

# **Order for Enforcement of the Corporation Tax Act (Limited to the provisions related to nonresidents and foreign corporations)**

(Cabinet Order No. 97 of March 31, 1965)

(Presentation, etc. of Documents for Refund of Income Tax, etc.)

Article 152 In the case where a district director intends to refund taxes pursuant to the provisions of Article 78(1) (Refund of Income Tax, etc.) of the Act, he/she can, when it is found to be necessary, request the domestic corporation that is to receive the refund to present or submit documents or books that prove the amount to be deducted pursuant to the provisions of Articles 68 and 69 (Tax Credit) of the Act.

(Provisions to be Excluded from Calculation of the Amount of Individual Gross Profits or Individual Deductible Expenses)

Article 155 The provisions specified by a Cabinet Order prescribed in Article 81-3(1) (Inclusion in Gross Profits or Deductible Expenses of the Amount of Individual Gross Profits or Individual Deductible Expenses) of the Act in the case of calculating the amount of individual gross profits prescribed in the said paragraph (hereinafter referred to as the "amount of individual gross profits" in this Chapter) shall be those of Article 26(2) (Exclusion from Gross Profits of Refund of Foreign Tax), Article 28 (Inclusion in Gross Profits of Foreign Tax of Foreign Subsidiary Companies to be Deducted from Corporation Tax) and Article 61-13 (Adjustment of Profits and Losses of Transactions between Consolidated Corporations in the Business Year, etc. Prior to Company Split, etc.) of the Act, and the provisions specified by a Cabinet Order prescribed in Article 81-3(1) of the Act in the case of calculating the amount of individual deductible expenses prescribed in the said paragraph (hereinafter referred to as the "amount of individual deductible expenses" in this Chapter) shall be those of Article 40 (Exclusion from Deductible Expenses of Income Tax to be Deducted from Corporation Tax), Article 41 (Exclusion from Deductible Expenses of Foreign Tax to be Deducted from Corporation Tax), Articles 57 through 58 (Carryover, etc. of Loss in the Business Year when Blue Return Form Has Been Filed) and Article 61-13 of the Act.

(Income from Business Conducted in Japan)

Article 176 (1) In the case of a corporation that conducts a business consisting of

operations both in and outside Japan, the income listed in each of the following items for the case listed in the relevant item shall be treated as the corporation's income from a business conducted in Japan prescribed in Article 138(i) (Domestic Source Income) of the Act:

- (i) Where the corporation transfers, in Japan, inventory assets (limited to movables; hereinafter the same shall apply in this Article) that were transferred to it outside Japan, without conducting any act of manufacturing, processing or breeding or any other act aimed at adding value to such inventory assets (hereinafter referred to as an "act of manufacturing, etc." in this Article) outside Japan (including the case where the corporation conducts an act of manufacturing, etc. with regard to the said inventory assets in Japan, and then transfers inventory assets acquired through such an act of manufacturing, etc.): All income arising from the transfer conducted in Japan;
- (ii) Where the corporation conducts an act of manufacturing, etc. (including extraction; hereinafter the same shall apply in this item) outside or in Japan, and then transfers, in or outside Japan, respectively, inventory assets acquired through the said act of manufacturing, etc. (including the case where the corporation additionally conducts another act of manufacturing, etc. in or outside Japan, respectively, with regard to the said inventory assets, and then transfers inventory assets thus acquired): Part of the whole income arising from the said transfer which, if the operations performed by the corporation in the course of conducting the said transfer or act of manufacturing, etc. were divided into those performed in Japan (hereinafter referred to as "domestic operations" in this Article) and those performed outside Japan (hereinafter referred to as "overseas<sup>3</sup> operations" in this Article) and the overseas operations were performed by a person other than the corporation and the said assets were transferred from such other person to the corporation under ordinary trade terms, and vice versa, should have arisen from such domestic operations;
- (iii) Where the corporation, outside Japan, concludes a contract for, or procures personnel or materials necessary for, construction, installation, assembly or any other work, and carries out the work in Japan: All income arising from the work;
- (iv) Where the corporation conducts a transportation business consisting of operations both in and outside Japan by using vessels or aircrafts: Part of the whole income arising from the said business which should be determined as that arising from the corporation's domestic operations based on the revenue arising in relation to passengers or cargos taken on board in Japan in the case of the transportation business by vessel, or on the revenue arising or expenses incurred in relation to the domestic operations, the value of the

- fixed assets used for the domestic operations, or any other factor by which the degree of contribution of the domestic operations to the generation of the income of the transportation business can be sufficiently estimated in the case of the transportation business by aircraft;
- (v) Where the corporation conducts a casualty insurance or life insurance business consisting of operations both in and outside Japan: Part of the whole income arising from the said business which should arise from insurance contracts concluded via a business office for the said business located in Japan or via a person who acts as an agent for conclusion of insurance contracts in Japan;
  - (vi) Where the corporation engages in a publishing or broadcasting business, and provides advertising services consisting of operations both in and outside Japan for another person: Part of the whole income arising from the said advertising services which arises from the revenue of the advertising conducted in Japan;
  - (vii) Where the corporation conducts any business (including an act conducted as a part of a business) that consists of operations both in and outside Japan and falls under none of the categories listed in the preceding items: Part of the whole income arising from the said business which should have arisen from the domestic operations if the operations performed in the course of conducting the said business were divided into domestic operations and overseas operations, and these operations were performed by different independent business operators, and transactions were then made between these operators under ordinary trade terms, and vice versa, or which should be determined as that arising from the domestic operations based on the revenue arising from or expenses incurred in relation to the domestic operations, the value of the fixed assets used for the domestic operations, or any other factor by which the degree of contribution of the domestic operations to the generation of the income of the said business can be sufficiently estimated.
- (2) Where a corporation transfers, outside Japan, inventory assets that were transferred to it in Japan, without conducting any act of manufacturing, etc. with regard to such inventory assets in Japan, income from such transfer shall not be included in the corporation's income from a business conducted in Japan prescribed in Article 138(i) of the Act.
  - (3) Where a corporation prescribed in paragraph (1) conducts any of the following acts, the provision of the said paragraph shall be applied by deeming that no income arises from that act:
    - (i) Advertisement, provision of information, market research, basic research or any other act which is conducted by the corporation outside or in Japan and which plays an auxiliary function for the implementation of the business

- conducted by the corporation in or outside Japan, respectively;
- (ii) Act of using money, industrial property rights or any other assets which belong to the business conducted by the corporation in or outside Japan, for the business conducted by the corporation outside or in Japan, respectively.
- (4) Where any of the following facts exist with regard to inventory assets prescribed in paragraph (1)(i) or (ii) or paragraph (2), these provisions shall be applied by deeming that the transfer of the said assets has been conducted in Japan:
- (i) Immediately prior to the delivery to the transferee, the inventory assets to be delivered were located in Japan or managed through the business conducted in Japan by the corporation that is the transferrer (meaning a business conducted by the corporation in Japan at any fixed places for conducting a business as prescribed in Article 141(i) (Foreign Corporations Having Permanent Establishments in Japan) of the Act or a business prescribed in item (ii) or item (iii) of the said Article);
  - (ii) A contract on the transfer has been concluded in Japan;
  - (iii) An essential part of the receipt of an order, negotiation or any other act for concluding the contract on the transfer has been performed in Japan.
- (5) Income arising from a money loan, investment or any other act equivalent thereto conducted vis-à-vis a person who is outside Japan by a corporation prescribed in paragraph (1) via a place prescribed in Article 141(i) of the Act that the corporation holds in Japan, if it is attributable to the business conducted at the said place, shall be treated, notwithstanding the provision of paragraph (1), as the said corporation's income from a business conducted in Japan as prescribed in Article 138(i) of the Act; provided, however, that this shall not apply where the corporation has attached, to its final return form, a document proving the fact that, in the foreign state where the said act has been conducted (excluding the state where the corporation's head office or principal office is located), foreign corporation tax prescribed in Article 141(1) (Scope of Foreign Corporation Tax) has been imposed or is to be imposed on any income from the said act.
- (6) Even where a corporation has filed a final return form without the document set forth in the proviso of the preceding paragraph attached thereto, the district director may, when he/she finds any unavoidable reason for the corporation's failure to attach such a document, apply the provision of the proviso of the said paragraph, only after the said document has been submitted.
- (7) Where a corporation prescribed in paragraph (1) (limited to a foreign corporation listed in Article 141(i) through (iii) of the Act) has conducted any of the acts listed in the items of Article 188(2) (Calculation of the Amount of Foreign Corporation's Income Categorized as Domestic Source Income) with regard to the parent corporation's shares managed in a domestic business, as

defined in Article 188(7), held by the corporation, such act shall not be included in the scope of acts listed in paragraph (3)(ii).

