

Order for Enforcement of the Act on Special Measures Concerning Taxation (Limited to the provisions related to nonresidents and foreign corporations)

(Cabinet Order No. 43 of March 31, 1957)

Chapter II Special Provisions for the Income Tax Act

Section 1 Special Provisions on Interest Income and Dividend Income

(Special Provisions on Taxation on Interest from Book-Entry National Bonds, etc.)

Article 3 (1) The amount calculated as specified by Cabinet Order prescribed in Article 5-2, paragraph (1) and paragraph (3) of the Act shall be the amount specified respectively in the following items for the category of cases listed in the relevant items:

- (i) Where the first day of the holding period prescribed in Article 5-2, paragraph (1) of the Act (hereinafter referred to as the "holding period" in this Article) for book-entry national bonds prescribed in said paragraph (hereinafter referred to as "book-entry national bonds" in this Article) held by a nonresident or foreign corporation falls on or before the first day of the accounting period for interest from said book-entry national bonds: The amount of interest for said accounting period
- (ii) Where the first day of the holding period for book-entry national bonds held by a nonresident or foreign corporation falls after the first day of the accounting period for interest from said book-entry national bonds: The amount calculated by multiplying the amount of interest for said accounting period by the number of days in said holding period and then dividing the result by the number of days in said accounting period
- (iii) Where the first day of the holding period for book-entry municipal bonds prescribed in Article 5-2, paragraph (1) of the Act (hereinafter referred to as "book-entry municipal bonds" in this Article) held by a nonresident or foreign corporation falls on or before the first day of the accounting period for interest from said book-entry municipal bonds: The amount of interest for said accounting period
- (iv) Where the first day of the holding period for book-entry municipal bonds held by a nonresident or foreign corporation falls after the first day of the accounting period for interest from said book-entry municipal bonds: The amount calculated by multiplying the amount of interest for said accounting period by the number of days in said holding period and then dividing the

result by the number of days in said accounting period.

- (2) Where a nonresident or foreign corporation that is the trustee of a qualified foreign securities investment trust as prescribed in Article 5-2, paragraph (2) of the Act (hereinafter referred to as a "qualified foreign securities investment trust" in this Article) seeks the application of the provisions of Article 5-2, paragraph (1) of the Act with respect to interest from book-entry national bonds or book-entry municipal bonds received thereby for the trust property under said qualified foreign securities investment trust, said nonresident or foreign corporation shall submit, for each qualified foreign securities investment trust accepted thereby, a written application for a tax exemption on book-entry national bonds as prescribed in Article 5-2, paragraph (1), item (i), (a) of the Act (hereinafter referred to as a "written application for a tax exemption on book-entry national bonds" in this Article) and a statement of the holding period of book-entry national bonds prescribed in Article 5-2, paragraph (1), item (i), (b) of the Act (referred to as a "statement of the holding period of book-entry national bonds" in paragraphs (7) to (9)), or a written application for a tax exemption on book-entry municipal bonds as prescribed in Article 5-2, paragraph (1), item (ii), (a) of the Act (hereinafter referred to as a "written application for a tax exemption on book-entry municipal bonds" in this Article) and a statement of the holding period of book-entry municipal bonds prescribed in Article 5-2, paragraph (1), item (ii), (b) of the Act (referred to as a "statement of the holding period of book-entry municipal bonds" in paragraph (7), paragraph (8) and paragraph (11)), to the district director of the tax office prescribed in Article 5-2, paragraph (1), item (i), (a) of the Act pursuant to the provisions of Article 5-2, paragraph (1), item (i), (a) and (b) of the Act, or the district director of the tax office prescribed in Article 5-2, paragraph (1), item (ii), (a) of the Act pursuant to the provisions of Article 5-2, paragraph (1), item (ii), (a) and (b) of the Act.
- (3) Where a nonresident or foreign corporation makes, for the first time, entries or records under the book-entry transfer system (meaning entries or records under the book-entry transfer system prescribed in Article 5-2, paragraph (5), item (vi) of the Act; hereinafter the same shall apply in this Article) with regard to book-entry national bonds (limited to those that bear interest; hereinafter referred to as "interest-bearing book-entry national bonds" in this paragraph, paragraph (5) and paragraph (22)) in an account listed in the following items, if the person specified in the relevant item for the category of accounts listed in that item has, when said entries or records under the book-entry transfer system were made, prepared a document that states the name of said nonresident or foreign corporation and his/her or its address as prescribed in Article 5-2, paragraph (1), item (i), (a) of the Act (hereinafter referred to as "address" in this paragraph, paragraph (5) and paragraph (22)) and any other

matters specified by Ordinance of the Ministry of Finance (hereinafter referred to as a "document on special measures for book-entry national bonds" in this paragraph and the following paragraph) and submitted said document on special measures for book-entry national bonds to the district director of the tax office prescribed in Article 5-2, paragraph (1), item (i), (a) of the Act (in the case where the specified book-entry transfer institution, etc. (meaning a specified book-entry transfer institution, etc. as prescribed in paragraph (1) of said Article; hereinafter the same shall apply in this Article) pertaining to the person specified in the relevant item is a specified account management institution as prescribed in Article 5-2, paragraph (5), item (ii) of the Act (hereinafter referred to as a "specified account management institution" in this Article), submission shall be made to said district director of the tax office via a specified book-entry transfer institution prescribed in paragraph (5), item (i) of said Article (hereinafter referred to as a "specified book-entry transfer institution" in this Article); in the case where the specified book-entry transfer institution, etc. of the person specified in the relevant items is a specified secondary account management institution as prescribed in paragraph (5), item (iii) of said Article (hereinafter referred to as a "specified secondary account management institution" in this Article), submission shall be made to said district director of the tax office via [1] the specified account management institution pertaining to the entries or records under the book-entry transfer system regarding said interest-bearing book-entry national bonds (in the case where said specified book-entry transfer institution, etc. pertaining to the person specified in the relevant items makes entries or records under the book-entry transfer system regarding the interest-bearing book-entry national bonds through any other specified secondary account management institution, submission shall be made via said other specified secondary account management institution and the specified account management institution pertaining to the entries or records under the book-entry transfer system regarding said interest-bearing book-entry national bonds) and [2] a specified book-entry transfer institution), said nonresident or foreign corporation shall be deemed to have submitted a written application for a tax exemption on book-entry national bonds pursuant to the provisions of Article 5-2, paragraph (1), item (i), (a) of the Act with respect to said interest-bearing book-entry national bonds; provided, however, that this shall not apply where the name and address entered in said document on special measures for book-entry national bonds differ from the name and address of the nonresident or foreign corporation for which confirmation has been provided pursuant to the provisions of paragraph (9) of said Article (including the cases where it is applied mutatis mutandis pursuant to paragraph (12) of said Article) with respect to book-entry municipal bonds (hereinafter referred to as "confirmation

for book-entry municipal bonds" in this paragraph, the following paragraph and paragraph (22)) or for which confirmation has been provided pursuant to the provisions of Article 41-12, paragraph (12) of the Act with respect to short-term national bonds, etc. (meaning national bonds listed in paragraph (9), items (i) to (viii) of said Article that fall under the category of specified short-term government or company bonds prescribed in said paragraph, and principal-only book-entry national bonds and coupon-only book-entry national bonds prescribed in paragraph (12) of said Article) (including confirmation provided pursuant to the provisions of Article 26-18, paragraph (6); hereinafter referred to as "confirmation for short-term national bonds, etc." in this Article):

(i) An account pertaining to the entries or records under the book-entry transfer system for which confirmation for book-entry municipal bonds has been provided: The head of the business office, etc. prescribed in Article 5-2, paragraph (1) of the Act (hereinafter referred to as the "business office, etc." through to paragraph (8)) of the specified book-entry transfer institution, etc. that provided confirmation for said book-entry municipal bonds, or the head of the business office, etc. of the specified book-entry transfer institution, etc. that has received notice pursuant to the provisions of Article 5-2, paragraph (14) of the Act from the head of the specified overseas business office, etc. prescribed in paragraph (5), item (v) of said Article (hereinafter referred to as the "specified overseas business office, etc." through to paragraph (7)) of the qualified foreign intermediary prescribed in item (iv) of said paragraph (hereinafter referred to as the "qualified foreign intermediary" in this Article) that provided confirmation for said book-entry municipal bonds

(ii) An account pertaining to the entries or records under the book-entry transfer system for which confirmation for short-term national bonds, etc. has been provided: The head of the business office, etc. of the specified book-entry transfer institution, etc. that provided confirmation for said short-term national bonds, or the head of the business office, etc. of the specified book-entry transfer institution, etc. that has received a document prescribed in paragraph (14) of Article 41-12 of the Act pursuant to the provisions of said paragraph from the head of the specified overseas business office, etc. of the qualified foreign intermediary that provided confirmation for said short-term national bonds

(4) In the case referred to in the preceding paragraph, the head of the business office, etc. of the specified book-entry transfer institution, etc. who has submitted a document on special measures for book-entry national bonds pursuant to the provisions of said paragraph shall, without delay after the date of the submission, give notice of the submission of the document on special measures for book-entry national bonds to the nonresident or foreign corporation that is deemed to have submitted a written application for a tax

exemption on book-entry national bonds pursuant to the provisions of said paragraph (in the case where confirmation for book-entry municipal bonds or confirmation for short-term national bonds, etc. with regard to said nonresident or foreign corporation is provided by the head of a specified overseas business office, etc. of a qualified foreign intermediary, notice shall be given to said nonresident or foreign corporation via the head of said specified overseas business office, etc.).

- (5) Where a nonresident or foreign corporation makes, for the first time, entries or records under the book-entry transfer system with regard to book-entry municipal bonds in an account listed in the following items, if the person specified in the relevant item for the category of accounts listed in that item has, when said entries or records under the book-entry transfer system were made, prepared a document that states the name of said nonresident or foreign corporation and his/her or its address and any other matters specified by Ordinance of the Ministry of Finance (hereinafter referred to as a "document on special measures for book-entry municipal bonds" in this paragraph and the following paragraph) and submitted said document on special measures for book-entry municipal bonds to the district director of the tax office prescribed in Article 5-2, paragraph (1), item (ii), (a) of the Act via the person who pays the interest from said book-entry municipal bonds (in the case where the specified book-entry transfer institution, etc. pertaining to the person specified in the relevant items is a specified account management institution, submission shall be made to the district director of the tax office via a specified book-entry transfer institution and the person who pays the interest; in the case where the specified book-entry transfer institution, etc. pertaining to the person specified in the relevant items is a specified secondary account management institution, submission shall be made to said district director of the tax office via [1] the specified account management institution pertaining to the entries or records under the book-entry transfer system regarding said interest-bearing book-entry municipal bonds (in the case where said specified book-entry transfer institution, etc. pertaining to the person specified in the relevant items makes entries or records under the book-entry transfer system regarding the interest-bearing book-entry municipal bonds through any other specified secondary account management institution, submission shall be made via said other specified secondary account management institution and the specified account management institution pertaining to the entries or records under the book-entry transfer system regarding said interest-bearing book-entry municipal bonds), [2] a specified book-entry transfer institution, and [3] the person who pays the interest), said nonresident or foreign corporation shall be deemed to have submitted a written application for a tax exemption on book-entry municipal bonds pursuant to the provisions of Article 5-2,

paragraph (1), item (ii), (a) of the Act with respect to said interest-bearing book-entry municipal bonds; provided, however, that this shall not apply where the name and address entered in said document on special measures for book-entry municipal bonds differ from the name and address of said nonresident or foreign corporation for which confirmation has been provided pursuant to the provisions of paragraph (9) of said Article (including the cases where it is applied mutatis mutandis pursuant to paragraph (12) of said Article; hereinafter the same shall apply in this paragraph) with respect to other book-entry municipal bonds (hereinafter referred to as "confirmation for other book-entry municipal bonds" in this paragraph, the following paragraph and paragraph (23)), where confirmation has been provided pursuant to the provisions of paragraph (9) of said Article with respect to interest-bearing book-entry national bonds (hereinafter referred to as "confirmation for interest-bearing book-entry national bonds" in this paragraph, the following paragraph and paragraph (23)) or where confirmation for short-term national bonds, etc. has been provided:

- (i) An account pertaining to the entries or records under the book-entry transfer system for which confirmation for other book-entry municipal bonds has been provided: The head of the business office, etc. of the specified book-entry transfer institution, etc. that provided confirmation for said other book-entry municipal bonds, or the head of the business office, etc. of the specified book-entry transfer institution, etc. that has received notice pursuant to the provisions of Article 5-2, paragraph (14) of the Act from the head of the specified overseas business office, etc. of the qualified foreign intermediary that provided confirmation for said other book-entry municipal bonds
- (ii) An account pertaining to the entries or records under the book-entry transfer system for which confirmation for interest-bearing book-entry national bonds has been provided: The head of the business office, etc. of the specified book-entry transfer institution, etc. that provided confirmation for said interest-bearing book-entry national bonds, or the head of the business office, etc. of the specified book-entry transfer institution, etc. that has received notice pursuant to the provisions of Article 5-2, paragraph (14) of the Act from the head of the specified overseas business office, etc. of the qualified foreign intermediary that provided confirmation for said interest-bearing book-entry national bonds
- (iii) An account pertaining to the entries or records under the book-entry transfer system for which confirmation for short-term national bonds, etc. has been provided: The head of the business office, etc. of the specified book-entry transfer institution, etc. that provided confirmation for said short-term national bonds, or the head of the business office, etc. of the specified book-

entry transfer institution, etc. that has received a document prescribed in paragraph (14) of Article 41-12 of the Act pursuant to the provisions of said paragraph from the head of the specified overseas business office, etc. of the qualified foreign intermediary that provided confirmation for said short-term national bonds.

- (6) In the case referred to in the preceding paragraph, the head of the business office, etc. of the specified book-entry transfer institution, etc. that has submitted a document on special measures for book-entry municipal bonds pursuant to the provisions of said paragraph shall, without delay after the date of the submission, give notice of the submission of the document on special measures for book-entry municipal bonds, to the nonresident or foreign corporation that is deemed to have submitted a written application for a tax exemption on book-entry municipal bonds pursuant to the provisions of said paragraph (in the case where confirmation for other book-entry municipal bonds, confirmation for interest-bearing book-entry national bonds or confirmation for short-term national bonds, etc. with regard to said nonresident or foreign corporation has been provided by the head of a specified overseas business office, etc. of a qualified foreign intermediary, notice shall be given to said nonresident or foreign corporation via the head of said specified overseas business office, etc.).
- (7) The head of a business office, etc. of a specified book-entry transfer institution, etc. or the head of a specified overseas business office, etc. of a qualified foreign intermediary shall, where a statement of the holding period of book-entry national bonds or statement of the holding period of book-entry municipal bonds has been submitted, confirm whether or not the holding period and other matters specified by Ordinance of the Ministry of Finance with regard to the book-entry national bonds or book-entry municipal bonds entered in said statement of the holding period of book-entry national bonds or statement of the holding period of book-entry municipal bonds are consistent with the days on which entries or records under the book-entry transfer system were made with regard to the book-entry national bonds or book-entry municipal bonds and other matters specified by Ordinance of the Ministry of Finance as entered or recorded in the books prescribed in Article 5-2, paragraph (13) of the Act (referred to as the "books for book-entry transfer" in paragraph (9), paragraph (11) and paragraph (24)).
- (8) Where a nonresident or foreign corporation submits a statement of the holding period of book-entry national bonds or a statement of the holding period of book-entry municipal bonds via a qualified foreign intermediary to the district director of the tax office set forth in Article 5-2, paragraph (1), item (i), (b) or item (ii), (b) of the Act (including the cases where a qualified foreign intermediary submits the document set forth in the following paragraph

pursuant to the provisions of said paragraph as applied mutatis mutandis pursuant to paragraph (10)), the head of the business office, etc. of the specified book-entry transfer institution, etc. that has received notice set forth in paragraph (14) of said Article pursuant to the provisions of said paragraph shall confirm whether or not the holding period and other matters specified by Ordinance of the Ministry of Finance with regard to the book-entry national bonds or book-entry municipal bonds entered in said statement of the holding period of book-entry national bonds or statement of the holding period of book-entry municipal bonds or said document are consistent with the days on which entries or records under the book-entry transfer system were made with regard to the book-entry national bonds or book-entry municipal bonds and other matters specified by Ordinance of the Ministry of Finance as entered or recorded in the books prescribed in said paragraph.

- (9) Where a specified book-entry transfer institution, etc. has, pursuant to the provisions of Article 5-2, paragraph (9) of the Act (including the cases where it is applied mutatis mutandis pursuant to paragraph (12) of said Article), prepared and preserved a copy of a document prescribed in paragraph (9) of said Article that has been presented thereto by a nonresident or foreign corporation, and said nonresident or foreign corporation receives payment of interest from the book-entry national bonds for which he/she or it has made entries or records under the book-entry transfer system through said specified book-entry transfer institution, etc., if said specified book-entry transfer institution, etc. has, no later than the day preceding the day on which said nonresident or foreign corporation is to receive a payment of such interest, prepared a document that states the holding period and any other matters specified by Ordinance of the Ministry of Finance with regard to the book-entry national bonds held by said nonresident or foreign corporation based on the books for book-entry transfer that said specified book-entry transfer institution, etc. keeps, and has submitted said document to the district director of the tax office set forth in paragraph (1), item (i), (b) of said Article (in the case where said specified book-entry transfer institution, etc. is a specified account management institution, submission shall be made to the district director of the tax office via a specified book-entry transfer institution; in the case where said specified book-entry transfer institution, etc. is a specified secondary account management institution, submission shall be made to the district director of the tax office via [1] the specified account management institution pertaining to the entries or records under the book-entry transfer system regarding said book-entry national bonds (in the case where said specified book-entry transfer institution, etc. makes entries or records under the book-entry transfer system regarding said book-entry national bonds through any other specified secondary account management institution, submission shall be

made via said other specified secondary account management institution and specified account management institution pertaining to the entries or records under the book-entry transfer system regarding said book-entry national bonds) and [2] a specified book-entry transfer institution), said nonresident or foreign corporation shall be deemed to have submitted a statement of the holding period of book-entry national bonds pursuant to the provisions of item (i), (b) of said paragraph with respect to the interest receivable thereby.

- (10) The provisions of the preceding paragraph shall apply mutatis mutandis where a nonresident or foreign corporation receives payment of interest from the book-entry national bonds for which he/she or it has made entries or records under the book-entry transfer system through a qualified foreign intermediary. In this case, in said paragraph, the term "to the district director of the tax office set forth in paragraph (1), item (i), (b) of said Article" shall be deemed to be replaced with "to the district director of the tax office set forth in paragraph (1), item (i), (b) of said Article via the specified book-entry transfer institution, etc. pertaining to the entries or records under the book-entry transfer system regarding said book-entry national bonds"; the term "(in the case where said specified book-entry transfer institution, etc. is a specified account management institution, submission shall be made to the district director of the tax office via a specified book-entry transfer institution; in the case where said specified book-entry transfer institution, etc. is a specified secondary account management institution" shall be deemed to be replaced with "(in the case where said specified book-entry transfer institution, etc. is a tertiary foreign account management institution prescribed in paragraph (5), item (vii) of said Article (hereinafter referred to as a 'tertiary foreign account management institution' in this paragraph)"; the term "the specified account management institution pertaining to the entries or records under the book-entry transfer system regarding said book-entry national bonds (" shall be deemed to be replaced with "the secondary foreign account management institution prescribed in paragraph (5), item (viii) of said Article (hereinafter referred to as the 'secondary foreign account management institution' in this paragraph) pertaining to the entries or records under the book-entry transfer system regarding said book-entry national bonds ("; the term "any other specified secondary account management institution" shall be deemed to be replaced with "any other tertiary foreign account management institution"; and the term "the specified account management institution pertaining to the entries or records under the book-entry transfer system regarding said book-entry national bonds) and [2] a specified book-entry transfer institution" shall be deemed to be replaced with "the secondary foreign account management institution pertaining to the entries or records under the book-entry transfer system regarding said book-entry national bonds) and [2] the specified book-

entry transfer institution, etc. pertaining to the entries or records under the book-entry transfer system regarding said book-entry national bonds."

- (11) Where a specified book-entry transfer institution, etc. has, pursuant to the provisions of Article 5-2, paragraph (9) of the Act (including the cases where it is applied mutatis mutandis pursuant to paragraph (12) of said Article), prepared and preserved a copy of a document prescribed in paragraph (9) of said Article that has been presented thereto by a nonresident or foreign corporation, and said nonresident or foreign corporation receives payment of interest from the book-entry municipal bonds for which he/she or it has made entries or records under the book-entry transfer system through said specified book-entry transfer institution, etc., if said specified book-entry transfer institution, etc. has, no later than the day preceding the day on which said nonresident or foreign corporation is to receive payment of such interest, prepared a document that states the holding period and any other matters specified by Ordinance of the Ministry of Finance with regard to the book-entry municipal bonds held by said nonresident or foreign corporation based on the books for book-entry transfer that said specified book-entry transfer institution, etc. keeps, and submitted the document to the district director of the tax office set forth in paragraph (1), item (ii), (b) of said Article via the person who pays interest from said book-entry municipal bonds (in the case where said specified book-entry transfer institution, etc. is a specified account management institution, submission shall be made to the district director of the tax office via a specified book-entry transfer institution and the person who pays the interest; in the case where the specified book-entry transfer institution, etc. is a specified secondary account management institution, submission shall be made to the district director of the tax office via [1] the specified account management institution pertaining to the entries or records under the book-entry transfer system regarding said book-entry municipal bonds (in the case where said specified book-entry transfer institution, etc. makes entries or records under the book-entry transfer system regarding said book-entry municipal bonds through any other specified secondary account management institution, submission shall be made via said other specified secondary account management institution and the specified account management institution pertaining to the entries or records under the book-entry transfer system regarding said book-entry municipal bonds), [2] a specified book-entry transfer institution, and [3] the person who pays the interest), said nonresident or foreign corporation shall be deemed to have submitted a statement of the holding period of book-entry municipal bonds pursuant to the provisions of item (ii), (b) of said paragraph with respect to the interest receivable thereby.
- (12) The provisions of the preceding paragraph shall apply mutatis mutandis where a nonresident or foreign corporation receives payment of interest from

the book-entry municipal bonds for which he/she or it has made entries or records under the book-entry transfer system through a qualified foreign intermediary. In this case, in said paragraph, the term "via the person who pays interest from said book-entry municipal bonds" shall be deemed to be replaced with "via the specified book-entry transfer institution, etc. pertaining to the entries or records under the book-entry transfer system regarding said book-entry municipal bonds and the person who pays interest from said book-entry municipal bonds"; the term "(in the case where said specified book-entry transfer institution, etc. is a specified account management institution, submission shall be made to the district director of the tax office via a specified book-entry transfer institution and the person who pays the interest; in the case where the specified book-entry transfer institution, etc. is a specified secondary account management institution" shall be deemed to be replaced with "(in the case where said specified book-entry transfer institution, etc. is a tertiary foreign account management institution prescribed in paragraph (5), item (vii) of said Article (hereinafter referred to as a 'tertiary foreign account management institution' in this paragraph)"; the term "the specified account management institution pertaining to the entries or records under the book-entry transfer system regarding said book-entry national bonds (" shall be deemed to be replaced with "the secondary foreign account management institution prescribed in paragraph (5), item (viii) of said Article (hereinafter referred to as a 'secondary foreign account management institution' in this paragraph) pertaining to the entries or records under the book-entry transfer system regarding said book-entry national bonds ("; the term "any other specified secondary account management institution" shall be deemed to be replaced with "any other tertiary foreign account management institution"; and the term "the specified account management institution pertaining to the entries or records under the book-entry transfer system regarding said book-entry municipal bonds), [2] a specified book-entry transfer institution" shall be deemed to be replaced with "the secondary foreign account management institution pertaining to the entries or records under the book-entry transfer system regarding said book-entry municipal bonds), [2] the specified book-entry transfer institution pertaining to the entries or records under the book-entry transfer system regarding said book-entry municipal bonds."

(13) The interest specified by Cabinet Order prescribed in Article 5-2, paragraph (3) of the Act shall be the interest listed in the following items:

- (i) Interest received by a nonresident listed in Article 164, paragraph (1), item (i) of the Income Tax Act, which is attributed to business conducted by said nonresident in Japan through a fixed place of business as prescribed in Article 164, paragraph (1), item (i) of said Act:
- (ii) Interest received by a nonresident listed in Article 164, paragraph (1), item

- (ii) or item (iii) of the Income Tax Act, which is attributed to business conducted by said nonresident that is as prescribed in these items.
- (14) A person who intends to obtain the approval set forth in Article 5-2, paragraph (5), item (iv) of the Act shall attach, to a document that states the person's name and the location of the person's head office or principal office and any other matters specified by Ordinance of the Ministry of Finance, a document in which a specified book-entry transfer institution certifies that the person is a foreign account management institution prescribed in paragraph (5), item (vii) of said Article and any other document specified by Ordinance of the Ministry of Finance, and submit such documents, in the case of book-entry national bonds, to the district director of the tax office prescribed in paragraph (1), item (i), (a) of said Article via the specified book-entry transfer institution pertaining to said book-entry national bonds, or in the case of book-entry municipal bonds, to the district director of the tax office prescribed in item (ii), (a) of said paragraph via the specified book-entry transfer institution pertaining to said book-entry municipal bonds and the person who pays interest from said book-entry municipal bonds.
- (15) Where a written application set forth in the preceding paragraph has been submitted, the district director of the tax office shall, when he/she has made a disposition to approve or dismiss the application, give notice in writing to the person who has submitted the application to that effect.
- (16) Where a written application set forth in paragraph (14) has been submitted, if a disposition to approve or dismiss the application has not been made by the final day of the month following the month that includes the day on which the written application was submitted, it shall be deemed that approval has been granted as of said day.
- (17) The district director of the tax office shall, when he/she makes a disposition to rescind approval pursuant to the provisions of Article 5-2, paragraph (7) of the Act, give notice in writing to the person who had obtained the approval, to that effect.
- (18) With respect to the application of the provisions of paragraph (14) in the case where a person who intends to obtain the approval set forth in Article 5-2, paragraph (5), item (iv) of the Act with regard to book-entry national bonds has already obtained the approval set forth in paragraph (5), item (iv) of said Article with regard to book-entry municipal bonds, in paragraph (14), the term "a specified book-entry transfer institution certifies" shall be deemed to be replaced with "the specified book-entry transfer institution pertaining to book-entry national bonds certifies"; the term "other matters specified by Ordinance of the Ministry of Finance" shall be deemed to be replaced with "and a document that certifies that the person has obtained the approval set forth in item (iv) of said paragraph with regard to book-entry municipal bonds"; the

term "submit such documents, in the case of book-entry national bonds, to" shall be deemed to be replaced with "submit such documents to"; the term "to the district director of the tax office prescribed in paragraph (1), item (i), (a) of said Article via the specified book-entry transfer institution pertaining to said book-entry national bonds, or in the case of book-entry municipal bonds, to the district director of the tax office prescribed in item (ii), (a) of said paragraph via the specified book-entry transfer institution pertaining to said book-entry municipal bonds and the person who pays interest from said book-entry municipal bonds" shall be deemed to be replaced with "to the district director of the tax office prescribed in paragraph (1), item (i), (a) of said Article via the specified book-entry transfer institution pertaining to said book-entry national bonds." In this case, where the written application set forth in paragraph (14) has been submitted, it shall be deemed that the approval set forth in Article 5-2, paragraph (5), item (iv) of the Act has been granted at the time of such submission.

(19) With respect to the application of the provisions of paragraph (14) in the case where a person who intends to obtain obtain the approval set forth in Article 5-2, paragraph (5), item (iv) of the Act with regard to book-entry municipal bonds has already obtained the approval set forth in paragraph (5), item (iv) of said Article with regard to book-entry national bonds, in paragraph (14), the term "a specified book-entry transfer institution certifies" shall be deemed to be replaced with "the specified book-entry transfer institution pertaining to book-entry municipal bonds certifies"; the term "other matters specified by Ordinance of the Ministry of Finance" shall be deemed to be replaced with "and a document that certifies that the person has obtained the approval set forth in paragraph (5), item (iv) of said Article with regard to book-entry national bonds"; the term "submit such documents, in the case of book-entry national bonds, to the district director of the tax office prescribed in paragraph (1), item (i), (a) of said Article via the specified book-entry transfer institution pertaining to said book-entry national bonds, or in the case of book-entry municipal bonds, to" shall be deemed to be replaced with "submit such documents to"; the term "item (ii), (a) of said paragraph" shall be deemed to be replaced with "paragraph (1), item (ii), (a) of said Article." In this case, where the written application set forth in paragraph (14) has been submitted, it shall be deemed that the approval set forth in Article 5-2, paragraph (5), item (iv) of the Act has been granted at the time of such submission.

(20) With respect to the application of the provisions of paragraph (14) in the case where a person who intends to obtain the approval set forth in Article 5-2, paragraph (5), item (iv) of the Act with regard to book-entry municipal bonds has already obtained the approval set forth in paragraph (5), item (iv) of said Article with regard to other book-entry municipal bonds, in paragraph (14), the

term "a document in which a specified book-entry transfer institution certifies that the person is a foreign account management institution prescribed in paragraph (5), item (vii) of said Article and any other document specified by Ordinance of the Ministry of Finance" shall be deemed to be replaced with "a document that certifies that the person has obtained the approval set forth in paragraph (5), item (iv) of said Article with regard to other book-entry municipal bonds"; the term "submit such documents, in the case of book-entry national bonds, to the district director of the tax office prescribed in paragraph (1), item (i), (a) of said Article via the specified book-entry transfer institution pertaining to said book-entry national bonds, or in the case of book-entry municipal bonds, to" shall be deemed to be replaced with "submit such documents to"; the term "item (ii), (a) of said paragraph" shall be deemed to be replaced with "paragraph (1), item (ii), (a) of said Article." In this case, where the written application set forth in paragraph (14) has been submitted, it shall be deemed that the approval set forth in Article 5-2, paragraph (5), item (iv) of the Act has been granted at the time of such submission.

(21) The document specified by Cabinet Order prescribed in Article 5-2, paragraph (9) of the Act shall be any of the documents specified respectively in the following items for the category of persons listed in the relevant items (in the case where the person listed in the relevant items is the trustee of a qualified foreign securities investment trust, any of the documents specified in the relevant items and the prospectus of said qualified foreign securities investment trust or any other document similar thereto):

- (i) Nonresident: The nonresident's certificate of alien registration, receipt for national tax or local tax, certificate of tax payment, or any other document specified by Ordinance of the Ministry of Finance
- (ii) Foreign corporation: The foreign corporation's certificate of registered matters, receipt for national tax or local tax, certificate of tax payment, or any other document specified by Ordinance of the Ministry of Finance.

(22) Where a nonresident or foreign corporation makes, for the first time, entries or records under the book-entry transfer system regarding interest-bearing book-entry national bonds, in the account pertaining to the entries or records under the book-entry transfer system for which confirmation for book-entry municipal bonds has been provided or in the account pertaining to the entries or records under the book-entry transfer system for which confirmation for short-term national bonds, etc. has been provided, or submits a written application prescribed in Article 5-2, paragraph (10) of the Act pursuant to the provisions of paragraph (10) of said Article with regard to interest-bearing book-entry national bonds (hereinafter referred to as a "written application for a change to the book-entry national bonds" in this paragraph, paragraph (24) and paragraph (25)), in terms of said entries and records under the book-entry

transfer system or submission, the fact that the identification documents set forth Article 5-2, paragraph (9) of the Act (including the cases where it is applied mutatis mutandis pursuant to paragraph (12) of said Article; hereinafter the same shall apply in this paragraph) have been presented pursuant to the provisions of paragraph (9) of said Article with regard to confirmation for book-entry municipal bonds or that the identification documents set forth in Article 41-12, paragraph (12) of the Act have been presented pursuant to the provisions of paragraph (12) of said Article with regard to confirmation for short-term national bonds, etc. (including the cases where the identification documents set forth in Article 26-18, paragraph (5) have been presented pursuant to the provisions of paragraph (5) of said Article) shall be deemed to mean that the document specified by Cabinet Order set forth in Article 5-2, paragraph (9) of the Act has been presented pursuant to the provisions of paragraph (9) of said Article, and the fact that confirmation for said book-entry municipal bonds or confirmation for said short-term national bonds, etc. has been provided shall be deemed to mean that confirmation has been provided pursuant to the provisions of said paragraph, respectively; provided, however, that this shall not apply where the name and address entered in a written application for a tax exemption on book-entry national bonds or a written application for a change to the book-entry national bonds to be submitted by said nonresident or foreign corporation differ from the name and address of said nonresident or foreign corporation for which confirmation for said book-entry municipal bonds or confirmation for said short-term national bonds, etc. has been provided.

(23) The provisions of the preceding paragraph shall apply mutatis mutandis where a nonresident or foreign corporation makes, for the first time, entries or records under the book-entry transfer system regarding book-entry municipal bonds in the account pertaining to the entries or records under the book-entry transfer system for which confirmation for other book-entry municipal bonds has been provided, the account pertaining to the entries or records under the book-entry transfer system for which confirmation for interest-bearing book-entry national bonds has been provided or the account pertaining to the entries or records under the book-entry transfer system for which confirmation for short-term national bonds, etc. has been provided, or submits a written application prescribed in Article 5-2, paragraph (11) of the Act pursuant to the provisions of paragraph (11) of said Article with regard to book-entry municipal bonds (such written application shall be referred to as a "written application for a change to the book-entry municipal bonds" in paragraph (26)). In this case, in the preceding paragraph, the term "pursuant to the provisions of paragraph (9) of said Article with regard to confirmation for said book-entry municipal bonds" shall be deemed to be replaced with "pursuant to the

provisions of paragraph (9) of said Article with regard to confirmation for other book-entry municipal bonds or confirmation for interest-bearing book-entry national bonds"; the term "confirmation for said book-entry municipal bonds or" shall be deemed to be replaced with "confirmation for other book-entry municipal bonds, confirmation for said interest-bearing book-entry national bonds or"; the term "a written application for a tax exemption on book-entry national bonds or written application for a change to the book-entry national bonds" shall be deemed to be replaced with "a written application for a tax exemption on book-entry municipal bonds or written application for a change to the book-entry municipal bonds."

(24) When a person who has submitted a written application for a tax exemption on book-entry national bonds (including one who shall be deemed to have submitted a written application for a tax exemption on book-entry national bonds pursuant to the provisions of paragraph (3); hereinafter the same shall apply in this paragraph, the following paragraph and paragraph (28)) has made entries or records under the book-entry transfer system regarding book-entry national bonds through a specified book-entry transfer institution, etc. or qualified foreign intermediary, or submitted a written application for a change to the book-entry national bonds to a specified book-entry transfer institution, etc. or qualified foreign intermediary, said specified book-entry transfer institution, etc. or qualified foreign intermediary shall, on each occasion, for each person who has submitted said written application for a tax exemption on book-entry national bonds (in the case where the person who has submitted said written application for a tax exemption on book-entry national bonds is the trustee of a qualified foreign securities investment trust, for each person who has submitted said written application for a tax exemption on book-entry national bonds and for each qualified foreign securities investment trust accepted thereby), enter or record in the books for book-entry transfer the matters prescribed in Article 5-2, paragraph (13) of the Act, and preserve said books for book-entry transfer pursuant to the provisions of Ordinance of the Ministry of Finance.

(25) When a person who has submitted a written application for a tax exemption on book-entry national bonds has made entries or records under the book-entry transfer system regarding book-entry national bonds through a qualified foreign intermediary, or submitted a written application for a change to the book-entry national bonds to a qualified foreign intermediary, said qualified foreign intermediary shall, for each person who has submitted said written application for a tax exemption on book-entry national bonds (in the case where the person who has submitted said written application for a tax exemption on book-entry national bonds is the trustee of a qualified foreign securities investment trust, for each person who has submitted said written

application for a tax exemption on book-entry national bonds and for each qualified foreign securities investment trust accepted thereby), notify the matters prescribed in Article 5-2, paragraph (14) of the Act to the specified book-entry transfer institution, etc. prescribed in said paragraph of said qualified foreign intermediary pertaining to said book-entry national bonds.

