, paragraph (1) of the Income Tax Act (Withholding Obligation on the Income of Nonresidents or Foreign Corporations) with respect to the consideration listed in Article 161, item (ii) of the Act (Domestic Source Income), the amount equivalent to a salary, remuneration or pension listed in Article 161, item (viii) of the Act that is deemed, pursuant to the provisions of Article 215 of the Act (Special Provisions on Withholding at the Source on Earnings from the Provision of Personal Services by Nonresidents), to have been collected pursuant to the provisions of Article 212, paragraph (1) of the Act is deducted)"; the phrase "interest and dividends, etc." in Article 68, paragraph (2) is deemed to be replaced with "the relevant domestic source income."

### **Section 3 Filing of Returns, Payment and Refunds**

(Filing of Returns, Payment and Refunds)

Article 145 (1) The provisions of Part II, Chapter I, Section 3 (Filing of Returns, Payment and Refunds of Corporation Tax on Income for Each Business Year of Domestic Corporation) apply mutatis mutandis to the filing of a return, payment, and refund as well as 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 corporation tax on income for each business year of a foreign corporation.

(2) In the case referred to in the preceding paragraph, each term or phrase listed in the middle column of the table below that appears in the provisions listed in the left-hand column of the same table is deemed to be replaced with the corresponding term or phrase listed in the right-hand column of the same table.

Article 71, paragraph (1) (Interim Return)	Ordinary corporation (excluding those in liquidation)	Ordinary corporation
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<p>(the first business year after the establishment of an ordinary corporation which is a domestic corporation except where it is established through a qualified merger (excluding a merger in which all merged corporations are corporations in the public interest, etc. that are not engaged in any profit-making business; the same shall apply in the following paragraph and paragraph (3))</p>	<p>(the business year that includes the day on which an ordinary corporation that falls within the scope of foreign corporations listed in Article 141, items (i) to (iii) (Tax Base for a Foreign Corporation's Corporation Tax) came to fall under any of the categories of foreign corporations listed in these items, the business year that includes the day on which an ordinary corporation which falls under the category of a foreign corporation listed in Article 141, item (iv) has commenced, in Japan, a business prescribed in Article 138, item (ii) (Compensation for the Provision of Personal Services) (hereinafter referred to as the "provision of personal services") or the business year that includes the day on which such ordinary corporation has earned domestic source income listed in Article 141, item (iv) other than the consideration set forth in Article 138, item (ii)</p>
<p>Or where there is no such amount</p>	<p>Or where there is no such amount, or where, within said two-month period, an ordinary corporation which falls within the scope of a foreign corporations listed in Article 141, items (i) to (iii) ceases to fall under any of the categories of foreign corporations listed in those items due to the failure to give notice about its tax agent pursuant to the provisions of Article 117, paragraph (2) of the Act on General Rules for National Taxes (Tax Agent) (hereinafter referred to as a "tax agent notice") or an ordinary corporation which falls under the category of a foreign corporation listed in Article 141, item (iv) discontinues its provision of personal services in Japan</p>

<p>Article 72, paragraph (3) (Matters to Be Stated in an Interim Return Form in the Case of a Provisional Settlement of Accounts)</p>	<p>, Subsection 7, and Subsection 10</p>	<p>and Subsection 7</p>
	<p>(excluding...Article 58, paragraph (2) and (6) (Requirements for Carryover of Losses Arising from a Disaster in a Business Year When a Blue Return Form Has Not Been Filed)</p>	<p>(excluding ...Article 58, paragraph (2) and paragraph (6) (Requirements for Carryover of Losses Arising from a Disaster in a Business Year When a Blue Return Form Has Not Been Filed), Article 46 (Inclusion in Deductible Expenses of the Amount of the Depreciated Amount of Fixed Assets, etc. Acquired by a Non investment Partnerships with Allotment Monies) and Article 60-2 (Inclusion in Deductible Expenses of Dividends, etc. on the Basis of the Volume of Business with Cooperatives Incurred by Cooperatives, etc.)</p>

	<p>In Article 68, paragraph (3) and paragraph (4) (Income Tax Credit) and Article 69, paragraph (16) (Foreign Tax Credit), the term "final return form" shall be deemed to be replaced with "interim return form"; in Article 69, paragraph (17), the term "final return form" shall be deemed to be replaced with "interim return form"; in Article 69, paragraph (18), the term "final return form" shall be deemed to be replaced with "interim return form, final return form"</p>	<p>In Article 68, paragraph (3) and paragraph (4) (Income Tax Credit) as applied mutatis mutandis pursuant to Article 144 (Mutatis Mutandis Application to Foreign Corporations), the term "final return form" shall be deemed to be replaced with "interim return form"</p>
<p>Article 74, paragraph (1) (Final Return)</p>	<p>Domestic corporation (excluding an ordinary corporation which is a domestic corporation in liquidation and a cooperative, etc. in liquidation)</p>	<p>Foreign corporation</p>
	<p>Within two months from the day following the end of each business year</p>	<p>Within two months from the day following the end of each business year (in the case where a corporation which falls within the scope of a foreign corporations listed in Article 141, items (i) to (iii) (Tax Base for a Foreign Corporation's Corporation Tax) ceases to fall under any of the categories of foreign corporations listed in these items due to the failure to submit a tax agent notice or a corporation which falls under the category of a foreign corporation listed in Article 141, item (iv) discontinues its provision of personal services in Japan: by the day preceding the day on which two months have elapsed from the end of the business year, or by the day on which the corporation ceases to fall under any of the categories of a foreign corporation or discontinues the relevant business, whichever comes earlier)</p>