(Income of Assets Located in Japan)

Article 177 (1) Income arising from the utilization or holding of the following assets shall be treated as income arising from the utilization or holding of assets located in Japan prescribed in Article 138(i) (Domestic Source Income) of the Act:

- (i) Japanese national government bonds, Japanese local government bonds, bonds issued by a domestic corporation or promissory notes listed in Article 2(1)(xv) (Definitions) of the Financial Instruments and Exchange Act, all of which fall under the category of government or company bonds prescribed in Article 2(1)(ix) (Definitions) of the Income Tax Act (referred to as "government or company bonds" in item (iii) of the next paragraph);
  - (ii) Claims pertaining to loans to residents prescribed in Article 2(1)(iii) of the Income Tax Act (hereinafter referred to as "residents" in this Chapter) which are other than those pertaining to operations performed by the said residents;
  - (iii) The right to receive the payment of insurance or distribution of surpluses (including those equivalent thereto) based on a life insurance contract or any other similar contract concluded via a business office, office or others equivalent thereto (referred to as a "business office" in the next paragraph) or a person who acts as an agent for the conclusion of contracts in Japan.
- (2) Income arising from the transfer of the following assets shall be treated as income arising from the transfer of assets located in Japan prescribed in Article 138(i) of the Act:
- (i) Rights established by a license, permission or other similar dispositions based on Japanese laws and regulations;
  - (ii) The securities prescribed in Article 2(1) of the Financial Instruments and Exchange Act or the rights listed in item (i), (ii), or (iv) of Article 11 (Scope of Those Equivalent to Securities) (excluding rights listed in the next item) which are listed as follows:
    - (a) What are transferred in a financial instruments exchange market prescribed in Article 2(17) of the Financial Instruments and Exchange Act;
    - (b) What are transferred via a business office located in Japan;
    - (c) The securities or rights for which certificates, instruments, or documents proving the said rights had been located in Japan immediately prior to the time when the transfer became obligatory based on a contract or other terms;
  - (iii) The following government or company bonds or equities:
    - (a) National government bonds registered pursuant to the provisions of the

- Act on National Government Bonds (Act No. 134 of 1906);
- (b) Government or company bonds entered or recorded in the transfer account book prescribed in the Act on Book-Entry Transfer of Company Bonds, etc.;
  - (c) Japanese local government bonds or company bonds registered pursuant to the provisions of the Bond, etc. Registry Act (Act No. 11 of 1942);
  - (d) Equities listed in Article 11(iii) which pertain to domestic corporations;
  - (iv) Shares, etc. prescribed in Article 187(1)(iii) (Taxable Income of Foreign Corporations Having No Permanent Establishments) whose transfer yields the income falling under (a) or (b) of the said item;
  - (v) Shares, etc. prescribed in Article 187(1)(iv) whose transfer yields the income falling under the said item;
  - (vi) Where owning the shares or capital contributions of a corporation pertaining to the ownership or management of a golf course located in Japan is required so that the owner becomes a person entitled to use the golf course continuously under advantageous terms compared to other ordinary users, the said shares or capital contributions;
  - (vii) The right concerning deposits or savings prescribed in Article 2(1)(x) of the Income Tax Act, installment savings, or installments prescribed in Article 2(4) (Definitions, etc.) of the Bank Act which have been received by a business office located in Japan, or the right concerning jointly managed money trusts prescribed in Article 2(1)(xi) of the Income Tax Act (excluding loan trusts prescribed in item (xii) of the said paragraph) which have been entrusted to a business office located in Japan;
  - (viii) The claims pertaining to loans prescribed in Article 138(vi) of the Act or item (ii) of the preceding paragraph;
  - (ix) The right to receive a pension prescribed in Article 138(ix) of the Act or the right listed in item (iii) of the preceding paragraph;
  - (x) The claims pertaining to a contract prescribed in Article 138(x)(c) of the Act;
  - (xi) The right to receive the distribution of profit prescribed in Article 138(xi) of the Act;
  - (xii) The business right pertaining to a business conducted in Japan;
  - (xiii) The right concerning the utilization of golf courses or any other facilities located in Japan;
  - (xiv) In addition to assets listed in the preceding items, assets that had been located in Japan immediately prior to the time when the transfer of the assets became obligatory based on a contract or other terms (excluding movables that are inventory assets).

(Income Whose Source is Located in Japan)

Article 178 The income specified by a Cabinet Order prescribed in Article 138(i) (Domestic Source Income) of the Act shall be the income listed as follows (excluding those falling under items (ii) through (xi) of the said Article):

- (i) Income pertaining to insurance, compensation, or damages (including those similar thereto) that is to be received with regard to operations performed in Japan or assets located in Japan;
- (ii) Income arising from receiving a gift of assets located in Japan;
- (iii) Income pertaining to things hidden in the ground that were discovered in Japan or lost property that was found in Japan;
- (iv) Income pertaining to money and goods or any other economic benefit that is received as a prize based on a prize competition held in Japan;
- (v) In addition to what is listed in the preceding items, income pertaining to economic benefit that is given with regard to operations performed in Japan or assets located in Japan.

(Scope of Business that is Mainly Intended to Provide Personal Services)

Article 179 The business specified by a Cabinet Order prescribed in Article 138(ii) (Domestic Source Income) of the Act shall be the business listed as follows:

- (i) A business that is mainly intended to provide the services of motion picture or theatre artistes, musicians and any other entertainer or professional athletes;
- (ii) A business that is mainly intended to provide the services of attorneys, certified public accountants, architects or any other professional services;
- (iii) A business that is mainly intended to provide services carried out by persons who have expert knowledge or specialist skills in science and technology, business management or any other fields by utilizing the said knowledge or skills (excluding a business conducted in association with the principal operations of a person who engages in sales and other businesses concerning machinery and equipment, and a business that is mainly intended to provide services for directing and supervising construction, installation, assembly or any other work as prescribed in Article 141(ii) (Tax Base of Corporation Tax in the Case of Foreign Corporations) of the Act).

(Interest on Loans Pertaining to Domestic Operations)

Article 180 (1) The interest specified by a Cabinet Order prescribed in Article 138(vi) (Domestic Source Income) of the Act shall be the interest on the following claims for which the period between the day of their occurrence and the day on which the obligation shall be performed (for claims for which such period is scheduled to be extended substantially by the renewal of the period or in any other ways (hereinafter referred to as the "renewal, etc. of the period" in

this paragraph), the said extended period; hereinafter referred to as the "performance period" in this paragraph) does not exceed six months (including claims during the original performance period before the renewal, etc. of the period in the case where the performance period of the claims, whose original performance period at the time of coming into effect did not exceed six months, has come to exceed six months by the renewal, etc. of the period):

- (i) Claims pertaining to a consideration for the transfer of assets or provision of services for a person who performs operations in Japan;
  - (ii) Claims which a financial institution holds against a person who performs operations in Japan with regard to the settlement of the consideration prescribed in the preceding item.
- (2) The interest prescribed in the preceding paragraph shall not be included in the income arising from the utilization or holding of assets located in Japan under Article 138(i) of the Act but shall be included in the income arising from a business conducted in Japan under the said item.
- (3) With regard to the application of the provisions of Article 138(vi) of the Act, loans provided for a domestic corporation or a resident for the purpose of purchasing a vessel or aircraft to be used for the operations by the said domestic corporation or the said resident shall be treated as loans falling under the provisions of the said item, and loans provided for a foreign corporation or a nonresident prescribed in Article 2(1)(v) (Definitions) of the Income Tax Act (hereinafter referred to as a "nonresident" in this Chapter) for the purpose of purchasing a vessel or an aircraft to be used for the operations by the said foreign corporation or the said nonresident shall be treated as loans other than those falling under the provisions of Article 138(vi) of the Act.