(26) The provisions of paragraph (24) shall apply mutatis mutandis where a person who has submitted a written application for a tax exemption on book-entry municipal bonds (including one who shall be deemed to have submitted a written application for a tax exemption on book-entry municipal bonds pursuant to the provisions of paragraph (5); hereinafter the same shall apply in this paragraph and paragraph (28)) has made entries or records under the book-entry transfer system regarding book-entry municipal bonds through a specified book-entry transfer institution, etc. or qualified foreign intermediary, or submitted a written application for a change to the book-entry municipal bonds to a specified book-entry transfer institution, etc. or qualified foreign intermediary; and the provisions of the preceding paragraph shall apply mutatis mutandis where a person who has submitted a written application for a tax exemption on book-entry municipal bonds has made entries or records under the book-entry transfer system regarding book-entry municipal bonds through a qualified foreign intermediary, or submitted a written application for a change to the book-entry municipal bonds to a qualified foreign intermediary. In this case, in paragraph (24), the term "said written application for a tax exemption on book-entry national bonds" shall be deemed to be replaced with "said written application for a tax exemption on book-entry municipal bonds"; in the preceding paragraph, the term "said written application for a tax exemption on book-entry national bonds" shall be deemed to be replaced with "said written application for a tax exemption on book-entry municipal bonds," and the term "pertaining to said book-entry national bonds" shall be deemed to be replaced with "pertaining to said book-entry municipal bonds."

(27) The means specified by Cabinet Order prescribed in Article 5-2, paragraph (14) of the Act shall be a means of using an electronic data processing system or another means of using information and communications technology that is specified by Ordinance of the Ministry of Finance.

(28) Where a specified book-entry transfer institution, etc. has received the notice prescribed in paragraph (25) (including the cases where it is applied mutatis mutandis pursuant to paragraph (26)), it shall, on each occasion of receiving the notice, for each person who has submitted a written application for a tax exemption on book-entry national bonds or written application for a tax exemption on book-entry municipal bonds (in the case where the person who has submitted said written application for a tax exemption on book-entry

national bonds or written application for a tax exemption on book-entry municipal bonds is the trustee of a qualified foreign securities investment trust, for each person who has submitted said written application for a tax exemption on book-entry national bonds or written application for a tax exemption on book-entry municipal bonds and for each qualified foreign securities investment trust accepted thereby), enter or record in the books prescribed in Article 5-2, paragraph (14) of the Act the matters mentioned in said notice, and preserve said books pursuant to the provisions of Ordinance of the Ministry of Finance.

(29) The national bonds specified by Cabinet Order prescribed in Article 5-2, paragraph (15), item (i) of the Act shall be the book-entry national bonds specified respectively in the following items for the category of persons listed in the relevant items:

(i) Nonresident or foreign corporation (excluding those listed in the following item): The book-entry national bonds for which the nonresident or foreign corporation made entries or records under the book-entry transfer system (limited to those subject to the provisions of Article 5-2, paragraph (1) of the Act in terms of interest therefrom)

(ii) Nonresident or foreign corporation that falls under the category of a financial institution prescribed in Article 8, paragraph (1) of the Act or the category of a financial instruments business operator, etc. prescribed in paragraph (2) of said Article: The book-entry national bonds for which the nonresident or foreign corporation made entries or records under the book-entry transfer system

(30) The means specified by Cabinet Order prescribed in Article 5-2, paragraph (15), item (iii) of the Act shall be a means of using an electronic data processing system or another means of using information and communications technology that is specified by Ordinance of the Ministry of Finance.

(31) A specified book-entry transfer institution, etc. pertaining to the entries or records under the book-entry transfer system regarding the book-entry national bonds held by a nonresident or foreign corporation shall, where it has received the notice pursuant to the provisions of Article 5-2, paragraph (15), item (iii) of the Act by means of a document, preserve said document pursuant to the provisions of Ordinance of the Ministry of Finance.

(32) The specified book-entry transfer institution, etc. set forth in the preceding paragraph shall, where it has received the notice pursuant to the provisions of Article 5-2, paragraph (15), item (iii) of the Act by the means prescribed in paragraph (30), preserve the document or microfilm produced by outputting the matters contained in said notice using the input-output devices of an electronic data processing system prescribed in said paragraph (limited to those specified by Ordinance of the Ministry of Finance), pursuant to the provisions of

Ordinance of the Ministry of Finance.

- (33) The national bonds specified by Cabinet Order prescribed in Article 5-2, paragraph (16), item (i) of the Act shall be the book-entry national bonds specified respectively in the following items for the category of persons listed in the relevant items:
- (i) Nonresident or foreign corporation (excluding those listed in the following item): The book-entry municipal bonds for which the nonresident or foreign corporation made entries or records under the book-entry transfer system (limited to those subject to the provisions of Article 5-2, paragraph (1) of the Act in terms of interest therefrom)
 - (ii) Nonresident or foreign corporation that falls under the category of financial institutions prescribed in Article 8, paragraph (1) of the Act or the category of financial instruments business operator, etc. prescribed in paragraph (2) of said Article: The book-entry municipal bonds for which the nonresident or foreign corporation made entries or records under the book-entry transfer system
- (34) The means specified by Cabinet Order prescribed in Article 5-2, paragraph (16), item (iii) of the Act shall be a means of using an electronic data processing system or another means of using information and communications technology that is specified by Ordinance of the Ministry of Finance.
- (35) The provisions of paragraph (31) shall apply *mutatis mutandis* where said specified book-entry transfer institution, etc. has received the notice pursuant to Article 5-2, paragraph (16), item (iii) of the Act by means of a document.
- (36) The specified book-entry transfer institution, etc. set forth in paragraph (31) as applied *mutatis mutandis* pursuant to the preceding paragraph shall, where it has received the notice pursuant to the provisions of Article 5-2, paragraph (16), item (iii) of the Act by the means prescribed in paragraph (34), preserve the document or microfilm produced by outputting the matters contained in said notice using the input-output devices of an electronic data processing system prescribed in said paragraph (limited to those specified by Ordinance of the Ministry of Finance), pursuant to the provisions of Ordinance of the Ministry of Finance.

(Special Provisions on Taxation on Interest from Foreign Private Bonds)

- Article 3-2 (1) The bonds specified by Cabinet Order, prescribed in Article 6, paragraph (1) of the Act, shall be the bonds listed in the following items:
- (i) Where the interest in whole or in part from bonds issued outside Japan by a foreign corporation listed in Article 141, item (i) of the Corporation Tax Act is attributed to a business which is conducted by said foreign corporation in Japan through a fixed place of business prescribed in said item, said bonds
 - (ii) Where the interest in whole or in part from bonds issued outside Japan by a

- foreign corporation listed in Article 141, item (ii) or item (iii) of the Corporation Tax Act is attributed to business conducted by said foreign corporation as prescribed in these items, said bonds.
- (2) The amount specified by Cabinet Order, prescribed in Article 6, paragraph (1) of the Act, shall be an amount listed as follows:
- (i) The part of the amount equivalent to the interest to be received with regard to the general foreign private bonds (meaning the general foreign private bonds as prescribed in Article 6, paragraph (1) of the Act; hereinafter the same shall apply in this Article) issued by a foreign corporation listed in Article 141, item (i) of the Corporation Tax Act, which is attributed to business conducted by said foreign corporation in Japan through a fixed place of business as prescribed in said item
 - (ii) The part of the amount equivalent to the interest to be received with regard to the general foreign private bonds issued by a foreign corporation listed in Article 141, item (ii) or item (iii) of the Corporation Tax Act, which is attributed to business conducted by said foreign corporation as prescribed in these items
- (3) The amount specified by Cabinet Order, prescribed in Article 6, paragraph (2) of the Act, shall be an amount listed as follows:
- (i) The part of the amount equivalent to the interest to be paid to a resident or a domestic corporation with regard to the general foreign private bonds issued by a foreign corporation listed in Article 141, item (i) of the Corporation Tax Act, which is attributed to business conducted by said foreign corporation in Japan through a fixed place of business as prescribed in said item
 - (ii) The part of the amount equivalent to the interest to be paid to a resident or a foreign corporation with regard to the general foreign private bonds issued by a foreign corporation listed in Article 141, item (ii) or item (iii) of the Corporation Tax Act, which is attributed to business conducted by said foreign corporation as prescribed in these items
- (4) The place for paying income tax on the interest from general foreign private bonds issued by a foreign corporation that is to be collected and paid pursuant to the provisions of Article 6, paragraph (2) of the Act shall be at the location of the principal office of said foreign corporation in Japan.
- (5) The foreign corporation specified by Cabinet Order, prescribed in Article 6, paragraph (4) of the Act, shall be a foreign corporation listed as follows:
- (i) A foreign corporation that has its head office or principal office in a state or territory where there are no taxes imposed on corporate income
 - (ii) A foreign corporation whose tax imposed on the income is not more than 25% of the total income for a business year as prescribed in Article 2, paragraph (2), item (xix) of the Act that includes the day on which it issued

general foreign private bonds pertaining to the interest for which it seeks the application of the provisions of Article 6, paragraph (4) of the Act (referred to as the "business year in which the foreign private bonds were issued" in paragraph (7), item (iii))

(6) The provisions of Article 25-19, paragraph (2) shall apply mutatis mutandis to the determination as to whether or not a foreign corporation that issues general foreign private bonds (referred to as a "foreign corporation that issues foreign private bonds" in the following paragraph to paragraph (9)) falls under the category of a foreign corporation listed in item (ii) of the preceding paragraph. In this case, the term "each business year" in paragraph (2), item (i) of said Article shall be deemed to be replaced with "the business year in which the foreign private bonds were issued (meaning the business year in which the foreign private bonds were issued as prescribed in Article 3-2, paragraph (5), item (ii); hereinafter the same shall apply in this paragraph)," and the term "each business year" in item (ii) of said paragraph shall be deemed to be replaced with "the business year in which the foreign private bonds were issued."

(7) Where a foreign corporation that issues foreign private bonds meets all of the following requirements, it shall not be included in the category of foreign corporations listed in the items of paragraph (5):

(i) Its principal business does not fall under any of the categories of the holding of shares (including capital contributions; referred to as "shares, etc." in paragraphs (9) to (11)) or bonds, the provision of industrial property rights or any other rights concerning technology, production methods involving special technology, or any other equivalent rights or methods (including the right to use such rights) or copyrights (including publication rights, neighboring rights and any other equivalent rights), or the lending of vessels or aircraft.

(ii) It has an office, store, factory or any other fixed facility that is considered to be necessary for conducting its principal business in the state or territory where its head office or principal office is located (referred to as the "state of the head office" in (b) of the following item), and takes charge of managing, controlling, and operating the business on its own account.

(iii) It falls under any of the cases specified in the following items for any principal business that falls under the category of a business set forth in those items that it conducts in the business year in which the foreign private bonds were issued:

(a) Wholesale business, banking business, trust business, financial instruments business, insurance business, water transportation business, or air transportation business: The cases specified as follows for the categories of its principal businesses listed respectively as follows:

1. Wholesale business: Where, out of the total revenue from selling

inventory assets (meaning inventory assets prescribed in Article 2, item (xx) of the Corporation Tax Act; the same shall apply in 1.) for the business year in which the foreign private bonds were issued (where there are any commissions to be received for agent or intermediary services for the buying or selling of inventory assets, such revenues shall include the amount from the transactions for which said commissions were generated; hereinafter referred to as the "amount of sales transactions" in 1.), the ratio of the sum of the amount of sales transactions with a person other than affiliated persons exceeds 50 percent, or out of the sum of the acquisition costs for acquiring inventory assets for the business year in which the foreign private bonds were issued (where there are any commissions to be received for agent or intermediary services for the buying or selling of inventory assets, such acquisition costs shall include the amount from the transactions for which said commissions were generated; hereinafter referred to as the "amount of purchase transactions" in 1.), the ratio of the sum of the amount of purchase transactions with a person other than affiliated persons exceeds 50 percent

2. Banking business: Where, out of the sum of the total interest received for the business year in which the foreign private bonds were issued, the ratio of the sum of said interest to be received from a person other than affiliated persons exceeds 50 percent, or out of the sum of the total interest paid for the business year in which the foreign private bonds were issued, the ratio of the sum of said interest to be paid to a person other than affiliated persons exceeds 50 percent
3. Trust business: Where, out of the sum of the total trust charge for the business year in which the foreign private bonds were issued, the ratio of the sum of said trust charge to be received from a person other than affiliated persons exceeds 50 percent
4. Financial instruments business: Where, out of the sum of the total commissions received (including profits from the buying and selling of securities) for the business year in which the foreign private bonds were issued, the ratio of the sum of said commissions to be received from a person other than affiliated persons exceeds 50 percent
5. Insurance business: Where, out of the sum of the total premium income for the business year in which the foreign private bonds were issued, the ratio of the sum of said premium income to be received from a person other than affiliated persons (where said premium income pertains to reinsurance, limited to premium income from insurance for assets held by a person other than affiliated persons or damages incurred by a person other than affiliated persons) exceeds 50 percent

6. Water transportation business or air transportation business: Where, out of the total revenue from the operation or rental of vessels or operation or rental of aircrafts for the business year in which the foreign private bonds were issued, the ratio of the sum of said revenue to be received from a person other than affiliated persons exceeds 50 percent.
- (b) Business other than those listed in (a): The cases specified as follows for the respective categories of its principal businesses listed as follows:
 1. Real estate business: Where conducting a buying and selling or rental business of real estate (including acts to let others use said real estate) (real estate shall include the rights thereon; hereinafter the same shall apply in 1.) mainly located in the state of the head office, providing agent or intermediary services for the buying and selling or rental business of said real estate, and managing said real estate
 2. Rental and leasing business: Where conducting a rental business for goods to be provided for use mainly in the state of the head office
 3. Business other than those listed in (a) above, and in 1. and 2.: Where conducting a business mainly in the state of the head office.
- (8) Where transactions between a foreign corporation that issues foreign private bonds and said foreign corporation's affiliated person are conducted indirectly via a person other than said foreign corporation's affiliated person (hereinafter referred to as a "non-affiliated person" in this paragraph), transactions between said foreign corporation that issues foreign private bonds and said non-affiliated person shall be deemed to have been conducted directly between said foreign corporation that issues foreign private bonds and said affiliated person, and the provisions of item (iii), (a) of the preceding paragraph shall apply, except in the case where there are reasonable grounds for having said non-affiliated person intervene in such transactions.
- (9) The affiliated person prescribed in paragraph (7), item (iii), (a) and the preceding paragraph shall be a person listed as follows:
 - (i) When there is a relationship between a foreign corporation that issues foreign private bonds and any other corporation whereby either one of the corporations directly or indirectly holds over 50 percent of the total number or total amount of the second corporation's issued shares or capital contributions (excluding shares that either corporation holds in itself; hereinafter referred to as the "issued shares, etc." in this paragraph to paragraph (11)), said second corporation (excluding a corporation falling under the category of persons listed in the following item)
 - (ii) When there is a relationship whereby over 50 percent of the total number or total amount of the issued shares, etc. of a foreign corporation that issues foreign private bonds and a second corporation are respectively held directly

or indirectly by the same person (where said person is an individual, said individual and an individual who has a special relationship as prescribed in Article 4, paragraph (1) of the Order for Enforcement of the Corporation Tax Act to said individual), said second corporation.

- (10) In the case referred to in item (i) of the preceding paragraph, whether or not one of the corporations directly or indirectly holds over 50 percent of the total number or the total amount of the second corporation's issued shares, etc. shall be determined according to the ratio obtained by adding the ownership ratio for the shares, etc. in said second corporation that are held directly by the first corporation (meaning the ratio of the number or the amount of said second corporation's shares or capital contributions that are held by the first corporation out of the total issued shares, etc. of the second corporation) and the ownership ratio for the shares, etc. in the second corporation that are held indirectly by the first corporation.
- (11) The ownership ratio for the shares, etc. that are held indirectly that is prescribed in the preceding paragraph shall be a ratio specified in the following items for the category of cases listed in the respective items (where this falls under both of the following cases, the sum of the ratios specified as follows):
- (i) Where over 50 percent of the total number or the total amount of the issued shares, etc. of a corporation which is a shareholder, etc. (meaning a shareholder, etc. prescribed in Article 2, item (viii)-2 of the Income Tax Act; the same shall apply in the following item) of the second corporation set forth in the preceding paragraph are held by the first corporation set forth in the preceding paragraph: The ratio of the number or the amount of shares, etc. in the second corporation that are held by the corporation which is its shareholder, etc. out of the total issued shares, etc. of said second corporation (where there are two or more such corporations which are shareholders, etc., the sum of the ratios calculated for each of them)
 - (ii) Where a single corporation or two or more corporations are interposed between a corporation which is a shareholder, etc. of the second corporation set forth in the preceding paragraph (excluding a corporation which is a shareholder, etc. set forth in the preceding item falling under the case listed in said item) and the first corporation set forth in the preceding paragraph, and this single corporation or two or more corporations have a link with the other corporations through the holding of issued shares, etc. (hereinafter such interposed corporations shall be referred to as "corporations related through capital contribution" in this item) (limited to the case where over 50 percent of the total number or the total amount of the issued shares, etc. of both the corporations related through capital contribution and the corporation which is the shareholder, etc. are held by the first corporation or by a corporation related through capital contribution (this shall be limited to

those for whom over 50 percent of the total number or the total amount of the issued shares, etc. are held by said first corporation or by another corporation related through capital contribution)): The ratio of the number or the amount of shares, etc. of the second corporation that are held by said corporation which is a shareholder, etc. out of the total issued shares, etc. of said second corporation (where there are two or more such corporations which are shareholders, etc., the sum of the ratios calculated for each of them).

- (12) The person in charge of handling payment as specified by Cabinet Order prescribed in Article 6, paragraph (4) of the Act shall be the person prescribed in Article 2-2, paragraph (2) who is in Japan, and the person who provides, outside Japan, intermediary, brokerage or agent services (referred to as the "intermediary services, etc." in paragraph (21) and paragraph (35)) for the receipt of interest from foreign private bonds prescribed in Article 6, paragraph (1) of the Act (referred to as "foreign private bonds" in paragraph (33)) as the person's own operations or in relation to such operations.
- (13) A written application for a tax exemption pursuant to the provisions of Article 6, paragraph (4) of the Act (referred to as a "written application for a tax exemption" in the following paragraph to paragraph (17)) shall be submitted, on each occasion of receiving payment of interest from general foreign private bonds, to the district director of the tax office prescribed in Article 6, paragraph (4) of the Act, via the person who pays the interest (in the case where said interest is paid via a person in charge of handling payment as prescribed in paragraph (4) of said Article (hereinafter referred to as a "person in charge of handling payment" in this Article), submission shall be made via said person in charge of handling payment and the person who pays the interest).
- (14) A person who submits a written application for a tax exemption shall, upon submitting it, present a document that certifies that the person falls under the category of nonresidents or foreign corporations (limited to such document that contains the name and domicile or residence or the location of the person's head office or principal office (hereinafter referred to as "domicile, etc." in this paragraph, the following paragraph and paragraph (19)), each of which is located outside Japan; the same shall apply in said paragraph), to a person who pays interest based on said written application for a tax exemption (in the case where said interest is paid via a person in charge of handling payment, the document shall be presented to said person in charge of handling payment; hereinafter the same shall apply in this paragraph and the following paragraph), and said person who pays interest shall confirm, by the document presented thereto, the name and domicile, etc. outside Japan as entered in said written application for a tax exemption.

- (15) A person who pays interest from general foreign private bonds shall, when he/she has confirmed, by the document prescribed in the preceding paragraph, the name and domicile etc. outside Japan as entered in the written application for a tax exemption on the interest from said general foreign private bonds which has been submitted thereto, enter in said written application for a tax exemption to that effect that such confirmation has been provided as well as the name and domicile, etc. of said person who pays interest.
- (16) A person who pays interest from general foreign private bonds shall, when he/she has received a written application for a tax exemption on the interest from said general foreign private bonds, submit said written application for a tax exemption to the district director of the tax office prescribed in Article 6, paragraph (4) of the Act no later than the final day of the month that includes the day on which the person has received the written application.
- (17) A person who pays interest from general foreign private bonds shall, when he/she has received a written application for a tax exemption on the interest from said general foreign private bonds, prepare and preserve a copy of said written application for a tax exemption (including its equivalent), pursuant to the provisions of Ordinance of the Ministry of Finance.
- (18) The interest specified by Cabinet Order prescribed in Article 6, paragraph (4) and paragraph (10) of the Act shall be the interest listed as follows:
- (i) Interest to be received by a nonresident listed in Article 164, paragraph (1), item (i) of the Income Tax Act, which is attributed to business conducted by said nonresident in Japan through a fixed place of business as prescribed in Article 164, paragraph (1), item (i) of said Act
 - (ii) Interest to be received by nonresidents listed in Article 164, paragraph (1), item (ii) or item (iii) of the Income Tax Act, which is attributed to a business prescribed in these provisions that is conducted by these nonresidents.
- (19) A nonresident or foreign corporation who seeks the application of Article 6, paragraph (7) of the Act with respect to interest from specified foreign private bonds prescribed in paragraph (7) of said Article (hereinafter referred to as "specified foreign private bonds" through to paragraph (29)) shall, upon entrusting a person in charge of handling payment with custody of said specified foreign private bonds, pursuant to the provisions of Ordinance of the Ministry of Finance, notify said person in charge of handling payment of his/her or its name and domicile, etc. outside Japan, and obtain confirmation with regard to the matters contained in the notification, by presenting a document that certifies that he/she or it falls under the category of nonresidents or foreign corporations or by any other method equivalent thereto.
- (20) Where a nonresident or foreign corporation who seeks the application of Article 6, paragraph (7) of the Act with respect to interest from specified foreign private bonds entrusts a person in charge of handling payment with

custody of said specified foreign private bonds, if he/she or it has already obtained confirmation pursuant to the provisions of the preceding paragraph when entrusting said person in charge of handling payment with custody of other specified foreign private bonds or the case falls under any of those specified by Ordinance of the Ministry of Finance as equivalent thereto, notwithstanding the provisions of said paragraph, the nonresident or foreign corporation shall not be required to give a notification pursuant to the provisions of said paragraph when entrusting custody of said specified foreign private bonds.

- (21) The person in charge of handling custody and payment prescribed in Article 6, paragraph (7) of the Act (hereinafter referred to as the "person in charge of handling custody and payment" through to paragraph (26)) shall, on each occasion of receiving the delivery of interest from specified foreign private bonds, of which the person is entrusted with custody, in the course of the intermediary services, etc. for the receipt of such interest, no later than the day preceding the day on which the person is to receive the delivery, give notice pursuant to the provisions of paragraph (7) of said Article (hereinafter referred to as "notice" through to paragraph (23)) to provide the interest recipient information prescribed in paragraph (7) of said Article (hereinafter referred to as "interest recipient information" through to paragraph (27)) for the interest to be delivered thereto to the person who pays the interest (in the case where the interest is delivered via any other person in charge of handling payment with whom said person in charge of handling custody and payment has further entrusted custody, notice shall be given to the person who pays the interest via such other person in charge of handling payment). In this case, if the person in charge of handling custody and payment receives the delivery of interest from said specified foreign private bonds, for the first time, on or after the day on which 40 days have elapsed since the day on which said specified foreign private bonds were issued, the notice of the interest recipient information for the interest to be delivered thereto shall be given on or after said day on which the 40-day period has expired.
- (22) Where a person in charge of handling custody and payment receives the delivery of interest from specified foreign private bonds, of which the person is entrusted with custody, on or after the day on which the person has received the delivery of interest pertaining to the interest recipient information of which said person gave notice to the person who pays interest from said specified foreign private bonds (limited to such information provided in the notice stating to the effect that Article 6, paragraph (7), item (i) of the Act shall apply; hereinafter the same shall apply in this paragraph), if the person in charge of handling custody and payment has confirmed that all persons who are to receive payment of the interest (excluding interest subject to the

provisions of Article 3-3, paragraph (3) or paragraph (6) of the Act; hereinafter the same shall apply in this paragraph) to be delivered thereto fall under the category of nonresidents or foreign corporations, said person in charge of handling custody and payment may omit giving notice of the interest recipient information for the interest to be delivered thereto.

(23) The provisions of the preceding paragraph shall apply only where the person in charge of handling custody and payment set forth in said paragraph has obtained approval in advance, pursuant to the provisions of Ordinance of the Ministry of Finance, from the person who pays interest set forth in said paragraph with regard to the omission of notice prescribed in said paragraph. In this case, if said person in charge of handling custody and payment has not given, by the day preceding the day on which the person is to receive the delivery of interest from the relevant specified foreign private bonds, notice of the interest recipient information for the interest to be delivered thereto, notice of the interest recipient information shall be deemed to have been given, as of said day, by said person in charge of handling custody and payment to the person who pays interest, stating to the effect that Article 6, paragraph (7), item (i) of the Act shall apply.

(24) Where a person in charge of handling custody and payment is entrusted by subcontract with custody of other specified foreign private bonds with the same issue as that of the specified foreign private bonds of which the person is directly entrusted with custody, when the person has received notice, as the relay point via which the notice shall be given pursuant to the provisions of Article 6, paragraph (7) of the Act, with regard to the interest recipient information for the interest from said other specified foreign private bonds, the person may, pursuant to the provisions of Ordinance of the Ministry of Finance, give notice to provide the interest recipient information for the specified foreign private bonds of which the person is directly entrusted with custody together with the interest recipient information of which the person has received notice as such relay point, to the person who pays the interest (in the case where the interest is delivered via any other person in charge of handling payment with whom said person in charge of handling custody and payment has further entrusted custody, notice shall be given to the person who pays the interest via such other person in charge of handling payment). In this case, said notice shall be deemed to be notice of the interest recipient information given pursuant to the provisions of paragraph (7) of said Article.

(25) When a person who is entrusted by subcontract with custody of specified foreign private bonds (excluding such person who is deemed to be a person in charge of handling custody and payment who is entrusted with custody of other specified foreign private bonds with the same issue as that of said specified foreign private bonds; hereinafter referred to as a "person in charge of

handling payment based on entrustment by subcontract" in this paragraph and the following paragraph) has received notice, as the relay point via which the notice shall be given pursuant to the provisions of Article 6, paragraph (7) of the Act, with regard to two or more pieces of interest recipient information for the interest from said specified foreign private bonds, the person may, pursuant to the provisions of Ordinance of the Ministry of Finance, give notice to provide these pieces of interest recipient information of which the person has received notice as such relay point together, to the person who pays the interest (in the case where the interest is delivered via any other person in charge of handling payment with whom said person in charge of handling custody and payment has further entrusted custody, notice shall be given to the person who pays the interest via such other person in charge of handling payment). In this case, said notice shall be deemed to be notice of the interest recipient information given pursuant to the provisions of paragraph (7) of said Article.

- (26) The provisions of paragraph (22) and paragraph (23) shall apply mutatis mutandis in the following cases:
- (i) Where the person in charge of handling custody and payment or person in charge of handling payment based on entrustment by subcontract gives notice, as the relay point via which notice shall be given pursuant to the provisions of Article 6, paragraph (7) of the Act, to provide the interest recipient information for the interest from the specified foreign private bonds of which the person is entrusted with custody directly or by subcontract, to the other person in charge of handling payment as prescribed in paragraph (7) of said Article
 - (ii) Where the person in charge of handling payment based on entrustment by subcontract gives notice pursuant to the provisions of the preceding paragraph to provide the interest recipient information for the interest from the specified foreign private bonds of which the person is entrusted with custody by subcontract, to the person who pays interest from said specified foreign private bonds.
- (27) A person who pays interest from specified foreign private bonds shall, when paying such interest, prepare a document identifying the interest recipient prescribed in Article 6, paragraph (7) of the Act (hereinafter referred to as an "document identifying the interest recipient" in the following paragraph) based on the interest recipient information provided in the notice given thereto pursuant to the provisions of paragraph (21), paragraph (24) or paragraph (25) (including the interest recipient information of which notice shall be deemed to have been given pursuant to the provisions of paragraph (23) (including the cases where it is applied mutatis mutandis pursuant to the preceding paragraph)).

- (28) A person who pays interest from specified foreign private bonds shall submit a document identifying the interest recipient prepared pursuant to the provisions of the preceding paragraph to the district director the tax office prescribed in Article 6, paragraph (7) of the Act no later than the final day of the month following the month that includes the day on which the interest related to said document identifying the interest recipient has been paid.
- (29) A person who pays interest from specified foreign private bonds shall enter in the books the interest recipient information provided in the notice given thereto pursuant to the provisions of paragraph (27), and preserve said books pursuant to the provisions of Ordinance of the Ministry of Finance.
- (30) The financial institution or financial instruments business operator specified by Cabinet Order prescribed in Article 6, paragraph (8) of the Act shall be any of the following:
- (i) A bank, shinkin bank, Federation of Shinkin Banks, the Shoko Chukin Bank Limited, the Norinchukin Bank, a life insurance company, and casualty insurance company
 - (ii) A financial instruments business operator prescribed in Article 2, paragraph (9) of the Financial Instruments and Exchange Act (limited to one engaged in a Type I financial instruments business prescribed in Article 28, paragraph (1) of said Act).
- (31) The provisions of paragraphs (13) to (17), and paragraphs (19) to (29) shall apply mutatis mutandis where a domestic financial institution, etc. prescribed in Article 6, paragraph (8) of the Act is be subject to the provisions of the main clause of paragraph (4) of said Article as well as paragraph (6) and paragraph (7) of said Article, all of which shall apply mutatis mutandis pursuant Article 6, paragraph (8) of the Act. In this case, in paragraph (14), the term "the name and domicile or residence or the location of the person's head office or principal office (hereinafter referred to as "domicile, etc." in this paragraph, the following paragraph and paragraph (19)), each of which is located outside Japan" and the term "name and domicile, etc. outside Japan" shall be deemed to be replaced with "name and the location of the person's head office or principal office"; in paragraph (15) and paragraph (19), the term "name and domicile, etc. outside Japan" shall be deemed to be replaced with "name and the location of the person's head office or principal office"; and in paragraph (22), the term "nonresident or foreign corporation" shall be deemed to be replaced with "nonresident or foreign corporation, or domestic financial institution, etc. prescribed in Article 6, paragraph (8) of the Act."
- (32) The state designated by Cabinet Order prescribed in Article 6, paragraph (11) of the Act shall be Switzerland.
- (33) The requirements specified by Cabinet Order prescribed in Article 6, paragraph (11) of the Act shall be the requirements listed as follows:

- (i) Redemption of the principal of the relevant foreign private bonds and payment of interest therefrom are made in the designated state prescribed in Article 6, paragraph (11) of the Act where said foreign private bonds were issued, using the currency of said designated state
 - (ii) In the underwriting contract, etc. (meaning an underwriting contract, etc. as prescribed in Article 6, paragraph (9), item (i) of the Act) concluded by the person who issues said foreign private bonds, it is provided that the person who performs the underwriting, etc. prescribed in paragraph (9), item (i) of said Article (referred to as the "underwriting, etc." in the following item) of said foreign private bonds shall not have a resident or a domestic corporation acquire or buy said foreign private bonds by way of an offering or secondary distribution, dealings in an offering or secondary distribution, or any other operations equivalent thereto (referred to as an "offering or secondary distribution, etc." in the following item) under said underwriting contract, etc.
 - (iii) All persons who have performed the underwriting, etc. of the relevant foreign private bonds have, pursuant to the provisions of Ordinance of the Ministry of Finance, submitted a document stating to the effect that the requirement set forth in the preceding item has been satisfied during the performance of the offering or secondary distribution, etc. of all of the foreign private bonds for which the underwriting, etc. has been performed, as well as any other matters specified by Ordinance of the Ministry of Finance, to the competent district director with jurisdiction over the location of the head office or principal office of the person who issued said foreign private bonds (where said person who issued said foreign private bonds is a foreign corporation, the location of the foreign corporation's principal office in Japan), via said person who issued the bonds.
- (34) With respect to the application of the provisions of Article 267, paragraph (2) of the Order for Enforcement of the Income Tax Act in the case where a resident who has, in a given year, interest income from interest (excluding interest subject to the provisions of Article 3-3, paragraph (1) of the Act) on general foreign private bonds, submits a final return form prescribed in Article 267, paragraph (2) of said Act, the term "written statement" in paragraph (2) of said Article shall be deemed to be replaced with "written statement or any other document specified by Ordinance of the Ministry of Finance."
- (35) A person who pays interest from specified foreign private bonds may request a person in charge of handling payment in Japan to give notice thereto of the part of the amount of interest from the relevant foreign private bonds delivered by said person in charge of handling payment in the course of intermediary services, etc. for the receipt of such interest, which is subject to the provisions of Article 3-3, paragraph (3) or paragraph (6) of the Act.

(36) The provisions of paragraph (12) to the preceding paragraph shall apply mutatis mutandis where the provisions of Article 6, paragraphs (1) to (12) of the Act as applied mutatis mutandis pursuant to paragraph (13) of said Article shall apply with respect to interest from foreign currency denominated bonds prescribed in said paragraph.

Section 8-4 Special Provisions on Taxation on Income from the Specified Foreign Subsidiaries, etc. of a Resident

(Scope of Specified Foreign Subsidiaries, etc.)