	The preceding Section	Part III, Chapter II, Section 2
	Article 68 and Article 69 (Income Tax Credit, etc.)	Article 68 (Income Tax Credit) as applied mutatis mutandis pursuant to Article 144 (Mutatis Mutandis Application to Foreign Corporations)
Article 75, paragraph (1) (Postponement of the Due Date of a Final Return) and Article 75-2, paragraph (1) (Special Provisions on the Postponement of a Due Date of a Final Return)	Return under the provisions of paragraph (1) of the preceding Article	Return pursuant to the provisions of paragraph (1) of the preceding Article (excluding returns to be filed in the case where a corporation which falls within the scope of a foreign corporations listed in Article 141, items (i) to (iii) (Tax Base for a Foreign Corporation's Corporation Tax) ceases to fall under any of the categories of foreign corporations listed in these items due to the failure to submit a tax agent notice or a corporation which falls under the category of foreign corporation listed in Article 141, item (iv) discontinues its provision of personal services in Japan)
Article 80, paragraph (1) (Refund by Carryback of Loss)	Articles 68 to 70-2 (Tax Credits)	Article 68 (Income Tax Credit) as applied mutatis mutandis pursuant to Article 144 (Mutatis Mutandis Application to Foreign Corporations)

### Chapter III Corporation Tax on Retirement Pension Funds

#### Section 1 Tax Base and Calculation Thereof

(Tax Base for a Foreign Corporation's Corporation Tax on Retirement Pension Funds)

Article 145-2 The tax base of corporation tax imposed on a foreign corporation with respect to a retirement pension fund is the amount of the retirement pension fund for each business year.

(Calculation of a Foreign Corporation's Amount of Retirement Pension Funds)

Article 145-3 The amount of a retirement pension fund for each business year

that is managed by a foreign corporation which performs retirement pension services, etc. prescribed in Article 84, paragraph (1) (Calculation of the Amount of Retirement Pension Funds) is to the amount calculated pursuant to the method of Cabinet Order and in accordance with the provisions of the Article to Article 86 (Calculation of the Amount of Retirement Pension Funds and Special Provisions Thereon).

## **Section 2 Calculation of Tax Amount**

(Tax Rate for a Foreign Corporation's Corporation Tax on Retirement Pension Funds)

Article 145-4 The amount of corporation tax imposed on a foreign corporation with respect to a retirement pension fund is the amount calculated by multiplying the amount of the retirement pension fund for each business year by a tax rate of one percent.

## **Section 3 Filing of Returns and Payment**

(Filing of Returns and Payment)

Article 145-5 The provisions of Part II, Chapter II, Section 3 (Returns for and Payment of a Domestic Corporation's Corporation Tax on Retirement Pension Funds) apply mutatis mutandis to the filing of returns and payment of corporation tax on retirement pension funds by a foreign corporation. In this case, the term "the preceding Article" in Article 88, item (ii) (Interim Returns on Retirement Pension Funds) is deemed to be replaced with "Article 145-4 (Tax Rate for a Foreign Corporation's Corporation Tax on Retirement Pension Funds)," and the phrase "Article 87 (Tax Rate for the Corporation Tax on Retirement Pension Funds)" in Article 89, item (ii) (Final Returns for Retirement Pension Funds) is deemed to be replaced with "Article 145-4 (Tax Rate for a Foreign Corporation's Corporation Tax on Retirement Pension Funds)."

## **Chapter IV Blue Returns**

(Blue Returns)

Article 146 (1) The provisions of Part II, Chapter IV (Blue Returns for Domestic Corporations) apply mutatis mutandis to the tax returns, interim returns, tax returns for retirement pension funds, and interim returns for retirement pension funds filed by a foreign corporation, as well as amended returns for any of such returns.

(2) In the case referred to in the preceding paragraph, each term or phrase listed

in the middle column of the table below that appears in the provisions listed in the left hand column of the same table is deemed to be replaced with the corresponding term or phrase listed in the right hand column of the same table.