(Royalty, etc. Pertaining to Domestic Operations)

Article 181 (1) The tools specified by a Cabinet Order prescribed in Article 138(vii)(c) (Domestic Source Income) of the Act shall be vehicles, carriers, industrial tools, apparatus and equipment.

- (2) With regard to the application of the provisions of Article 138(vii) of the Act, royalty for the assets prescribed in (b) or (c) of the said item which are used in a vessel or aircraft used for the business of a domestic corporation or a resident shall be treated as royalty falling under the provisions of the said item, and royalty for the said assets which are used in a vessel or aircraft used for the business of a foreign corporation or a nonresident shall be treated as royalty other than that falling under the provisions of the said item.

(Prize Money for the Advertisement of a Business)

Article 182 The prize money specified by a Cabinet Order prescribed in Article 138(viii) (Domestic Source Income) of the Act shall be money and goods or any

other economic benefit that is paid as a prize for the advertisement of a business conducted in Japan.

(Scope of Contracts for Pensions)

Article 183 The contracts specified by a Cabinet Order prescribed in Article 138(ix) (Domestic Source Income) of the Act shall be a life insurance contract, a casualty insurance contract or a contract for mutual aid similar thereto which specify the payment of pensions.

(Scope of a Contract Equivalent to a Silent Partnership Contract)

Article 184 The contract specified by a Cabinet Order prescribed in Article 138(xi) (Domestic Source Income) of the Act shall be a contract in which one party promises to make a capital contribution to the business of the counter party and the counter party promises to allocate profit arising from the said business.

(Branch Offices or Any Other Fixed Places for Conducting a Business Held by a Foreign Corporation)

Article 185 (1) The places specified by a Cabinet Order prescribed in Article 141(i) (Tax Base of Corporation Tax in the Case of Foreign Corporations) of the Act shall be the places listed as follows:

- (i) Branch offices, local offices or any other places of business or offices, factories, or warehouses (limited to those used by warehousemen for their businesses);
- (ii) Mines, quarries, or any other places where natural resources are extracted;
- (iii) Any other fixed places for conducting a business equivalent to the places listed in the preceding two items.

(2) The following places shall not be included in the places referred to in the preceding paragraph:

- (i) Any fixed places used by a foreign corporation only for the purpose of operations to purchase assets;
- (ii) Any fixed places used by a foreign corporation only for the purpose of retaining its assets;
- (iii) Any fixed places used by a foreign corporation only for the purpose of carrying out advertising, provision of information, market research, basic research or any other act which plays an auxiliary function for the implementation of its business.

(An Agent, etc. Kept by a Foreign Corporation)

Article 186 The person specified by a Cabinet Order prescribed in Article 141(iii) (Tax Base of Corporation Tax in the Case of Foreign Corporations) shall be a person listed as follows:

- (i) A person who is authorized to conclude, on behalf of a foreign corporation, a contract regarding its business (excluding a contract which enables the foreign corporation to purchase assets; hereinafter the same shall apply in this Article) and regularly exercises such authority (excluding a person who conducts the same or a similar business as that of the foreign corporation and performs operations for concluding the said contract on behalf of the foreign corporation from an indispensable necessity based on the nature of its business);
- (ii) A person who retains, on behalf of a foreign corporation, a certain amount of assets for responding to ordinary requests from customers and delivers the said assets to customers at their request;
- (iii) A person who regularly performs, on behalf of, either solely or mainly, a single foreign corporation (including major shareholders, etc. of the foreign corporation or other persons who have special relationships with the foreign corporation) an essential part of the receipt of an order, negotiation or any other act for concluding contracts for its business.

(Taxable Income of Foreign Corporations Having No Permanent Establishments)

Article 187 (1) The domestic source income specified by a Cabinet Order prescribed in Article 141(iv) (Tax Base of Corporation Tax in the Case of Foreign Corporations) of the Act shall be the income listed as follows:

- (i) Income arising from the transfer of a right on real estate located in Japan, a mining right pursuant to the provisions of the Mining Act, or a right of quarrying pursuant to the provisions of the Quarrying Act;
- (ii) Income arising from the cutting or transfer of ownership of forests located in Japan;
- (iii) The following income arising from the transfer of shares issued by a domestic corporation (including the right to be a shareholder, the right to receive an allotment of shares, and the right to receive a share option and an allotment of share option) or any other equities of a contributory to a domestic corporation (excluding equities of a contributory to a special former specific purpose company prescribed in Article 230(1) (Transitional Measures upon Partial Revision of the Act for Partial Revision of the Act on Securitization of Specific Assets by Specific Purpose Companies) of the Act on the Development of Related Acts Associated with the Enforcement of the Companies Act; hereinafter such shares or any other equities shall be

- referred to as "shares, etc." in this paragraph and paragraph (4)):
- (a) Income arising from collecting the same issues of shares, etc. of a domestic corporation and transferring the said shares, etc., by using his/her position as the owner thereof, to the domestic corporation or its specially-related persons or under an agreement made by the domestic corporation or its specially-related persons or a person commissioned by them;
  - (b) Income arising from the transfer of shares, etc. of a domestic corporation by a foreign corporation which is a specially-related shareholder, etc. of the domestic corporation;
  - (iv) Income arising from the transfer of shares (including capital contributions; the same shall apply in paragraphs (8) and (10)) of a real estate-related corporation;
  - (v) Income arising from the transfer of shares, capital contributions, or rights listed in Article 177(2)(vi) or (xiii) (Income Arising from the Transfer of Assets Located in Japan);
  - (vi) Income prescribed in Article 178 (Income Whose Source is Located in Japan).
- (2) The collection of shares, etc. prescribed in item (iii)(a) of the preceding paragraph shall be a collection in the case where a financial instruments exchange (meaning a financial instruments exchange prescribed in Article 2(16) (Definitions) of the Financial Instruments and Exchange Act; the same shall apply in paragraph (9)) or the approved financial instruments firms association prescribed in paragraph (13) of the said Article has requested a member thereof (including a trading participant prescribed in paragraph (19) of the said Article) to submit a report or materials with regard to the details of his/her buying and selling as there has been or is suspected to have been a collection of a considerable number of shares that may cause fluctuations in the value of specified issues of shares or other abnormal movements in trading status, or another collection similar thereto.
- (3) The specially-related persons prescribed in paragraph (1)(iii)(a) shall be an officer or a major shareholder, etc. of a domestic corporation (including a person who will become a major shareholder, etc. of the domestic corporation by obtaining shares, etc. prescribed in (a) of the said item from a person who has collected the said shares, etc.) referred to in (a) of the said item, a relative of such persons, a corporation managed by such persons, a major business client of the domestic corporation or any other person who has equivalent special relationships with the domestic corporation.
- (4) The specially-related shareholder, etc. prescribed in paragraph (1)(iii)(b) shall be a person listed as follows:
- (i) A single shareholder, etc. of the domestic corporation referred to in