Article 25-19 (1) The affiliated foreign company specified by Cabinet Order prescribed in Article 40-4, paragraph (1) of the Act shall be any of the following:

- (i) An affiliated foreign company that has its head office or principal office in a state or territory where there are no taxes imposed on corporate income (meaning an affiliated foreign company prescribed in Article 40-4, paragraph (2), item (i) of the Act; hereinafter the same shall apply in this Section)
 - (ii) An affiliated foreign company whose tax imposed on its income for the relevant business year (meaning a business year prescribed in Article 2, paragraph (2), item (xix) of the Act; hereinafter the same shall apply in this Section) is 25 percent or less of said income.
- (2) Whether or not an affiliated foreign company falls under the category of an affiliated foreign company set forth in item (ii) of the preceding paragraph shall be determined as specified as follows:
- (i) The amount of income set forth in item (ii) of the preceding paragraph shall be the amount obtained by adding the amount of income calculated pursuant to the provisions of the laws and regulations concerning foreign corporation taxes (meaning foreign corporation taxes prescribed in Article 69, paragraph (1) of the Corporation Tax Act; hereinafter the same shall apply in this paragraph) of the state or territory where said affiliated foreign company's head office or principal office is located (hereinafter referred to as the "state of the head office" in this Section) (where there are two or more laws and regulations concerning said foreign corporation taxes, pursuant to the provisions of the principal ones; hereinafter referred to as the "laws and regulations of the state of the head office" in this paragraph) with regard to said affiliated foreign company's income in its settlement of accounts for the relevant business year and the sum of the amounts listed in (a) to (e) pertaining to said calculated amount of income and then deducting therefrom the amount listed in (f) pertaining to said calculated amount of income:
 - (a) The amount of income which is not to be included in the foreign corporation tax base under the laws and regulations of the state of the

head office (excluding the amounts listed as follows):

1. The amount of a dividend of surplus, dividend of profit or distribution of surplus prescribed in Article 23, paragraph (1), item (i) of the Corporation Tax Act (hereinafter referred to as a "dividend of surplus, etc." in this Section) to be received from a corporation located in the state of the head office (including the amount specified in Article 40-5, paragraph (1), item (ii) of the Act; hereinafter referred to as the "amount of a dividend, etc." in this paragraph)
 2. The amount of a dividend, etc. to be received from a corporation located in a state or territory other than the state of the head office, which is not to be included in the foreign corporation tax base, on the condition that the ratio of the shares, etc. (meaning shares or capital contributions; hereinafter the same shall apply in this Section) held by the affiliated foreign company out of the total number or total amount of said corporation's issued shares or capital contributions (excluding shares that said corporation holds in itself) (hereinafter referred to as the "issued shares, etc." in this Section) is not less than the ratio specified by the laws and regulations of said state of the head office
- (b) The amount of a dividend, etc. that the affiliated foreign company is to pay and which is included in deductible expenses
 - (c) The amount of foreign corporation tax that the affiliated foreign company is to pay and which is included in deductible expenses
 - (d) The amount equivalent to the amount of reserves similar to the casualty reserves set forth in Article 57-5, paragraph (1) or Article 57-6, paragraph (1) of the Act (referred to as "insurance reserves" in (e)) that the affiliated foreign company has set aside, which is included in deductible expenses and which is not to be included in deductible expenses when the provisions of Article 57-5 or Article 57-6 of the Act apply
 - (e) Where the amount of insurance reserves that have been set aside by the affiliated foreign company and have been included in gross profits (limited to insurance reserves that are set aside when the provisions of Article 57-5 or Article 57-6 of the Act apply) does not reach the amount that should be included in gross profits when these provisions apply, the amount of said shortfall
 - (f) The amount of foreign corporation tax that shall be refunded to the affiliated foreign company and which is included in gross profits
- (ii) The amount of tax set forth in item (ii) of the preceding paragraph shall be the sum of the amounts listed as follows:
 - (a) The amount of foreign corporation tax to be imposed on the amount of the affiliated foreign company's income in its settlement of accounts for the relevant business year in the state of the head office or in a state or

- territory other than the state of the head office (including the amount to be deducted from the foreign corporation tax in the state of the head office by deeming that said affiliated foreign company has paid said amount under the laws and regulations of the state of the head office and excluding the amount of foreign corporation tax to be imposed on the amount listed in (a), 2. of the preceding item)
- (b) The amount of foreign corporation tax that has been reduced or exempted for the affiliated foreign company for the relevant business year in the state of the head office and which is deemed to have been paid by said affiliated foreign company pursuant to the provisions of the tax convention prescribed in Article 1-3, paragraph (1), item (ii) in the case where a domestic corporation related to said affiliated foreign company is subject to the provisions of Article 69, paragraph (8) or Article 81-15, paragraph (8) of the Corporation Tax Act
- (iii) Where foreign corporation tax rates in the state of the head office increase in accordance with the amount of income, the amount of foreign corporation tax set forth in (a) of the preceding item shall be the amount calculated based on the highest rates out of such tax rates
- (iv) Where the amount of income set forth in item (ii) of the preceding paragraph proves to be a loss, the amount of foreign corporation tax shall be determined based on the foreign corporation tax rate to be applied in the state of the head office to any income that arises from revenue from the affiliated foreign company's principal business (in the case where said revenue falls under the category of the amount listed in 1. or 2. of item (i), (a), revenue other than said revenue).
- (3) A nonresident who has a special relationship specified by Cabinet Order to a resident or domestic corporation prescribed in Article 40-4, paragraph (2), item (i) of the Act shall be a nonresident listed as follows:
- (i) A relative of the resident
- (ii) A person in a relationship with the resident where a marital relationship is de facto, though a marriage has not been registered
- (iii) An employee of the resident
- (iv) A person other than those listed in the preceding three items who maintains a living by receiving money or any other assets from the resident
- (v) A relative of any of the persons listed in the preceding three items who depends on such person for his/her livelihood
- (vi) An officer of the domestic corporation (meaning an officer prescribed in Article 2, item (xv) of the Corporation Tax Act; hereinafter the same shall apply in this item and Article 25-21, paragraph (9) and paragraph (11)) and a person listed in the items of Article 72-3 of the Order for Enforcement of the Corporation Tax Act with a relationship to said officer.

(Calculation of Undistributed Income of Specified Foreign Subsidiaries, etc.)

Article 25-20 (1) The amount of undistributed income calculated in accordance with the standards specified by Cabinet Order prescribed in Article 40-4, paragraph (2), item (ii) of the Act shall be the remaining amount after deducting the amount listed in Article 39-15, paragraph (1), item (iii) for the income of a specified foreign subsidiary, etc. prescribed in Article 40-4, paragraph (1) of the Act (hereinafter referred to as a "specified foreign subsidiary, etc." in this Article and paragraphs (1) to (4) of the following Article) in its settlement of accounts for the relevant business year from the sum of the amount listed in Article 39-15, paragraph (1), item (i) and the amount listed in item (ii) of said paragraph for said income (where the amount listed in item (i) of said paragraph for said income is a loss, said amount of undistributed income shall be the remaining amount after deducting the sum of said amount of loss and the amount listed in item (iii) of said paragraph for said income from the amount listed in item (ii) of said paragraph for said income).

(2) Notwithstanding the provisions of the preceding paragraph, a resident listed in the items of Article 40-4, paragraph (1) of the Act may deem that the amount obtained by adding the amount of income calculated pursuant to the provisions of the laws and regulations concerning corporate income taxes in the state of the head office of a specified foreign subsidiary, etc. (meaning taxes to be imposed based on the amount of the company's income in the state of the head office or in a state or territory other than the state of the head office or by local entities in such state or territory including the state of the head office (including taxes listed in the items of Article 141, paragraph (2) of the Order for Enforcement of the Corporation Tax Act to be imposed in such state or territory or by local entities of such state or territory) and taxes equivalent to incidental taxes to be imposed incidentally as prescribed in Article 2, item (xlv) of the Corporation Tax Act (excluding interest tax) and other taxes similar to the tax equivalent to said incidental taxes; hereinafter the same shall apply in this Section) (where there are two or more laws and regulations concerning said corporate income taxes, pursuant to the provisions of the principal ones; hereinafter referred to as the "laws and regulations of the state of the head office" in this paragraph), with regard to the income of said specified foreign subsidiary, etc. in its settlement of accounts for the relevant business year (where the provisions of Article 66-4, paragraph (1) or Article 68-88, paragraph (1) of the Act are applied to a transaction between said specified foreign subsidiary, etc. and a domestic corporation listed in the items of Article 66-6, paragraph (1) of the Act that relates to said specified foreign subsidiary, etc., the amount of income calculated pursuant to the provisions of the laws and

regulations of the state of the head office by deeming that the transaction was carried out at the arm's length price prescribed in those provisions), and the sum of the amounts listed in Article 39-15, paragraph (2), items (i) to (xiii) for said calculated amount of income and then deducting therefrom the sum of the amounts listed in items (xiv) to (xvi) of said paragraph for said calculated amount of income (where the amount calculated pursuant to the provisions of the laws and regulations of the state of the head office proves to be a loss, said amount shall be the remaining amount after deducting the sum of said amount of loss and the amounts listed in items (xiv) to (xvi) of said paragraph for said calculated amount from the sum of the amounts listed in items (i) to (xiii) of said paragraph for said calculated amount) shall be the amount calculated in accordance with the standards specified by Cabinet Order prescribed in Article 40-4, paragraph (2), item (ii) of the Act.

(3) Where there is any amount of a deductible dividend, etc. (meaning the amount equivalent to the amount specified respectively in the following items for the category of cases listed in the relevant items; hereinafter the same shall apply in this paragraph) for the relevant business year of a specified foreign subsidiary, etc. related to a resident listed in the items of Article 40-4, paragraph (1) of the Act, the amount calculated in accordance with the standards specified by Cabinet Order prescribed in Article 40-4, paragraph (2), item (ii) of the Act shall be the remaining amount after deducting said amount of a deductible dividend, etc. from the amount calculated pursuant to these provisions, notwithstanding the provisions of paragraph (1) or the preceding paragraph:

(i) Where the amount of a dividend of surplus, etc. that said specified foreign subsidiary, etc. receives from any other specified foreign subsidiary, etc. related to said resident (hereinafter referred to as the "other specified foreign subsidiary, etc." in this item) in the relevant business year (such amount shall include the amount specified in Article 40-5, paragraph (1), item (ii) of the Act; hereinafter referred to as the "amount of a dividend, etc." in this paragraph) does not exceed the amount of a dividend payable corresponding to the capital contributions by said specified foreign subsidiary, etc. out of the total amount of dividends payable by said other specified foreign subsidiary, etc. in the business year including the base date for paying said dividend, etc. (hereinafter referred to as the "base business year" in this paragraph) and said base business year is the business year during which the taxable retained income prescribed in Article 40-4, paragraph (1) of the Act (hereinafter referred to as the "taxable retained income" in this Section) arises: The amount of said dividend, etc.

(ii) Where the amount of a dividend, etc. that said specified foreign subsidiary, etc. receives from any other specified foreign subsidiary, etc. of said resident

in the relevant business year exceeds the amount of a dividend payable corresponding to the capital contributions for the base business year pertaining to said amount of a dividend, etc.: Where the amount of a dividend payable corresponding to the capital contributions for the relevant business year preceding the base business year of said other specified foreign subsidiary, etc. shall be appropriated to said amount of a dividend, etc. in reverse chronological order and said amount of a dividend, etc. has been categorized for the relevant business year in accordance with said amount of a dividend payable corresponding to the capital contributions for the relevant business year, the sum of the amount of a dividend, etc. to be appropriated with the amount of a dividend payable corresponding to the capital contributions for the business year during which the taxable retained income arises.

- (4) In the preceding paragraph and this paragraph, the meanings of the terms listed respectively in the following items shall be as specified respectively in the relevant items:
- (i) The amount of a dividend payable: The remaining amount after deducting the sum of the amounts listed as follows from the amount of undistributed income prescribed in Article 40-4, paragraph (2), item (ii) of the Act for the relevant business year of a specified foreign subsidiary, etc. (where there is any amount of deductible dividend, etc. prescribed in the preceding paragraph or where the provisions of Article 66-4, paragraph (1) or Article 68-88, paragraph (1) of the Act are applied to a transaction with a domestic corporation listed in the items of Article 66-6, paragraph (1) of the Act that is the domestic corporation of said specified foreign subsidiary, etc. and the amount of income to be reduced pursuant to the provisions of paragraph (1) or paragraph (2) contains any amount that shall not be paid to said domestic corporation, the amount obtained by adding together those amounts to such amount of undistributed income) (where the amount of corporate income tax to be refunded as prescribed in (a) exceeds the amount of corporate income tax payable as prescribed in (a), such remaining amount shall be the amount obtained by adding said amount of undistributed income and said excess amount and then deducting therefrom the sum of the amounts listed in (b) and (c)):
 - (a) The amount of corporate income tax payable in the relevant business year (where there is any amount of corporate income tax to be refunded in the relevant business year, the remaining amount after deducting said amount of corporate income tax to be refunded)
 - (b) The amount payable due to the appropriation of surplus for the relevant business year (excluding the amount of corporate income tax and the amount of a dividend of surplus, etc.)

- (c) The amount paid as the expenses for the relevant business year (excluding the amount of corporate income tax and the amount of a dividend of surplus, etc.) which was included in the amount of undistributed income prescribed in Article 40-4, paragraph (2), item (ii) of the Act for the relevant business year because said amount was not included in deductible expenses for calculating the amount of income pursuant to the provisions of paragraph (1) or paragraph (2) or was included in the amount of income pursuant to the provisions of said paragraph
- (ii) The amount of a dividend payable corresponding to the capital contributions: The amount obtained by multiplying the amount of a dividend payable by a specified foreign subsidiary, etc. by the ratio of the number or the amount of the shares, etc. of said specified foreign subsidiary, etc. that any other specified foreign subsidiary, etc. (hereinafter referred to as the "other specified foreign subsidiary, etc." in this item) holds out of the total issued shares, etc. of said specified foreign subsidiary, etc. (where said specified foreign subsidiary, etc. has issued the shares, etc. in which claims prescribed in Article 40-4, paragraph (1) of the Act (hereinafter referred to as "claims" in this item and paragraph (3) and paragraph (8) of the following Article) with different contents are vested or the shares, etc. in which claims with different contents are deemed to be substantially vested (referred to as the "shares, etc. in which different claims are vested" in paragraph (3) of the following Article), the ratio of the amount of a dividend of surplus, etc. that said other specified foreign subsidiary, etc. can receive based on said claims out of the total amount of a dividend of surplus, etc.).
- (5) The amount obtained as a result of an adjustment for the amount of loss prescribed in Article 40-4, paragraph (2), item (ii) of the Act shall be the amount obtained by calculating the amount of income pursuant to the provisions of paragraph (1), paragraph (2) or paragraph (3) with regard to the income of a specified foreign subsidiary, etc. in its settlement of accounts for the relevant business year (hereinafter referred to as the "amount of adjusted income" in this paragraph and paragraph (7)) and then deducting therefrom the amount equivalent to the sum of the loss incurred in business years that commenced within seven years preceding the first day of the relevant business year (excluding a business year that commenced before April 1, 1978 and a business year during which the company did not fall under the category of a specified foreign subsidiary, etc. (including a specified foreign subsidiary, etc. prescribed in Article 66-6, paragraph (1) or Article 68-90, paragraph (1) of the Act)) (such loss shall exclude the amount deducted in the business years preceding said relevant business year pursuant to the provisions of this paragraph) (where said sum of the loss exceeds the amount of adjusted income

for the relevant business year, said amount of adjusted income).

- (6) The loss prescribed in the preceding paragraph shall be the loss calculated where the provisions of paragraph (1), paragraph (2) or paragraph (3) are applied to the amount of income of a specified foreign subsidiary, etc. in its settlement of accounts for the relevant business year.
- (7) When calculating the amount listed in Article 39-15, paragraph (1), item (i) with regard to the income of a specified foreign subsidiary, etc. in its settlement of accounts for the relevant business year pursuant to the provisions of paragraph (1), if there is any amount to be included in deductible expenses in the relevant business year, pursuant to the provisions of Article 33 and Articles 42 to 53 of the Corporation Tax Act and the provisions of Article 43, Article 45-2, Article 52-2, Article 57-5, Article 57-6, Article 57-8, Articles 65-7 to 65-9 (limited to the part pertaining to item (xix) of the table in Article 65-7, paragraph (1) of the Act), Article 67-12, paragraph (2) and Article 67-13, paragraph (2) of the Act, whose provisions are to apply under the provisions of said item, said amount shall be included in deductible expenses for calculating the amount of adjusted income for the relevant business year, only when detailed statements concerning the inclusion of said amount in deductible expenses are attached to a final return form; provided, however, that when a final return form has not been submitted or a final return form has been submitted without detailed statements concerning the inclusion of said amount in deductible expenses, the district director shall, when he/she finds that there was any compelling reason therefor, apply the provisions of the main clause of this paragraph, only when said detailed statements have been submitted.
- (8) Where a resident, who was subject to the provisions of paragraph (1) for calculating the amount of income of the specified foreign subsidiary, etc. in its settlement of accounts for the relevant business year, seeks the application of paragraph (2) for calculating the amount of income of said specified foreign subsidiary, etc. in its settlement of accounts for the relevant business year in years following the one to which the provisions of paragraph (1) have been applied, or where a resident, who was subject to the provisions of paragraph (2) for calculating the amount of income of the specified foreign subsidiary, etc. in its settlement of accounts for the relevant business year, seeks the application of paragraph (1) for calculating the amount of income of said specified foreign subsidiary, etc. in its settlement of accounts for the relevant business year in years following the one to which the provisions of paragraph (2) have been applied, he/she shall receive approval from the competent district director with jurisdiction over his/her place for tax payment, in advance.

(Calculation, etc. of the Amount of Taxable Retained Income of Specified Foreign Subsidiaries, etc. Related to Residents)

Article 25-21 (1) The amount obtained as a result of an adjustment to the amount of undistributed income set forth in Article 40-4, paragraph (1) of the Act for the amount of taxes and a dividend of surplus, etc. on said undistributed income shall be the remaining amount after deducting the sum of the amounts listed as follows from the amount of undistributed income prescribed in Article 40-4, paragraph (2), item (ii) for the relevant business year of a specified foreign subsidiary, etc. (hereinafter referred to as the "amount of undistributed income" in this paragraph) (where the amount of corporate income tax to be refunded as prescribed in item (i) exceeds the amount of corporate income tax payable as prescribed in said item, the amount obtained by adding the amount of undistributed income and said excess amount and then deducting therefrom the amount listed in item (ii)). In this case, when the sum of the amounts listed in item (i) and item (ii) exceeds said amount of undistributed income, the amount listed in item (i) shall be deducted first and then the amount listed in item (ii) shall be deducted:

(i) The amount of corporate income tax payable in the relevant business year (where there is any amount of corporate income tax to be refunded in the relevant business year, the remaining amount after deducting said amount of corporate income tax to be refunded)

(ii) The sum of the amount of a dividend of surplus, etc. by deeming the relevant business year to be the base business year (meaning the business year including the base day for paying a dividend of surplus, etc.; hereinafter the same shall apply in this item and the following paragraph) (such amount of a dividend of surplus, etc. shall be limited to that for which the payment obligation was fixed by December 31 of the year including the day on which two months have elapsed after the day following the final day of the relevant business year; hereinafter the same shall apply in this item) (where the whole or a part of the amount of a dividend of surplus, etc. by deeming the relevant business year to be the base business year has been paid to a person listed as follows, said sum shall be deemed to be zero):

(a) An affiliated foreign company of said resident (excluding a specified foreign subsidiary, etc. of said resident) whose tax burden imposed in the state of the head office on the amount of the dividend of surplus, etc. that it receives is not more than the tax-burden base specified by Ordinance of the Ministry of Finance as being significantly low compared with that imposed on corporate income in Japan (hereinafter referred to as the "low tax-burden base" in this Section)

(b) Any other specified foreign subsidiary, etc. of said resident.

(2) The amount calculated as specified by Cabinet Order prescribed in Article 40-4, paragraph (1) of the Act shall be the amount obtained by deducting the sum of the amounts listed in paragraph (4), item (i), (b) and (c) of the preceding

Article for the relevant business year from the amount of eligible retained income prescribed in Article 40-4, paragraph (1) of the Act for the relevant business year of a specified foreign subsidiary, etc. of a resident listed in the items of said paragraph (hereinafter such remaining amount after deduction shall be referred to as the "eligible retained income for adjustment" in this paragraph) and then multiplying said remaining amount by the ratio of the shares, etc. for considering the claims held by said person out of the total issued shares, etc. of the specified foreign subsidiary, etc. at the end of the relevant business year of the specified foreign subsidiary, etc. (where the amount of a dividend of surplus, etc. by deeming the relevant business year to be the base business year has not been deducted for calculating the amount of said eligible retained income, the amount shall be that obtained by deducting either of the smaller amounts out of those listed in the following items from said calculated amount):

- (i) The amount obtained by multiplying the amount of said dividend of surplus, etc. by the ratio of the shares, etc. for considering the claims held by said resident out of the total issued shares, etc. of the specified foreign subsidiary, etc. at the end of the business year pertaining to said eligible retained income for adjustment (excluding the shares, etc. for considering the claims indirectly held via a person listed in item (ii), (a) and (b) of the preceding paragraph of said resident)
 - (ii) The amount obtained by multiplying the amount of said eligible retained income for adjustment by the ratio of the shares, etc. for considering the claims held by said resident out of the total issued shares, etc. of the specified foreign subsidiary, etc. at the end of the business year pertaining to said eligible retained income for adjustment (excluding the shares, etc. for considering the claims indirectly held via a person listed in item (ii), (a) and (b) of the preceding paragraph of said resident).
- (3) In the preceding paragraph and this paragraph, the meanings of the terms listed respectively in the following items shall be as specified respectively in the relevant items:
- (i) The shares, etc. for considering the claims held: The number or the amount adding together the number or the amount of the shares, etc. of a foreign corporation directly held by a resident (where said foreign corporation has issued the shares, etc. in which different claims are vested, the number obtained by multiplying the issued shares, etc. of said foreign corporation by the ratio of the amount of a dividend of surplus, etc. that said resident can receive based on said claims out of the total amount) and the shares, etc. for considering the claims indirectly held
 - (ii) The shares, etc. for considering the claims indirectly held: The number or the amount of the shares, etc. obtained by multiplying the issued shares, etc.

of a foreign corporation by the ratio specified respectively in the following items for the category of cases listed in the relevant items (where this falls under both of the following cases, the sum of the ratios specified respectively as follows):

- (a) Where a resident holds the whole or a part of the issued shares, etc. of a first foreign corporation which is a shareholder, etc. (meaning a shareholder, etc. prescribed in Article 2, item (xiv) of the Corporation Tax Act; hereinafter the same shall apply in this Article) of a second foreign corporation (hereinafter such foreign corporation shall be simply referred to as "the first foreign corporation" in (a)): The ratio obtained by multiplying said resident's ratio of shareholding (meaning the ratio of the number or the amount of the shares, etc. held by the shareholders, etc. out of the total issued shares, etc. of the corporation that issues said shares, etc. (where said issuing corporation has issued shares, etc. in which different claims are vested, the ratio of the amount of a dividend of surplus, etc. that said shareholder, etc. can receive based on said claims out of the total amount); hereinafter the same shall apply in this item) in the first foreign corporation by said first foreign corporation's ratio of shareholding in the second foreign corporation (where there are two or more such first foreign corporations, the sum of the ratios calculated for each of them)
 - (b) Where a single foreign corporation or two or more foreign corporations are interposed between a first foreign corporation and a second foreign corporation (limited to a second foreign corporation for which the whole or a part of the issued shares, etc. are held by a resident; hereinafter referred to as the "the second foreign corporation" in this paragraph) (hereinafter such interposed foreign corporations shall be referred to as "foreign corporations related through capital contribution" in this paragraph) and said resident, said second foreign corporation, foreign corporations related through capital contribution and said foreign corporation have a link through the holding of shares, etc.: The ratio obtained by multiplying said resident's ratio of shareholding in the second foreign corporation sequentially by the second foreign corporation's ratio of shareholding in the foreign corporation related through capital contribution, by the foreign corporation related through capital contribution's ratio of shareholding in the other foreign corporation related through capital contribution, and by the foreign corporation related through capital contribution's ratio of shareholding in the first foreign corporation (where there are two or more links, the sum of the ratios calculated for each of them).
- (4) The amount that should be included in the necessary expenses for calculating the amount of miscellaneous income pertaining to the taxable retained income to be included in the gross revenue pursuant to the provisions of Article 40-4,

paragraph (1) of the Act shall be the sum of the interest on liabilities incurred by a resident in acquiring the shares, etc. of a specified foreign subsidiary, etc. (including the shares, etc. of a foreign corporation pertaining to the shares, etc. indirectly held by said resident in the case where he/she indirectly holds the shares, etc. pertaining to said specified foreign subsidiary, etc. (such shares, etc. indirectly held shall mean the number of shares or the amount of capital contributions of a foreign corporation specified by Cabinet Order as those held indirectly as prescribed in Article 40-4, paragraph (2), item (iii) of the Act) (such shares, etc. of a specified foreign subsidiary, etc. shall be limited to those held by said resident and shall exclude those falling under the category of the shares, etc. in said resident's specified foreign subsidiary, etc.); hereinafter the same shall apply in this paragraph) which are to be paid for a period of the year during which said resident held said shares, etc. of the specified foreign subsidiary, etc. (where said sum exceeds the amount deemed to be revenue pertaining to said miscellaneous income under the provisions of paragraph (1) of said Article, such amount shall be that equivalent to the sum of the amounts deemed to be said revenue).

(5) The amount of interest on liabilities prescribed in the preceding paragraph which is to be included in the necessary expenses for calculating the amount of miscellaneous income pertaining to the taxable retained income pursuant to the provisions of said paragraph shall not be included in the amount that should be included in the necessary expenses for calculating the amount of business income or miscellaneous income and the amount of interest on liabilities prescribed in Article 24, paragraph (2) of the Income Tax Act which shall be deducted for calculating the amount of dividend income pursuant to the provisions of said paragraph.

(6) The number of shares or the amount of capital contributions of a foreign corporation specified by Cabinet Order as those held indirectly as prescribed in Article 40-4, paragraph (2), item (iii) of the Act shall be the number or the amount of the shares, etc. obtained by multiplying the issued shares, etc. of a first foreign corporation by the ratio specified respectively in the following items for the category of cases listed in the relevant items (where this falls under both of the following cases, the sum of the ratios specified respectively as follows):

(i) Where an individual or domestic corporation holds the whole or a part of the issued shares, etc. of a second foreign corporation which is the shareholder, etc. of the first foreign corporation (hereinafter referred to as a "second foreign corporation" in this item): The ratio obtained by multiplying the ratio of shareholding (meaning the ratio of the number or the amount of the shares, etc. held by the shareholders, etc. out of the total issued shares, etc. of the corporation that issues said shares, etc.; hereinafter the same shall apply in

- this paragraph) of said individual or domestic corporation in the second foreign corporation by said second foreign corporation's ratio of shareholding in the first foreign corporation (where there are two or more such second foreign corporations, the sum of the ratios calculated for each of them)
- (ii) Where a single foreign corporation or two or more foreign corporations are interposed between a first foreign corporation and a second foreign corporation (limited to a second foreign corporation for which the whole or a part of the issued shares, etc. are held by an individual or domestic corporation; hereinafter referred to as the "second foreign corporation" in this paragraph) (hereinafter such interposed foreign corporations shall be referred to as a "foreign corporations related through capital contribution" in this paragraph) and said individual or domestic corporation, said second foreign corporation, foreign corporations related through capital contribution and said first foreign corporation are linked through the holding of shares, etc.: The ratio obtained by multiplying the ratio of shareholding of said individual or domestic corporation in the second foreign corporation sequentially by said second foreign corporation's ratio of shareholding in the foreign corporation related through capital contribution, by the capital foreign corporation related through capital contribution's ratio of shareholding in the other foreign corporation related through capital contribution, and by the foreign corporation related through capital contribution's ratio of shareholding in the first foreign corporation (where there are two or more such links, the sum of the ratios calculated for each of them).
- (7) The number of voting rights of a foreign corporation specified by Cabinet Order as being held indirectly as prescribed in Article 40-4, paragraph (2), item (iv) of the Act shall be the number of voting rights obtained by multiplying the total number of voting rights (meaning the voting rights prescribed in Article 40-4, paragraph (1), item (i), (a) of the Act; hereinafter the same shall apply in this paragraph) of a first foreign corporation by the ratios specified respectively in the following items for the category of cases listed in the relevant items (where this falls under both of the following cases, the sum of the ratios specified respectively as follows):
- (i) Where an individual or domestic corporation holds the whole or a part of the voting rights of a second foreign corporation which is the shareholder, etc. of the first foreign corporation (hereinafter referred to as the "second foreign corporation" in this item): The ratio obtained by multiplying the ratio of voting rights (meaning the ratio of the number of voting rights held by the shareholder, etc. out of the total number; hereinafter the same shall apply in this paragraph) of said individual or domestic corporation in the second foreign corporation by said second foreign corporation's ratio of voting rights

- in the first foreign corporation (where there are two or more such second foreign corporations, the sum of the ratios calculated for each of them)
- (ii) Where a single foreign corporation or two or more foreign corporations are interposed between the first foreign corporation and a second foreign corporation (limited to a second foreign corporation for which the whole or a part of the voting rights are held by an individual or domestic corporation; hereinafter referred to as the "second foreign corporation" in this paragraph) (hereinafter such interposed foreign corporations shall be referred to as "foreign corporation related through capital contribution" in this paragraph) and said individual or domestic corporation, the second foreign corporation, foreign corporations related through capital contribution and the first foreign corporation have a link through the holding of voting rights: The ratio obtained by multiplying the ratio of voting rights of said individual or domestic corporation in the second foreign corporation sequentially by said second foreign corporation's ratio of voting rights in the foreign corporation related through capital contribution, by the foreign corporation related through capital contribution's ratio of voting rights in any other foreign corporation related through capital contribution, and by the foreign corporation related through capital contribution's ratio of voting rights in the first foreign corporation (where there are two or more links, the sum of the ratios calculated for each of them).
- (8) The amount of a dividend of surplus, etc. specified by Cabinet Order as being receivable based on the claims vested in the shares, etc. of a foreign corporation held indirectly as prescribed in Article 40-4, paragraph (2), item (v) of the Act shall be the amount of a dividend of surplus, etc. obtained by multiplying the total amount of a dividend of surplus, etc. receivable based on the claims vested in the shares, etc. of a first foreign corporation by the ratio specified respectively in the following items for the category of cases listed in the relevant items (where this falls under both of the following cases, the sum of the ratios specified respectively as follows):
- (i) Where an individual or domestic corporation holds the whole or a part of the claims vested in the shares, etc. of a second foreign corporation which is the shareholder, etc. of a first foreign corporation (hereinafter referred to as the "second foreign corporation" in this item): The ratio obtained by multiplying the ratio of claims (meaning the ratio of the amount of a dividend of surplus, etc. receivable based on the claims vested in the shares, etc. held by the shareholder, etc. out of the total amount; hereinafter the same shall apply in this paragraph) of said individual or domestic corporation in said second foreign corporation by said second foreign corporation's ratio of claims pertaining to the first foreign corporation (where there are two or more such second foreign corporations, the sum of the ratios calculated for each of

- them)
- (ii) Where a single foreign corporation or two or more foreign corporations are interposed between a first foreign corporation and a second foreign corporation (limited to a second foreign corporation for which the whole or a part of the claims vested in the shares, etc. are held by an individual or domestic corporation; hereinafter referred to as the "second foreign corporation" in this paragraph) (hereinafter such interposed foreign corporations shall be referred to as "foreign corporations related through capital contribution" in this paragraph) and said individual or domestic corporation, said second foreign corporation, foreign corporations related through capital contribution and said first foreign corporation have a link through the holding of claims vested in the shares, etc.: The ratio obtained by multiplying the ratio of claims of said individual or domestic corporation in said second foreign corporation sequentially by said second foreign corporation's ratio of claims in the foreign corporation related through capital contribution, by the foreign corporation related through capital contribution's ratio of claims in any other foreign corporation related through capital contribution, and by the foreign corporation related through capital contribution's ratio of claims in the first foreign corporation (where there are two or more links, the sum of the ratios calculated for each of them).
- (9) A person who has a special relationship specified by Cabinet Order to a resident or a domestic corporation prescribed in Article 40-4, paragraph (2), item (vi) of the Act shall be an individual or corporation listed as follows:
- (i) An individual listed as follows:
 - (a) A relative of the resident
 - (b) A person in a relationship with the resident where a marital relationship is de facto, though a marriage has not been registered
 - (c) An employee of the resident
 - (d) A person other than those listed in (a) to (c) who maintains his/her living by receiving money or any other assets from the resident
 - (e) A relative of any of the persons listed in (b) to (d) who depends on such person for his/her livelihood
 - (f) An officer of the domestic corporation and a person listed in the items of Article 72-3 of the Order for Enforcement of the Corporation Tax Act with a relationship to said officer
 - (ii) A corporation listed as follows:
 - (a) Where a resident or a domestic corporation (including an individual who has a special relationship prescribed in the preceding item to said resident or domestic corporation; hereinafter referred to as a "resident, etc." in this paragraph) controls any other corporation, said other corporation
 - (b) Where a resident, etc. or a corporation which has a special relationship

- prescribed in (a) to said resident, etc. controls any other corporation, said other corporation
- (c) Where a resident, etc. or a corporation which has a special relationship prescribed in (a) and (b) to said resident, etc. controls any other corporation, said other corporation
- (d) Where any of the two or more corporations which have a special relationship prescribed in (a) to (c) to the same person is a resident, etc., a corporation other than the one falling under said resident, etc. out of those which have such special relationship to the same person
- (10) The provisions of Article 4, paragraph (3) of the Order for Enforcement of the Corporation Tax Act shall apply mutatis mutandis where controlling any other corporation listed in (a) to (c) of item (ii) of the preceding paragraph.
- (11) The amount of expenses specified by Cabinet Order set forth in Article 40-4, paragraph (1) of the Act which is applied by replacing the terms pursuant to the provisions of paragraph (3) of said Article shall be the sum of personnel expenses for officers and employees of a specified foreign subsidiary, etc. engaged in the business of said specified foreign subsidiary, etc. prescribed in paragraph (3) of said Article (limited to the amount to be included in deductible expenses for calculating the amount of income or loss pursuant to the provisions of paragraph (1) or paragraph (2) of the preceding Article for the relevant business year of said specified foreign subsidiary, etc.).

(Determination, etc. of Business of Specified Foreign Subsidiaries, etc.)

Article 25-22 (1) The person specified by Cabinet Order prescribed in Article 40-4, paragraph (4), item (i) of the Act shall be any of the following:

- (i) Other consolidated corporations (meaning consolidated corporations prescribed in Article 2, item (xii)-7-4 of the Corporation Tax Act) which have the consolidated full controlling interest prescribed in item (xii)-7-5 of said Article with a consolidated corporation listed in the items of Article 68-90, paragraph (1) of the Act which pertains to a specified foreign subsidiary, etc. prescribed in Article 40-4, paragraph (4) of the Act (hereinafter referred to as a "specified foreign subsidiary, etc." in this paragraph) that is mainly engaged in business listed in item (i) of said paragraph
- (ii) A person who holds over 50 percent of the total number or total amount of the issued shares, etc. of a domestic corporation listed in the items of Article 66-6, paragraph (1) of the Act which pertains to a specified foreign subsidiary, etc. that is mainly engaged in business listed in Article 40-4, paragraph (4), item (i) of the Act (excluding a person falling under any of those listed in the items of Article 40-4, paragraph (1), items of Article 66-6, paragraph (1), items of Article 68-90, paragraph (1) of the Act and the preceding item who is a person with a relationship to said specified foreign subsidiary, etc.)