<p>Article 122, paragraph (2), item (i) (Application for Approval to File a Blue Return)</p>	<p>Business year that includes the day on which an ordinary corporation or cooperative, etc., which is a domestic corporation, was established</p>	<p>Business year that includes the day on which an ordinary corporation that falls within the scope of foreign corporations listed in Article 141, items (i) to (iii) (Tax Base for a Foreign Corporation's Corporation Tax) came to fall under any of the categories of foreign corporations listed in these items, the business year that includes the day on which an ordinary corporation which falls under the category of a foreign corporation listed in Article 141, item (iv) commenced provision of personal services in Japan, or the business year that includes the day on which such ordinary corporation earned domestic source income listed in Article 141, item (iv) other than the consideration listed in Article 138, item (ii) (Compensation for the Provision of Personal Services)</p>
	<p>The relevant date</p>	<p>The day on which the corporation came to fall under the relevant category of foreign corporation, has commenced the relevant business or has earned the relevant income</p>
<p>Article 122, paragraph (2), item (ii)</p>	<p>The day on which a corporation in the public interest, etc. or association or foundation without juridical personality, which is a domestic corporation, has commenced a profit-making business</p>	<p>The day on which a corporation in the public interest, etc. or association or foundation without juridical personality, which is a domestic corporation, has earned domestic income listed in the items of Article 141 for the category of foreign corporation listed in the relevant item, which has arisen from a profit-making business</p>

Article 122, paragraph (2), item (iv)	the day on which an ordinary corporation or cooperative, etc., which is a domestic corporation, was established	the day on which an ordinary corporation that falls within the scope of a foreign corporations listed in Article 141, items (i) through (iii) came to fall under any of the categories of foreign corporations listed in these items, the day on which an ordinary corporation which falls under the category of a foreign corporation listed in Article 141, item (iv) has commenced provision of personal services in Japan, the day on which such ordinary corporation has earned domestic source income listed in Article 141, item (iv) other than the consideration listed in Article 138, item (ii), or
	the day on which a corporation in the public interest, etc. or association or foundation without juridical personality, which is a domestic corporation, newly commenced a profit-making business; or the day on which an ordinary corporation or cooperative, etc. that used to be a corporation in the public interest, etc. (limited to a corporation that is not engaged in any profit-making business) came to fall under the category of an ordinary corporation or cooperative, etc.	the day on which the corporation has earned domestic income listed in the items of Article 141 for the category of foreign corporation listed in the relevant item, which has arisen from a profit-making business
	date of establishment, etc.	day on which the corporation came to fall under the category of a foreign corporation that is to file a return form

## Chapter V Reassessment and Determination

(Reassessment and Determination)

Article 147 The provisions of Articles 130 through 132-2 (Reassessment and Determination for Domestic Corporations), Article 133 (Refund of Income Tax Due to a Reassessment Related to a Final Return or Consolidated Final Return) and Article 134 (Refund of Interim Payment Due to a Reassessment or Determination Related to a Final Return or Consolidated Final Return) apply mutatis mutandis to the reassessment of or determination on the corporation tax on a foreign corporation's income for each business year, and the corporation tax on a foreign corporation's retirement pension fund.

Appended Table 1 Table of Public service corporations (Re. Article 2)

Name	Governing law
Okinawa Development Finance Corporation	Okinawa Development Finance Corporation Act (Act No. 31 of 1972)
Japan Finance Corporation	Companies Act and Japan Finance Corporation Act (Act No. 57 of 2007)
Port authorities	Ports and Harbors Act
National university corporations	National University Corporation Act (Act No. 112 of 2003)
Health Insurance Claims Review & Reimbursement Services	Act on Health Insurance Claims Review & Reimbursement Services (Act No. 129 of 1948)
Flood Prevention Associations	Act on Flood Prevention Associations (Act No. 50 of 1908)
Federation of Flood Prevention Associations	
Corporate inter-university research institute	National University Corporation Act
Japan Finance Organization for Municipal Enterprises	Act on the Japan Finance Organization for Municipal Enterprises (Act No. 64 of 2007)
Regional governments	Regional Autonomy Act (Act No. 67 of 1947)
Regional public housing corporations	Act on Regional Public Housing Corporations Act (Act No. 124 of 1965)
Regional public road corporations	Act on Regional Public Road Public Corporations Act (Act No. 82 of 1970)
Regional incorporated administrative agencies	Act on Regional Incorporated Administrative Agencies Act (Act No. 118 of 2003)
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, or those equivalent thereto)	Act on General Rules for Incorporated Administrative Agencies (Act No. 103 of 1999) and individual acts as prescribed in Article 1, paragraph (1) (Purpose, etc.) of the 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	
Land readjustment associations	Land Readjustment Act (Act No. 119 of 1954)
Japan Sewage Works Agency	Japan Sewerage Works Agency Act (Act No. 41 of 1972)
Japan Legal Support Center (Houterasu)	Comprehensive Legal Support Act (Act No. 74 of 2004)
Japan Racing Association	Act on the Japan Racing Association Act (Act No. 205 of 1954)
Japan Broadcasting Corporation	Broadcasting Act (Act No. 132 of 1950)