- paragraph (1)(iii)(b);
- (ii) A person who has special relationships prescribed in Article 4 (Scope of Persons or Corporations Connected with Basic Shareholders) or other equivalent relationships with the said single shareholder, etc.;
  - (iii) A person who will fall under the category of a shareholder, etc. with regard to the shares, etc. of a domestic corporation referred to in paragraph (1)(iii)(b) which belong to partnership property pertaining to a partnership contract (including the following partnership contracts) concluded by the said single shareholder, etc. (excluding persons listed in the preceding two items):
    - (a) A partnership contract concluded by a partnership (including those similar thereto; hereinafter the same shall apply in this paragraph) under a partnership contract concluded by the said single shareholder, etc.;
    - (b) A partnership contract concluded by a partnership under a partnership contract listed in (a) or (c);
    - (c) A partnership contract concluded by a partnership under a partnership contract listed in (b).
- (5) The partnership contract prescribed in the preceding paragraph and paragraph (10) shall be a contract listed as follows, and the partnership property prescribed in these provisions shall be what is prescribed in the following items in accordance with the contract categories listed in the said respective items:
- (i) A partnership contract prescribed in Article 667(1) (Partnership Contracts) of the Civil Code: Partnership property prescribed in Article 668 (Joint Ownership in Partnership Property) of the said Act;
  - (ii) An investment limited partnership contract prescribed in Article 3(1) (Investment Limited Partnership Contracts) of the Act on Investment Limited Partnership Contracts: Partnership property prescribed in Article 668 of the Civil Code which is applied mutatis mutandis pursuant to Article 16 (Mutatis Mutandis Application of the Civil Code) of the Act on Investment Limited Partnership Contracts;
  - (iii) A limited liability business partnership contract prescribed in Article 3(1) (Limited Liability Business Partnership Contracts) of the Act on Limited Liability Business Partnership Contracts: Partnership property prescribed in Article 668 of the Civil Code which is applied mutatis mutandis pursuant to Article 56 (Mutatis Mutandis Application of the Civil Code) of the Act on Limited Liability Business Partnership Contracts;
  - (iv) A contract similar to contracts listed in the preceding three items in foreign states (hereinafter referred to a "partnership contract in foreign states" in this item): Property similar to the partnership property prescribed in the preceding three items pertaining to the said partnership contract in foreign states.

- (6) The transfer of shares, etc. prescribed in paragraph (1)(iii)(b) shall be limited to the transfer of shares or capital contributions prescribed in item (ii) in the business year containing the date of the said transfer by the foreign corporation referred to in item (iii)(b) of the said paragraph (hereinafter referred to as the "business year containing the date of transfer" in this paragraph and paragraph (9)) in the case satisfying the following requirements:
- (i) At any time within three years prior to the final day of the business year containing the date of transfer, a specially-related shareholder, etc. of the domestic corporation referred to in paragraph (1)(iii)(b) owned the domestic corporation's issued shares or capital contributions (referred to as "issued shares, etc." in the next item and next paragraph) which are equivalent to 25 percent or more of the total number or total amount of the domestic corporation's issued shares or capital contributions (in the case where the said specially-related shareholder, etc. is a person listed in paragraph (4)(iii), such issued shares or capital contributions shall be limited to those that belong to partnership property; the same shall apply in the next item and next paragraph);
  - (ii) In the business year containing the date of transfer, a specially-related shareholder, etc. of the domestic corporation referred to in paragraph (1)(iii)(b), including the foreign corporation referred to in (b) of the said item, transferred shares or capital contributions which are equivalent to five percent (in the case where the said business year is less than one year, the rate calculated by dividing by 12 the figure obtained by multiplying five percent by the number of months of the said business year) or more of the total number or total amount of the domestic corporation's issued shares, etc. immediately prior to the first transfer of the domestic corporation's shares or capital contributions.
- (7) In the case falling under any of the following items, the provisions of the preceding paragraph shall be applied by deeming that a specially-related shareholder, etc. of the domestic corporation referred to in paragraph (1)(iii)(b) including the foreign corporation referred to in (b) of the said item has transferred shares or capital contributions prescribed in item (ii) of the preceding paragraph that satisfy the requirements listed in the said item:
- (i) Where the foreign corporation referred to in paragraph (1)(iii)(b) has received the delivery of shares or any other assets of a succeeding corporation in a company split through a split-off-type company split conducted by the domestic corporation referred to in (b) of the said item which had issued shares or capital contributions that the foreign corporation owns, when the rate obtained by multiplying the rate pertaining to the said split-off-type company split prescribed in Article 119-8(1) (The Amount of

Transfer Value and Transfer Cost in the Case of a Split-Off-Type Company Split) by the rate of the number or amount of the domestic corporation's shares or capital contributions which the specially-related shareholder, etc. of the domestic corporation including the foreign corporation had owned immediately prior to the said split-off-type company split among the total number or total amount of the domestic corporation's issued shares, etc. immediately prior to the said split-off-type company split is five percent or more;

- (ii) Where the foreign corporation referred to in paragraph (1)(iii)(b) has received the delivery of money or any other assets as the return of the capital prescribed in Article 24(1)(iii) (The Amount Deemed to be the Amount of Distributions, etc.) of the Act or the distribution of part of the residual assets through dissolution (hereinafter referred to as the "return, etc." in this item) of the domestic corporation referred to in paragraph (1)(iii)(b) which had issued shares or capital contributions that the foreign corporation owns, when the rate obtained by multiplying the rate pertaining to the said return, etc. prescribed in Article 119-9(1) (The Amount of Transfer Cost of Shares in the Case of the Return, etc. of the Capital) by the rate of the number or amount of the domestic corporation's shares or capital contributions which the specially-related shareholder, etc. of the domestic corporation including the foreign corporation had owned immediately prior to the said return, etc. among the total number or total amount of the domestic corporation's issued shares, etc. immediately prior to the said return, etc. is five percent or more.
- (8) The real estate-related corporation prescribed in paragraph (1)(iv) shall be a corporation for which the rate of the sum of the values of the following assets accounts for 50 percent or more of the total amount of its gross assets:
  - (i) Land, etc. located in Japan (meaning land or the right on land, buildings and facilities attached thereto, or structures; hereinafter the same shall apply in this paragraph);
  - (ii) Shares of a corporation for which the rate of the sum of the values of land, etc. located in Japan accounts for 50 percent or more of the total amount of its gross assets;
  - (iii) Shares (excluding those falling under shares listed in the preceding item) of a corporation which owns shares listed in the preceding item or the next item (limited to a corporation for which the rate of the sum of the values of land, etc. located in Japan and shares listed in the preceding item, this item, and the next item among the total amount of its gross assets is 50 percent or more);
  - (iv) Shares (excluding those falling under shares listed in the preceding two items) of a corporation which owns shares listed in the preceding item (limited to a corporation for which the rate of the sum of the values of land,

- etc. located in Japan and shares listed in the preceding two items and this item among the total amount of its gross assets is 50 percent or more).
- (9) The transfer of shares prescribed in paragraph (1)(iv) shall be limited to the transfer of shares or capital contributions listed as follows:
- (i) The transfer of shares or capital contributions in the case where a specially-related shareholder, etc. of the real estate-related corporation referred to in paragraph (1)(iv) pertaining to the shares or capital contributions (limited to those listed in a financial instruments exchange or others specified by an Ordinance of the Ministry of Finance as being similar thereto; referred to as "listed shares, etc." in the next item) had owned, on the previous day of the first day of the business year containing the date of transfer, the number or amount of shares or capital contributions accounting for five percent or more of the total number or total amount of the said real estate-related corporation's issued shares or capital contributions (excluding own shares or capital contributions that the said real estate-related corporation owns; referred to as "issued shares, etc." in the next item) and the person who transferred the shares or capital contributions is the said specially-related shareholder, etc.;
  - (ii) The transfer of shares or capital contributions in the case where a specially-related shareholder, etc. of the real estate-related corporation referred to in paragraph (1)(iv) pertaining to the shares or capital contributions (excluding listed shares, etc.) had owned, on the previous day of the first day of the business year containing the date of transfer, the number or amount of shares or capital contributions accounting for two percent or more of the total number or total amount of the said real estate-related corporation's issued shares, etc. (in the case where the said specially-related shareholder, etc. is a person listed in item (iii) of the next paragraph, limited to those that belong to partnership property referred to in the said item) and the person who transferred the shares or contributions is the said specially-related shareholder, etc.
- (10) The specially-related shareholder, etc. prescribed in the preceding paragraph shall be a person listed as follows:
- (i) A single shareholder, etc. of the real estate-related corporation referred to in paragraph (1)(iv);
  - (ii) A person who has special relationships prescribed in Article 4 or other equivalent relationships with the said single shareholder, etc.;
  - (iii) A person (excluding those listed in the preceding two items) who will fall under the category of a shareholder, etc. with regard to shares of the real estate-related corporation referred to in paragraph (1)(iv) which belong to partnership property pertaining to a partnership contract (including those listed as follows) concluded by the said single shareholder, etc.:

- (a) A partnership contract concluded by a partnership (including those similar thereto; hereinafter the same shall apply in this paragraph) under a partnership contract concluded by the said single shareholder, etc.;
  - (b) A partnership contract concluded by a partnership under a partnership contract listed in (a) or (c);
  - (c) A partnership contract concluded by a partnership under a partnership contract listed in (b).
- (11) The number of months referred to in paragraph (6) shall be calculated based on the calendar and broken numbers less than one month shall be deemed to be one month.