- (iii) A person who holds over 50 percent of the total number or total amount of the issued shares, etc. of a consolidated corporation listed in the items of Article 68-90, paragraph (1) of the Act (where said consolidated corporation is a consolidated subsidiary corporation prescribed in Article 2, item (xii)-7-3 of the Corporation Tax Act, a consolidated parent corporation prescribed in item (xii)-7-2 of said Article which pertains to said consolidated corporation) which pertains to a specified foreign subsidiary, etc. that is mainly engaged in business listed in Article 40-4, paragraph (4), item (i) of the Act (excluding a person falling under any of those listed in the items of Article 40-4, paragraph (1), items of Article 66-6, paragraph (1), items of Article 68-90, paragraph (1) of the Act and the preceding two items who is a person with a relationship to said specified foreign subsidiary, etc.)
- (iv) Where a person listed in the items of Article 40-4, paragraph (1), items of Article 66-6, paragraph (1) or items of Article 68-90, paragraph (1) of the Act with a relationship to a specified foreign subsidiary, etc. that is mainly engaged in business listed in Article 40-4, paragraph (4), item (i) of the Act holds the shares, etc. indirectly in said specified foreign subsidiary, etc. (such shares, etc. shall mean the number of shares or the amount of capital contributions of a foreign corporation specified by Cabinet Order as being held through indirect ownership as prescribed in Article 40-4, paragraph (2), item (iii) of the Act), the second foreign corporation prescribed in paragraph (6), item (i) of the preceding Article or the second foreign corporation and foreign corporations related through capital contribution as prescribed in item (ii) of said paragraph which pertain to said shares, etc. held indirectly
- (v) A person who has a special relationship specified by Cabinet Order prescribed in Article 40-4, paragraph (2), item (vi) of the Act to any of the persons listed as follows (excluding a person falling under any of those listed in the items of Article 40-4, paragraph (1), items of Article 66-6, paragraph (1), items of Article 68-90, paragraph (1) of the Act and the preceding items who is a person with a relationship to a specified foreign subsidiary, etc. that is mainly engaged in business listed in Article 40-4, paragraph (4), item (i) of the Act):
 - (a) A specified foreign subsidiary, etc. that is mainly engaged in business listed in Article 40-4, paragraph (4), item (i) of the Act
 - (b) A person listed in the items of Article 40-4, paragraph (1), items of Article 66-6, paragraph (1) or items of Article 68-90, paragraph (1) of the Act with a relationship to a specified foreign subsidiary, etc. that is mainly engaged in business listed in Article 40-4, paragraph (4), item (i) of the Act
 - (c) A person listed in the preceding items.
- (2) The case specified by Cabinet Order prescribed in Article 40-4, paragraph (4), item (i) of the Act shall be any of the cases specified respectively in the

following items, in accordance with the category of the principal business to be conducted for the relevant business year of a specified foreign subsidiary, etc. prescribed in said paragraph:

- (i) Wholesale business: Where, out of the total revenue from selling inventory assets (meaning inventory assets prescribed in Article 2, item (xx) of the Corporation Tax Act; hereinafter the same shall apply in this item) for the relevant business year (where there are any commissions to be received for agent or intermediary services for the buying or selling inventory assets for the relevant business year, such revenues shall include the amount from the transactions for which said commissions were generated; hereinafter referred to as the "amount of sales transactions" in this item), the ratio of the sum of the amount of sales transactions with a person other than affiliated persons (meaning those listed in the items of Article 40-4, paragraph (1), items of Article 66-6, paragraph (1), items of Article 68-90, paragraph (1) of the Act and the items of the preceding paragraph who are affiliated persons of said specified foreign subsidiary, etc.; hereinafter the same shall apply in this paragraph and the following paragraph) exceeds 50 percent, or out of the sum of the acquisition costs for acquiring inventory assets for the relevant business year (where there are any commissions to be received for agent or intermediary services for the buying or selling inventory assets for the relevant business year, such acquisition costs shall include the amount from the transactions for which said commissions were generated; hereinafter referred to as the "amount of purchase transactions" in this item), the ratio of the sum of the amount of purchase transactions with a person other than affiliated persons exceeds 50 percent
- (ii) Banking business: Where, out of the sum of the total interest received for the relevant business year, the ratio of the sum of said interest to be received from a person other than affiliated persons exceeds 50 percent, or out of the sum of the total interest paid for the relevant business year, the ratio of the sum of said interest to be paid to a person other than affiliated persons exceeds 50 percent
- (iii) Trust business: Where, out of the sum of the total trust charge for the relevant business year, the ratio of the sum of said trust charge to be received from a person other than affiliated persons exceeds 50 percent
- (iv) Financial instruments business: Where, out of the sum of the total commissions received (including profits from the buying and selling securities) for the relevant business year, the ratio of the sum of said commissions to be received from a person other than affiliated persons exceeds 50 percent
- (v) Insurance business: Where, out of the sum of the total premium income for the relevant business year, the ratio of the sum of said premium income to be

- received from a person other than affiliated persons (where said premium income pertains to reinsurance, limited to premium income from insurance for assets held by a person other than affiliated persons or damages incurred by a person other than affiliated persons) exceeds 50 percent
- (vi) Water transportation business or air transportation business: Where, out of the total revenue from the operation or rental of vessels or operation or rental of aircraft for the relevant business year, the ratio of the sum of said revenues to be received from a person other than affiliated persons exceeds 50 percent.
- (3) Where transactions prescribed in the preceding paragraph between a specified foreign subsidiary, etc. and an affiliated person of a specified foreign subsidiary, etc. are conducted indirectly via a person other than the affiliated persons of said specified foreign subsidiary, etc. (hereinafter referred to as a "non-affiliated person" in this paragraph), transactions between said specified foreign subsidiary, etc. and said non-affiliated person shall be deemed to have been conducted directly between said specified foreign subsidiary, etc. and said affiliated person and the provisions of the items of the preceding paragraph shall apply, except in the case where there are reasonable grounds for having said non-affiliated person intervene in such transactions.
- (4) The water areas specified by Cabinet Order prescribed in Article 40-4, paragraph (4), item (ii) of the Act shall be the inland waters and territorial seas and exclusive economic zones or water areas equivalent to continental shelves of a state or territory prescribed in said item.
- (5) The case specified by Cabinet Order prescribed in Article 40-4, paragraph (4), item (ii) of the Act shall be any of the cases specified respectively in the following items, in accordance with the category of the principal business to be conducted for the relevant business year of a specified foreign subsidiary, etc. prescribed in said paragraph:
- (i) Real estate business: Where conducting a buying and selling or rental business of real estate (including acts to let others use said real estate) (real estate shall include the rights thereon; hereinafter the same shall apply in this item) mainly located in the state of the head office, providing agent or intermediary services for the buying and selling or rental business of said real estate, and managing said real estate
- (ii) Rental and leasing business: Where conducting a rental business for goods to be provided for use mainly in the state of the head office
- (iii) Business other than those listed in paragraph (2) and the preceding two items: Where conducting a business mainly in the state of the head office.
- (Calculation, etc. of Taxed Amount of Dividend, etc. of Specified Foreign Subsidiaries, etc.)

Article 25-23 (1) The affiliated foreign company prescribed in Article 40-5, paragraph (1) of the Act which is specified by Cabinet Order shall be one of the affiliated foreign companys which hold the taxed amount of a dividend, etc. before deduction for a specified foreign subsidiary, etc. prescribed in said paragraph (hereinafter referred to as a "specified foreign subsidiary, etc." in this Article and paragraph (2) of the following Article) (such affiliated foreign company shall exclude those falling under the category of a specified foreign subsidiary, etc. of a resident set forth in said paragraph).

(2) The amount calculated as specified by Cabinet Order prescribed in Article 40-5, paragraph (1) of the Act shall be the amount specified respectively in the following items for the category of cases listed in the relevant items:

(i) Where an event listed in Article 40-5, paragraph (1), item (i) of the Act has occurred with regard to a specified foreign subsidiary, etc. of a resident prescribed in Article 40-5, paragraph (1) of the Act (excluding the case where said event occurred in a year preceding the year including the day on which two months have elapsed after the day following the final day of the business year including the base date for paying a dividend of surplus, etc. specified in Article 40-5, paragraph (1), item (i) of the Act of said specified foreign subsidiary, etc. (hereinafter such business year shall be referred to as the "base business year" in this item and the following paragraph and such year including the day on which two months have elapsed after the day following the final day of the base business year shall be referred to as the "applicable business year" in the following paragraph)) and when said amount of dividend of surplus, etc. exceeds the amount of a dividend of surplus, etc. to be deducted for calculating the amount of eligible retained income prescribed in Article 40-4, paragraph (1) of the Act for said base business year of said specified foreign subsidiary, etc.: The amount obtained by multiplying said excess amount by the ratio of the shares, etc. for considering the claims held by said person of said specified foreign subsidiary, etc. prescribed in Article 25-21, paragraph (3), item (i) out of the total issued shares, etc. of said specified foreign subsidiary, etc. at the end of the base business year (where a dividend of surplus, etc. has been paid to an affiliated foreign company of said resident (excluding a specified foreign subsidiary, etc. of said resident; hereinafter the same shall apply in this item and the following item) whose tax burden imposed in the state of the head office on the amount of the dividend of surplus, etc. that it receives as specified in Article 40-5, paragraph (1), item (i) of the Act is below the low tax-burden base or to any other specified foreign subsidiary, etc. of said resident, such shares, etc. for considering the claims held shall exclude the shares, etc. for considering the claims indirectly held (meaning the shares, etc. for considering the claims indirectly held prescribed in Article 25-21, paragraph (3), item (ii); the same

- shall apply in the following item and paragraph (4)) via said affiliated foreign company and said other specified foreign subsidiary, etc.) (where there is any amount to be deducted, with regard to the amount of a dividend of surplus, etc. specified in Article 40-5, paragraph (1), item (i) of the Act, for calculating the amount of taxable retained income, pursuant to the provisions of Article 25-21, paragraph (2), for said base business year of said specified foreign subsidiary, etc., the remaining amount after deducting said amount to be deducted from said calculated amount)
- (ii) Where an event listed in Article 40-5, paragraph (1), item (ii) has occurred with regard to a specified foreign subsidiary, etc. of a resident prescribed in Article 40-5, paragraph (1) of the Act: The amount obtained by multiplying the amount prescribed in said item by the ratio of the shares, etc. for considering the claims held by said person of said specified foreign subsidiary, etc. prescribed in Article 25-21, paragraph (3), item (i) out of the total issued shares, etc. of said specified foreign subsidiary, etc. at the time when said event occurred (where the money or any other assets have been delivered to an affiliated foreign company of said resident whose tax burden imposed in the state of the head office on the amount of the money that it receives as prescribed in Article 40-5, paragraph (1), item (ii) of the Act is below the low tax-burden base or to any other specified foreign subsidiary, etc. of said resident, such shares, etc. for considering the claims held shall exclude the shares, etc. for considering the claims indirectly held via said affiliated foreign company or said other specified foreign subsidiary, etc.)
- (iii) Where an event listed in Article 40-5, paragraph (1), item (iii) has occurred with regard to an affiliated foreign company prescribed in Article 40-5, paragraph (1) of the Act that is the affiliated foreign company of a resident prescribed in said paragraph: The amount specified in said item with the taxed amount of a dividend, etc. before deduction as the upper limit.
- (3) With respect to the application of the provisions of item (i) of the preceding paragraph in the case where payment has been made for s of surplus, etc. whose base dates for payment are included in the base business year, with regard to a specified foreign subsidiary, etc. of a resident prescribed in Article 40-5, paragraph (1) of the Act (where payment was made for said two or more dividends of surplus, etc. in a year preceding the applicable business year pertaining to the base business year for said dividends of surplus, etc. (hereinafter such paid dividend of surplus, etc. shall be referred to as a "specified dividend of surplus, etc." in this paragraph), excluding said two or more dividends of surplus) (including the cases where payment has been made for a specified dividend of surplus, etc. and payment has not been made for a dividend of surplus, etc. whose base date for payment is included in said base business year up to the day on which six months have elapsed after the final

day of the base business year for said specified dividend of surplus, etc.), the amount specified in item (i) of the preceding paragraph shall be the amount obtained by multiplying the excess amount when the amount listed in item (i) exceeds the amount listed in item (ii) by the ratio prescribed in item (i) of said paragraph and then deducting therefrom the amounts listed in item (iii) and item (iv):

- (i) The sum of a dividend of surplus, etc. (limited to that whose base date for payment is included in said base business year) that said specified foreign subsidiary, etc. has paid by December 31 of the year including the day on which an event listed in Article 40-5, paragraph (1), item (i) of the Act occurred (where no dividend of surplus, etc. other than a specified dividend of surplus, etc. was paid, the year including the day on which six months have elapsed after the final day of the base business year for said specified dividend of surplus, etc.)
 - (ii) The sum of the amounts to be deducted for calculating the amount of eligible retained income prescribed in Article 40-4, paragraph (1) of the Act for said base business year of said specified foreign subsidiary, etc., with regard to the sum of the dividends of surplus, etc. set forth in the preceding item
 - (iii) The sum of the amounts to be deducted for calculating the amount of taxable retained income under the provisions of Article 25-21, paragraph (2) for said base business year of said specified foreign subsidiary, etc., with regard to the sum of the dividends of surplus, etc. set forth in item (i)
 - (iv) The sum of the amounts deducted for calculating the amount of dividend income or miscellaneous income for a year preceding the relevant year including the day on which an event listed in Article 40-5, paragraph (1), item (i) of the Act occurred with regard to said resident, pursuant to the provisions of said paragraph, with regard to the sum of the dividends of surplus, etc. set forth in item (i)
- (4) The taxed amount of a dividend, etc. before deduction prescribed in paragraph (1) and paragraph (2) shall be, out of the amount of a dividend of surplus, etc. which an affiliated foreign company of a resident prescribed in Article 40-5, paragraph (1) of the Act received from a specified foreign subsidiary, etc. of said resident during the period of two years or less preceding the day on which an event listed in item (iii) of said paragraph occurred (such amount of a dividend of surplus, etc. shall include the amount specified in item (ii) of said paragraph) and which shall not be deducted for calculating the amount of taxable retained income under the provisions of Article 25-21, paragraph (2) pertaining to said specified foreign subsidiary, etc. (including the amount which shall not be included in the taxed amount of a dividend, etc. prescribed in Article 40-5, paragraph (1) of the Act that was calculated for said specified

foreign subsidiary, etc. pursuant to the provisions of paragraph (2) or the preceding paragraph), the part which corresponds to the shares, etc. for considering the claims of said specified foreign subsidiary, etc. indirectly held by said resident via said affiliated foreign company (such part shall exclude the amount already appropriated for the application of the provisions of Article 40-5, paragraph (1) of the Act).

- (5) Deduction of the amount equivalent to the taxed amount of a dividend, etc. under the provisions of Article 40-5, paragraph (1) of the Act (meaning the taxed amount of a dividend, etc. prescribed in said paragraph; hereinafter the same shall apply in this Article) shall be made as specified as follows:
 - (i) The amount equivalent to the taxed amount of a dividend, etc. shall be deducted first for calculating the amount of miscellaneous income pertaining the taxable retained income to be included in gross revenue for the year pursuant to the provisions of Article 40-4, paragraph (1) of the Act
 - (ii) The amount equivalent to the taxed amount of a dividend, etc. that still remains after making a deduction pursuant to the provisions of the preceding item shall be deducted for calculating the amount of dividend income from a dividend, etc. (meaning a dividend, etc. prescribed in Article 40-5, paragraph (1) of the Act; hereinafter the same shall apply in this Article) to be received from a specified foreign subsidiary, etc. or an affiliated foreign company prescribed in said paragraph for the year.
- (6) The deduction of the amount equivalent to the remaining amount of a dividend, etc. after deduction under the provisions of Article 40-5, paragraph (2) of the Act (meaning the remaining amount of a dividend, etc. after deduction prescribed in said paragraph; hereinafter the same shall apply in this paragraph) shall be made as specified as follows:
 - (i) Where the remaining amount of a dividend, etc. after deduction to be deducted pertains to the taxed amount of a dividend, etc. that still remains after making a deduction pursuant to the provisions of Article 40-5, paragraph (1) of the Act in the two years or more during the three years preceding the relevant year, the remaining amount of a dividend, etc. after deduction that pertains to said taxed amount of a dividend, etc. that still remains after making the deduction shall be deducted, starting from that for the oldest year in chronological order
 - (ii) Deduction of the remaining amount of a dividend, etc. after deduction that pertains to the taxed amount of a dividend, etc. that still remains after making the deduction pursuant to the provisions of Article 40-5, paragraph (1) of the Act in a year during the three years preceding the relevant year shall be made as specified as follows:
 - (a) Said remaining amount of a dividend, etc. after deduction shall be deducted first for calculating the amount of miscellaneous income

pertaining the taxable retained income to be included in gross revenue for the year pursuant to the provisions of Article 40-4, paragraph (1) of the Act (where a deduction under the provisions of item (i) of the preceding paragraph is made, for calculating the amount after said deduction)

- (b) Said remaining amount of a dividend, etc. after deduction that still remains after making a deduction pursuant to the provisions of (a) shall be deducted for calculating the amount of dividend income from a dividend, etc. to be received from a specified foreign subsidiary, etc. or an affiliated foreign company prescribed in Article 40-5, paragraph (2) of the Act for the year (where a deduction under the provisions of item (ii) of the preceding paragraph is made, for calculating the amount after said deduction).

(Determination, etc. of Affiliated Foreign Companies)

Article 25-24 (1) In the case referred to in Article 40-4, paragraph (1) of the Act, whether or not a foreign corporation falls under the category of an affiliated foreign company shall be determined according to its status at the end of its relevant business year, and whether or not the person falls under the category of a resident listed in the items of said paragraph shall be determined according to his/her status at the end of the relevant business year of such residents' an affiliated foreign company.

- (2) With respect to the application of the provisions of Article 222 of the Order for Enforcement of the Income Tax Act when calculating the maximum amount of deduction prescribed in Article 95, paragraph (1) of the Income Tax Act for a resident subject to the provisions of Article 40-4, paragraph (1) of the Act or Article 40-5, paragraph (1) or paragraph (2) of the Act, the amount of miscellaneous income pertaining to the taxable retained income to be included in the gross revenue pursuant to the provisions of Article 40-4, paragraph (1) of the Act shall be included in the domestic source income prescribed in Article 222, paragraph (3) of said Order, and the amount of dividend income from a dividend, etc. prescribed in Article 40-5, paragraph (1) to be received from a specified foreign subsidiary, etc. or an affiliated foreign company subject to the provisions of Article 40-5, paragraph (1) or paragraph (2) of the Act shall be the amount of said dividend income calculated without applying these provisions.

- (3) The provisions of Article 14-10, paragraphs (1) to (5) and paragraphs (7) to (11) of the Order for Enforcement of the Corporation Tax Act shall apply mutatis mutandis where the provisions of Article 40-4, paragraph (7) of the Act shall apply under the provisions of Article 40-4 (excluding paragraph (3), paragraph (4) and paragraph (6)) to Article 40-6 of the Act and Articles 25-19 to 25-21 (excluding paragraph (11)), Article 25-23 and this Article.

- (4) With regard to a trust corporation or a beneficiary of a trust subject to corporation taxation prescribed in Article 4-7 of the Corporation Tax Act, in

addition to what is specified in the preceding paragraph, other necessary matters concerning the application of the provisions of Article 40-4 (excluding paragraph (3), paragraph (4) and paragraph (6)) to Article 40-6 of the Act, or Articles 25-19 to 25-21 (excluding paragraph (11)), Article 25-23 or this Article shall be specified by Ordinance of the Ministry of Finance.

(Scope, etc. of Specially-Related Shareholders, etc.)

Article 25-30 (1) An individual with a special relationship specified by Cabinet Order prescribed in Article 40-10, paragraph (1) of the Act to a person who falls under the category of specified shareholder, etc. shall be any of the following:

- (i) An individual who has a special relationship prescribed in Article 4, paragraph (1) of the Order for Enforcement of the Corporation Tax Act to a person who falls under the category of a specified shareholder, etc. (meaning a specified shareholder, etc. prescribed in Article 40-10, paragraph (2), item (i) of the Act; hereinafter the same shall apply in this paragraph and the following paragraph)
- (ii) An officer (meaning an officer prescribed in Article 2, item (xv) of the Corporation Tax Act; hereinafter the same shall apply in this Section) of a corporation that falls under the category of a specified shareholder, etc. and a person listed in the items of Article 72-3 of the Order for Enforcement of the Corporation Tax Act in relation to said officer (referred to as a "specially-related person" in the following item)
- (iii) The officer of a specially-related domestic corporation (meaning a specially-related domestic corporation prescribed in Article 40-10, paragraph (2), item (ii) of the Act; hereinafter the same shall apply in this Section) and a specially-related person of said officer

(2) A corporation with a special relationship specified by Cabinet Order prescribed in Article 40-10, paragraph (1) of the Act to a person who falls under the category of specified shareholder, etc. shall be any of the following:

- (i) Where a specified shareholder, etc. (including an individual who has a special relationship to said specified shareholder, etc. as prescribed in item (i) or item (ii) of the preceding paragraph) or an individual who has a special relationship to a specially-related domestic corporation as prescribed in item (iii) of said paragraph (hereinafter referred to as a "person determined to be a shareholder, etc." in this paragraph) controls any other corporation, said other corporation
- (ii) Where a person determined to be a shareholder, etc. and a corporation which has a special relationship thereto as prescribed in the preceding item control any other corporation, said other corporation

- (iii) Where a person determined to be a shareholder, etc. and a corporation which has a special relationship thereto as prescribed in the preceding two items control any other corporation, said other corporation.
- (3) The provisions of Article 4, paragraph (3) and paragraph (4) of the Order for Enforcement of the Corporation Tax Act shall apply mutatis mutandis where the provisions of the preceding paragraph shall apply.
- (4) A relationship specified by Cabinet Order prescribed in Article 40-10, paragraph (1) of the Act shall be the relevant relationship in the case where a specially-related shareholder, etc. prescribed in said paragraph (hereinafter referred to as a "specially-related shareholder, etc." in this Section) and a specially-related domestic corporation have a relationship where the ratio of the shares, etc. indirectly held by the specially-related shareholder, etc. pertaining to the specially-related domestic corporation (meaning the ratio specified respectively in the following items for the category of cases listed in the relevant items (where this falls both of the following cases, the sum of the ratios specified respectively as follows)) is 80 percent or more:
- (i) Where out of the total number or total amount of shares or capital contributions issued by a foreign corporation (excluding that falling under the category of a specially-related shareholder, etc.; hereinafter the same shall apply in this item) which is a shareholder, etc. (meaning a shareholder, etc. prescribed in Article 2, paragraph (1), item (viii)-2 of the Income Tax Act; hereinafter the same shall apply in this Section) of a specially-related domestic corporation (such issued shares or capital contributions shall exclude those that said foreign corporation holds in itself and the total number or total amount of such issued shares or capital contributions shall be referred to as the "issued shares, etc." in this Section), a specially-related shareholder, etc. holds 80 percent or more of the number or the amount of such shares, etc. (meaning shares or capital contributions; hereinafter the same shall apply in this Section): The ratio of the number or the amount of the shares, etc. of the specially-related domestic corporation held by said foreign corporation which is a shareholder, etc. out of the total issued shares, etc. of said specially-related domestic corporation (where there are two or more such foreign corporations which are shareholders, etc., the sum of the ratios calculated for each of them)
- (ii) Where a single corporation or two or more corporations are interposed between a corporation which is a shareholder, etc. of a specially-related domestic corporation (excluding a foreign corporation which is a shareholder, etc. set forth in the preceding item falling under the case listed in said item and a corporation falling under the category of a specially-related shareholder, etc.) and a specially-related shareholder, etc. and have a link with them through the holding of shares, etc. (where said corporation which

is a shareholder, etc. is a domestic corporation and said interposed corporations are all domestic corporations, excluding said domestic corporations and any corporation falling under the category of a specially-related shareholder, etc.; hereinafter referred to as "corporations related through capital contribution" in this item) (limited to the case where 80 percent or more of the number or the amount of the issued shares, etc. in both the corporation related through capital contribution and in the corporation which is a shareholder, etc. are held by the specially-related shareholder, etc. or by a corporation related through capital contribution (such specially-related shareholder, etc. or foreign corporation related through capital contribution shall be limited to those for which 80 percent or more of the number or the amount of the issued shares, etc. are held by a specially-related shareholder, etc. or by another corporation related through capital contribution)): The ratio of the number or the amount of the shares, etc. of the specially-related domestic corporation held by the corporation which is the shareholder, etc. out of the total issued shares, etc. of said specially-related domestic corporation (where there are two or more such corporations which are shareholders, etc., the sum of the ratios calculated for each of them).

- (5) A foreign corporation specified by Cabinet Order prescribed in Article 40-10, paragraph (1) of the Act shall be any of the following:
 - (i) A foreign corporation falling under the category of a foreign corporation which is a shareholder, etc. prescribed in item (i) of the preceding paragraph, where the ratio of the shares, etc. held indirectly as prescribed in said paragraph is 80 percent or more
 - (ii) A foreign corporation falling under the category of a foreign corporation which is a shareholder, etc. prescribed in item (ii) of the preceding paragraph where the ratio of the shares, etc. held indirectly as prescribed in the preceding paragraph is 80 percent or more and a foreign corporation falling under the category of a corporation related through capital contribution prescribed in said item
 - (iii) A foreign corporation for which over 50 percent of the number or the amount of the issued shares, etc. are held directly or indirectly by a foreign corporation listed in the preceding two items (excluding a foreign corporation falling under the category of a foreign corporation listed in the preceding two items and a foreign corporation falling under the category of a specially-related shareholder, etc.).
- (6) In item (iii) of the preceding paragraph, whether or not a foreign corporation directly or indirectly holds over 50 percent of the issued shares, etc. shall be determined based on the sum of the ratio of the shares, etc. held directly by a first foreign corporation as listed in item (i) and item (ii) of said paragraph in a

second foreign corporation (excluding a foreign corporation falling under the category of a foreign corporation listed in item (i) or item (ii) of said paragraph and a foreign corporation falling under the category of a specially-related shareholder, etc.; hereinafter the same shall apply in this paragraph) (such ratio of the shares, etc. held directly shall mean the ratio of the number or the amount of the shares, etc. of a second foreign corporation held by said first foreign corporation as listed in item (i) and item (ii) of the preceding paragraph out of the total issued shares, etc. of said second foreign corporation) and the ratio of the shares, etc. held indirectly by said first foreign corporation listed in item (i) and item (ii) of said paragraph in said second foreign corporation (such ratio of the shares, etc. held indirectly shall mean the ratios specified respectively in the following items for the category of cases listed in the relevant items (where this falls under both of the following cases, the sum of the ratios specified respectively as follows)):

- (i) Where a first foreign corporation as listed in item (i) and item (ii) of the preceding paragraph holds over 50 percent of the number or the amount of the issued shares, etc. of a foreign corporation which is the shareholder, etc. of a second foreign corporation: The ratio of the number or the amount of the shares, etc. of said second foreign corporation that are held by the foreign corporation which is its shareholder, etc. out of the total issued shares, etc. of said second foreign corporation (where there are two or more such foreign corporations which are shareholders, etc., the sum of the ratios calculated for each of them)
- (ii) Where a single foreign corporation or two or more foreign corporations are interposed between a foreign corporation which is the shareholder, etc. of the second foreign corporation (excluding a foreign corporation which is a shareholder, etc. set forth in the preceding item falling under the case listed in said item) and the first foreign corporation listed in item (i) and item (ii) of the preceding paragraph and have a link with them through the holding of shares, etc. (hereinafter referred to as a "foreign corporations related through capital contribution" in this item) (limited to the case where over 50 percent of the number or the amount of the issued shares, etc. in both the foreign corporation related through capital contribution and in the foreign corporation which is the shareholder, etc. are held by the first foreign corporation listed in item (i) and item (ii) of said paragraph or by a foreign corporation related through capital contribution (such first foreign corporation or foreign corporation related through capital contribution shall be limited to those for which over 50 percent of the number or the amount of the issued shares, etc. are held by a first foreign corporation listed in item (i) and item (ii) of said paragraph or by another corporation related through capital contribution)): The ratio of the number or the amount of the shares,

etc. of said second foreign corporation that are held by the foreign corporation which is its shareholder, etc. out of the total issued shares, etc. of said second foreign corporation (where there are two or more such foreign corporations which are shareholders, etc., the sum of the ratios calculated for each of them).

- (7) An affiliated foreign corporation specified by Cabinet Order prescribed in Article 40-10, paragraph (1) of the Act shall be any of the following:
 - (i) An affiliated foreign corporation (meaning an affiliated foreign corporation prescribed in Article 40-10, paragraph (1) of the Act; hereinafter the same shall apply in this Section) which has its head office or principal office in a state or territory where there are no taxes imposed on corporate income
 - (ii) An affiliated foreign corporation where the tax imposed on its income for the relevant business year (meaning a business year prescribed in Article 2, paragraph (2), item (xix) of the Act; hereinafter the same shall apply in this Section) is 25 percent or less of said income.
- (8) The provisions of Article 25-19, paragraph (2) shall apply mutatis mutandis to the determination as to whether or not an affiliated foreign corporation falls under the category of an affiliated foreign corporation set forth in item (ii) of the preceding paragraph.
- (9) An individual who has a special relationship to a shareholder, etc. specified by Cabinet Order prescribed in Article 40-10, paragraph (2), item (i) of the Act shall be an individual who has a special relationship prescribed in Article 4, paragraph (1) of the Order for Enforcement of the Corporation Tax Act to a shareholder, etc. of a domestic corporation.
- (10) A corporation which has a special relationship to a shareholder, etc. specified by Cabinet Order prescribed in Article 40-10, paragraph (2), item (i) of the Act shall be any of the following:
 - (i) Where one of the shareholders, etc. of a domestic corporation (where said domestic corporation holds shares, etc. in itself, excluding said domestic corporation; hereinafter referred to as a "person determined to be a shareholder, etc." in this paragraph) (regarding a person determined to be a shareholder, etc. who is an individual, said person determined to be a shareholder, etc. and an individual who has a special relationship thereto as prescribed in the preceding paragraph; hereinafter the same shall apply in this paragraph) controls any other corporation, said other corporation
 - (ii) Where one of the persons determined to be a shareholder, etc. and a corporation which has a special relationship thereto as prescribed in the preceding item control any other corporation, said other corporation
 - (iii) Where one of the persons determined to be a shareholder, etc. and a corporation which has a special relationship thereto as prescribed in the preceding two items control any other corporation, said other corporation.

- (11) The provisions of Article 4, paragraph (3) and paragraph (4) of the Order for Enforcement of the Corporation Tax Act shall apply mutatis mutandis where the provisions of the preceding paragraph shall apply.
- (12) A domestic corporation specified by Cabinet Order prescribed in Article 40-10, paragraph (2), item (ii) of the Act shall be a domestic corporation which has received the transfer of almost all the assets and liabilities of a specified domestic corporation prescribed in said item immediately prior to a merger, split, transfer of business or for other reasons (hereinafter referred to as "specified reasons" in this paragraph) due to said specified reasons.

(Calculation of Undistributed Income of Specified Foreign Corporations)

Article 25-31 (1) The amount of undistributed income calculated in accordance with the standards specified by Cabinet Order prescribed in Article 40-10, paragraph (2), item (iii) of the Act shall be the amount calculated, pursuant to the provisions of Article 25-20, paragraph (1) or paragraph (2), or paragraph (3) of said Article, with regard to the income of a specified foreign corporation prescribed in Article 40-10, paragraph (1) of the Act (hereinafter referred to as a "specified foreign corporation" in this Article and paragraph (1) and paragraph (2) of the following Article) in its settlement of accounts for the relevant business year.

- (2) The amount obtained as a result of an adjustment for the amount of a loss prescribed in Article 40-10, paragraph (2), item (iii) of the Act shall be the amount obtained by calculating the amount of income pursuant to the provisions of the preceding paragraph with regard to the income of a specified foreign corporation in its settlement of accounts for the relevant business year (hereinafter referred to as the "amount of adjusted income" in this paragraph) and then deducting therefrom the amount equivalent to the sum of the loss incurred in business years that commenced within seven years preceding the first day of the relevant business year (excluding a business year that commenced before October 1, 2007 and a business year during which the corporation did not fall under the category of a specified foreign corporation (including a specified foreign corporation prescribed in Article 66-9-6, paragraph (1) or Article 68-93-6, paragraph (1) of the Act)) (such loss shall exclude the amount deducted in business years preceding said relevant business year pursuant to the provisions of this paragraph) (where said sum of the loss exceeds the amount of adjusted income for the relevant business year, said amount of adjusted income).
- (3) A loss prescribed in the preceding paragraph shall be a loss calculated with regard to the amount of income of a specified foreign corporation in its settlement of accounts for the relevant business year, where the calculation has been made pursuant to the provisions of paragraph (1).

(4) The provisions of Article 25-20, paragraph (7) and paragraph (8) shall apply mutatis mutandis where the amount of income of a specified foreign corporation in its settlement of accounts for the relevant business year is calculated pursuant to the provisions of paragraph (1) or paragraph (2) of said Article.

(Calculation, etc. of the Amount of Taxable Retained Income of Specified Foreign Corporations)

Article 25-32 (1) The amount obtained as a result of an adjustment to the amount of undistributed income set forth in Article 40-10, paragraph (1) of the Act for the amount of taxes and a dividend of surplus, etc. on said undistributed income shall be the amount calculated with regard to the amount of undistributed income prescribed in Article 40-10, paragraph (2), item (iii) of the Act for the relevant business year of a specified foreign corporation, pursuant to the provisions of Article 25-21, paragraph (1).

(2) The amount calculated as specified by Cabinet Order prescribed in Article 40-10, paragraph (1) of the Act shall be the amount calculated with regard to the eligible retained income (meaning the eligible retained income prescribed in said paragraph; hereinafter the same shall apply in this Section) for the relevant business year of a specified foreign corporation of a resident who is a specially-related shareholder, etc., pursuant to the provisions of Article 25-21, paragraph (2) and paragraph (3).

(3) The provisions of Article 25-21, paragraph (4) and paragraph (5) shall apply mutatis mutandis to the case of calculating the amount to be included in the necessary expenses for calculating the amount of miscellaneous income pertaining to taxable retained income prescribed in Article 40-10, paragraph (1) of the Act which should be included in gross revenue pursuant to the provisions of said paragraph.

(4) The provisions of Article 25-21, paragraph (6) shall apply mutatis mutandis to the number of shares or the amount of capital contributions of a foreign corporation specified by Cabinet Order as being held indirectly as prescribed in Article 40-10, paragraph (2), item (iv) of the Act. In this case, the term "an individual" in Article 25-21, paragraph (6) shall be deemed to be replaced with "a resident."

(5) The amount of expenses specified by Cabinet Order set forth in Article 40-10, paragraph (1) of the Act which is applied by replacing the terms pursuant to the provisions of paragraph (3) of said Article shall be the amount calculated with regard to the sum of personnel expenses for officers and employees of a specified foreign corporation engaged in the business of said specified foreign corporation prescribed in paragraph (3) of said Article, pursuant to the provisions of Article 25-21, paragraph (11).

(Determination, etc. of Business of Specified Foreign Corporations)

Article 25-33 (1) The person specified by Cabinet Order prescribed in Article 40-10, paragraph (4), item (i) of the Act shall be any of the following:

- (i) Other consolidated corporations (meaning consolidated corporations prescribed in Article 2, item (xii)-7-4 of the Corporation Tax Act; hereinafter the same shall apply in this item and item (iii)) which have the consolidated full controlling interest prescribed in Article 2, item (xii)-7-5 of the Corporation Tax Act with a consolidated corporation falling under the category of a specially-related shareholder, etc. which pertains to a specified foreign corporation prescribed in Article 40-10, paragraph (4) of the Act (hereinafter referred to as a "specified foreign corporation" in this paragraph) that is mainly engaged in business listed in item (i) of said paragraph (hereinafter such specified foreign corporation shall be referred to as a "specified foreign corporation" in this paragraph) (such other consolidated corporations shall exclude those falling under the category of specially-related shareholders, etc. pertaining to said specified foreign corporation)
- (ii) A person who holds over 50 percent of the number or the amount of the total issued shares, etc. of a corporation falling under the category of a specially-related shareholder, etc. pertaining to a specified foreign corporation that is mainly engaged in business listed in Article 40-10, paragraph (4), item (i) of the Act (excluding a person falling under the category of a specially-related shareholder, etc. pertaining to said specified foreign corporation and a person falling under the category of persons listed in the preceding item)
- (iii) A person who holds over 50 percent of the number or the amount of the total issued shares, etc. of a consolidated corporation falling under the category of a specially-related shareholder, etc. (where said consolidated corporation is a consolidated subsidiary corporation prescribed in Article 2, item (xii)-7-3 of the Corporation Tax Act, a consolidated parent corporation prescribed in item (xii)-7-2 of said Article that is the consolidated parent corporation of said consolidated corporation) of a specified foreign corporation that is mainly engaged in business listed in Article 40-10, paragraph (4), item (i) of the Act (excluding a person falling under the category of a specially-related shareholder, etc. of said specified foreign corporation and a person falling under the category of persons listed in the preceding two items)
- (iv) An affiliated foreign corporation of the specially-related shareholder, etc. of a specified foreign corporation that is mainly engaged in business listed in Article 40-10, paragraph (4), item (i) of the Act
- (v) A corporation which is a shareholder, etc. prescribed in Article 25-30,

paragraph (4), item (ii) or corporations related through capital contribution which are interposed between a specially-related domestic corporation and the specially-related shareholder, etc. of a specified foreign corporation that is mainly engaged in business listed in Article 40-10, paragraph (4), item (i) of the Act (excluding a person falling under the category of persons listed in item (i) or the preceding item)

(vi) A person who has a special relationship specified by Cabinet Order prescribed in Article 40-10, paragraph (1) of the Act to the persons listed as follows (excluding a person who falls under the category of the specially-related domestic corporation of a specified foreign corporation that is mainly engaged in business listed in Article 40-10, paragraph (4), item (i) of the Act, a person who falls under the category of a specially-related shareholder, etc. and a person who falls under the categories of persons listed in the preceding items):

(a) A specified foreign corporation that is mainly engaged in business listed in Article 40-10, paragraph (4), item (i) of the Act

(b) A specially-related domestic corporation of a specified foreign corporation that is that is mainly engaged in business listed in Article 40-10, paragraph (4), item (i) of the Act

(c) An individual or corporation that falls under the category of the specially-related shareholder, etc. of a specified foreign corporation that is mainly engaged in business listed in Article 40-10, paragraph (4), item (i) of the Act

(d) Those listed in the preceding items.

(2) The provisions of Article 25-22, paragraph (2) and paragraph (3) shall apply mutatis mutandis to the case specified by Cabinet Order prescribed in Article 40-10, paragraph (4), item (i) of the Act. In this case, the term "those listed in the items of Article 40-4, paragraph (1), items of Article 66-6, paragraph (1), items of Article 68-90, paragraph (1) of the Act and the items of the preceding paragraph" in Article 25-22, paragraph (2), item (i) shall be deemed to be replaced with "a specially-related domestic corporation prescribed in Article 40-10, paragraph (2), item (ii) of the Act, specially-related shareholder, etc. prescribed in paragraph (1) of said Article and those listed in the items of Article 25-33, paragraph (1)."

(3) The provisions of Article 25-22, paragraph (5) shall apply mutatis mutandis to the case specified by Cabinet Order prescribed in Article 40-10, paragraph (4), item (ii) of the Act.

(Calculation, etc. of Taxed Amount of Dividend, etc. of Specified Foreign Corporations)

Article 25-34 (1) The affiliated foreign corporation prescribed in Article 40-11,

paragraph (1) of the Act which is specified by Cabinet Order shall be one of the affiliated foreign corporations which hold the taxed amount of a dividend, etc. before deduction pertaining to a specified foreign corporation prescribed in Article 40-11, paragraph (1) of the Act (hereinafter referred to as a "specified foreign corporation" in this paragraph and the following paragraph) (such taxed amount of a dividend, etc. before deduction shall mean the taxed amount of a dividend, etc. before deduction prescribed in Article 25-23, paragraphs (2) to (4) obtained by calculating the amount prescribed in items of Article 40-11, paragraph (1) of the Act, pursuant to the provisions of Article 25-23, paragraphs (2) to (4), where an event listed in the items of Article 40-11, paragraph (1) of the Act has occurred with regard to the specified foreign corporation of a resident who is a specially-related shareholder, etc. or an affiliated foreign corporation of said resident, pursuant to the provisions of the following paragraph) (such affiliated foreign corporation shall exclude those falling under the category of the specified foreign corporation of a resident set forth in Article 40-11, paragraph (1) of the Act).

- (2) The amount calculated as specified by Cabinet Order prescribed in Article 40-11, paragraph (1) of the Act shall be the amount obtained by calculating the amount specified in the items of said paragraph, where an event listed in the items of said paragraph has occurred with regard to the specified foreign corporation of a resident who is a specially-related shareholder, etc. or the affiliated foreign corporation of said resident as prescribed in said paragraph, pursuant to the provisions of Article 25-23, paragraphs (2) to (4).
- (3) The provisions of Article 25-23, paragraph (5) and paragraph (6) shall apply mutatis mutandis to a deduction under the provisions of Article 40-11, paragraph (1) of the Act of the amount equivalent to the taxed amount of a dividend, etc. prescribed in said paragraph and a deduction under paragraph (2) of said Article of the remaining amount of dividend, etc. after deduction prescribed in said paragraph.

(Determination, etc. of Specified Relationship)

Article 25-35 (1) Where the provisions of Article 40-10, paragraph (1) of the Act shall apply, whether or not a domestic corporation falls under the category of a specified domestic corporation prescribed in Article 40-10, paragraph (2), item (i) of the Act shall be determined according to its status immediately before an event causing a specified relationship prescribed in paragraph (1) of said Article occurred, and whether or not said specified relationship actually exists afterwards between a specially-related shareholder, etc. and a specially-related domestic corporation and whether or not a foreign corporation falls under the category of an affiliated foreign corporation shall be determined according to its status at the end of the relevant business year of said specially-related

domestic corporation.

- (2) Where a foreign corporation has been determined as falling under the category of an affiliated foreign corporation at the end of the relevant business year of a specially-related domestic corporation, pursuant to the provisions of preceding paragraph, the provisions of Article 40-10 of the Act shall apply to the eligible retained income for the relevant business year including the day on which said affiliated foreign corporation (limited to that falling under the category of a specified foreign corporation prescribed in Article 40-10, paragraph (1) of the Act) was determined as falling under such category.
- (3) The provisions of Article 25-24, paragraph (2) shall apply mutatis mutandis to the application of the provisions of Article 222 of the Order for Enforcement of the Income Tax Act in the case of calculating the maximum amount of deduction prescribed in Article 95, paragraph (1) of the Income Tax Act for a resident subject to the provisions of Article 40-10, paragraph (1) of the Act or Article 40-11, paragraph (1) or paragraph (2) of the Act.
- (4) The provisions of Article 14-10, paragraphs (1) to (5) and paragraphs (7) to (11) of the Order for Enforcement of the Corporation Tax Act shall apply mutatis mutandis where the provisions of Article 40-10, paragraph (8) of the Act shall apply under the provisions of Article 40-10 (excluding paragraph (3), paragraph (4) and paragraph (6)) to Article 40-12 of the Act, Articles 25-30 to 25-32 (excluding paragraph (5)), Article 25-34 and this Article.
- (5) With regard to a trust corporation or the beneficiary of a trust subject to corporation taxation prescribed in Article 4-7 of the Corporation Tax Act, in addition to what is specified in the preceding paragraph, other necessary matters concerning the application of the provisions of Article 40-10 (excluding paragraph (3), paragraph (4) and paragraph (6)) to Article 40-12 of the Act, Articles 25-30 to 25-32 (excluding paragraph (5)), Article 25-34 or this Article shall be specified by Ordinance of the Ministry of Finance.

Section 10 Other Special Provisions

(Payment, etc. of Income Tax on Profit from Redemption)

- Article 26-10 (1) The issuer of discount bonds shall, when he/she pays income tax collected pursuant to the provisions of Article 41-12, paragraph (3) of the Act, attach a financial statement specified by Ordinance of the Ministry of Finance to a payment statement prescribed in Article 34, paragraph (1) of the Act on General Rules for National Taxes at the time of the payment.
- (2) The place for paying income tax to be collected and paid pursuant to the provisions of Article 41-12, paragraph (3) of the Act shall be at the location of the head office or principal office of an issuer of discount bonds (where said discount bonds are national bonds (excluding those listed in Article 41-12,

paragraph (7), item (i) of the Act), at the location of the head office of the Bank of Japan, and where said discount bonds are issued by a foreign corporation, at the location of said foreign corporation's principal office in Japan).

- (3) The amount deemed to be income tax to be collected when receiving the redemption prescribed in Article 41-12, paragraph (4) of the Act pursuant to the provisions of said paragraph shall be the amount of income tax that shall be collected from a person who receives said redemption, with regard to discount bonds that he/she holds at the time of said redemption, at the time of issuance of the discount bonds pursuant to the provisions of paragraph (3) of said Article.

(Credit of the Amount of Income Tax on Profit from Redemption against Corporation Tax)

Article 26-11 (1) The amount of income tax to be credited against corporation tax out of the amount deemed to be income tax to be collected when receiving the redemption prescribed in Article 41-12, paragraph (4) of the Act pursuant to the provisions of said paragraph shall be the amount calculated, pursuant to the provisions of Article 140-2 of the Order for Enforcement of the Corporation Tax Act, with regard to the amount of said income tax (where the amount of said income tax is not clear, with regard to the amount obtained by deducting the issue price for the discount bonds (where said discount bonds are national bonds listed in Article 41-12, paragraph (9), items (i) to (viii) of the Act which are those falling under the category of short-term government or company bonds prescribed in said paragraph or other national bonds specified by Ordinance of the Ministry of Finance (hereinafter referred to as "short-term national bonds, etc." in this paragraph) and are discount bonds other than those whose issue price is not clear, such issue price shall be the issue price on the final issue date for said discount bonds, and where said discount bonds are said short-term national bonds, etc., such issue price shall be the price specified by Ordinance of the Ministry of Finance as equivalent to said issue price for said discount bonds; such issue price shall be referred to as the "issue price, etc. on the final issue date" in Article 26-13, paragraph (1), item (i) and paragraph (5), item (ii)) from the face value of said discount bonds and then multiplying the remaining amount after deduction (where said discount bonds are issued outside Japan by a foreign corporation, the amount specified by Cabinet Order, prescribed in Article 41-12, paragraph (3) of the Act) by the rate of income tax on profit from redemption for said discount bonds collected at the time of issuance pursuant to the provisions of paragraph (3) of said Article, and where the discount bonds have been redeemed by bringing the redemption date forward or retired by purchase prior to the redemption date, with regard to the remaining amount after deducting the amount to be

refunded that was calculated pursuant to the provisions of paragraph (1) of the following Article from the amount of the income tax). In this case, the term "interest" in Article 140-2, paragraph (1), item (i) of the Order for Enforcement of the Corporation Tax Act shall be deemed to be replaced with "profit from redemption (meaning profit from redemption as prescribed in Article 41-12, paragraph (7) (Separate Taxation, etc. on Profit from Redemption, etc.) of the Act on Special Measures Concerning Taxation; the same shall apply in the following paragraph and paragraph (3))"; the term "out of the number of months" in paragraph (2) of said Article shall be deemed to be replaced with "out of the number of months (the number of days, where said dividend of interest, etc. is profit from redemption for short-term government or company bonds (meaning short-term government or company bonds prescribed in Article 41-12, paragraph (9) of the Act on Special Measures Concerning Taxation; the same shall apply in the following paragraph); hereinafter the same shall apply in this paragraph);" and the term "the amount of income prescribed in paragraph (1), item (i)" in paragraph (3) of said Article shall be deemed to be replaced with "the amount of income (excluding the amount of income tax on profit from redemption of short-term government or company bonds) prescribed in paragraph (1), item (i)."

- (2) The amount of income tax collected pursuant to the provisions of Article 41-12, paragraph (3) of the Act, where a corporation acquired discount bonds at the time of issue, shall be included in the acquisition costs of said discount bonds; the amount deemed to be income tax to be collected when receiving the redemption pursuant to the provisions of paragraph (4) of said Article shall not be included in deductible expenses for calculating the amount of income for a business year including the time of receiving the redemption (where the business year is a consolidated business year prescribed in Article 15-2 of the Corporation Tax Act, for calculating the amount of consolidated income prescribed in Article 2, item (xviii)-4 of said Act for said consolidated business year; hereinafter the same shall apply in this paragraph); and the amount of income tax to be credited against corporation tax pursuant to the provisions of Article 68 (including the cases where it is applied mutatis mutandis pursuant to Article 144 of said Act) or Article 81-14 of said Act shall be included in gross profits for calculating the amount of income that is to be credited for that business year.

(Refund of Income Tax in the Case of Advanced Redemption, etc.)

- Article 26-12 (1) The amount of income tax to be refunded pursuant to the provisions of Article 41-12, paragraph (5) of the Act shall be the amount obtained by deducting the redemption price (where retirement by purchase is performed, the purchase price; hereinafter the same shall apply in this

paragraph) from the face value of the discount bonds and then multiplying the remaining amount after deduction (where said discount bonds are issued outside Japan by a foreign corporation, the amount listed as follows) by the rate of income tax on profit from redemption for said discount bonds collected at the time of issue, pursuant to the provisions of paragraph (3) of said Article.

(i) The amount obtained by deducting the redemption price from the face value of the discount bonds issued outside Japan by a foreign corporation listed in Article 141, item (i) of the Corporation Tax Act and then multiplying the remaining amount after deduction by the rate of the amount listed in (b) out of the amount listed in (a):

(a) Discount on company bonds premium for said discount bonds

(b) The part of the amount listed in (a) that is attributed to a business conducted by said foreign corporation in Japan through a fixed place of business as prescribed in Article 141, item (i) of the Corporation Tax Act.

(ii) The amount obtained by deducting the redemption price from the face value of the discount bonds issued outside Japan by a foreign corporation listed in Article 141, item (ii) or item (iii) of the Corporation Tax Act and then multiplying the remaining amount after deduction by the rate of the amount listed in (b) out of the amount listed in (a):

(a) Discount on company bonds premium for said discount bonds

(b) The part of the amount listed in (a) that is attributed to businesses conducted by these foreign corporations as prescribed in Article 141, item (ii) or item (iii) of the Corporation Tax Act.

(2) A refund under the provisions of Article 41-12, paragraph (5) of the Act shall be made at the time of redemption prescribed in said paragraph. In this case, said amount to be refunded shall be deducted from the amount payable pursuant to the provisions of paragraph (3) of said Article or Article 181 or Article 212 of the Income Tax Act.

(Refund of Income Tax for Non-taxable Corporations, etc.)

Article 26-13 (1) The amount of income tax to be refunded pursuant to the provisions of Article 41-12, paragraph (6) of the Act with regard to discount bonds set forth in said paragraph shall be the amount specified respectively in the following items for the category of cases listed in the relevant items:

(i) Where redemption is made after the redemption date: Out of the income tax collected on said discount bonds pursuant to the provisions of Article 41-12, paragraph (3) of the Act (where the amount of said income tax is not clear, the amount obtained by deducting the issue price, etc. on the final issue date for said discount bonds from the face value of said discount bonds and then multiplying the remaining amount after deduction (where said discount bonds are issued outside Japan by a foreign corporation, the amount

specified by Cabinet Order, prescribed in said paragraph) by the rate of income tax on profit from redemption for said discount bonds collected at the time of issuance pursuant to the provisions of said paragraph; hereinafter the same shall apply in this Article), the amount corresponding to the period during which a domestic corporation or trustee prescribed in Article 41-12, paragraph (6) of the Act (hereinafter referred to as a "non-taxable corporation, etc." in this Article) held said discount bonds

- (ii) Where redemption is made by bringing the redemption date forward or retirement by purchase is performed prior to the redemption date: Out of the remaining amount after deducting the amount to be refunded pursuant to the provisions of Article 41-12, paragraph (5) of the Act from the income tax collected on said discount bonds pursuant to the provisions of paragraph (3) of said Article, the amount corresponding to the period during which a non-taxable corporation, etc. held said discount bonds.
- (2) The amount corresponding to the period during which a non-taxable corporation, etc. held said discount bonds as prescribed in items of the preceding paragraph shall be the amount obtained by multiplying the amount of income tax or remaining amount prescribed in said items by the ratio of the number of months (where said discount bonds are short-term government or company bonds prescribed in Article 41-12, paragraph (9) of the Act, the number of days; hereinafter the same shall apply in this paragraph and paragraph (5), item (iii)) up to the redemption date during which said non-taxable corporation, etc. held said discount bonds out of the number of months from the issue date (where the date is not clear, the final issue date for said discount bonds) to the redemption date (including a date for retirement by purchase; hereinafter the same shall apply in this Article) of said discount bonds.
- (3) The number of months set forth in the preceding paragraph shall be calculated by calendar month, and when there are any fractions less than one month, those fractions shall be deemed to be one month for counting the period during which a non-taxable corporation, etc. held said discount bonds and shall be rounded off for calculating the period from the issue date to the redemption date of said discount bonds, and when the ratio set forth in said paragraph exceeds one, the ratio shall be deemed to be one.
- (4) A refund pursuant to the provisions of Article 41-12, paragraph (6) of the Act shall be made at the time of paying the profit from redemption as prescribed in said paragraph upon request from a non-taxable corporation, etc. In this case, the provisions of the second sentence of Article 26-12, paragraph (2) shall apply *mutatis mutandis*.
- (5) A non-taxable corporation, etc. intending to receive a refund pursuant to the provisions of Article 41-12, paragraph (6) of the Act shall submit a written

request for a refund containing the following matters, along with a document certifying the date of acquisition of the discount bonds, to the issuer of said discount bonds by the day on which he/she receives the payment of the profit from redemption as prescribed in said paragraph for said discount bonds set forth in said paragraph:

- (i) The name of the requester and the location of the requester's head office or principal office
- (ii) The sum of the face value and the sum of the issue price of the discount bonds for which the requester intends to receive redemption (where said issue price is not clear, the issue price, etc. on the final issue date for said discount bonds) and the amount of income tax on said discount bonds collected pursuant to the provisions of Article 41-12, paragraph (3) of the Act
- (iii) The date of acquisition of the discount bonds for which the requester intends to receive redemption and the number of months up to the redemption date out of the period during which the requester held said discount bonds
- (iv) The amount by which the requester intends to be refunded pursuant to the provisions of Article 41-12, paragraph (6) of the Act out of the amount of income tax listed in item (ii)
- (v) Other matters for reference.

(Treatment where an Issuer of Discount Bonds Could not Deduct the Amount to Refund from the Amount Payable)

- Article 26-14 (1) Where the provisions of Article 26-12, paragraph (2) or paragraph (4) of the preceding Article shall apply, when there is any amount that an issuer prescribed in Article 41-12, paragraph (5) or paragraph (6) of the Act (hereinafter referred to as an "issuer" in this Article) cannot deduct as prescribed in the second sentence of Article 26-12, paragraph (2) (including the cases where it is applied mutatis mutandis pursuant to paragraph (4) of the preceding Article) in the month following the month including the day on which he/she shall make a refund pursuant to the provisions of Article 41-12, paragraph (5) or paragraph (6) of the Act, the competent district director with jurisdiction over the place for tax payment prescribed in Article 26-10, paragraph (2) for income tax pertaining to the profit from redemption for discount bonds prescribed in Article 41-12, paragraph (5) or paragraph (6) of the Act shall refund said amount that cannot be deducted to said issuer.
- (2) An issuer who seeks the application of the provisions of the preceding paragraph shall submit a document that states that fact to the competent district director set forth in the preceding paragraph, along with a detailed statement containing the amount that he/she shall refund pursuant to the provisions of Article 41-12, paragraph (5) or paragraph (6) of the Act, the

amount that he/she cannot deduct as prescribed in the preceding paragraph out of said amount, which of the provisions of paragraph (5) or paragraph (6) of said Article said refund is based on, and other necessary matters.

- (3) Where the interest on a refund prescribed in Article 58, paragraph (1) of the Act on General Rules for National Taxes is to be calculated with regard to a refund under the provisions of paragraph (1), the period set forth in Article 58, paragraph (1) of said Act to be used as the basis for the calculation shall be the period from the day on which one month has elapsed from the next day of submitting the documents set forth in the preceding paragraph up to the day on which the payment for the refund is determined or the day on which an appropriation is made for the refund (where there has been any day suitable for an appropriation before such day, up to the day which proved to be suitable).

(Scope of Discount Bonds Pertaining to Separate Taxation, etc. on Profit from Redemption)

Article 26-15 (1) The government or company bonds specified by Cabinet Order prescribed in Article 41-12, paragraph (7) of the Act shall be the government or company bonds listed as follows which are issued by means of a discount:

- (i) National bonds and municipal bonds
- (ii) Company bonds issued by a domestic corporation (including bonds issued by a domestic corporation other than a company under special Acts)
- (iii) Bonds issued by a foreign corporation (for bonds issued outside Japan, limited to those listed as follows):
 - (a) Where the whole or a part of discount on company bonds premium for the company bonds issued outside Japan by a foreign corporation listed in Article 141, item (i) of the Corporation Tax Act is attributed to a business conducted by said foreign corporation in Japan through a fixed place of business prescribed in said item, said company bonds
 - (b) Where the whole or a part of discount on company bonds premium for the company bonds issued outside Japan by a foreign corporation listed in Article 141, item (ii) or item (iii) of the Corporation Tax Act is attributed to a business conducted by said foreign corporation as prescribed in these items, said company bonds

- (2) The bonds specified by Cabinet Order prescribed in Article 41-12, paragraph (7), item (ii) of the Act shall be the bonds issued by the Japan Housing Finance Agency, the Okinawa Development Finance Corporation, or the Urban Renaissance Agency pursuant to the provisions of Article 8 of the Supplementary Provisions of the Japan Housing Finance Agency Act, Article 27, paragraph (4) of the Okinawa Development Finance Corporation Act (Act No. 31 of 1972) or Article 15, paragraph (1) of the Supplementary Provisions of the Urban Renaissance Agency Act.

(Application of the Income Tax Act, etc. to Profit from Redemption to be Received by Nonresident)

Article 26-15-2 Profit from redemption of government or company bonds listed in paragraph (1), item (iii) of the preceding Article (excluding specified short-term government or company bonds prescribed in Article 41-12, paragraph (9) of the Act) that is to be received by a nonresident shall be deemed to be income arising from the utilization or holding of assets located in Japan prescribed in Article 161, item (i) of the Income Tax Act, and the provisions of said Act and other income tax-related laws and regulations (excluding provisions concerning withholding income tax prescribed in Article 2, paragraph (1), item (xlv) of the Income Tax Act) shall apply.

(Income, etc. from Transfer of Discount Bonds Deemed to Be Non-Taxable)

Article 26-15-3 The provisions of Article 37-16, paragraph (1) of the Act shall not apply to income arising from the transfer of the following government or company bonds, issued by means of a discount, that was carried out by a resident or a nonresident who maintains a permanent establishment in Japan:

- (i) Where the whole of the discount on company bonds premium for the company bonds issued outside Japan by a foreign corporation listed in Article 141, item (i) of the Corporation Tax Act is attributed to business conducted by said foreign corporation in Japan through a fixed place of business as prescribed in said item, said company bonds
- (ii) Where the whole of the discount on company bonds premium for the company bonds issued outside Japan by a foreign corporation listed in Article 141, item (ii) or item (iii) of the Corporation Tax Act is attributed to business conducted by said foreign corporation as prescribed in these items, said company bonds.

(Scope of Specified Entries or Records under the Book-entry Transfer System)

Article 26-16 The entries or records under the book-entry transfer system specified by Cabinet Order prescribed in Article 41-12, paragraph (9) of the Act shall be the entries or records under the book-entry transfer system specified respectively in the following items for the category of short-term government or company bonds listed in the relevant items:

- (i) Short-term government or company bonds (meaning short-term government or company bonds prescribed in Article 41-12, paragraph (9) of the Act; the same shall apply in the following item) listed in items (i) to (viii) of said paragraph: Entries or records under the book-entry transfer system (meaning entries or records under the book-entry transfer system prescribed in Article 41-12, paragraph (9) of the Act; hereinafter the same shall apply

through to Article 26-20) where entries or records under the book-entry transfer system are not made in an account established by a foreign intermediary (meaning a foreign intermediary prescribed in Article 41-12, paragraph (12) of the Act; hereinafter the same shall apply through to Article 26-20) other than a qualified foreign intermediary prescribed in Article 5-2, paragraph (5), item (iv) of the Act

- (ii) Short-term government or company bonds other than short-term government or company bonds listed in the preceding item: Entries or records under the book-entry transfer system where entries or records under the book-entry transfer system are not made in an account established by a foreign intermediary.

(Income from Transfer of Specified Short-term Government or Company Bonds Not Excluded from Taxation)

Article 26-17 The income specified by Cabinet Order prescribed in Article 41-12, paragraph (10) of the Act shall be the income from a transfer of specified short-term government or company bonds prescribed in said paragraph that was carried out by a resident or a nonresident who maintains a permanent establishment in Japan.

(Submission, etc. of a Written Notice by a Person Who Makes Entries or Records under the Book-entry Transfer System for Specified Book-entry National Bonds, etc.)

Article 26-18 (1) The person specified by Cabinet Order prescribed in Article 41-12, paragraph (12) of the Act shall be the national government or any of the following:

- (i) A corporation listed in appended table 1 of the Corporation Tax Act
 - (ii) A corporation established under special Acts (limited to a corporation whose name was determined under said special Acts and where it is determined thereunder that letters used in said name shall not be used for any other persons' names)
 - (iii) A specified book-entry transfer institution, etc. prescribed in Article 41-12, paragraph (12) of the Act (hereinafter referred to as a "specified book-entry transfer institution, etc." in this Article and Article 26-20, paragraph (2)) and a foreign intermediary
 - (iv) A foreign government, foreign local public entity, foreign central bank, and an international organization that Japan has joined.
- (2) The documents specified by Cabinet Order prescribed in Article 41-12, paragraph (12) of the Act shall be the documents listed respectively in the following items for the category of persons listed in the relevant items:
- (i) An individual: A copy of the certificate of residence, certificate of items

entered in the certificate of residence, health insurance card, driver's license and certificate of alien registration of said individual and other documents specified by Ordinance of the Ministry of Finance

- (ii) A corporation (including an association or foundation without juridical personality prescribed in Article 2, item (viii) of the Corporation Tax Act; hereinafter the same shall apply in this item): A certificate of registered matters concerning registration for establishment, receipt of national or local tax and certificate of tax payment of said corporation and other documents specified by Ordinance of the Ministry of Finance.
- (3) The identification documents prescribed in Article 41-12, paragraph (12) of the Act (hereinafter referred to as the "identification documents" through to Article 26-20) shall be presented pursuant to the provisions of Article 41-12, paragraph (12) of the Act when submitting a written notice set forth in said paragraph.
- (4) When a person who had submitted a written notice set forth in Article 41-12, paragraph (12) of the Act has changed the person's name or address (or any other place specified by Ordinance of the Ministry of Finance in the case where the person does not have an address in Japan; hereinafter the same shall apply through to Article 26-20), the person shall promptly submit a document that states the person's name and address after the change to the head of the business office, etc. (meaning a business office, etc. prescribed in Article 41-12, paragraph (12) of the Act; hereinafter the same shall apply in this Article) of the specified book-entry transfer institution, etc. to which the person had submitted the written notice (where the person had submitted said written notice, pursuant to the provisions of said paragraph, via a foreign intermediary to the head of the business office, etc. of the specified book-entry transfer institution, etc. where he/she makes entries or records under the book-entry transfer system for the specified book-entry national bonds, etc. (meaning specified book-entry national bonds, etc. prescribed in said paragraph; hereinafter the same shall apply through to Article 26-20), the person shall promptly submit such document via said foreign intermediary to the head of the business office, etc. of said specified book-entry transfer institution, etc., according to the provisions of the first sentence of Article 41-12, paragraph (12) of the Act). The same shall apply where the person has changed the name or address again after submitting said document.
- (5) A person who submits the document prescribed in the preceding paragraph shall, when submitting said document, present the identification documents to the head of the business office, etc. of the specified book-entry transfer institution, etc. to which he/she submits said document (excluding the case where he/she submits said document via a foreign intermediary; the same shall apply in the following paragraph) or to the head of the overseas business office,

etc. (meaning the overseas business office, etc. prescribed in Article 41-12, paragraph (12) of the Act) of the foreign intermediary set forth in said paragraph via which he/she had submitted a written notice prescribed in the preceding paragraph as prescribed in Article 41-12, paragraph (12) of the Act (referred to as the "head of the overseas business office, etc. of the foreign intermediary" in the following paragraph and paragraph (8)).

- (6) The head of the business office, etc. of the specified book-entry transfer institution, etc. or the head of the overseas business office, etc. of the foreign intermediary shall, when a written notice prescribed in Article 41-12, paragraph (12) of the Act or the document prescribed in paragraph (4) has been submitted, confirm whether or not the name and address entered in said written notice or the document are consistent with the name and address entered in the identification documents which were presented pursuant to the provisions of Article 41-12, paragraph (12) of the Act or the preceding paragraph at the time of the submission of said written notice or the document.
- (7) The foreign intermediary set forth in the preceding paragraph that has provided confirmation pursuant to the provisions of said paragraph shall submit the documents prescribed in Article 41-12, paragraph (14) of the Act for each person who makes entries or records under the book-entry transfer system set forth in paragraph (12) of said Article to the head of the business office, etc. of the specified book-entry transfer institution, etc. where the foreign intermediary makes entries or records under the book-entry transfer system for specified book-entry national bonds, etc. pertaining to said confirmation (where said foreign intermediary is a tertiary foreign account management institution (meaning a tertiary foreign account management institution prescribed in said paragraph), to the head of the business office, etc. of the specified book-entry transfer institution, etc. where the tertiary foreign account management institution prescribed in paragraph (14) of said Article pertaining to said specified book-entry national bonds, etc. makes entries or records under the book-entry transfer system for said specified book-entry national bonds, etc. via said tertiary foreign account management institution).
- (8) The head of the business office, etc. of the specified book-entry transfer institution, etc. or the head of the overseas business office, etc. of the foreign intermediary shall, when having provided confirmation pursuant to the provisions of paragraph (6), clearly record that he/she has provided said confirmation in the books concerning said confirmation (including the books or documents equivalent thereto), pursuant to the provisions of Ordinance of the Ministry of Finance, and preserve said books; and the head of the business office, etc. of the specified book-entry transfer institution, etc. who has received the submission of a written notice prescribed in Article 41-12, paragraph (12) of the Act, the document prescribed in paragraph (4) or the documents

prescribed in the preceding paragraph shall preserve such written notice and documents, pursuant to the provisions of Ordinance of the Ministry of Finance.

(9) Where a nonresident or foreign corporation (excluding those listed in paragraph (1), item (i), item (iii), or item (iv); hereinafter the same shall apply in this paragraph) makes entries or records under the book-entry transfer system for short-term national bonds, etc. (meaning national bonds listed in Article 41-12, paragraph (9), items (i) to (viii) of the Act which fall under the category of specified short-term government or company bonds and principal-only book-entry national bonds and coupon-only book-entry national bonds prescribed in paragraph (12) of said Article) for the first time on or after April 1, 1999 in the account pertaining to entries or records under the book-entry transfer system that has gone through the confirmation pursuant to the provisions of Article 5-2, paragraph (9) of the Act (including the cases where it is applied mutatis mutandis pursuant to paragraph (12) of said Article; hereinafter the same shall apply in this paragraph) (hereinafter such confirmation shall be referred to as "confirmation pertaining to book-entry national bonds, etc." in this paragraph), with regard to said entries or records under the book-entry transfer system, it shall be deemed that the submission of a written notice set forth in Article 41-12, paragraph (12) of the Act under the provisions of said paragraph (including the submission of the document set forth in paragraph (4) under the provisions of said paragraph) has been made by the submission of a written application for a tax exemption on book-entry national bonds set forth in Article 5-2, paragraph (1), item (i), (a) of the Act under the provisions of (a) of said item (including the submission of a written application set forth in paragraph (10) of said Article under the provisions of said paragraph) or the submission of a written application for a tax exemption on book-entry municipal bonds set forth in Article 5-2, paragraph (1), item (ii), (a) of the Act under the provisions of (a) of said item (including the submission of a written application set forth in paragraph (11) of said Article under the provisions of said paragraph) for said confirmation pertaining to book-entry national bonds, etc., that the presentation of the identification documents under the provisions of Article 41-12, paragraph (12) of the Act (including the provisions of paragraph (5)) has been made by the presentation of the documents specified by Cabinet Order set forth in Article 5-2, paragraph (9) of the Act under the provisions of said paragraph for said confirmation pertaining to book-entry national bonds, etc., and that the confirmation under the provisions of paragraph (6) (including the submission of the documents set forth in paragraph (7) under the provisions of said paragraph) has been provided by said confirmation pertaining to book-entry national bonds, etc.; provided, however, that this shall not apply when the name and address to be entered in a written notice set forth in Article 41-12, paragraph (12) of the Act

or the document set forth in paragraph (4) differ from the name and address of said nonresident or foreign corporation for which said confirmation pertaining to book-entry national bonds, etc. has been provided.

(10) The form of a written notice set forth in Article 41-12, paragraph (12) of the Act shall be specified by Ordinance of the Ministry of Finance.

(11) The documents specified by Cabinet Order prescribed in Article 41-12, paragraph (14) of the Act shall be a document certifying that the confirmation prescribed in said paragraph has been provided, the identification documents and a copy of said identification documents.

(Entries or Records in the Books by a Foreign Intermediary)

Article 26-18-2 (1) When persons intending to make entries or records under the book-entry transfer system prescribed in Article 41-12, paragraph (15) of the Act (hereinafter referred to as "customers" in this Article) have made entries or records under the book-entry transfer system for specified book-entry national bonds, etc. via a foreign intermediary, said foreign intermediary shall enter or record the matters prescribed in said paragraph in the books prescribed in said paragraph, for each of said customers each time, and preserve said books pursuant to the provisions of Ordinance of the Ministry of Finance.

(2) When customers have made entries or records under the book-entry transfer system for specified book-entry national bonds, etc. via a foreign intermediary, said foreign intermediary shall provide information about the matters prescribed in Article 41-12, paragraph (16) of the Act for each of said customers to the specified book-entry transfer institution, etc. prescribed in said paragraph of said foreign intermediary pertaining to said specified book-entry national bonds, etc. by way of a document or any other means prescribed in the following paragraph.

(3) The means specified by Cabinet Order prescribed in Article 41-12, paragraph (16) of the Act shall be a means of using an electronic data processing system or another means of using information and communications technology that is specified by Ordinance of the Ministry of Finance.

(4) The specified book-entry transfer institution, etc. prescribed in paragraph (2) shall, when having received a notification set forth in said paragraph, enter or record said matters notified, for each of the customers each time, in the books prescribed in Article 41-12, paragraph (16) of the Act and preserve said books pursuant to the provisions of Ordinance of the Ministry of Finance.

(Notification, etc. of a Recipient of a Consideration for the Transfer of Specified Book-Entry National Bonds, etc.)

Article 26-19 (1) Those specified by Cabinet Order prescribed in Article 41-12, paragraph (17) of the Act shall be the national government and those listed in

Article 26-18, paragraph (1), item (i), item (ii) and item (iv) (referred to as "public corporations, etc." in paragraph (1) of the following Article).

- (2) A notification under the provisions of Article 41-12, paragraph (17) of the Act shall be made each time, on receipt of the payment of a consideration for the transfer of specified book-entry national bonds, etc. prescribed in said paragraph.
- (3) The identification documents shall be presented pursuant to the provisions of Article 41-12, paragraph (17) of the Act when making a notification set forth in the same paragraph.
- (4) Necessary matters concerning the scope of the identification documents that a person intending to make a notification under the provisions of Article 41-12, paragraph (17) of the Act shall present pursuant to the provisions of said paragraph shall be specified by Ordinance of the Ministry of Finance.
- (5) A payer prescribed in Article 41-12, paragraph (17) of the Act (referred to as a "payer" in the following paragraph) shall, when having received a notification under the provisions of paragraph (17) of said Article, confirm whether or not the name and address notified are consistent with the name and address entered in the identification documents that were presented to him/her at the time of said notification pursuant to the provisions of said paragraph.
- (6) A payer shall, when having provided confirmation under the provisions of the preceding paragraph, clearly record that he/she has provided said confirmation in the books concerning said confirmation (including the books or documents equivalent thereto), pursuant to the provisions of Ordinance of the Ministry of Finance, and preserve said books.

(Submission, etc. of a Written Notice by a Recipient of Redemption Money, etc. of Specified Book-Entry National Bonds, etc.)

Article 26-20 (1) Those specified by Cabinet Order prescribed in Article 41-12, paragraph (18) of the Act shall be public corporations, etc.

- (2) Where a specified book-entry transfer institution, etc. and a foreign intermediary receive redemption money (meaning redemption money prescribed in Article 41-12, paragraph (18) of the Act; hereinafter the same shall apply in this Article) or payment of interest (meaning interest prescribed in Article 41-12, paragraph (18) of the Act; hereinafter the same shall apply in this Article) pertaining to specified book-entry national bonds, etc., due to the redemption (meaning the redemption prescribed in Article 41-12, paragraph (18) of the Act; the same shall apply in paragraph (7)) or payment of interest, a written notice set forth in Article 41-12, paragraph (18) of the Act under the provisions of said paragraph shall not be required to be submitted for the receipt of said redemption or payment of interest.
- (3) The identification documents shall be presented pursuant to the provisions of

Article 41-12, paragraph (18) of the Act when submitting a written notice set forth in said paragraph.