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

Article 188 (1) When calculating a foreign corporation's amount of income categorized as domestic source income prescribed in Article 142 (Calculation of the Amount of Income Categorized as Domestic Source Income) of the Act pursuant to the provisions of the Act listed in the following items under the provisions of the said Article, the provisions of the said respective items shall be applicable:

- (i) Article 22 (Calculation of the Amount of Income for Each Business Year) of the Act: The selling expenses, general administrative expenses, and any other expenses for the said business year prescribed in paragraph (3)(ii) of the said Article shall be limited to part of the foreign corporation's such expenses for the said business year which are allocated to its operations in Japan based on the foreign corporation's amount of revenue, or expenses pertaining to domestic source income prescribed in Article 138 (Domestic Source Income) of the Act, value of fixed assets, or any other rational standards, and the loss for the said business year prescribed in item (iii) of the said paragraph shall be limited to the loss incurred with regard to the foreign corporation's operations in Japan or assets located in Japan;
- (ii) Article 23 (Exclusion from Gross Profits of Dividends Received, etc.) of the Act: The interest on debts prescribed in paragraph (4) of the said Article shall be limited to the interest on the said debts pertaining to the business that the foreign corporation conducts in Japan;
- (iii) Article 29 (Calculation of the Cost, etc. of Sales of Inventory Assets and Method of Valuation Thereof) of the Act: The inventory assets prescribed in paragraph (1) of the said Article shall be limited to the foreign corporation's inventory assets located in Japan;
- (iv) Article 31 (Calculation of the Depreciation Allowance of Depreciable Assets and Method of Depreciation Thereof) of the Act: The depreciable assets prescribed in paragraph (1) of the said Article shall be limited to the foreign

- corporation's depreciable assets located in Japan;
- (v) Article 32 (Calculation of the Depreciation Allowance of Deferred Assets and Method of Depreciation Thereof) of the Act: The deferred assets prescribed in paragraph (1) of the said Article shall be limited to the foreign corporation's deferred assets attributable to the business that the foreign corporation conducts in Japan or those pertaining to the foreign corporation's assets located in Japan;
  - (vi) Article 33 (Exclusion from Deductible Expenses of Valuation Loss of Assets) of the Act: The assets prescribed in paragraph (2) of the said Article shall be limited to the foreign corporation's said assets located in Japan;
  - (vii) Article 34 (Exclusion from Deductible Expenses of Officers' Compensation) of the Act: The employees prescribed in paragraph (1) of the said Article shall be limited to the foreign corporation's employees who work full-time in Japan for the business that the foreign corporation conducts in Japan;
  - (viii) Article 37 (Exclusion from Deductible Expenses of Contribution) of the Act: The amount of stated capital, etc. prescribed in paragraph (1) of the said Article shall be the amount calculated by multiplying the amount of the foreign corporation's stated capital, etc. by the rate of the value of all of the foreign corporation's assets located in Japan (in the case of a foreign corporation which conducts a business in Japan, including its assets located outside Japan that pertain to the said business conducted in Japan) of the value of all of the foreign corporation's assets in the world, and the amount of income prescribed in the said paragraph shall be the amount of income categorized as domestic source income prescribed in Article 142 of the Act;
  - (ix) Article 38 (Exclusion from Deductible Expenses of Corporation Tax, etc.) of the Act: The corporation tax prescribed in paragraph (1) of the said Article and the tax listed in each item of paragraph (2) of the said Article (hereinafter referred to as "corporation tax, etc." in this item) shall include those equivalent to corporation tax, etc. imposed by a foreign government or a local public entity of that state;
  - (x) Article 40 (Exclusion from Deductible Expenses of the Income Tax to be Deducted from the Corporation Tax) of the Act: The amount equivalent to the amount to be deducted or refunded as prescribed in the said Article shall include the amount to be deducted or refunded in the case of receiving the application of the provisions of Article 68(1) (Credit for Income Tax) of the Act which is applied mutatis mutandis pursuant to Article 144 (Mutatis Mutandis Application to Foreign Corporations) of the Act, or the provisions of Article 78(1) (Refund of Income Tax, etc.) of the Act or Article 133(1) (Refund of Income Tax, etc. by Reassessment Pertaining to Final Return or Consolidated Final Return) of the Act which are applied mutatis mutandis pursuant to Article 145 (Mutatis Mutandis Application to Foreign

- Corporations) of the Act or Article 147 (Mutatis Mutandis Application to Foreign Corporations) of the Act, and the amount equivalent to the income tax which is imposed, pursuant to the provisions of Article 178 (Tax Base of Income Tax in the Case of Foreign Corporations) and Article 179 (Tax Rate for Income Tax in the Case of Foreign Corporations) of the Income Tax Act, with regard to dividends, etc. prescribed in Article 190 (Dividends, etc. Without Credit for Income Tax) among domestic source income listed in Article 141(i) (Tax Base of Corporation Tax in the Case of Foreign Corporations) of the Act of the foreign corporation listed in the said item;
- (xi) Article 47 (Inclusion in Deductible Expenses of the Amount of Advanced Depreciation of Fixed Assets, etc. Acquired by Using Insurance, etc.) of the Act: The substituted assets prescribed in paragraphs (1) and (2) of the said Article (in the case where improvements have been made to damaged fixed assets owned as prescribed in paragraph 1 of the said Article, the said fixed assets shall be included) shall be limited to the substituted assets that have been located in Japan at the time of acquisition, improvements or delivery prescribed in these provisions;
- (xii) Article 50 (Inclusion in Deductible Expenses of the Amount of Advanced Depreciation of Assets Acquired by Exchange) of the Act: The assets acquired and assets transferred prescribed in paragraph (1) of the said Article shall be limited to the fixed assets that have been located in Japan at the time of exchange prescribed in the said paragraph;
- (xiii) Article 52 (Reserve for Bad Debts) of the Act: The monetary claim prescribed in paragraphs (1) and (2) of the said Article shall be limited to a monetary claim pertaining to a business which a foreign corporation conducts in Japan, and each business year prescribed in these paragraphs shall not include a business year containing a day on which a corporation falling under any of the foreign corporations listed in items (i) through (iii) of Article 141 of the Act came to fall under the category of a foreign corporation listed in item (iv) of the said Article or a corporation falling under a foreign corporation listed in the said item abolished a business prescribed in Article 138(ii) of the Act which had been conducted in Japan (hereinafter referred to as a "business year abolishing domestic business" in this paragraph);
- (xiv) Article 53 (Reserve for Loss on Goods Unsold) of the Act: The sales of inventory assets pertaining to the business prescribed in paragraph (1) of the said Article shall be limited to the sales of the inventory assets pertaining to the relevant business prescribed in the said paragraph which a foreign corporation conducts in Japan (excluding inventory assets pertaining to long-term installment sales, etc. prescribed in Article 63(6) (Long-term Installment Sales, etc.) of the Act, for which the provisions of the main clause of paragraph (1) or the main clause of paragraph (2) of the said Article