- (4) Necessary matters concerning the scope of the identification documents that a person intending to submit a written notice under the provisions of Article 41-12, paragraph (18) of the Act shall present pursuant to the provisions of said paragraph shall be specified by Ordinance of the Ministry of Finance.
- (5) A person in charge of handling payment of redemption money or interest pertaining to specified book-entry national bonds, etc. shall, when a written notice prescribed in Article 41-12, paragraph (18) of the Act has been submitted, confirm whether or not the name and address entered in said written notice are consistent with the name and address entered in the identification documents that were presented to him/her at the time of the submission of said written notice pursuant to the provisions of said paragraph.
- (6) A person in charge of handling payment of redemption money or interest pertaining to specified book-entry national bonds, etc. shall, when having provided confirmation under the provisions of the preceding paragraph, clearly record that he/she has provided said confirmation in the books concerning said confirmation (including the books or documents equivalent thereto), pursuant to the provisions of Ordinance of the Ministry of Finance, and preserve said books and the written notice prescribed in Article 41-12, paragraph (18) of the Act.
- (7) Where a person who receives a payment prescribed in Article 41-12, paragraph (18) of the Act receives redemption money or payment of interest pertaining to specified book-entry national bonds, etc., due to the redemption or payment of interest, pertaining to confirmation provided pursuant to the provisions of Article 26-18, paragraph (6) (hereinafter referred to as "confirmation pertaining to entries or records under the book-entry transfer system" in this paragraph), with regard to the receipt of said redemption money or payment of interest, it shall be deemed that the submission of a written notice set forth in Article 41-12, paragraph (18) of the Act under the provisions of said paragraph has been made by the submission of a written notice set forth in Article 41-12, paragraph (12) of the Act under the provisions of said paragraph (including the submission of the document set forth in Article 26-18, paragraph (4) under the provisions of said paragraph) for said confirmation pertaining to entries or records under the book-entry transfer system, that the presentation of the identification documents under the provisions of Article 41-12, paragraph (18) of the Act has been made by the presentation of the identification documents under the provisions of Article 41-12, paragraph (12) of the Act (including the provisions of Article 26-18, paragraph (5)) for said confirmation pertaining to entries or records under the book-entry transfer system, and that the confirmation under the provisions of

Article 41-12, paragraph (18) of the Act (including the submission of the documents set forth in paragraph (14) of said Article under the provisions of said paragraph which is applied mutatis mutandis pursuant to paragraph (19) of said Article) has been provided by said confirmation pertaining to entries or records under the book-entry transfer system; provided, however, that this shall not apply when the name and address to be entered in a written notice set forth in Article 41-12, paragraph (18) of the Act differ from the name and address of the person for which said confirmation pertaining to entries or records under the book-entry transfer system has been provided.

(8) The form of a written notice set forth in Article 41-12, paragraph (18) of the Act shall be specified by Ordinance of the Ministry of Finance.

(Submission of Payment Records for a Consideration for the Transfer or Redemption Money of Specified Book-Entry National Bonds, etc.)

Article 26-21 (1) Those specified by Cabinet Order prescribed in Article 41-12, paragraph (21) of the Act shall be the national government and those listed in the items of Article 26-18, paragraph (1).

(2) A payer prescribed in Article 41-12, paragraph (21) of the Act who intends to obtain the approval set forth in said paragraph shall submit a written application containing his/her name and location, intention to obtain said approval, and any other matters specified by Ordinance of the Ministry of Finance to the competent district director prescribed in said paragraph.

(3) Where a written application set forth in the preceding paragraph has been submitted, when the competent district director set forth in said paragraph has granted approval or has decided not to grant approval, he/she shall notify to that effect to the applicant in writing.

(4) A person in charge of handling payment of redemption money or interest pertaining to specified book-entry national bonds, etc. prescribed in Article 41-12, paragraph (22) of the Act who intends to obtain the approval set forth in said paragraph shall submit a written application containing his/her name and location, intention to obtain said approval, and any other matters specified by Ordinance of the Ministry of Finance to the competent district director prescribed in said paragraph.

(5) Where a written application set forth in the preceding paragraph has been submitted, when the competent district director set forth in said paragraph has granted approval or has decided not to grant approval, he/she shall notify to that effect to the applicant in writing.

(6) A person who pays a consideration for the transfer of specified book-entry national bonds, etc. or who is in charge of handling payment of redemption money or interest pertaining to specified book-entry national bonds, etc. prescribed in Article 41-12, paragraph (23) of the Act, who intends to obtain

the approval set forth in said paragraph, shall submit a written application containing his/her name and location, the type of optical disk prescribed in said paragraph which he/she intends to submit, and any other matters specified by Ordinance of the Ministry of Finance to the competent district director with jurisdiction over said location.

- (7) Where a written application set forth in the preceding paragraph has been submitted, when the competent district director set forth in said paragraph has granted approval or has decided not to grant approval, he/she shall notify to that effect to the applicant in writing.
- (8) The form of a payment record for a consideration for the transfer of specified book-entry national bonds, etc. prescribed in Article 41-12, paragraph (21) of the Act or a payment record for redemption money, etc. of specified book-entry national bonds, etc. prescribed in paragraph (22) of said Article shall be specified by Ordinance of the Ministry of Finance.

(Bond Issue Discounts for Foreign Private Bonds to Which the Special Provisions on Tax Exemption Do Not Apply)

Article 26-22 Bond issue discounts specified by Cabinet Order prescribed in Article 41-13 of the Act shall be the bond issue discounts listed as follows:

- (i) Bond issue discounts to be received by a nonresident listed in Article 164, paragraph (1), item (i) of the Income Tax Act which are attributed to a business conducted by said nonresident in Japan at any fixed place prescribed in said item
- (ii) Bond issue discounts to be received by a nonresident listed in Article 164, paragraph (1), item (ii) or item (iii) of the Income Tax Act which are attributed to a business conducted by said nonresident prescribed in these items.

(Special Provisions on Withholding at Source for Remuneration, etc. Paid by a Tax-Exempt Entertainment Corporation, etc. to Entertainers, etc. for Their Provision of Services)

Article 27 (1) With respect to the place for tax payment of income tax to be collected, pursuant to the provisions of Article 42, paragraph (1) of the Act, for the payment of the remuneration paid by a tax-exempt entertainment corporation, etc. prescribed in Article 42, paragraph (1) of the Act (referred to as a "tax-exempt entertainment corporation, etc." in paragraph (3)) to entertainers, etc. for their provision of services, the term "shall be the place prescribed in said items" in Article 55 of the Order for Enforcement of the Income Tax Act shall be deemed to be replaced with "shall be the place prescribed in said items (with respect to the remuneration paid by a tax-exempt entertainment corporation, etc. prescribed in Article 42, paragraph (1)

(Special Provisions on Withholding at Source for Remuneration, etc. Paid by a Tax-Exempt Entertainment Corporation, etc. to Entertainers, etc. for Their Provision of Services) of the Act on Special Measures Concerning Taxation (hereinafter referred to as a "tax-exempt entertainment corporation, etc." in this Article), outside Japan, to entertainers, etc. listed in the items of said paragraph for their provision of services out of consideration for the provision of the services of entertainers, etc. prescribed in said paragraph (hereinafter referred to as the "consideration for the provision of the services of entertainers, etc." in this Article), the location of an office, business office or any other place equivalent thereto located in Japan of a person who pays the consideration for the provision of the services of entertainers, etc. of said entertainers, etc. to said tax-exempt entertainment corporation, etc. (where such person falls under the category of a tax-exempt entertainment corporation, etc., a person who pays the consideration for the provision of the services of entertainers, etc. to said person) (where there are two or more locations, the principal location))."

(2) With respect to the application of the provisions of Article 264 of the Order for Enforcement of the Income Tax Act where the provisions of Article 42, paragraph (1) of the Act is applied, the term "Article 212, paragraph (1) (Withholding Liability for Income of Nonresidents or Corporations) of the Act" in said Article shall be deemed to be replaced with "Article 212, paragraph (1) (Withholding Liability for Income of Nonresidents or Corporations) of the Act or Article 42, paragraph (1) (Special Provisions on Withholding at Source for Remuneration, etc. Paid by a Tax-Exempt Entertainment Corporation, etc. to Entertainers, etc. for Their Provision of Services) of the Act on Special Measures Concerning Taxation."

(3) Where a tax-exempt entertainment corporation, etc. seeks the application of the provisions of Article 179 and Article 213, paragraph (1) of the Income Tax Act whose terms were replaced under the provisions of Article 42, paragraph (3) of the Act with respect to the consideration listed in Article 161, item (ii) of the Income Tax Act, which they shall receive for the provision of the services of entertainers, etc. prescribed in Article 42, paragraph (1) of the Act, said tax-exempt entertainment corporation, etc. shall, when receiving payment of said consideration, submit a document that states the matters specified by Ordinance of the Ministry of Finance, via a person who pays said consideration, to the competent district director with jurisdiction over the place for tax payment of the income tax to be collected and paid for said consideration by said payer pursuant to the provisions of Article 212 of the Income Tax Act.

(Special Provisions on Taxation on Interest Received by a Foreign Financial Institution, etc. from Bond Transactions with Repurchase/Resale

Agreements)

- Article 27-2 (1) The bond transaction with a repurchase or resale agreement specified by Cabinet Order prescribed in Article 42-2, paragraph (1) of the Act shall be a bond transaction where the bonds are transferred or purchased under an agreement to repurchase or resell at the agreed prices on the agreed date (or where it is agreed that the date and prices shall be determined after the commencement of the transaction instead of determining the date and prices in advance, at said prices on said date agreed after the commencement of the transaction) and are repurchased or resold based on said agreement.
- (2) The requirements specified by Cabinet Order prescribed in Article 42-2, paragraph (1) of the Act shall be as follows (where a specified financial institution, etc. prescribed in said paragraph (hereinafter referred to as a "specified financial institution, etc." in this Article) is the Bank of Japan, the requirements listed in item (i) and item (iii)):
- (i) In the transaction prescribed in the preceding paragraph, the period between the date of the transfer or purchase of the bonds and the date of the repurchase or resale of said bonds shall not exceed six months
 - (ii) With respect to the transaction prescribed in the preceding paragraph, an agreement has been made on collective clearing prescribed in Article 3 of the Act on Collective Clearing of Specified Financial Transactions Conducted by Financial Institutions, etc. (Act No. 108 of 1998)
 - (iii) The value of the bonds pertaining to the transaction prescribed in the preceding paragraph on the day on which the agreement was made with regard to said transaction shall be not less than the value agreed for said transaction.
- (3) The interest specified by Cabinet Order prescribed in Article 42-2, paragraph (1) of the Act shall be the interest to be received by a foreign financial institution, etc. prescribed in said paragraph on which no income tax shall be imposed pursuant to the provisions of Article 7 of the Act.
- (4) The bonds specified by Cabinet Order prescribed in Article 42-2, paragraph (1), item (iii) of the Act shall be any of the bonds listed as follows:
- (i) Bonds issued or guaranteed by a foreign corporation listed as follows:
 - (a) A foreign corporation 50 percent or more of whose capital contributions or obligations were made by a foreign government
 - (b) A foreign corporation established based on the provisions of the special laws and regulations in a foreign state whose business is conducted under the management of the government of said foreign state
 - (ii) Bonds issued or guaranteed by an international organization established based on an international agreement between governments
 - (iii) Bonds issued by a corporation which was established based on the laws and regulations of a member state of the OECD other than Japan and which

is engaged in a banking business in said state based on the laws and regulations of said state.

- (5) Whether or not a foreign corporation listed in Article 42-2, paragraph (4), item (i), (a) of the Act out of foreign financial institutions, etc. (meaning foreign financial institutions, etc. prescribed in said item; hereinafter the same shall apply in this Article) falls under the category of a foreign corporation listed in the items of Article 42-2, paragraph (2) of the Act shall be determined according to its status at the end of the business year immediately prior to the business year including the day on which said foreign financial institution, etc. intends to submit a written application for a tax exemption (meaning a written application for a tax exemption as prescribed in Article 42-2, paragraph (5) of the Act; hereinafter the same shall apply in this Article) and the day preceding the day on which said foreign financial institution, etc. is to receive payment of specified interest (meaning specified interest prescribed in Article 42-2, paragraph (1) of the Act; hereinafter the same shall apply in this Article) after submitting said written application for a tax exemption.
- (6) A foreign financial institution, etc. which seeks the application of the provisions of Article 42-2, paragraph (1) of the Act shall, when it intends to receive payment of specified interest from a specified financial institution, etc. for the first time, submit a written application for a tax exemption to the district director prescribed in Article 42-2, paragraph (5) of the Act, via an office, business office, or any other establishment equivalent thereto (hereinafter referred to as "offices, etc." in this paragraph and paragraph (10)) of said specified financial institution, etc. in charge of handling payment of said specified interest (where payment of said specified interest is handled at two or more offices, etc. held by said specified financial institution, etc., via respective offices at the time when payment is handled for the first time respectively) by the day preceding the day on which said foreign financial institution, etc. is to receive said specified interest.
- (7) A foreign financial institution, etc. which seeks the application of the provisions of Article 42-2, paragraph (1) of the Act shall, when it has not been entered or recorded separately in the books prescribed in Article 42-2, paragraph (10) of the Act of a specified financial institution, etc. which pays specified interest to said foreign financial institution, etc., submit a written application for a tax exemption to the district director prescribed in Article 42-2, paragraph (5) of the Act pursuant to the provisions of said paragraph.
- (8) Where a foreign financial institution, etc. which had previously received the application of the provisions of Article 42-2, paragraph (1) of the Act has become unable to receive the application of said provisions based on the provisions of paragraph (2) of said Article and subsequently seeks the application of the provisions of Article 42-2, paragraph (1) of the Act again,

said foreign financial institution, etc. shall submit a written application for a tax exemption to the district director prescribed in Article 42-2, paragraph (5) of the Act, by the day preceding the day on which it is to receive the specified interest, in respect of which it seeks the application of the provisions of said paragraph.

- (9) The documents specified by Cabinet Order prescribed in Article 42-2, paragraph (7) of the Act shall be any of the foreign corporation's certificate of registered matters of the corporation, receipt for national tax or local tax, certificate of tax payment or any other document specified by Ordinance of the Ministry of Finance.
- (10) A specified financial institution, etc. shall, when it has received a written application for a tax exemption or a written application prescribed in Article 42-2, paragraph (8) of the Act at its offices, etc., submit such written applications to the district director prescribed in Article 42-2, paragraph (5) of the Act, by the final day of the month following the month involving the date of the receipt, and create copies of such written applications (including those equivalent thereto) and preserve them pursuant to the provisions of Ordinance of the Ministry of Finance.
- (11) In the case referred to in Article 42-2, paragraph (8) of the Act, when a written application prescribed in said paragraph has been submitted to the district director prescribed in said paragraph, it shall be deemed that the submission has been made at the time when the person who pays specified interest set forth in said paragraph received the written application.
- (12) A specified financial institution, etc. shall, when the contract for a bond transaction with a repurchase/resale agreement prescribed in Article 42-2, paragraph (1) of the Act has been concluded with a foreign financial institution, etc. which had submitted a written application for a tax exemption, or when a written application prescribed in paragraph (8) of said Article has been submitted by a person who had submitted said written application for a tax exemption, enter or record the matters prescribed in paragraph (10) of said Article in the books for each person each time, and preserve said books pursuant to the provisions of Ordinance of the Ministry of Finance.

Chapter III Special Provisions for the Corporation Tax Act

Section 8-2 Special Provisions, etc. on Taxation on Transactions with Foreign Affiliated Persons

(Application Procedures, etc. for a Grace Period for Tax Payment Under Special Provisions on Taxation on Transactions with Foreign Affiliated Persons)

Article 39-12-2 (1) The amount calculated as specified by Cabinet Order as the amount of corporation tax and additional tax for said corporation tax

prescribed in Article 66-4-2, paragraph (1) of the Act shall be the sum of the amounts listed as follows:

- (i) The amount obtained by deducting the amount of corporation tax payable where the calculation has been made by deeming that the reassessment or determination for the objection prescribed in Article 66-4-2, paragraph (1) of the Act (meaning the reassessment or determination listed in Article 66-4, paragraph (16), item (i) of the Act; hereinafter the same shall apply in this item and paragraph (3), item (ii)) does not cover the part pertaining to the corporation tax prescribed in Article 66-4-2, paragraph (1) of the Act (referred to as the "amount of corporation tax not under a grace period" in the following item) from the amount of corporation tax payable based on said reassessment or determination (referred to as the "amount of corporation tax based on the reassessment or determination" in the following item)
 - (ii) The amount obtained by deducting the amount of additional tax (meaning the additional tax prescribed in Article 69 of the Act on General Rules for National Taxes; hereinafter the same shall apply in this item) to be imposed based on the amount of corporation tax not under a grace period from the amount of additional tax to be imposed based on the amount of corporation tax based on the reassessment or determination.
- (2) The case where there is no agreement prescribed in Article 66-4-2, paragraph (1) of the Act or any other case specified by Cabinet Order shall be the case listed respectively in the following items and the date specified by Cabinet Order prescribed in said paragraph shall be the date on which the Commissioner of the National Tax Agency notified the fact that the case falls under any of those listed in the relevant items:
- (i) Where the Commissioner of the National Tax Agency finds that an agreement set forth in Article 66-4-2, paragraph (1) of the Act (referred to as an "agreement" in the following item and item (iii)) cannot be reached even if the consultation prescribed in said paragraph (hereinafter referred to as a "mutual consultation" in this paragraph) is continued (excluding the case listed in the items of Article 66-4-2, paragraph (5) of the Act), when he/she has made a request for the termination of said mutual consultation to the competent authority of the other contracting state pertaining to said mutual consultation (meaning a contracting state other than Japan of a tax convention prescribed in Article 1-3, paragraph (1), item (ii); the same shall apply in the following item) and has obtained consent from said competent authority
 - (ii) Where the competent authority of the other contracting state pertaining to a mutual consultation finds that an agreement cannot be reached even if said mutual consultation were continued, when the Commissioner of the National Tax Agency has received a request for the termination of said mutual

- consultation from said competent authority and has given his/her consent
- (iii) Where an agreement has been reached on the amount of corporation tax prescribed in Article 66-4-2, paragraph (1) of the Act, when said agreement is not to change said amount of corporation tax.
- (3) A person intending to receive a grace period for tax payment under the provisions of Article 66-4-2, paragraph (1) of the Act shall submit a written application containing the matters listed as follows along with a document certifying that he/she has filed an objection set forth in said paragraph and other documents specified by Ordinance of the Ministry of Finance to the district director, etc. prescribed in Article 46, paragraph (1) of the Act on General Rules for National Taxes:
- (i) The name and place for tax payment of a corporation intending to receive said grace period for tax payment (where the place for tax payment and the location of the head office or principal office are different, the corporation's name, place for tax payment and location of the head office or principal office)
- (ii) The business year, due date and the amount of payable corporation tax based on the reassessment or determination
- (iii) The amount for which the corporation intends to receive a grace period for tax payment out of the amount set forth in the preceding item
- (iv) Where said amount for which the corporation intends to receive a grace period for tax payment exceeds 500,000 yen, the type, amount, value and location of the security listed in the items of Article 50 of the Act on General Rules for National Taxes which it intends to provide at the time of filing the application (when the security is a guarantee by a guarantor, the guarantor's name and the location, address or domicile of his/her head office or principal office) and any other matters for reference concerning the security (where there is any special circumstance whereby the corporation cannot provide security, said circumstance).
- (4) With respect to the application of the provisions of Article 23, paragraph (1) of the Order for Enforcement of the Act on General Rules for National Taxes (Cabinet Order No. 135 of 1962), regarding the corporation tax for which a grace period for tax payment has been received pursuant to the provisions of Article 66-4-2, paragraph (1) of the Act, the term "or national tax" in Article 23, paragraph (1) of said Order shall be deemed to be replaced with "(including a grace period for tax payment under the provisions of Article 66-4-2, paragraph (1) (Grace Period for Tax Payment under the Special Provisions on Taxation on Transactions with Foreign Affiliated Persons) of the Act on Special Measures Concerning Taxation) or national tax."

Section 8-3 Special Provisions on Taxation on Interest on Liabilities, etc.

Payable to a Foreign Controlling Shareholder, etc.

(Special Provisions on Taxation on Interest on Liabilities, etc. Payable to a Foreign Controlling Shareholder, etc.)

Article 39-13 (1) The amount calculated as specified by Cabinet Order as the amount equivalent to the excess part prescribed in Article 66-5, paragraph (1) of the Act shall be the amount specified respectively in the following items for the category of cases listed in the relevant items:

(i) Where the remaining amount after deducting the amount listed in (b) from the amount listed in (a) is equivalent to or less than the amount listed in (c): The amount obtained by calculating the amount of expenses listed in the items of paragraph (15) which said domestic corporation pays for the relevant business year to said domestic corporation's foreign controlling shareholder, etc. (meaning a foreign controlling shareholder, etc. as prescribed in Article 66-5, paragraph (4), item (i) of the Act; hereinafter the same shall apply in this Article) and fund provider, etc. (meaning a fund provider, etc. as prescribed in item (ii) of said paragraph; hereinafter the same shall apply in this Article) (such expenses shall be limited to what is to be paid, in the case prescribed in item (ii) or item (iii) of paragraph (13), when the interest on liabilities pertaining to the funds set forth in those items is included in the taxable income (meaning the taxable income prescribed in Article 66-5, paragraph (4), item (ix) of the Act; the same shall apply in (b)) of the person who is to receive payment of said interest; such amount of expenses shall be referred to as the "amount of the guarantee charge, etc. related to taxable income" in the following item) and then multiplying said amount of expenses by the ratio obtained by dividing the remaining amount after deducting the amount listed in (c) from the amount listed in (a) (such remaining amount shall be referred to as the "amount exceeding the average balance of liabilities" in the following item and the following paragraph) by the amount listed in (b):

(a) The average balance of liabilities (meaning the average balance of liabilities prescribed in Article 66-5, paragraph (4), item (v) of the Act; hereinafter the same shall apply in this Article) regarding the liabilities owed, for the relevant business year of said domestic corporation, to said foreign controlling shareholder, etc. and fund provider, etc. (meaning the liabilities owed to a foreign controlling shareholder, etc. and a fund provider, etc. prescribed in item (iv) of said paragraph; hereinafter the same shall apply in this Article)

(b) The average balance of liabilities regarding the liabilities specified by Cabinet Order prescribed in Article 66-5, paragraph (4), item (iv) of the Act owed to a fund provider, etc. (limited to the liabilities regarding those

- whose interest is included in the taxable income of a person who is to receive payment of said interest)
- (c) The amount obtained by multiplying the equity interest held by a foreign controlling shareholder, etc. for the relevant business year of said domestic corporation (meaning the equity interest held by a foreign controlling shareholder, etc. prescribed in Article 66-5, paragraph (4), item (vi) of the Act; the same shall apply in paragraph (4) and paragraph (7)) by three (where said domestic corporation receives the application of the provisions of paragraph (3) of said Article, by the multiple number prescribed in said paragraph; the same shall apply in the following paragraph)
 - (ii) Where the remaining amount after deducting the amount listed in (b) from the amount listed in (a) of the preceding item exceeds the amount listed in (c): The sum of the amounts listed as follows:
 - (a) The amount obtained by deducting the amount of the guarantee charge, etc. related to taxable income from the amount of interest on liabilities, etc. (meaning the interest on liabilities, etc. prescribed in Article 66-5, paragraph (4), item (iii) of the Act; hereinafter the same shall apply in this Article) that said domestic corporation pays for the relevant business year to said foreign controlling shareholder, etc. and fund provider, etc. and then multiplying the remaining amount after deduction by the ratio obtained by dividing the remaining amount after deducting the amount listed in (b) of the preceding item from the amount exceeding the average balance of liabilities by the remaining amount after deducting the amount listed in (b) of said item from the amount listed in (a) of said item
 - (b) The amount of guarantee charge, etc. related to taxable income.
- (2) With respect to the application of the provisions of the preceding paragraph where the remaining amount after deducting the amount obtained by multiplying the amount of equity capital (meaning the amount of equity capital prescribed in Article 66-5, paragraph (4), item (vii) of the Act; hereinafter the same shall apply in this Article) for the relevant business year of said domestic corporation by three from the average balance of liabilities regarding the total liabilities prescribed in Article 66-5, paragraph (1) of the Act for the relevant business year of said domestic corporation is less than the amount exceeding the average balance of liabilities for the relevant business year of said domestic corporation, in item (i) of the preceding paragraph, the term "the remaining amount after deducting the amount listed in (b) from the amount listed in (a) is equivalent to or less than the amount listed in (c)" shall be deemed to be replaced with "the remaining amount after deducting the amount obtained by multiplying the amount of equity capital prescribed in Article 66-5, paragraph (4), item (vii) of the Act for the relevant business year of said domestic corporation by three from the average balance of liabilities regarding the total

liabilities prescribed in Article 66-5, paragraph (1) of the Act for the relevant business year of said domestic corporation (hereinafter such remaining amount shall be referred to as "the amount exceeding the average balance of the total liabilities" in this paragraph) is equivalent to or less than the amount listed in (b);" the term "Article 66-5, paragraph (4), item (i) of the Act" shall be deemed to be replaced with "paragraph (4), item (i) of said Article;" and the term "remaining amount after deducting the amount listed in (c) from the amount listed in (a) (such remaining amount shall be referred to as the "amount exceeding the average balance of liabilities" in the following item and the following paragraph)" shall be deemed to be replaced with "the amount exceeding the average balance of the total liabilities;" and in item (ii) of said paragraph, the term "the remaining amount after deducting the amount listed in (b) from the amount listed in (a) of the preceding item exceeds the amount listed in (c)" shall be deemed to be replaced with "the amount exceeding the average balance of the total liabilities exceeds the amount listed in (b) of the preceding item;" and the term "the amount exceeding the average balance of liabilities" shall be deemed to be replaced with "the amount exceeding the average balance of the total liabilities."

- (3) Where the provisions of Article 66-5, paragraph (1) of the Act shall apply, the amount of interest on liabilities, etc. to be paid to said foreign controlling shareholder, etc. and fund provider, etc. for the relevant business year shall be based on the amount posted as an expense for the relevant business year.
- (4) With respect to the application of the provisions of Article 66-5, paragraph (1) of the Act where there are two or more foreign controlling shareholders, etc. of said domestic corporation, the average balance of liabilities regarding the liabilities owed to foreign controlling shareholders, etc. and fund providers, etc., equity interest held by foreign controlling shareholders, etc. and the amount of interest on liabilities, etc. to be paid to foreign controlling shareholders, etc. and fund providers, etc. shall be based on the sum of the average balance of liabilities regarding the liabilities owed to foreign controlling shareholders, etc. and fund providers, etc., equity interest held by foreign controlling shareholders, etc. and the amount of interest on liabilities, etc. to be paid to foreign controlling shareholders, etc. and fund providers, etc., respectively.
- (5) The average balance of liabilities pertaining to a specified bond transaction with a repurchase/resale agreement, etc. which is calculated as specified by Cabinet Order and is to be deducted from the average balance of liabilities regarding the liabilities owed to a foreign controlling shareholder, etc. and a fund provider, etc. prescribed in Article 66-5, paragraph (2) of the Act shall be the average balance of liabilities regarding the liabilities owed to a domestic corporation's foreign controlling shareholder, etc. and fund provider, etc. which pertain to a specified bond transaction with a repurchase/resale agreement, etc.

(meaning a specified bond transaction with a repurchase/resale agreement, etc. prescribed in Article 66-5, paragraph (4), item (viii) of the Act; the same shall apply in the following paragraph and paragraph (8)) (where said average balance of liabilities exceeds the average balance of assets regarding assets pertaining to a specified bond transaction with a repurchase/resale agreement, etc. (the average balance of assets shall mean the amount calculated by a reasonable method as the average balance of said assets' book value for the relevant business year; the same shall apply in the following paragraph), such calculated average balance of liabilities shall be said average balance of assets; such average balance of assets shall be referred to as the "average balance of liabilities after adjustment" in paragraph (8)).

- (6) The average balance of liabilities pertaining to a specified bond transaction with a repurchase/resale agreement, etc. which is calculated as specified by Cabinet Order and is to be deducted from the average balance of liabilities regarding the total liabilities for the relevant business year prescribed in Article 66-5, paragraph (2) of the Act shall be the average balance of liabilities regarding the total liabilities for the relevant business year (limited to those which are to be the cause of payment of interest on liabilities, etc.; the same shall apply in paragraph (10)) which pertain to a specified bond transaction with a repurchase/resale agreement, etc. (where said average balance of liabilities exceeds the average balance of assets regarding assets pertaining to a specified bond transaction with a repurchase/resale agreement, etc., such calculated average balance of liabilities shall be said average balance of assets).
- (7) The multiple number applicable to the equity interest held by a foreign controlling shareholder, etc. which is calculated as specified by Cabinet Order prescribed in Article 66-5, paragraph (2) of the Act shall be the multiple number obtained by calculating the average balance of liabilities by deducting the average balance of liabilities pertaining to a specified bond transaction with a repurchase/resale agreement, etc. calculated as specified by Cabinet Order prescribed in said paragraph from the average balance of liabilities regarding the liabilities owed to a foreign controlling shareholder, etc. and a fund provider, etc. prescribed in said paragraph and then dividing the calculated average balance of liabilities by the equity interest held by the domestic corporation's foreign controlling shareholder, etc.; and the multiple number applicable to the amount of equity capital which is calculated as specified by Cabinet Order prescribed in said paragraph shall be the multiple number obtained by calculating the average balance of liabilities by deducting the average balance of liabilities pertaining to a specified bond transaction with a repurchase/resale agreement, etc. calculated as specified by Cabinet Order prescribed in said paragraph from the average balance of liabilities regarding the total liabilities for the relevant business year prescribed in said

paragraph and then dividing the calculated average balance of liabilities by the amount of equity capital of said domestic corporation.

- (8) The amount of interest on liabilities, etc. pertaining to a specified bond transaction with a repurchase/resale agreement, etc. which is calculated as specified by Cabinet Order and is to be deducted from the amount of interest on liabilities, etc. to be paid to a foreign controlling shareholder, etc. and a fund provider, etc. prescribed in Article 66-5, paragraph (2) of the Act shall be the amount obtained by multiplying the amount of interest on liabilities, etc. to be paid to the domestic corporation's foreign controlling shareholder, etc. and fund provider, etc. which pertain to a specified bond transaction with a repurchase/resale agreement, etc. by the ratio obtained by dividing the average balance of liabilities after adjustment by the average balance of liabilities regarding liabilities pertaining to said specified bond transaction with a repurchase/resale agreement, etc.
- (9) With respect to the application of the provisions of paragraphs (1) to (4) in the case where the provisions of Article 66-5, paragraph (2) of the Act is applied, the term "and then multiplying said amount of expenses by the ratio" in paragraph (1), item (i) shall be deemed to be replaced with ", then deducting the amount obtained by multiplying the part of said amount of expenses that pertains to a specified bond transaction with a repurchase/resale agreement, etc. (meaning a specified bond transaction with a repurchase/resale agreement, etc. prescribed in Article 66-5, paragraph (4), item (viii) of the Act; hereinafter the same shall apply in this item) by the ratio obtained by dividing the average balance of liabilities after adjustment (meaning the average balance of liabilities after adjustment prescribed in paragraph (5); hereinafter the same shall apply in this item) regarding the liabilities for said amount by the average balance of liabilities (meaning the average balance of liabilities prescribed in paragraph (4), item (v) of said Article; hereinafter the same shall apply in this Article) regarding the liabilities for said amount which pertains to a specified bond transaction with a repurchase/resale agreement, etc., and then multiplying the remaining amount after deduction by the ratio;" the term "The average balance of liabilities (meaning the average balance of liabilities prescribed in Article 66-5, paragraph (4), item (v) of the Act; hereinafter the same shall apply in this Article)" in (a) of paragraph (1), item (i) shall be deemed to be replaced with "The remaining amount after deducting the average balance of liabilities after adjustment from the average balance of liabilities;" the term "The average balance of liabilities" in (b) of said item shall be deemed to be replaced with "The remaining amount after deducting the average balance of liabilities after adjustment regarding said liabilities from the average balance of liabilities;" the term "three" in (c) of said item shall be deemed to be replaced with "two;" the term "The amount obtained by deducting

the amount of the guarantee charge, etc. related to taxable income" in (a) of paragraph (1), item (ii) shall be deemed to be replaced with "The amount obtained by deducting the sum of the amount of interest on liabilities, etc. pertaining to a specified bond transaction with a repurchase/resale agreement, etc. prescribed in paragraph (2) of said Article and the amount of the guarantee charge, etc. related to taxable income;" the term "where the remaining amount after deducting the amount" in paragraph (2) shall be deemed to be replaced with "where the remaining amount after deducting the sum of the average balance of liabilities regarding the average balance of liabilities which pertain to a specified bond transaction with a repurchase/resale agreement, etc. prescribed in paragraph (6) and the amount;" and the term "by three" in said paragraph shall be deemed to be replaced with "by two."