- have been applied regarding the amount of profits and expenses thereof) and each business year prescribed in Article 53(1) of the Act shall not include the foreign corporation's business year abolishing domestic business;
- (xv) Article 55 (Exclusion from Deductible Expenses of Costs, etc. Pertaining to Wrongdoing, etc.) of the Act: The amount listed in the items of paragraph (3) of the said Article shall include the amount equivalent to the amount listed in the said respective items which is imposed by a foreign government or a local public entity of that state;
- (xvi) Article 60 (Inclusion in Deductible Expenses of Insurance Company's Dividends on Policyholders) of the Act: The insurance contract prescribed in paragraph (1) of the said Article shall be limited to the insurance contract concluded via a foreign corporation's business office located in Japan or a person who acts as an agent for the conclusion of contracts.
- (xvii) Article 61-2(2), (4) and (9) (Inclusion in Gross Profits or Deductible Expenses of Capital Gains or Losses of Securities) of the Act: Where a corporation which issued old shares prescribed in these provisions is a domestic corporation, shares (including capital contributions; hereinafter the same shall apply in this Article) of a corporation which has relationships specified by a Cabinet Order prescribed in these provisions shall not include shares of a foreign corporation (excluding the parent corporation's shares managed in a domestic business which have been issued for a foreign corporation listed in items (i) through (iii) of Article 141 of the Act);
- (xviii) Article 62-4 (Transfer of Assets, etc. by Way of Qualified Capital Contribution in Kind Based on Book Value): The qualified capital contribution in kind prescribed in paragraph (1) the said Article (hereinafter referred to as a "qualified capital contribution in kind" in this paragraph and paragraph (8)) shall be limited to a qualified capital contribution in kind in which a foreign corporation listed in Article 141(i) of the Act (hereinafter referred to as a "capital contributing foreign corporation" in this item and the next item) transfers assets or liabilities to a domestic corporation, and where the value of the transferred assets and liabilities at the time of the said qualified capital contribution in kind exceeds the book value of the said transferred assets and liabilities immediately prior to the qualified capital contribution in kind as prescribed in Article 62-4(1) of the Act, the qualified capital contribution in kind shall be limited to that satisfying the following requirements:
- (a) The said capital contributing foreign corporation continues to satisfy the requirements for continuing a business (meaning to fall under the category of foreign corporation listed in Article 141(i) of the Act; hereinafter the same shall apply in this paragraph and paragraph (8)) during the period between the day of the qualified capital contribution in kind and the final

- day of the business year containing the said day of qualified capital contribution in kind (referred to as a "business year making a qualified capital contribution in kind" in (b)) and also will continue to satisfy the requirements for continuing a business thereafter;
- (b) The said capital contributing foreign corporation continues to satisfy the requirements for managing shares (meaning that the representative person in Japan of the said capital contributing foreign corporation manages shares acquired by way of the said qualified capital contribution in kind as assets pertaining to its business conducted in Japan; hereinafter the same shall apply in this item) during the period between the said day of qualified capital contribution in kind and the final day of the business year making the qualified capital contribution in kind and also will continue to satisfy the requirements for managing shares thereafter;
- (xix) Article 62-5 (Transfer of Assets, etc. by Way of Qualified Post-Formation Acquisition of Assets and/or Liabilities Based on Market Value and Inclusion in Gross Profits or Deductible Expenses of Book Value Adjustment Gains or Losses of Shares) of the Act: The qualified post-formation acquisition of assets and/or liabilities prescribed in paragraph (1) of the said Article (hereinafter referred to as the "qualified post-formation acquisition of assets and/or liabilities" in this item) shall be limited to the qualified post-formation acquisition of assets and/or liabilities in which a capital contributing foreign corporation transfers assets or liabilities to a domestic corporation, and where there are book value adjustment losses prescribed in the said paragraph (referred to as "book value adjustment losses" in paragraph (8)), the qualified post-formation acquisition of assets and/or liabilities shall be limited to that satisfying the following requirements:
- (a) The said capital contributing foreign corporation continues to satisfy the requirements for continuing a business during the period between the day of the qualified post-formation acquisition of assets and/or liabilities and the final day of the business year containing the said day of qualified post-formation acquisition of assets and/or liabilities (referred to as a "business year implementing the qualified post-formation acquisition of assets and/or liabilities" in (b)) and also will continue to satisfy the requirements for continuing a business thereafter;
- (b) The said capital contributing foreign corporation continues to satisfy the requirements for managing shares (meaning that the representative person in Japan of the said capital contributing foreign corporation manages shares acquired by way of the said qualified post-formation acquisition of assets and/or liabilities as assets pertaining to its business conducted in Japan; hereinafter the same shall apply in this item) during the period between the said day of qualified post-formation acquisition of assets

- and/or liabilities and the final day of the business year implementing the qualified post-formation acquisition of assets and/or liabilities and also will continue to satisfy the requirements for managing shares thereafter;
- (xx) Article 63 of the Act: The long-term installment sales prescribed in paragraph (1) of the said Article shall be limited to long-term installment sales pertaining to a business which a foreign corporation conducts in Japan, and each business year in and after the business year containing the day of delivery or provision of objects or services pertaining to the sales, etc. of its assets prescribed in the said paragraph and each business year in and after the business year containing the day of lease transfer shall not include the foreign corporation's business year abolishing a domestic business.
- (xxi) Article 64-2 (Calculation of the Amount of Income of the Act pertaining to Lease Transactions) of the Act: The lease transactions prescribed in paragraph (1) of the said Article shall be limited to lease transactions pertaining to a business which a foreign corporation conducts in Japan or a foreign corporation's assets located in Japan.
- (2) Where a foreign corporation listed in items (i) through (iii) of Article 141 of the Act has conducted any of the following acts with regard to the whole or part of the parent corporation's shares managed in a domestic business that it owns, the amount of the foreign corporation's income categorized as domestic source income prescribed in Article 142 of the Act shall be calculated by deeming that the parent corporation's shares managed in a domestic business pertaining to such acts were transferred at the time when such acts were conducted based on the value at that time. In this case, with regard to the application of the provisions of Article 61-2(1) of the Act, in accordance with which the calculations shall be made, the amount listed in item (i) of the said paragraph shall be the value of the parent corporation's shares managed in a domestic business pertaining to such acts at the time when such acts were conducted:
- (i) The foreign corporation ceases to manage them as assets pertaining to a business conducted in Japan;
  - (ii) The foreign corporation transfers them to its head office, office, place of business or any other place equivalent thereto located outside Japan;
  - (iii) The foreign corporation ceases to manage them at any other permanent establishments (meaning any fixed places for conducting a business as prescribed in Article 141(i) of the Act, construction work, etc. prescribed in item (ii) of the said Article which is carried out for more than one year, or agent, etc. prescribed in item (iii) of the said Article; the same shall apply in the next paragraph) located in Japan.
- (3) Where a foreign corporation listed in items (i) through (iii) of Article 141 of the Act does not manage the whole or part of the parent corporation's shares

managed in a domestic business as assets pertaining to a business conducted in Japan or at any permanent establishments located in Japan, when receiving the issuance thereof, the foreign corporation shall be deemed to have managed the part that it does not actually manage among the said parent corporation's shares managed in a domestic business, as assets pertaining to a business conducted in Japan or at a permanent establishment located in Japan, at the time of the issuance and immediately thereafter have conducted acts listed in the items of the preceding paragraph.

- (4) Where the same issues of shares which a foreign corporation listed in items (i) through (iii) of Article 141 of the Act owns contain both the parent corporation's shares managed in a domestic business and other shares, when acts listed in the items of paragraph (2) have been conducted, the provisions of the said paragraph shall be applied by deeming that the said acts were first conducted with regard to the said parent corporation's shares managed in a domestic business among the same issues of shares pertaining to the said acts.
- (5) Where a foreign corporation listed in items (i) through (iii) of Article 141 of the Act received the issuance of the parent corporation's shares managed in a domestic business, the foreign corporation shall submit documents stating brands and the number of the parent corporation's shares managed in a domestic business that it owns at the end of the business year containing the day of receiving the issuance and any other matters specified by an Ordinance of the Ministry of Finance to the district director of the tax office governing its place for tax payment, within two months from the following day of the final day of the business year containing the day of receiving the issuance.
- (6) Where there has been any increase or decrease in the number of the parent corporation's shares managed in a domestic business (in the case of capital contributions, the amount of capital contributions; hereinafter the same shall apply in this paragraph) that a foreign corporation listed in items (i) through (iii) of Article 141 of the Act owns in each business year after the business year containing the day of receiving the issuance of the parent corporation's shares managed in a domestic business, the foreign corporation shall submit documents stating brands and the number of the parent corporation's shares managed in a domestic business that have increased or decreased and any other matters specified by an Ordinance of the Ministry of Finance to the district director of the tax office governing its place for tax payment, within two months from the following day of the final day of the business year containing the day of the increase or decrease.
- (7) The parent corporation's shares managed in a domestic business prescribed in the preceding items shall, in the case where a foreign corporation listed in items (i) through (iii) of Article 141 of the Act owns shares that it manages as assets pertaining to a business conducted in Japan and at a permanent