- (10) The percentage specified by Cabinet Order prescribed in Article 66-5, paragraph (3) of the Act shall be the percentage of the amount of the total liabilities of any other domestic corporation whose business size set forth in paragraph (3) of said Article and other details are similar to those of a domestic corporation which seeks the application of the provisions of said paragraph (hereinafter referred to as an "applicable corporation" in this paragraph) on the final day of any of said other domestic corporation's relevant business years or consolidated business years that ended within three years until the final day of the applicable corporation's relevant business year (where said applicable corporation receives the application of the provisions of paragraph (2) of said Article, the percentage of the remaining amount of the total liabilities after deducting the amount specified by Ordinance of the Ministry of Finance) against the sum of the amounts of stated capital, statutory reserve, and surplus on the same day. In this case, where there are any fractions after two decimal places, they shall be rounded up.
- (11) The special relationship specified by Cabinet Order prescribed in Article 66-5, paragraph (4), item (i) of the Act shall be a relationship listed as follows:
- (i) A relationship whereby out of the total number or total amount of the issued shares or capital contributions of a domestic corporation (excluding shares that said corporation holds in itself or capital contributions held thereby) (hereinafter referred to as the "issued shares, etc." in this Article), 50 percent or more of the shares or capital contributions (hereinafter referred to as the "shares, etc." in this Article) are held directly or indirectly by a foreign controlling shareholder, etc.
 - (ii) Where 50 percent or more of the respective issued shares, etc. of a domestic corporation and a foreign corporation are held directly or indirectly by the same person (where said person is an individual, including an individual who has a special relationship prescribed in Article 4, paragraph (1) of the Order

- for Enforcement of the Corporation Tax Act to said individual), the relationship between said domestic corporation and said foreign corporation (excluding relationships falling under the category of relationships listed in the preceding item)
- (iii) A relationship whereby the existence of the fact listed as follows or any other facts equivalent thereto between said domestic corporation and a nonresident (meaning a nonresident prescribed in Article 2, paragraph (1), item (i)-2 of the Act; the same shall apply in paragraph (28)) or a foreign corporation (hereinafter such nonresident or foreign corporation shall be referred to as a "nonresident, etc." in this item) enables said nonresident, etc. to determine substantially the whole or a part of said domestic corporation's business policies (excluding relationships falling under the category of relationships listed in the preceding two items):
- (a) The fact that said domestic corporation depends on transactions with said nonresident, etc. for a considerable part of its business activities
- (b) The fact that said domestic corporation has borrowed a considerable part of the funds necessary for its business activities from said nonresident, etc. or has procured a considerable part of the funds necessary for its business activities by obtaining guarantees from said nonresident, etc.
- (c) The fact that 50 percent or more of the officers or officers with the representative authority of said domestic corporation are persons who are officers, or persons with status as officers and employees of said foreign corporation or who were formerly said foreign corporation's officers or employees.
- (12) The provisions of paragraph (2) and paragraph (3) of Article 39-12 shall apply mutatis mutandis to the determination as to whether or not 50 percent or more of the issued shares, etc. set forth in item (i) and item (ii) of the preceding paragraph are held directly or indirectly.
- (13) A person who provides a domestic corporation with funds and a person specified by Cabinet Order as being related to such provision of funds as prescribed in Article 66-5, paragraph (4), item (ii) of the Act shall be any of the following:
- (i) Where it is found that a foreign controlling shareholder, etc. of a domestic corporation has provided said domestic corporation with funds via a third party: Said third party
- (ii) Where it is found that a foreign controlling shareholder, etc. of a domestic corporation has offered guarantees for said domestic corporation's liabilities to a third party and thereby said third party has provided said domestic corporation with funds: Said third party
- (iii) Where it is found that bonds that the foreign controlling shareholder, etc. of a domestic corporation has lent to said domestic corporation (including

- bonds lent by a third party to said domestic corporation based on guarantees for said domestic corporation's liabilities offered by said foreign controlling shareholder, etc.) have been provided to any other third party as security and have been transferred in a bond transaction with a repurchase/resale agreement (meaning a bond transaction with a repurchase/resale agreement prescribed in Article 42-2, paragraph (1) of the Act; the same shall apply in paragraph (27)) or lent in a cash-secured bond lending transaction (meaning a cash-secured bond lending transaction prescribed in Article 66-5, paragraph (4), item (viii) of the Act; the same shall apply in paragraph (27)) and thereby said other third party has provided said domestic corporation with funds: Said third party and other third party.
- (14) The moneys specified by Cabinet Order as being equivalent to interest on liabilities prescribed in Article 66-5, paragraph (4), item (iii) of the Act shall be the discount on bills, the amount of the shortage prescribed in Article 136-2, paragraph (1) of the Order for Enforcement of the Corporation Tax Act and any other moneys whose economic characteristics are equivalent to those of interest.
- (15) The expenses specified by Cabinet Order prescribed in Article 66-5, paragraph (4), item (iii) of the Act shall be the expenses listed as follows:
- (i) In the case prescribed in paragraph (13), item (ii), the guarantee charge for liabilities set forth in said item which a domestic corporation set forth in said item pays to its foreign controlling shareholder, etc.
 - (ii) In the case prescribed in paragraph (13), item (iii), the charge for bonds set forth in said item or guarantee charge for liabilities set forth in said item which a domestic corporation set forth in said item pays to its foreign controlling shareholder, etc. or the charge for bonds set forth in said item which said domestic corporation pays to a third party set forth in said item.
- (16) Any other expenses specified by Cabinet Order prescribed in Article 66-5, paragraph (4), item (iii) of the Act shall be interest on liabilities, etc. to be paid to a public corporation prescribed in Article 2, item (v) of the Corporation Tax Act or a corporation in the public interest, etc. prescribed in item (vi) of said Article.
- (17) The liabilities specified by Cabinet Order prescribed in Article 66-5, paragraph (4), item (iv) of the Act shall be the liabilities set forth in the items of paragraph (13) in the cases prescribed in the relevant items.
- (18) The amount calculated as specified by Cabinet Order as the average amount of liabilities prescribed in Article 66-5, paragraph (4), item (v) of the Act shall be the amount calculated by a reasonable method as the average balance of the book value of the liabilities for the relevant business year.
- (19) The amount calculated as specified by Cabinet Order as the interest on a domestic corporation's net assets held by a foreign controlling shareholder, etc. as prescribed in Article 66-5, paragraph (4), item (vi) of the Act shall be the

amount obtained by multiplying the amount of equity capital for the relevant business year of said domestic corporation by the ratio of the shares, etc. regarding said domestic corporation held directly or indirectly by a foreign controlling shareholder, etc. on the final day of the relevant business year out of said domestic corporation's issued shares, etc.

(20) The shares, etc. held directly or indirectly as prescribed in the preceding paragraph shall be the total number or the sum of a first domestic corporation's shares, etc. that are held directly by its foreign controlling shareholder, etc. and its shares, etc. that are held indirectly by said foreign controlling shareholder, etc. (meaning the shares, etc. calculated by multiplying said domestic corporation's issued shares, etc. by the ratio specified respectively in the following items for the category of cases listed in the relevant items (where this falls under both of the following cases, the sum of the ratios specified respectively as follows)):

(i) Where the whole or a part of the issued shares, etc. of a second domestic corporation which is the shareholder, etc. (meaning a shareholder, etc. prescribed in Article 2, item (xiv) of the Corporation Tax Act; hereinafter the same shall apply in this item and paragraph (24)) of the first domestic corporation are held by a foreign controlling shareholder, etc.: The ratio obtained by multiplying said foreign controlling shareholder, etc.'s ratio of shareholding (meaning the ratio of the shares, etc. held by the shareholder, etc. out of the total issued shares, etc.; hereinafter the same shall apply in this paragraph and paragraph (24)) in the second domestic corporation by said second domestic corporation's ratio of shareholding in the first domestic corporation (where there are two or more such second domestic corporations, the sum of the ratios calculated for each of them)

(ii) Where a single domestic corporation or two or more domestic corporations are interposed between the first domestic corporation and the second domestic corporation, the whole or a part of whose issued shares, etc. are held by its foreign controlling shareholder, etc. (hereinafter such interposed domestic corporations shall be referred to as "domestic corporations related through capital contribution" in this paragraph) and said foreign controlling shareholder, etc., said second domestic corporation, the domestic corporations related through capital contribution and said first domestic corporation have a link through the holding of shares, etc.: The ratio obtained by multiplying said foreign controlling shareholder, etc.'s ratio of shareholding in the second domestic corporation sequentially by said second domestic corporation's ratio of shareholding in the domestic corporation related through capital contribution, by the domestic corporation related through capital contribution's ratio of shareholding in any other domestic corporation related through capital contribution, and by the domestic

corporation related through capital contribution's ratio of shareholding in the first domestic corporation (where there are two or more links, the sum of the ratios calculated for each of them).

- (21) Where a domestic corporation and its foreign controlling shareholder, etc. have a relationship listed in paragraph (11), item (ii), when the same person prescribed in said item is a resident or any other domestic corporation prescribed in Article 2, paragraph (1), item (i)-2 of the Act, the provisions of the preceding two paragraphs shall apply by deeming said same person to be a foreign controlling shareholder, etc. related to said domestic corporation.
- (22) The amount calculated as specified by Cabinet Order as the amount of net assets prescribed in Article 66-5, paragraph (4), item (vii) of the Act shall be the remaining amount after deducting the amount listed in item (ii) from the amount listed in item (i) (where said remaining amount is less than the amount of stated capital, etc. prescribed in Article 2, item (xvi) of the Corporation Tax Act on the final day of the relevant business year of said domestic corporation (where said amount of stated capital, etc. is less than the amount of stated capital or capital contributions, said amount of stated capital or capital contributions; hereinafter referred to as the "amount of stated capital, etc." in this paragraph and paragraph (24)), such calculated amount shall be said amount of stated capital, etc.):
- (i) The amount calculated by a reasonable method as the average balance of the book value of the total assets for the relevant business year of said domestic corporation (such book value shall mean the remaining amount after deducting the amount set aside as reserve funds by the appropriation of surplus and the amount set aside as reserves for special depreciation pursuant to the provisions of Article 52-3 or Article 68-41 of the Act (limited to the amount set aside as reserve funds by the appropriation of surplus) in lieu of reducing the book value of fixed assets by accounting for the amount as a loss)
- (ii) The amount calculated by a reasonable method as the average balance of the book value of the total liabilities for the relevant business year of said domestic corporation.
- (23) The book value set forth in paragraph (5) and paragraph (18) and the preceding paragraph shall be based on the amount of assets or liabilities that said domestic corporation entered in its accounting books.
- (24) Where a second domestic corporation which is a shareholder, etc. of a first domestic corporation or where domestic corporations related through capital contribution (meaning a single domestic corporation or two or more domestic corporations which have a link with the first domestic corporation and the second domestic corporation through the holding of shares, etc.; the same shall apply in the following paragraph) are interposed between said first domestic

corporation and the foreign controlling shareholder, etc. thereof, when the amount obtained by multiplying the amount of stated capital, etc. on the final day of the relevant business year of said first domestic corporation by the ratio of the second domestic corporation's or the domestic corporation related through capital contribution's shareholding in the first domestic corporation exceeds the amount of stated capital, etc. of said second domestic corporation or domestic corporation related through capital contribution on the same day (for a corporation falling under the category of a corporation subject to corporation tax on consolidated income prescribed in Article 2, item (xvi) of the Corporation Tax Act, when such amount exceeds the amount of consolidated individual stated capital, etc. prescribed in Article 39-113, paragraph (20)), the amount of equity capital pertaining to the first domestic corporation shall be the remaining amount after deducting from said amount of equity capital, either of the smaller amount of said excess amount or the amount of liabilities owed by the second domestic corporation or the domestic corporation related through capital contribution to the foreign controlling shareholder, etc. and the fund provider, etc. of the first domestic corporation on the same day (referred to as the "deductible amount" in the following paragraph).

(25) In the case prescribed in the preceding paragraph, when deeming a domestic corporation related through capital contribution set forth in said paragraph to be the first domestic corporation set forth in said paragraph and if there is any deductible amount pertaining to said domestic corporation related through capital contribution, the amount of stated capital, etc. set forth in said paragraph of said domestic corporation related through capital contribution shall be the remaining amount after deducting said deductible amount from said amount of stated capital, etc.; and the amount of liabilities owed by said domestic corporation related through capital contribution to the foreign controlling shareholder, etc. and the fund provider, etc. set forth in said paragraph shall be the amount obtained by adding the amount of liabilities owed to said foreign controlling shareholder, etc. and fund provider, etc. and said deductible amount.

(26) The amount calculated as specified by Cabinet Order as the interest on a domestic corporation's net assets prescribed in Article 66-5, paragraph (4), item (vi) of the Act and the amount calculated as specified by Cabinet Order as the amount of net assets prescribed in item (vii) of said paragraph, where said domestic corporation is a corporation in the public interest, etc. prescribed in Article 2, item (vi) of the Corporation Tax Act or an association or foundation without juridical personality, shall be, notwithstanding the provisions of paragraph (19) to the preceding paragraph, the amount obtained by multiplying the amount of equity capital for the relevant business year of said domestic corporation by the ratio of the value of assets for the profit-making

business prescribed in Article 2, item (xiii) of the Corporation Tax Act conducted by said domestic corporation out of the value of the total assets on the final day of the relevant business year.

(27) The transaction specified by Cabinet Order prescribed in Article 66-5, paragraph (4), item (viii) of the Act shall be the relevant cash-secured bond lending transaction or bond transaction with a repurchase/resale agreement, where any of the bonds listed as follows are lent in a cash-secured bond lending transaction or transferred in a bond transaction with a repurchase/resale agreement:

(i) Bonds borrowed in a cash-secured bond lending transaction

(ii) Bonds purchased in a bond transaction with a repurchase/resale agreement.

(28) The domestic source income specified by Cabinet Order prescribed in Article 66-5, paragraph (4), item (ix) of the Act for a nonresident shall be the domestic source income of a nonresident set forth in said item as specified in Article 164, paragraph (1), items (i) to (iii) of the Income Tax Act, in accordance with the category of said nonresident listed in said items (excluding the income for which income tax shall be reduced or exempted pursuant to the provisions of a tax convention (meaning a tax convention prescribed in Article 1-3, paragraph (1), item (ii); hereinafter the same shall apply in this paragraph)); and the domestic source income specified by Cabinet Order prescribed in Article 66-5, paragraph (4), item (ix) of the Act for a foreign corporation shall be the domestic source income of a foreign corporation set forth in Article 66-5, paragraph (4), item (ix) of the Act as specified in Article 141, items (i) to (iii) of the Corporation Tax Act, in accordance with the category of said foreign corporation listed in said items (excluding the income for which corporation tax shall be reduced or exempted pursuant to the provisions of a tax convention).

(29) The provisions of paragraph (1), paragraphs (3) to (18), paragraph (22), paragraph (23), paragraph (27) and the preceding paragraph shall apply mutatis mutandis to the case of applying the provisions of paragraphs (1) to (4) and paragraphs (6) to (9) of Article 66-5 of the Act which are applied mutatis mutandis pursuant to paragraph (10) of said Article. In this case, the terms listed in the middle column of the following table which are used in the provisions listed in the left-hand column of said table shall be deemed to be replaced with the terms listed in the right-hand column of said table.

Paragraph (1), item (i)	domestic corporation	foreign corporation
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	(such expenses shall be limited to	and which pertains to business that said foreign corporation conducts in Japan (hereinafter referred to as a "domestic business" in this Article) (such expenses shall be limited, in the case where said foreign corporation is an association or foundation without juridical personality, which pertains to a profit-making business prescribed in Article 2, item (xiii) of the Corporation Tax Act (hereinafter referred to as a "profit-making business" in this Article) conducted by said foreign corporation and also limited to
	(limited to liabilities	which pertain to a domestic business (where said foreign corporation is an association or foundation without juridical personality, limited to liabilities pertaining to a profit-making business conducted by said foreign corporation and also limited to liabilities
Paragraph (1), item (ii), and paragraph (4) and paragraph (5)	domestic corporation	foreign corporation
Paragraph (6)	in paragraph (10)) which pertain to	in paragraph (10) and paragraph (22)) of a domestic business (where said foreign corporation is an association or foundation without juridical personality, limited to liabilities pertaining to a profit-making business conducted by said foreign corporation) and which pertain to
Paragraph (7) and paragraph (8)	domestic corporation	foreign corporation
Paragraph (10)	a domestic corporation which seeks	a foreign corporation which seeks
Paragraph (11), item (i) and item (ii)	domestic corporation	foreign corporation
	a foreign corporation	any other foreign corporation

Paragraph (11), item (iii)	domestic corporation	foreign corporation
	a nonresident (meaning a nonresident prescribed in Article 2, paragraph (1), item (i)-2 of the Act; the same shall apply in paragraph (28)) or a foreign corporation (hereinafter such nonresident or foreign corporation shall be referred to as a "nonresident, etc." in this item)	a nonresident (meaning a nonresident prescribed in Article 2, paragraph (1), item (i)-2 of the Act; the same shall apply in paragraph (28)) or any other foreign corporation
	said nonresident, etc.	said nonresident or other foreign corporation
	said foreign corporation's	said other foreign corporation's
Paragraph (13) and paragraph (15)	domestic corporation	foreign corporation
Paragraph (22)	The amount calculated as specified by Cabinet Order as the amount of net assets prescribed in Article 66-5, paragraph (4), item (vii) of the Act	The amount calculated as specified by Cabinet Order as the interest on a domestic corporation's net assets that are held by a foreign controlling shareholder, etc. and the amount calculated as specified by Cabinet Order as the amount of net assets prescribed in Article 66-5, paragraph (4), item (vii) of the Act
	domestic corporation	foreign corporation
	the amount of stated capital, etc. prescribed in Article 2, item (xvi) of the Corporation Tax Act on the final day of the relevant business year of said domestic corporation (where said amount of stated capital, etc. is less than the amount of stated capital or capital contributions, said amount of stated capital or capital contributions;	the amount obtained by multiplying the amount of stated capital, etc. prescribed in Article 2, item (xvi) of the Corporation Tax Act on the final day of the relevant business year of said domestic corporation by the ratio of the book value of the assets pertaining to a domestic business (where said foreign corporation is an association or foundation without juridical personality, limited to assets pertaining to a profit-making business conducted by said foreign corporation) out of the book value of the total assets on the same day (

	the total assets	the total assets of a domestic business (where said foreign corporation is a corporation in the public interest, etc. or an association or foundation without juridical personality, limited to assets pertaining to a profit-making business conducted by said foreign corporation)
	the total liabilities	the total liabilities which pertain to a domestic business (where said foreign corporation is a corporation in the public interest, etc. or an association or foundation without juridical personality, limited to liabilities pertaining to a profit-making business conducted by said foreign corporation)
Paragraph (23)	domestic corporation	foreign corporation

(30) With respect to the application of the provisions of Article 22 of the Order for Enforcement of the Corporation Tax Act in the case where the provisions of Article 66-5, paragraph (1) of the Act shall apply, the term "the sum of the amount of interest on liabilities prescribed in said paragraph to be paid for the relevant business year" in Article 22, paragraph (1) of said Order shall be deemed to be replaced with "the sum of the amount of interest on liabilities prescribed in said paragraph to be paid for the relevant business year (where there is any amount that shall not be included in deductible expenses pursuant to the provisions of Article 66-5, paragraph (1) (Special Provisions on Taxation on Interest on Liabilities, etc. Payable to Foreign Controlling Shareholders, etc.) of the Act on Special Measures Concerning Taxation, such sum shall be the remaining amount after deducting said amount);" the term "the sum of the amount of interest on liabilities that a domestic corporation set forth in said paragraph pays for the business year set forth in said paragraph" in paragraph (2) of said Article shall be deemed to be replaced with "the sum of the amount of interest on liabilities that a domestic corporation set forth in said paragraph pays for the business year set forth in said paragraph (where there is any amount that shall not be included in deductible expenses pursuant to the provisions of Article 66-5, paragraph (1) (Special Provisions on Taxation on Interest on Liabilities, etc. Payable to Foreign Controlling Shareholders, etc.) of the Act on Special Measures Concerning Taxation, such sum shall be the remaining amount after deducting said amount);" the term "the amount listed in item (i)" in paragraph (1) and paragraph (2) of said Article shall be deemed

to be replaced with "the amount listed in item (i) (where there is any amount that shall not be included in deductible expenses pursuant to the provisions of Article 66-5, paragraph (1) of the Act on Special Measures Concerning Taxation, such amount shall be the remaining amount after deducting the amount equivalent to the amount exceeding the average balance of liabilities prescribed in Article 39-13, paragraph (1), item (i) (Calculation of the Amount of Interest on Liabilities, etc. Payable to Foreign Controlling Shareholders, etc. to be Excluded from Deductible Expenses) of the Order for Enforcement of the Act on Special Measures Concerning Taxation (Cabinet Order No. 43 of 1957) (including the cases where it is applied by replacing the terms under the provisions of paragraph (9) of said Article) (in the case where the provisions of paragraph (1) of said Article is applied by replacing the terms under the provisions of paragraph (2) of said Article, after deducting the amount equivalent to the amount exceeding the average balance of the total liabilities prescribed in said item which is applied by replacing the terms under the provisions of paragraph (2) of said Article));" the term "(hereinafter referred to as the 'sum of" in paragraph (3) of said Article shall be deemed to be replaced with "(where there is any amount that shall not be included in deductible expenses pursuant to the provisions of Article 66-5, paragraph (1) of the Act on Special Measures Concerning Taxation, the remaining amount after deducting said amount; hereinafter referred to as the 'sum of"; and the term "paragraph (4), item (i) of said Article" in said paragraph shall be deemed to be replaced with "Article 23, paragraph (4), item (i) of the Act."

Section 8-4 Special Provisions on Taxation on Income of a Domestic Corporation's Specified Foreign Subsidiaries

(Scope of Specified Foreign Subsidiaries, etc.)

Article 39-14 (1) The affiliated foreign company specified by Cabinet Order prescribed in Article 66-6, paragraph (1) of the Act shall be any of the following:

- (i) An affiliated foreign company (meaning an affiliated foreign company prescribed in Article 66-6, paragraph (2), item (i) of the Act; hereinafter the same shall apply in this Section) that has its head office or principal office in a state or territory where there are no taxes imposed on corporate income
 - (ii) An affiliated foreign company whose tax imposed on its income for the relevant business year is 25 percent or less of said income.
- (2) Whether or not an affiliated foreign company falls under the category of an affiliated foreign company set forth in item (ii) of the preceding paragraph shall be determined as specified as follows:
- (i) The amount of income set forth in item (ii) of the preceding paragraph shall

be the amount obtained by adding the amount of income calculated pursuant to the provisions of the laws and regulations concerning foreign corporation taxes (meaning foreign corporation taxes prescribed in Article 69, paragraph (1) of the Corporation Tax Act; hereinafter the same shall apply in this Section) of the state or territory where the head office or principal office of said affiliated foreign company is located (hereinafter referred to as the "state of the head office" in this Section) (where there are two or more laws and regulations concerning said foreign corporation taxes, pursuant to the provisions of the principal ones; hereinafter referred to as the "laws and regulations of the state of the head office" in this paragraph) with regard to said affiliated foreign company's amount of income in its settlement of accounts for the relevant business year and the sum of the amounts listed in (a) to (e) pertaining to said calculated amount of income and then deducting therefrom the amount listed in (f) pertaining to said calculated amount of income:

- (a) The amount of income which shall not be included in the foreign corporation tax base under the laws and regulations of the state of the head office (excluding the following amounts):
 - 1. The amount of a dividend of surplus, dividend of profit or distribution of surplus prescribed in Article 23, paragraph (1), item (i) of the Corporation Tax Act (hereinafter referred to as a "dividend of surplus, etc." in this Section) received from a corporation located in the state of the head office (including the amount specified in Article 66-8, paragraph (1), item (ii) of the Act; hereinafter referred to as the "amount of a dividend, etc." in this paragraph)
 - 2. The amount of a dividend, etc. received from a corporation located in a state or territory other than the state of the head office, which shall not be included in the foreign corporation tax base on condition that the ratio of the shares, etc. (meaning the shares or capital contributions; hereinafter the same shall apply in this Section) held by the affiliated foreign company out of the total number or total amount of said corporation's issued shares or capital contributions (excluding shares that said corporation holds in itself) (hereinafter referred to as the "issued shares, etc." in this Section) is not less than the ratio specified by said laws and regulations of the state of the head office
- (b) The amount of a dividend, etc. that the affiliated foreign company shall pay and which is included in deductible expenses
- (c) The amount of foreign corporation tax that the affiliated foreign company shall pay and which is included in deductible expenses
- (d) The amount of reserves among the casualty reserves set forth in Article 57-5, paragraph (1) or Article 57-6, paragraph (1) of the Act (hereinafter

- referred to as the "insurance reserve" in this paragraph and paragraph (2) of the following Article) that the affiliated foreign company has set aside, which is included in deductible expenses, and which is equivalent to the amount to be excluded from deductible expenses when the provisions of Article 57-5 or Article 57-6 of the Act apply
- (e) Where the amount that has been included in gross profits for the insurance reserves set aside by the affiliated foreign company (limited to the insurance reserves that can be set aside when the provisions of Article 57-5 or Article 57-6 of the Act apply) does not reach the amount that should be included in gross profits when these provisions apply, the amount of said shortfall
 - (f) The amount of foreign corporation tax that shall be refunded to the affiliated foreign company and which is included in gross profits
 - (ii) The amount of tax set forth in item (ii) of the preceding paragraph shall be the sum of the amounts listed as follows:
 - (a) The amount of foreign corporation tax to be imposed on the amount of the affiliated foreign company's income in its settlement of accounts for the relevant business year in the state of the head office or in a state or territory other than the state of the head office (including the amount to be deducted from the foreign corporation tax of the state of the head office by deeming that said affiliated foreign company has paid said amount under the laws and regulations of the state of the head office and excluding the amount of foreign corporation tax to be imposed on the amount listed in (a), 2. of the preceding item)
 - (b) The amount of foreign corporation tax reduced or exempted for the affiliated foreign company for the relevant business year in the state of the head office, which is deemed to have been paid by said affiliated foreign company pursuant to the provisions of a tax convention prescribed in Article 1-3, paragraph (1), item (ii) in the case where the provisions of Article 69, paragraph (8) or Article 81-15, paragraph (8) of the Corporation Tax Act are applied to a domestic corporation pertaining to said affiliated foreign company
 - (iii) Where the foreign corporation tax rates of the state of the head office increase in accordance with the amount of income, the amount of foreign corporation tax set forth in (a) of the preceding item shall be the amount calculated based on the highest rates out of such tax rates
 - (iv) Where the amount of income set forth in item (ii) of the preceding paragraph proves to be a loss, the amount of foreign corporation tax shall be determined based on the foreign corporation tax rate to be applied in the state of the head office to any income that arises from revenue pertaining to the affiliated foreign company's principal business (in the case where said

revenue falls under what is listed in 1. or 2. of item (i), (a), revenue other than said revenue).

- (3) A nonresident who has a special relationship specified by Cabinet Order to a resident or domestic corporation prescribed in Article 66-6, paragraph (2), item (i) of the Act shall be a nonresident prescribed in Article 2, paragraph (1), item (i)-2 of the Act listed as follows:
- (i) A relative of the resident prescribed in Article 2, paragraph (1), item (i)-2 of the Act (hereinafter referred to as a "resident" in this paragraph and Article 39-16, paragraph (3) and paragraph (8))
 - (ii) A person in a relationship with the resident where a marital relationship is de facto, though a marriage has not been registered
 - (iii) An employee of the resident
 - (iv) A person other than those listed in the preceding three items who maintains his/her living by receiving money or any other assets from the resident
 - (v) A relative of any of the persons listed in the preceding three items who depends on such person for his/her livelihood
 - (vi) An officer of the domestic corporation (meaning an officer prescribed in Article 2, item (xv) of the Corporation Tax Act; hereinafter the same shall apply through to Article 39-16) and a person listed in the items of Article 72-3 of the Order for Enforcement of the Corporation Tax Act with a relationship to said officer.

(Calculation of Amount of Undistributed Income of Specified Foreign Subsidiaries, etc.)

Article 39-15 (1) The amount of undistributed income calculated in accordance with the standards specified by Cabinet Order prescribed in Article 66-6, paragraph (2), item (ii) of the Act shall be the remaining amount after deducting the amount listed in item (iii) pertaining to the amount of income of a specified foreign subsidiary, etc. prescribed in paragraph (1) of said Article (hereinafter referred to as a "specified foreign subsidiary, etc." in this Article and paragraphs (1) to (3) of the following Article) in its settlement of accounts for the relevant business year from the sum of the amount listed in item (i) and the amount listed in item (ii) pertaining to said income (where the amount listed in item (i) pertaining to said income is a loss, said amount of undistributed income shall be the remaining amount after deducting the sum of said amount of loss and the amount listed in item (iii) pertaining to said amount of income from the amount listed in item (ii) pertaining to said amount of income):

- (i) The amount of income or amount of a loss calculated, with regard to the amount of income of a specified foreign subsidiary, etc. in its settlement of

- accounts for the relevant business year, in accordance with the provisions of Part II, Chapter I, Section 1, Subsection 2 to Subsection 9 (excluding Article 23, Article 26, paragraphs (1) to (4), Article 28, Articles 38 to 41, Article 55, paragraph (3), Article 57, Article 58, Article 59, and Articles 61-11 to 61-13 of the Corporation Tax Act), and Subsection 11 of said Act, and the provisions of Article 43, Article 45-2, Article 52-2, Article 57-5, Article 57-6, Article 57-8, Article 57-10, Article 61-4, Articles 65-7 to 65-9 (limited to the part pertaining to item (xix) of the table in Article 65-7, paragraph (1) of the Act), Article 66-4, paragraph (3), Article 67-12 and Article 67-13 of the Act (hereinafter referred to as the "provisions of the laws and regulations of Japan" in this item) (where the provisions of Article 66-4, paragraph (1) or Article 68-88, paragraph (1) of the Act is applied to a transaction with a domestic corporation listed in the items of Article 66-6, paragraph (1) of the Act related to said specified foreign subsidiary, etc., the amount of income or amount of a loss calculated in accordance with the provisions of the laws and regulations of Japan by deeming that the transaction was carried out at the arm's length price prescribed in these provisions)
- (ii) The amount of corporate income tax payable in the relevant business year (meaning taxes to be imposed based on the amount of the corporation's income in the state of the head office or in a state or territory other than the state of the head office or by local entities in such state or territory including the state of the head office (including taxes listed in the items of Article 141, paragraph (2) of the Order for Enforcement of the Corporation Tax Act to be imposed in such state or territory or by local entities in such state or territory) and taxes equivalent to incidental taxes to be imposed incidentally as prescribed in Article 2, item (xlv) of the Corporation Tax Act (excluding interest tax) and other taxes similar to the tax equivalent to said incidental taxes; hereinafter the same shall apply in this Section)
- (iii) The amount of corporate income tax to be refunded in the relevant business year.
- (2) Notwithstanding the provisions of the preceding paragraph, a domestic corporation listed in the items of Article 66-6, paragraph (1) of the Act may deem that the amount obtained by adding the amount of income calculated, with regard to the amount of income of a specified foreign subsidiary, etc. in its settlement of accounts for the relevant business year, pursuant to the provisions of the laws and regulations concerning corporate income taxes of the state of the head office of said specified foreign subsidiary, etc. (where there are two or more laws and regulations concerning said corporate income taxes, pursuant to the provisions of the principal ones; hereinafter referred to as the "laws and regulations of the state of the head office" in this paragraph), (where the provisions of Article 66-4, paragraph (1) or Article 68-88, paragraph (1) of

the Act is applied to a transaction between said specified foreign subsidiary, etc. and said domestic corporation, the amount of income calculated pursuant to the provisions of the laws and regulations of the state of the head office by deeming that the transaction was carried out at the arm's length price prescribed in these provisions), and the sum of the amount listed in items (i) to (xiii) pertaining to said calculated amount of income and then deducting therefrom the amount listed in item (xiii) and item (xiv) pertaining to said calculated amount of income (where the amount calculated pursuant to the provisions of the laws and regulations of the state of the head office proves to be a loss, said amount shall be the remaining amount after deducting the sum of said amount of loss and the amount listed in items (xiv) to (xvi) pertaining to said calculated amount from the sum of the amounts listed in items (i) to (xiii) pertaining to said calculated amount) shall be the amount calculated in accordance with the standards specified by Cabinet Order prescribed in Article 66-6, paragraph (2), item (ii) of the Act:

- (i) The amount of income which shall not be included in the corporate income tax base for the relevant business year under the laws and regulations of the state of the head office
- (ii) The amount of a dividend of surplus, etc. (including the amount specified in Article 66-8, paragraph (1), item (ii) of the Act; referred to as the "amount of a dividend, etc." in the following paragraph) that the specified foreign subsidiary, etc. shall pay and which is included in deductible expenses for the relevant business year
- (iii) The excess amount that exceeds the amount equivalent to that to be included in deductible expenses, when the provisions of Article 31 of the Corporation Tax Act apply, out of the amount included in deductible expenses for the relevant business year as the depreciation allowance for the depreciable assets that the specified foreign subsidiary, etc. holds (excluding goodwill obtained on or before March 31, 1998) (such inclusive amount shall be limited to the amount calculated, with the acquisition costs of said depreciable assets (where there is any amount of past depreciation already included in deductible expenses for the relevant business year, the amount after deducting said amount) as the limit of the amount to be included in deductible expenses for the relevant business year)
- (iv) The amount equivalent to that included in deductible expenses for the relevant business year due to changes in the valuation of the assets that the specified foreign subsidiary, etc. holds, which is not to be included in deductible expenses when the provisions of Article 33 of the Corporation Tax Act apply
- (v) The amount equivalent to the amount of remuneration to be paid to the officers of the specified foreign subsidiary, etc. included in deductible

- expenses for the relevant business year, which is not to be included in deductible expenses when the provisions of Article 34 or Article 35 of the Corporation Tax Act apply
- (vi) The amount equivalent to the amount of remuneration to be paid to employees of the specified foreign subsidiary, etc. included in deductible expenses for the relevant business year, which is not to be included in deductible expenses when the provisions of Article 36 of the Corporation Tax Act apply
 - (vii) The amount equivalent to the amount of a contribution that the specified foreign subsidiary, etc. makes (excluding a contribution to the state of the head office or local entities in such state which is equivalent to that prescribed in Article 37, paragraph (3), item (i) of the Corporation Tax Act), which is included in deductible expenses for the relevant business year and which is not to be included in deductible expenses when the provisions of paragraph (1) of said Article and Article 66-4, paragraph (3) of the Act shall apply
 - (viii) The amount of corporate income tax that the specified foreign subsidiary, etc. shall pay and which is included in deductible expenses for the relevant business year
 - (ix) The amount of a loss incurred in business years preceding said relevant business year, pursuant to the provisions of the laws and regulations of the state of the head office that are equivalent to those of Article 57, Article 58 or Article 59 of the Corporation Tax Act, which is included in deductible expenses for the relevant business year
 - (x) The amount equivalent to the amount of insurance reserves that the specified foreign subsidiary, etc. has set aside, which is included in deductible expenses for the relevant business year and which is not to be included in deductible expenses when the provisions of Article 57-5 or Article 57-6 of the Act apply
 - (xi) Where the amount that has been included in gross profits for the relevant business year regarding the insurance reserves set aside by the specified foreign subsidiary, etc. (limited to the insurance reserves that can be set aside when the provisions of Article 57-5 or Article 57-6 of the Act apply) is less than the amount that should be included in gross profits when the provisions of Article 57-5 or Article 57-6 of the Act apply, the amount of said shortfall
 - (xii) The amount equivalent to the amount of expenses equivalent to entertainment and social expenses prescribed in Article 61-4, paragraph (1) of the Act that the specified foreign subsidiary, etc. pays, which is included in deductible expenses for the relevant business year and which is not to be included in deductible expenses when the provisions of said Article apply

- (xiii) The amount equivalent to the amount of a loss of the specified foreign subsidiary, etc. (meaning the amount of a loss related to a partnership, etc. prescribed in Article 67-12, paragraph (1) of the Act or the amount of a loss prescribed in Article 67-13, paragraph (1) of the Act incurred due to a partnership business prescribed in said paragraph), which is not to be included in deductible expenses when the provisions of Article 67-12, paragraph (1) or Article 67-13, paragraph (1) of the Act apply
 - (xiv) The amount equivalent to the amount which is to be included in deductible expenses when the provisions of Article 67-12, paragraph (2) or Article 67-13, paragraph (2) of the Act apply
 - (xv) The amount of corporate income tax to be refunded to the specified foreign subsidiary, etc. which is included in gross profits for the relevant business year
 - (xvi) The amount equivalent to that included in gross profits for the relevant business year due to changes in the valuation of the assets that the specified foreign subsidiary, etc. holds, which is not to be included in gross profits when the provisions of Article 25 of the Corporation Tax Act apply.
- (3) Where there is any amount of deductible dividend, etc. (meaning the amount equivalent to the amount specified respectively in the following items for the category of cases listed in the relevant items; hereinafter the same shall apply in this paragraph) for the relevant business year of a specified foreign subsidiary, etc. related to a domestic corporation listed in the items of Article 66-6, paragraph (1) of the Act, the amount calculated in accordance with the standards specified by Cabinet Order prescribed in Article 66-6, paragraph (2), item (ii) of the Act shall be the remaining amount after deducting said amount of deductible dividend, etc. from the amount calculated pursuant to these provisions, notwithstanding the provisions of paragraph (1) or the preceding paragraph:
- (i) Where the amount of a dividend, etc. that said specified foreign subsidiary, etc. receives from any other specified foreign subsidiary, etc. related to said domestic corporation (including a specified foreign subsidiary, etc. prescribed in Article 68-90, paragraph (1) of the Act; hereinafter referred to as the "other specified foreign subsidiary, etc." in this paragraph) in the relevant business year does not exceed the amount of a dividend payable corresponding to the capital contributions of said specified foreign subsidiary, etc. out of the total amount of a dividend payable by said other specified foreign subsidiary, etc. in the business year including the base date for paying said dividend, etc. (hereinafter referred to as the "base business year" in this paragraph) and said base business year is the business year during which the taxable retained income prescribed in Article 66-6, paragraph (1) of the Act (hereinafter referred to as the "taxable retained income" in this

Section) or individually taxable retained income prescribed in Article 68-90, paragraph (1) of the Act (hereinafter referred to as the "individually taxable retained income" in this Section) arises: The amount of said dividend, etc.