establishment in Japan (hereinafter referred to "shares managed in a domestic business" in this paragraph), be the shares, etc. of merging parent corporations issued for the foreign corporation depending on the said shares managed in a domestic business by way of a merger prescribed in Article 61-2(2) of the Act (limited to that carried out by a domestic corporation), a split-off-type company split without provision of money, etc. prescribed in paragraph (4) of the said Article (limited to that carried out by a domestic corporation), or a share exchange prescribed in paragraph (9) of the said Article (limited to that carried out by a domestic corporation) (such shares of merging parent corporations means shares of a corporation which has relationships specified by a Cabinet Order prescribed in paragraph (2) of the said Article (limited to a foreign corporation), shares of a parent corporation prescribed in paragraph (4) of the said Article (limited to a foreign corporation), or shares of a corporation which has relationships specified by a Cabinet Order prescribed in paragraph (9) of the said Article (limited to a foreign corporation)).

- (8) When calculating a foreign corporation's amount of income categorized as domestic source income prescribed in Article 142 of the Act pursuant to the provisions of Article 62-4 or Article 62-5 of the Act under the provisions of Article 142 of the Act, if any situation listed in the following items occurs, the provisions of the said respective items shall be applicable:
- (i) When the said foreign corporation has become unable to satisfy either of the requirements for continuing a business or the requirements for managing shares prescribed in paragraph (1)(xviii) (hereinafter referred to as the "requirements for managing shares" in this item) in a business year after the business year making a qualified capital contribution in kind prescribed in the said item: The following provisions shall be applicable:
    - (a) The amount equivalent to the difference between the value of the said transferred assets and liabilities at the time of a qualified capital contribution in kind and the book value of the said transferred assets and liabilities immediately prior to the qualified capital contribution in kind as prescribed in Article 62-4 of the Act shall be included in gross profits when calculating the amount of the said foreign corporation's income for the business year containing the day on which it first became unable to satisfy the requirements;
    - (b) It shall be deemed that the book value of the said shares of the said foreign corporation increased by the amount equivalent to the amount included in gross profits pursuant to the provisions of this item immediately prior to the time when the foreign corporation first became unable to satisfy the requirements for continuing a business or the requirements for managing shares (in the case of the requirements for continuing a business, on the day when foreign corporation first became

- unable to satisfy the requirements);
- (ii) When the said foreign corporation has become unable to satisfy either of the requirements for continuing a business or the requirements for managing shares prescribed in paragraph (1)(xix) (hereinafter referred to as the "requirements for managing shares" in this item) in a business year after the business year implementing the qualified post-formation acquisition of assets and/or liabilities prescribed in the said item: The following provisions shall be applicable:
- (a) The amount equivalent to the book value adjustment losses pertaining to the said transferred assets and liabilities shall be included in gross profits when calculating the amount of the said foreign corporation's income for the business year containing the day on which it first became unable to satisfy the requirements;
- (b) It shall be deemed that the book value of the said shares of the said foreign corporation increased by the amount equivalent to the amount included in gross profits pursuant to the provisions of this item immediately prior to the time when the foreign corporation first became unable to satisfy the requirements for continuing a business or the requirements for managing shares (in the case of the requirements for continuing a business, on the day when the foreign corporation first became unable to satisfy the requirements).
- (9) When calculating the amount of a foreign corporation's income categorized as domestic source income prescribed in Article 142 of the Act pursuant to the provisions of Chapter I, Section 1 of the preceding Part (Calculation of the Amount of Income for Each Business Year of Domestic Corporations) under the provisions of the said Article, the terms listed in the middle column of the following table in the provisions listed in the left-hand column of the said table shall be deemed to be replaced with the terms listed in the right-hand column of the said table, respectively.

Article 22(1)(i) (The Amount of Interest on Liabilities Pertaining to Shares, etc.)	balance sheet	balance sheet pertaining to a business conducted in Japan or assets located in Japan
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Article 28(1) (Methods for Valuating Inventory Assets)	shall be the methods listed as follows:	shall be the methods listed as follows. In this case, when the said inventory assets contain assets that a foreign corporation owned outside Japan but has now transferred to Japan (hereinafter referred to as "transferred assets" in this paragraph), the provisions of this Division and the next Division shall be applied to the said transferred assets by deeming that the foreign corporation acquired the said transferred assets at the time of the transfer:
Article 29(2)(i) (Selection of Methods for Valuating Inventory Assets)	A newly established domestic corporation:	A corporation which has come to fall under any of the foreign corporations listed in items (i) through (iii) of Article 141 (Tax Base of Corporation Tax in the Case of Foreign Corporations) of the Act:
	The date of establishment:	The day on which it came to fall under any of them;
Article 29(2)(ii)	A domestic corporation which has newly commenced a profit-making business:	A foreign corporation which has earned domestic source income listed in the items of Article 141 of the Act for the category of foreign corporations listed in the relevant items which has arisen from a profit-making business:
	The day on which it newly commenced a profit-making business;	The day on which it earned such income;
Article 29(2)(iii)	after establishment (for a domestic corporation listed in the preceding item, after newly commencing a profit-making business)	after the day listed in the preceding two items
	has commenced	has commenced in Japan
Article 32(1)(i) (Acquisition Cost for Inventory Assets)	Inventory assets (	inventory assets (including transferred assets prescribed in Article 28(1) (Methods for Valuating Inventory Assets) that were purchased outside Japan and

Article 32(1)(iii)	Inventory assets	Inventory assets (including transferred assets prescribed in Article 28(1) that are other than those prescribed in item (i))
Article 48(1) and Article 48-2(1) (Methods for Depreciating Depreciable Assets)	shall be the methods prescribed in the said respective items:	shall be the methods prescribed in the said respective items. In this case, when the said depreciable assets contain assets that a foreign corporation owned outside Japan but has now transferred to Japan (hereinafter referred to as "transferred assets" in this paragraph), the provisions of this Division through Division 7-2, Article 133 (Inclusion in Deductible Expenses of Acquisition Costs for Small Amounts of Depreciable Assets), and Article 133-2 (Inclusion in Deductible Expenses of Lump-Sum Depreciable Assets) shall be applied to the said transferred assets by deeming that the foreign corporation acquired the said transferred assets at the time of the transfer:
Article 51(2)(i) (Selection of Methods for Depreciating Depreciable Assets)	A newly established domestic corporation:	A corporation which has come to fall under any of the foreign corporations listed in items (i) through (iii) of Article 141 (Tax Base of Corporation Tax in the Case of Foreign Corporations) of the Act or a corporation falling under the category of a foreign corporation listed in item (iv) of the said Article that has commenced a business prescribed in Article 138(ii) (Consideration for the Business of Providing Personal Services) of the Act (hereinafter referred to as a "personal services business") in Japan, or has earned domestic source income listed in Article 141(iv) of the Act that is other than a consideration listed in Article 138(ii) of the Act
	The date of establishment:	The day on which it came to fall under any of them, commenced such business, or earned such income;

Article 51(2)(ii)	a domestic corporation which has newly commenced a profit-making business:	a foreign corporation which has earned domestic source income listed in the items of Article 141 of the Act for the category of foreign corporations listed in the relevant items which has arisen from a profit-making business
	The day on which it newly commenced a profit-making business:	The day on which it earned such income
Article 51(2)(iii)	after establishment (for a domestic corporation listed in the preceding item, after newly commencing a profit-making business)	after the day listed in the preceding two items
Article 51(2)(iv)	A domestic corporation which has newly established a place of business:	A foreign corporation which has newly established a place of business in Japan (excluding those falling under item (i))
Article 54(1)(vi) (Acquisition Cost for Depreciable Assets)	Depreciable assets acquired	Depreciable assets (including transferred assets prescribed in Article 48(1) and transferred assets prescribed in Article 48-2(1)) acquired
Article 81(ii) (Reversal of Special Account of Gains on National Subsidies, etc.) and Article 90(iii) (Reversal of Special Account of Gains on Insurance Claims, etc.)	Where a corporation has dissolved (excluding the case of a dissolution due to a merger)	Where a corporation has dissolved (excluding the case of a dissolution due to a merger), where a corporation falling under any of the foreign corporations listed in items (i) through (iii) of Article 141 (Tax Base of Corporation Tax in the Case of Foreign Corporations) of the Act has ceased to fall under any of the foreign corporations listed in these items, or where a corporation falling under the category of a foreign corporation listed in item (iv) of the said Article has abolished a personal services business conducted in Japan

Article 96(2)(i) (Limit to Credit Reserve for Bad Debts)	the date of establishment (excluding the case of establishment through a qualified merger)	the day on which a corporation came to fall under any of the foreign corporations listed in items (i) through (iii) of Article 141 (Tax Base of Corporation Tax in the Case of Foreign Corporations) of the Act or a corporation falling under the category of a foreign corporation listed in item (iv) of the said Article commenced a personal services business in Japan, or earned domestic source income other than a consideration listed in Article 138(ii) (Consideration for the Business of Providing Personal Services) of the Act
	a corporation in the public interest, etc.	a corporation in the public interest, etc. that is a foreign corporation
	the day on which it newly commenced a profit-making business	the day on which it earned domestic source income listed in the items of Article 141 of the Act for the category of foreign corporations listed in the relevant items which has arisen from a profit-making business
Article 119(1)(v) (Acquisition Cost for Securities)	Shares of the said merging corporation or the said parent corporation issued	Shares of the said merging corporation or the said parent corporation (excluding shares of a parent corporation (limited to a foreign corporation) issued for a foreign corporation which is a shareholder, etc. of the merged corporation through a merger carried out by a domestic corporation (excluding the parent corporation's shares managed in a domestic business prescribed in Article 188(7) (Calculation of the Amount of Income Categorized as Domestic Source Income of Foreign Corporations) issued for a foreign corporation listed in items (i) through (iii) of Article 141 (Tax Base of Corporation Tax on Income for Each Business Year in the case of Foreign Corporations) of the Act) issued

Article 119(1)(vi)	Shares of the said succeeding corporation in a company split or the said parent corporation issued	Shares of the said succeeding corporation in a company split or the said parent corporation (excluding shares of a parent corporation (limited to a foreign corporation) issued for a foreign corporation which is a shareholder, etc. of the split corporation through a split-off-type company split carried out by a domestic corporation (excluding the parent corporation's shares managed in a domestic business prescribed in Article 188(7) issued for a foreign corporation listed in items (i) through (iii) of Article 141 of the Act)) issued
Article 119(1)(viii)	Shares of the said wholly owning parent corporation in share exchange or the said parent corporation issued	Shares of the said wholly owning parent corporation in share exchange or the said parent corporation (excluding shares of a parent corporation (limited to a foreign corporation) issued for a foreign corporation which is a shareholder, etc. of the wholly owned subsidiary corporation in share exchange carried out by a domestic corporation (excluding the parent corporation's shares managed in a domestic business prescribed in Article 188(7) issued for a foreign corporation listed in items (i) through (iii) of Article 141 of the Act)) issued
Article 131-3(1) (Calculation of the Amount of Income Pertaining to a Trust Subject to Corporation Taxation)	balance sheet	balance sheet pertaining to a business conducted in Japan or assets located in Japan
Article 135 (Inclusion in Deductible Expenses of Installment, etc. of Defined Benefit Corporate Pension Plan, etc.)	the amount paid	the amount paid (the amount paid by deeming that an employee of a foreign corporation who works full-time in Japan for a business that the foreign corporation conducts in Japan is a recipient of mutual aid, participant, participant in a corporate pension, or beneficiary, etc. of a trust prescribed in items (i) through (iv) or a beneficiary, etc. or worker of a trust prescribed in item (v))

	the amount specified by an Ordinance of the Ministry of Finance)	the amount specified by an Ordinance of the Ministry of Finance); limited to the part pertaining to the period of full-time employment in Japan)
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(10) Where a foreign corporation that conducts a business consisting of operations both in and outside Japan conducts any of the acts listed in the items of Article 176(3) (Auxiliary Acts, etc.), the amount that a department of the foreign corporation which performs the said operations in Japan receives as expenses related to the said acts attributable to the said department or the amount that the said department pays as expenses related to the said acts attributable to a department of the foreign corporation which conducts a business outside Japan shall not be included in gross profits or deductible expenses, respectively, when calculating the amount of the foreign corporation's income categorized as domestic source income prescribed in Article 142 of the Act.

(Those Equivalent to Mutual Company)

Article 189 Those specified by a Cabinet Order as being equivalent to a mutual company prescribed in Article 143(2) (Tax Rate for Corporation Tax on Income for Each Business Year in the case of Foreign Corporations) of the Act shall be foreign mutual companies prescribed in Article 2(10) (Definitions) of the Insurance Business Act.

(Dividend, etc. Without Credit for Income Tax)

Article 190 The dividend, etc. specified by a Cabinet Order prescribed in Article 144 (Credit for Income Tax) of the Act shall be the dividend, etc. listed in Article 161(v) (Domestic Source Income) of the Income Tax Act which a foreign corporation listed in Article 141(i) (Tax Base of Corporation Tax in the Case of Foreign Corporations) of the Act receives other than those attributable to the said person's business conducted in Japan at any fixed places for conducting a business prescribed in Article 141(i) of the Act.

## **Section 2 Refund by Return**

(Refund by Return)

Article 191 With regard to matters for the application of the provisions of Part II, Chapter I, Section 3, Subsection 4 (Refund for Corporation Tax for Income for Each Business Year of Domestic Corporations) of the Act which are applied mutatis mutandis pursuant to Article 145 (Mutatis Mutandis Application to

Foreign Corporations) of the Act, the provisions of Chapter I, Section 3 of the preceding Part (Refund for Corporation Tax for Income for Each Business Year of Domestic Corporations) shall be applied mutatis mutandis.

### **Chapter III Corporation Tax for Retirement Pension, etc. Fund**

(Calculation of the Amount of Retirement Pension, etc. Fund of Foreign Corporations)

- Article 192 (1) When calculating the amount of a foreign corporation's retirement pension, etc. fund prescribed in Article 145-3 (Calculation of the Amount of Retirement Pension, etc. Fund in the Case of Foreign Corporations) of the Act pursuant to the provisions of Article 84(2)(ii) (Calculation of the Amount of Retirement Pension, etc. Fund) of the Act under the provisions of Article 145-3 of the Act, the term "Article 116(1)" in (a) of the said item shall be deemed to be replaced with "Article 116(1) of the said Act which is applied mutatis mutandis pursuant to Article 199 (Mutatis Mutandis Application of Provisions Concerning Operations, etc.)".
- (2) When calculating the amount of a foreign corporation's retirement pension, etc. fund prescribed in Article 145-3 of the Act pursuant to the provisions of Chapter II of the preceding Part (Corporation Tax for Retirement Pension, etc. Fund of Domestic Corporations) under the provisions of Article 145-3 of the Act, the term "Article 116(1)" in Article 158(2)(i), Article 158(3) and (4), Article 158-3(1) and (2) shall be deemed to be replaced with "Article 116(1) of the said Act which is applied mutatis mutandis pursuant to Article 199 (Mutatis Mutandis Application of Provisions Concerning Operations, etc.)".

### **Chapter IV Reassessment and Determination**

(Reassessment and Determination)

- Article 193 With regard to matters for the application of the provisions of Article 132 (Denial of Acts or Calculation by Family Companies) or Article 134 (Refund of Interim Payment by Reassessment or Determination Pertaining to Final Return or Consolidated Final Return) of the Act which are applied mutatis mutandis pursuant to Article 147 (Mutatis Mutandis Application to Foreign Corporations) of the Act, the provisions of Chapter IV of the preceding Part (Reassessment and Determination Pertaining to Domestic Corporations) shall be applied mutatis mutandis.