(ii) Where the amount of a dividend, etc. that said specified foreign subsidiary, etc. receives from any other specified foreign subsidiary, etc. related to said domestic corporation in the relevant business year exceeds the amount of a dividend payable corresponding to the capital contributions for the base business year pertaining to said amount of dividend, etc.: Where the amount of a dividend payable corresponding to the capital contributions for the relevant business year preceding the base business year of said other specified foreign subsidiary, etc. shall be appropriated to said amount of dividend, etc. in reverse chronological order and said amount of dividend, etc. has been categorized for the relevant business year in accordance with said amount of dividend payable corresponding to the capital contributions for the relevant business year, the sum of the amount of a dividend, etc. to be appropriated with the amount of a dividend payable corresponding to the capital contributions for the business year during which the taxable retained income or individually taxable retained income arises.

(4) In the preceding paragraph and this paragraph, the meanings of the terms listed respectively in the following items shall be as specified respectively in the relevant items:

(i) The amount of a dividend payable: The remaining amount after deducting the sum of the amounts listed as follows from the amount of undistributed income prescribed in Article 66-6, paragraph (2), item (ii) of the Act for the relevant business year of a specified foreign subsidiary, etc. (where there is any amount of deductible dividend, etc. prescribed in the preceding paragraph, or where the provisions of Article 66-4, paragraph (1) or Article 68-88, paragraph (1) of the Act is applied to a transaction with a domestic corporation listed in the items of Article 66-6, paragraph (1) of the Act related to said specified foreign subsidiary, etc. and the amount of income to be reduced pursuant to the provisions of paragraph (1) or paragraph (2) contains any amount that shall not be paid to said domestic corporation, the amount obtained by adding together those amounts to such amount of undistributed income) (where the amount of corporate income tax to be refunded as prescribed in (a) exceeds the amount of corporate income tax payable as prescribed in (a), such remaining amount shall be the amount obtained by adding said amount of undistributed income and said excess amount and then deducting therefrom the sum of the amounts listed in (b) and (c)):

(a) The amount of corporate income tax payable in the relevant business year (where there is any amount of corporate income tax to be refunded in the

- relevant business year, the remaining amount after deducting said amount of corporate income tax to be refunded)
- (b) The amount payable due to the appropriation of surplus for the relevant business year (excluding the amount of corporate income tax and the amount of a dividend of surplus, etc.)
 - (c) The amount paid as the expenses for the relevant business year (excluding the amount of corporate income tax and the amount of a dividend of surplus, etc.) which was included in the amount of undistributed income prescribed in Article 66-6, paragraph (2), item (ii) of the Act for the relevant business year, because said amount was not included in deductible expenses for calculating the amount of income pursuant to the provisions of paragraph (1) or paragraph (2) or was included in the amount of income pursuant to the provisions of said paragraph
 - (ii) The amount of a dividend payable corresponding to the capital contributions: The amount obtained by multiplying the amount of a dividend payable by a specified foreign subsidiary, etc. by the ratio of the number or the amount of the shares, etc. of said specified foreign subsidiary, etc. that any other specified foreign subsidiary, etc. (hereinafter referred to as the "other specified foreign subsidiary, etc." in this item) holds out of the total issued shares, etc. of said specified foreign subsidiary, etc. (where said specified foreign subsidiary, etc. has issued the shares, etc. in which claims prescribed in Article 66-6, paragraph (1) of the Act (hereinafter referred to as the "claims" in this item and paragraph (3) and paragraph (7) of the following Article) with different contents are vested, or the shares, etc. in which claims with different contents are deemed to be substantially vested (referred to as the "shares, etc. in which different claims are vested" in paragraph (3) of the following Article), the ratio of the amount of a dividend of surplus, etc. that said other specified foreign subsidiary, etc. can receive based on said claims out of the total amount of a dividend of surplus, etc.).
- (5) The amount obtained as a result of an adjustment for the amount of a loss prescribed in Article 66-6, paragraph (2), item (ii) of the Act shall be the amount obtained by calculating the amount of income, pursuant to the provisions of paragraph (1), paragraph (2) or paragraph (3), with regard to the income of a specified foreign subsidiary, etc. in its settlement of accounts for the relevant business year (hereinafter referred to as the "amount of adjusted income" in this paragraph and paragraph (7)) and then deducting therefrom the amount equivalent to the sum of the loss incurred in business years that commenced within seven years before the first day of the relevant business year (excluding business years that commenced before April 1, 1978 and business years during which the company did not fall under the category of a

specified foreign subsidiary, etc. (including specified foreign Subsidiaries, etc. prescribed in Article 40-4, paragraph (1) or Article 68-90, paragraph (1) of the Act)) (such loss shall exclude the amount deducted in business years preceding said relevant business year pursuant to the provisions of this paragraph or Article 39-115, paragraph (5)) (where said sum of the loss exceeds the amount of adjusted income for the relevant business year, said amount of adjusted income).

- (6) A loss prescribed in the preceding paragraph shall be a loss calculated where the provisions of paragraph (1), paragraph (2) or paragraph (3) are applied to the amount of income of a specified foreign subsidiary, etc. in its settlement of accounts for the relevant business year.
- (7) When making a calculation set forth in paragraph (1), item (i), if there is any amount to be included in deductible expenses in the relevant business year, pursuant to the provisions of Article 33 and Articles 42 to 53 of the Corporation Tax Act, and the provisions of Article 43, Article 45-2, Article 52-2, Article 57-5, Article 57-6, Article 57-8, Articles 65-7 to 65-9 (limited to the part pertaining to item (xix) of the table in Article 65-7, paragraph (1) of the Act), Article 67-12, paragraph (2) and Article 67-13, paragraph (2) of the Act, whose provisions are to apply under the provisions of said item, said amount shall be included in deductible expenses for calculating the amount of adjusted income for the relevant business year, only when detailed statements concerning the inclusion of said amount in deductible expenses are attached to a final return form for the relevant business year set forth in Article 66-6, paragraph (5) of the Act; provided, however, that this shall not apply when the district director of the tax office finds that there was any unavoidable reason for the failure to attach detailed statements and said detailed statements have been submitted.
- (8) Where a domestic corporation, which was subject to the provisions of paragraph (1) for calculating the amount of income of the specified foreign subsidiary, etc. in its settlement of accounts for the relevant business year, seeks the application of paragraph (2) for calculating the amount of income of said specified foreign subsidiary, etc. in its settlement of accounts for the relevant business year in business years following the one to which the provisions of paragraph (1) have been applied; or where a domestic corporation, which was subject to the provisions of paragraph (2) for calculating the amount of income of the specified foreign subsidiary, etc. in its settlement of accounts for the relevant business year, seeks the application of paragraph (1) for calculating the amount of income of the specified foreign subsidiary, etc. in its settlement of accounts for the relevant business year in business years following the one to which the provisions of paragraph (2) have been applied, it shall receive approval from the competent district director with jurisdiction over its place for tax payment, in advance.

(Calculation, etc. of the Amount of Taxable Retained Income of Specified Foreign Subsidiaries, etc. Related to Domestic Corporations)

Article 39-16 (1) The amount obtained as a result of an adjustment to the amount of undistributed income set forth in Article 66-6, paragraph (1) of the Act for the amount of taxes and a dividend of surplus, etc. on said undistributed income shall be the remaining amount after deducting the sum of the amounts listed as follows from the amount of undistributed income prescribed in Article 66-6, paragraph (2), item (ii) (hereinafter referred to as the "amount of undistributed income" in this paragraph) for the relevant business year of a specified foreign subsidiary, etc. (where the amount of corporate income tax to be refunded as prescribed in item (i) exceeds the amount of corporate income tax payable as prescribed in said item, such remaining amount shall be the amount obtained by adding the amount of undistributed income and said excess amount and then deducting therefrom the amount listed in item (ii)). In this case, when the sum of the amounts listed in item (i) and item (ii) exceeds said amount of undistributed income, the amount listed in item (i) shall be deducted first and then the amount listed in item (ii) shall be deducted:

- (i) The amount of corporate income tax payable in the relevant business year (where there is any amount of corporate income tax to be refunded in the relevant business year, the remaining amount after deducting said amount of corporate income tax to be refunded)
- (ii) The sum of the amount of a dividend of surplus, etc. by deeming the relevant business year to be the base business year (meaning the business year including the base day for paying a dividend of surplus, etc.; hereinafter the same shall apply in this item) (such amount of dividend of surplus, etc. shall be limited to that for which the payment obligation was fixed by the final day of the business year of a domestic corporation related to said specified foreign subsidiary, etc., which includes the day on which two months have elapsed after the day following the final day of the relevant business year; hereinafter the same shall apply in this item) (where the whole or a part of the amount of a dividend of surplus, etc. by deeming the relevant business year to be the base business year has been paid to any person listed as follows, said sum shall be deemed to be zero):
 - (a) Affiliated foreign companies related to said domestic corporation (excluding a specified foreign subsidiary, etc. (including a specified foreign subsidiary, etc. prescribed in Article 68-90, paragraph (1) of the Act) related to said domestic corporation) whose tax burden imposed, in the state of the head office, on the amount of the dividend of surplus, etc. that it receives is not more than the tax-burden base specified by Ordinance of

the Ministry of Finance as being extremely low, compared with that imposed on corporate income in Japan (referred to as the "low tax-burden base" in Article 39-19, paragraph (2))

(b) Other specified foreign Subsidiaries, etc. (including a specified foreign subsidiary, etc. prescribed in Article 68-90, paragraph (1) of the Act; the same shall apply in item (iii) of the following paragraph) related to said domestic corporation.

(2) The amount calculated as specified by Cabinet Order prescribed in Article 66-6, paragraph (1) of the Act shall be the amount obtained by multiplying the eligible retained income prescribed in said paragraph for the relevant business year of a specified foreign subsidiary, etc. related to a domestic corporation listed in the items of said paragraph (hereinafter referred to as the "eligible retained income" in this Section) by the ratio of the shares, etc. for considering the claims held by said domestic corporation out of the total issued shares, etc. of said specified foreign subsidiary, etc. at the end of the relevant business year of said specified foreign subsidiary, etc. (where any of the events listed in item (i) or item (ii) occurred with regard to said specified foreign subsidiary, etc. or an event listed in item (iii) occurred with regard to an affiliated foreign company related to said domestic corporation (limited to those that hold the taxed amount of a dividend, etc. before deduction pertaining to said specified foreign subsidiary, etc.) in the relevant business year of said domestic corporation relating to the application of the provisions of said paragraph, such amount shall be the remaining amount after deducting the amount specified respectively in these items from said calculated amount):

(i) An event listed in Article 66-8, paragraph (1), item (i) of the Act (limited to the payment of a dividend of surplus, etc. which has not been deducted for calculating the amount of said eligible retained income of said specified foreign subsidiary, etc.): The amount obtained by multiplying the amount of said dividend of surplus, etc. (where the amount of said dividend of surplus, etc. exceeds said eligible retained income, the amount equivalent to said eligible retained income) by the ratio of the shares, etc. for considering the claims held by said domestic corporation out of the total issued shares, etc. of said specified foreign subsidiary, etc. at the end of the relevant business year pertaining to said eligible retained income (excluding the shares, etc. for considering the claims indirectly held via a person listed in item (ii), (a) and (b) of the preceding paragraph with a relationship to said domestic corporation)

(ii) An event listed in Article 66-8, paragraph (1), item (ii) of the Act: The amount obtained by multiplying the amount specified in said item by the ratio of the shares, etc. for considering the claims held by said domestic corporation out of the total issued shares, etc. of said specified foreign

subsidiary, etc. at the time when said event occurred (where the amount specified in said item has been delivered to a person listed in item (ii), (a) and (b) of the preceding paragraph with a relationship to said domestic corporation, excluding the shares, etc. for considering the claims indirectly held via such person)

(iii) An event listed in Article 66-8, paragraph (1), item (iii) of the Act: The amount specified in said item (where said amount has been received from an affiliated foreign company that falls under the category of any other specified foreign subsidiary, etc., the remaining amount after deducting from said amount, the amount equivalent to the sum of the amount to be deducted for calculating the amount of eligible retained income, taxable retained income or individually taxable retained income pertaining to said other specified foreign subsidiary, etc. and the amount to be included in deductible expenses due to said event under the provisions of said paragraph or Article 68-92, paragraph (1) of the Act), with the taxed amount of a dividend, etc. before deduction as the upper limit.

(3) In the preceding paragraph and this paragraph, the meanings of the terms listed respectively in the following items shall be as specified respectively in the relevant items:

(i) Shares, etc. for considering the claims held: The number or the amount adding together the number or the amount of the shares, etc. of a foreign corporation directly held by a domestic corporation (where said foreign corporation has issued the shares, etc. in which different claims are vested, the number or the amount obtained by multiplying the issued shares, etc. of said foreign corporation by the ratio of the amount of a dividend of surplus, etc. that said domestic corporation can receive based on said claims out of the total amount) and the shares, etc. for considering the claims indirectly held

(ii) Shares, etc. for considering the claims indirectly held: The number or the amount of the shares, etc. obtained by multiplying the issued shares, etc. of a first foreign corporation by the ratios specified respectively in the following items for the category of cases listed in the relevant items (where this falls under both of the following cases, the sum of the ratios specified respectively as follows):

(a) Where a domestic corporation holds the whole or a part of the issued shares, etc. of a second foreign corporation which is the shareholder, etc. (meaning a shareholder, etc. prescribed in Article 2, item (xiv) of the Corporation Tax Act; hereinafter the same shall apply in this Article) of a first foreign corporation (hereinafter such second foreign corporation shall be simply referred to as the "second foreign corporation" in (a)): The ratio obtained by multiplying said domestic corporation's ratio of shareholding (meaning the ratio of the number or the amount of the shares, etc. held by

the shareholder, etc. out of the total issued shares, etc. of the corporation that issues said shares, etc. (where said issuing corporation has issued shares, etc. in which different claims are vested, the ratio of the amount of a dividend of surplus, etc. that said shareholder, etc. can receive based on said claims out of the total amount); hereinafter the same shall apply in this item) in the second foreign corporation by the second foreign corporations' ratio of shareholding in the first foreign corporation (where there are two or more such second foreign corporations, the sum of the ratios calculated for each of them)

- (b) Where a single foreign corporation or two or more foreign corporations are interposed between a first foreign corporation and a second foreign corporation (limited to a second foreign corporation for which the whole or a part of the issued shares, etc. are held by a domestic corporation; hereinafter referred to as the "second foreign corporation" in this item) (hereinafter such interposed foreign corporations shall be referred to as "foreign corporations related through capital contribution" in this item) and said domestic corporation, said second foreign corporation, foreign corporations related through capital contribution and said foreign corporation have a link through the holding of shares, etc.: The ratio obtained by multiplying said domestic corporation's ratio of shareholding in said second foreign corporation sequentially by said second foreign corporation's ratio of shareholding in the foreign corporation related through capital contribution, by the foreign corporation related through capital contribution's ratio of shareholding in other foreign corporations related through capital contribution, and by the foreign corporation related through capital contribution's ratio of shareholding in the first foreign corporation (where there are two or more links, the sum of the ratios calculated for each of them)
- (iii) The taxed amount of a dividend, etc. before deduction: Out of the amount of a dividend of surplus, etc. which an affiliated foreign company related to said domestic corporation has received from a specified foreign subsidiary, etc. related to said domestic corporation during a period of two years or less preceding the day on which an event listed in item (iii) of the preceding paragraph occurred (such amount of dividend of surplus, etc. shall include the amount specified in Article 66-8, paragraph (1), item (ii) of the Act) and which shall not be deducted for calculating the amount of taxable retained income pertaining to said specified foreign subsidiary, etc., under the provisions of the preceding paragraph (including the amount that shall not be included in the amount calculated as specified by Cabinet Order prescribed in Article 66-8, paragraph (1) of the Act pertaining to said specified foreign subsidiary, etc., as calculated under the provisions of Article

39-19, paragraph (2) or paragraph (3)), the part which corresponds to the shares, etc. for considering the claims of said specified foreign subsidiary, etc. indirectly held by said domestic corporation via said affiliated foreign company (such part shall exclude the amount already appropriated for the application of the provisions of the preceding paragraph, paragraph (1) of said Article, and Article 39-116, paragraph (2), and the provisions of Article 68-92, paragraph (1) of the Act).

- (4) The deduction of the amount specified in the items of paragraph (2) under the provisions of said paragraph shall be made first with the amount specified in item (i) of said paragraph and then sequentially with the amount specified in item (ii) of said paragraph and the amount specified in item (iii) of said paragraph.
- (5) The number of the shares or the amount of capital contributions of a foreign corporation specified by Cabinet Order as those held indirectly as prescribed in Article 66-6, paragraph (2), item (iii) of the Act shall be the number or the amount of the shares, etc. obtained by multiplying the issued shares, etc. of a first foreign corporation by the ratios specified respectively in the following items for the category of cases listed in the relevant items (where this falls under both of the following cases, the sum of the ratios specified respectively as follows):
 - (i) Where an individual or domestic corporation holds the whole or a part of the issued shares, etc. of a second foreign corporation which is the shareholder, etc. of a first foreign corporation (hereinafter referred to as the "second foreign corporation" in this item): The ratio obtained by multiplying the ratio of shareholding (meaning the ratio of the number or the amount of the shares, etc. held by the shareholder, etc. out of the total issued shares, etc. of the corporation that issues said shares, etc.; hereinafter the same shall apply in this paragraph) of said individual or domestic corporation in said second foreign corporation by said second foreign corporation's ratio of shareholding in the first foreign corporation (where there are two or more such second foreign corporations, the sum of the ratios calculated for each of them)
 - (ii) Where a single foreign corporation or two or more foreign corporations are interposed between a first foreign corporation and a second foreign corporation (limited to a second foreign corporation for which the whole or a part of the issued shares, etc. are held by an individual or domestic corporation; hereinafter referred to as the "second foreign corporation" in this paragraph) (hereinafter such interposed foreign corporations shall be referred to as "foreign corporations related through capital contribution" in this paragraph) and said individual or domestic corporation, said second foreign corporation, foreign corporations related through capital contribution and said first foreign corporation have a link through the holding of shares,

etc.: The ratio obtained by multiplying the ratio of the shareholding of said individual or domestic corporation in said second foreign corporation sequentially by said second foreign corporation's ratio of shareholding in the foreign corporation related through capital contribution, by the foreign corporation related through capital contribution's ratio of shareholding in other foreign corporations related through capital contribution, and by the foreign corporation related through capital contribution's ratio of shareholding in the first foreign corporation (where there are two or more links, the sum of the ratios calculated for each of them).

(6) The number of voting rights of a foreign corporation specified by Cabinet Order as being held indirectly as prescribed in Article 66-6, paragraph (2), item (iv) of the Act shall be the number of voting rights obtained by multiplying the total number of voting rights (meaning the voting rights prescribed in Article 66-6, paragraph (1), item (i), (a) of the Act; hereinafter the same shall apply in this paragraph) of a first foreign corporation by the ratios specified respectively in the following items for the category of cases listed in the relevant items (where this falls under both of the following cases, the sum of the ratios specified respectively as follows):

(i) Where an individual or domestic corporation holds the whole or a part of the voting rights of a second foreign corporation which are shareholders, etc. of said foreign corporation (hereinafter referred to as "second foreign corporation" in this item): The ratio obtained by multiplying the ratio of voting rights (meaning the ratio of the number of voting rights held by the shareholders, etc. out of the total number; hereinafter the same shall apply in this paragraph) of said individual or domestic corporation pertaining to said second foreign corporation by said second foreign corporation' ratio of voting rights pertaining to said foreign corporation (where there are two or more second foreign corporations, the sum of the ratios calculated for each of them)

(ii) Where a single foreign corporation or two or more foreign corporations are interposed between said foreign corporation and a second foreign corporation (limited to a second foreign corporation for which the whole or a part of the voting rights are held by an individual or domestic corporation; hereinafter referred to as the "second foreign corporation" in this paragraph) (hereinafter such interposed foreign corporations shall be referred to as a "foreign corporations related through capital contribution" in this paragraph) and said individual or domestic corporation, said second foreign corporation, foreign corporations related through capital contribution and said foreign corporation have a link through holding the voting rights: The ratio obtained by multiplying the ratio of voting rights of said individual or domestic corporation pertaining to said second foreign corporation sequentially by said

second foreign corporation's ratio of voting rights pertaining to the foreign corporations related through capital contribution, by the foreign corporation related through capital contribution's ratio of voting rights pertaining to other foreign corporations related through capital contribution, and by the foreign corporation related through capital contribution's ratio of voting rights pertaining to said foreign corporation (where there are two or more links, the sum of the ratios calculated for each of them).

(7) The amount of a dividend of surplus, etc. specified by Cabinet Order as being receivable based on the claims vested in the shares, etc. of a foreign corporation held indirectly as prescribed in Article 66-6, paragraph (2), item (v) of the Act shall be the amount of a dividend of surplus, etc. obtained by multiplying the total amount of a dividend of surplus, etc. receivable based on the claims vested in the shares, etc. of a foreign corporation by the ratio specified respectively in the following items for the category of cases listed in the relevant items (where this falls under both of the following cases, the sum of the ratios specified respectively as follows):

(i) Where an individual or domestic corporation holds the whole or a part of the claims vested in the shares, etc. of a second foreign corporation which is the shareholder, etc. of said foreign corporation (hereinafter referred to as the "second foreign corporation" in this item): The ratio obtained by multiplying the ratio of claims (meaning the ratio of the amount of a dividend of surplus, etc. receivable based on the claims vested in the shares, etc. held by the shareholders, etc. out of the total amount; hereinafter the same shall apply in this paragraph) of said individual or domestic corporation pertaining to said second foreign corporation by said second foreign corporation's ratio of claims pertaining to said foreign corporation (where there are two or more second foreign corporations, the sum of the ratios calculated for each of them)

(ii) Where a single foreign corporation or two or more foreign corporations are interposed between said foreign corporation and a second foreign corporation (limited to a second foreign corporation for which the whole or a part of the claims vested in the shares, etc. are held by an individual or domestic corporation; hereinafter referred to as the "second foreign corporation" in this paragraph) (hereinafter such interposed foreign corporations shall be referred to as a "foreign corporations related through capital contribution" in this paragraph) and said individual or domestic corporation, said second foreign corporation, foreign corporations related through capital contribution and said foreign corporation have a link through holding the claims vested in the shares, etc.: The ratio obtained by multiplying the ratio of claims of said individual or domestic corporation pertaining to said second foreign corporation sequentially by said second foreign corporation's ratio of claims

- pertaining to the foreign corporations related through capital contribution, by the foreign corporation related through capital contribution's ratio of claims pertaining to other foreign corporations related through capital contribution, and by the foreign corporation related through capital contribution's ratio of claims pertaining to said foreign corporation (where there are two or more links, the sum of the ratios calculated for each of them).
- (8) A person who has a special relationship specified by Cabinet Order to a resident or a domestic corporation prescribed in Article 66-6, paragraph (2), item (vi) of the Act shall be an individual or corporation listed as follows:
- (i) An individual listed as follows:
- (a) A relative of the resident
 - (b) A person in a relationship with the resident where a marital relationship is de facto, though a marriage has not been registered
 - (c) An employee of the resident
 - (d) A person other than those listed in (a) to (c) who maintains his/her living by receiving money or any other assets from the resident
 - (e) A relative of any of the persons listed in (b) to (d) who depends on such person for his/her livelihood
 - (f) An officer of the domestic corporation and a person listed in the items of Article 72-3 of the Order for Enforcement of the Corporation Tax Act with a relationship to said officer
- (ii) A corporation listed as follows:
- (a) Where a resident or a domestic corporation (including an individual who has a special relationship prescribed in the preceding item to said resident or domestic corporation; hereinafter referred to as a "resident, etc." in this paragraph) controls any other corporation, said other corporation
 - (b) Where a resident, etc. or a corporation which has a special relationship prescribed in (a) to said resident, etc. controls any other corporation, said other corporation
 - (c) Where a resident, etc. or a corporation which has a special relationship prescribed in (a) and (b) to said resident, etc. controls any other corporation, said other corporation
 - (d) Where any of the two or more corporations which have a special relationship prescribed in (a) to (c) to the same person is a resident, etc., a corporation other than the one falling under said resident, etc. out of those which have such special relationship to the same person
- (9) The provisions of Article 4, paragraph (3) of the Order for Enforcement of the Corporation Tax Act shall apply mutatis mutandis when controlling any other corporation listed in (a) to (c) of item (ii) of the preceding paragraph.
- (10) The amount of expenses specified by Cabinet Order set forth in Article 66-6, paragraph (1) of the Act which is applied by replacing the terms pursuant to

the provisions of paragraph (3) of said Article shall be the sum of personnel expenses for officers and employees of a specified foreign subsidiary, etc. engaged in the business at said specified foreign subsidiary, etc. prescribed in paragraph (3) of said Article (limited to the amount of income calculated in accordance with the provisions of the laws and regulations of Japan prescribed in paragraph (1), item (i) of the preceding Article or pursuant to the provisions of paragraph (2) of said Article or the amount to be included in deductible expenses for calculating the amount of a loss for the relevant business year of said specified foreign subsidiary, etc.).

(Determination, etc. of Business of Specified Foreign Subsidiaries, etc.)

Article 39-17 (1) The persons specified by Cabinet Order prescribed in Article 66-6, paragraph (4), item (i) of the Act shall be any of the following:

- (i) Other consolidated corporations which have the consolidated full controlling interest with a consolidated corporation listed in the items of Article 68-90, paragraph (1) of the Act which pertains to a specified foreign subsidiary, etc. prescribed in Article 66-6, paragraph (4) of the Act (hereinafter referred to as a "specified foreign subsidiary, etc." in this paragraph) that is mainly engaged in business listed in item (i) of said paragraph
- (ii) A person who holds over 50 percent of the total number or total amount of the issued shares, etc. of a domestic corporation listed in the items of Article 66-6, paragraph (1) of the Act which pertains to a specified foreign subsidiary, etc. that is mainly engaged in business listed in Article 66-6, paragraph (4), item (i) of the Act (excluding a person falling under any of those listed in the items of Article 40-4, paragraph (1), items of Article 66-6, paragraph (1), items of Article 68-90, paragraph (1) of the Act and the preceding item who is a person with a relationship to said specified foreign subsidiary, etc.)
- (iii) A person who holds over 50 percent of the total number or total amount of the issued shares, etc. of a consolidated corporation listed in the items of Article 68-90, paragraph (1) of the Act (where said consolidated corporation is a consolidated subsidiary corporation, a consolidated parent corporation related to said consolidated corporation) which pertains to a specified foreign subsidiary, etc. that is mainly engaged in business listed in Article 66-6, paragraph (4), item (i) of the Act (excluding a person falling under any of those listed in the items of Article 40-4, paragraph (1), items of Article 66-6, paragraph (1), items of Article 68-90, paragraph (1) of the Act and the preceding two items who is a person with a relationship to said specified foreign subsidiary, etc.)
- (iv) Where a person listed in the items of Article 40-4, paragraph (1), items of Article 66-6, paragraph (1) or items of Article 68-90, paragraph (1) of the Act with a relationship to a specified foreign subsidiary, etc. that is mainly

engaged in business listed in Article 66-6, paragraph (4), item (i) of the Act holds the shares, etc. indirectly pertaining to said specified foreign subsidiary, etc. (such shares, etc. shall mean the number of the shares or the amount of the capital contributions of a foreign corporation specified by Cabinet Order as being held through indirect ownership as prescribed in Article 66-6, paragraph (2), item (iii) of the Act), the second foreign corporation prescribed in paragraph (5), item (i) of the preceding Article or the second foreign corporation and foreign corporations related through capital contribution prescribed in item (ii) of said paragraph which pertain to said shares, etc. held indirectly

(v) A person who has a special relationship specified by Cabinet Order prescribed in Article 66-6, paragraph (2), item (vi) of the Act to any of the persons listed as follows (excluding a person falling under any of those listed in the items of Article 40-4, paragraph (1), items of Article 66-6, paragraph (1), items of Article 68-90, paragraph (1) of the Act and the preceding items who is a person with a relationship to a specified foreign subsidiary, etc. that is mainly engaged in business listed in Article 66-6, paragraph (4), item (i) of the Act):

(a) A specified foreign subsidiary, etc. that is mainly engaged in business listed in Article 66-6, paragraph (4), item (i) of the Act

(b) A person listed in the items of Article 40-4, paragraph (1), items of Article 66-6, paragraph (1) or items of Article 68-90, paragraph (1) of the Act with a relationship to a specified foreign subsidiary, etc. that is mainly engaged in business listed in Article 66-6, paragraph (4), item (i) of the Act

(c) A person listed in the preceding items.

(2) The case specified by Cabinet Order prescribed in Article 66-6, paragraph (4), item (i) of the Act shall be any of the cases specified respectively in the following items, in accordance with the category of the principal business to be conducted for the relevant business year of a specified foreign subsidiary, etc. prescribed in said paragraph:

(i) Wholesale business: Where, out of the total revenue from selling inventory assets for the relevant business year (where there are any commissions to be received for agent or intermediary services for the buying or selling of inventory assets for the relevant business year, such revenues shall include the amount from the transactions for which said commissions were generated; hereinafter referred to as the "amount of sales transactions" in this item), the ratio of the sum of the amount of sales transactions with a person other than affiliated persons (meaning those listed in the items of Article 40-4, paragraph (1), items of Article 66-6, paragraph (1), items of Article 68-90, paragraph (1) of the Act and the items of the preceding paragraph who are related to said specified foreign subsidiary, etc.;

hereinafter the same shall apply in this paragraph and the following paragraph) exceeds 50 percent, or out of the sum of the acquisition costs for acquiring inventory assets for the relevant business year (where there are any commissions to be received for agent or intermediary services for the buying or selling of inventory assets for the relevant business year, such acquisition costs shall include the amount of transactions for which said commissions were generated; hereinafter referred to as the "amount of purchase transactions" in this item), the ratio of the sum of the amount of purchase transactions with a person other than affiliated persons exceeds 50 percent

- (ii) Banking business: Where, out of the sum of the total interest received for the relevant business year, the ratio of the sum of said interest to be received from a person other than affiliated persons exceeds 50 percent, or out of the sum of the total interest paid for the relevant business year, the ratio of the sum of said interest to be paid to a person other than affiliated persons exceeds 50 percent
 - (iii) Trust business: Where, out of the sum of the total trust charge for the relevant business year, the ratio of the sum of said trust charge to be received from a person other than affiliated persons exceeds 50 percent
 - (iv) Financial instruments business: Where, out of the sum of the total commissions received (including profits from the buying and selling of securities) for the relevant business year, the ratio of the sum of said commissions to be received from a person other than affiliated persons exceeds 50 percent
 - (v) Insurance business: Where, out of the sum of the total premium income for the relevant business year, the ratio of the sum of said premium income to be received from a person other than affiliated persons (where said premium income pertains to reinsurance, limited to premium income from insurance for assets held by a person other than affiliated persons or damages incurred by a person other than affiliated persons) exceeds 50 percent
 - (vi) Water transportation business or air transportation business: Where, out of the total revenue from the operation or rental of vessels or operation or rental of aircraft for the relevant business year, the ratio of the sum of said revenue to be received from a person other than affiliated persons exceeds 50 percent.
- (3) Where transactions prescribed in the preceding paragraph between a specified foreign subsidiary, etc. and an affiliated person related to said specified foreign subsidiary, etc. are conducted indirectly via a person other than an affiliated person related to said specified foreign subsidiary, etc. (hereinafter referred to as a "non-affiliated person" in this paragraph), transactions between said specified foreign subsidiary, etc. and said non-

affiliated person shall be deemed to have been conducted directly between said specified foreign subsidiary, etc. and said affiliated person and the provisions of the items of the preceding paragraph shall apply, except in the case where there are justifiable grounds for having said non-affiliated person intervene in such transactions.

- (4) The water areas specified by Cabinet Order prescribed in Article 66-6, paragraph (4), item (ii) of the Act shall be inland water and territorial sea and exclusive economic zones or water areas equivalent to continental shelves related to a state or territory prescribed in said item.
- (5) The case specified by Cabinet Order prescribed in Article 66-6, paragraph (4), item (ii) of the Act shall be any of the cases specified respectively in the following items, in accordance with the category of the principal business to be conducted for the relevant business year of a specified foreign subsidiary, etc. prescribed in said paragraph:
- (i) Real estate business: Where conducting a buying and selling or rental business of real estate (including acts to let others use said real estate) (real estate shall include the rights thereon; hereinafter the same shall apply in this item) mainly located in the state of the head office, providing agent or intermediary services for the buying and selling or rental business of said real estate, and managing said real estate
 - (ii) Rental and leasing business: Where conducting a rental business for goods to be provided for use mainly in the state of the head office
 - (iii) Business other than those listed in paragraph (2) and the preceding two items: Where conducting a business mainly in the state of the head office.

(Calculation, etc. of Foreign Corporation Tax on Taxable Retained Income of Specified Foreign Subsidiaries, etc.)

Article 39-18 (1) The amount calculated as specified by Cabinet Order prescribed in Article 66-7, paragraph (1) of the Act shall be the amount obtained by multiplying the amount of foreign corporation tax to be imposed on a specified foreign subsidiary, etc. prescribed in said paragraph (hereinafter referred to as a "specified foreign subsidiary, etc." in this Article) on its income for a business year containing eligible retained income (hereinafter referred to as a "taxable business year" through to paragraph (4)) by the ratio of the taxable retained income pertaining to a domestic corporation prescribed in Article 66-7, paragraph (1) of the Act out of the sum of the eligible retained income for the relevant taxable business year (where there is any amount of deductible dividend, etc. prescribed in Article 39-15, paragraph (3), the amount obtained by adding said amount) and the amount of a dividend of surplus, etc. to be deducted for calculating the amount of said eligible retained income (where said amount exceeds said taxable retained income, the amount equivalent to

said taxable retained income).

(2) In the case where a specified foreign subsidiary, etc. has been subject to two or more foreign corporation taxes or to a foreign corporation tax twice or more on its income for a taxable business year, when a domestic corporation related to said specified foreign subsidiary, etc. seeks the application of the provisions of Article 66-7, paragraph (1) (including the cases where it is applied pursuant to the provisions of paragraph (2) of said Article by deeming the amount to be as specified therein; hereinafter the same shall apply in this Article) or Article 68-91, paragraph (1) (including the cases where it is applied pursuant to the provisions of paragraph (2) of said Article by deeming the amount to be as specified therein; hereinafter the same shall apply in this Article) of the Act, regarding the amount of said foreign corporation taxes in two or more business years or consolidated business years; with respect to the application of the provisions of Article 66-7, paragraph (1) of the Act for a business year following the first one of said two or more business years or consolidated business years, the amount obtained by deducting the amount listed in item (ii) (the amount listed in item (iii), when seeking the application of the provisions of Article 66-7, paragraph (1) of the Act for the first time after receiving the application of the provisions of Article 68-91, paragraph (1) of the Act) from the amount listed in item (i) shall be deemed to be the calculated amount prescribed in the preceding paragraph:

(i) The amount calculated pursuant to the provisions of the preceding paragraph regarding the sum of the amount of foreign corporation taxes that were imposed on income for the relevant taxable business year by the final day of a business year subject to the provisions of Article 66-7, paragraph (1) of the Act (hereinafter referred to as the "applicable business year" in this paragraph) (such amount of foreign corporation taxes shall be limited to those to which the provisions of Article 66-7, paragraph (1) or Article 68-91, paragraph (1) of the Act, pursuant to the provisions of paragraph (4) or Article 39-118, paragraph (4); hereinafter the same shall apply in this paragraph)

(ii) The amount calculated pursuant to the provisions of the preceding paragraph regarding the sum of the amount of foreign corporation taxes that were imposed on income for the relevant taxable business year by the day preceding the first day of the applicable business year

(iii) The amount calculated pursuant to the provisions of Article 39-118, paragraph (1) regarding the sum of the amount of foreign corporation taxes that were imposed on income for the relevant taxable business year by the day preceding the first day of the applicable business year.

(3) Out of the amount of foreign corporation taxes that were imposed on a specified foreign subsidiary, etc. on its income for a taxable business year, the

amount deemed to be the amount of creditable foreign corporation taxes prescribed in Article 66-7, paragraph (1) of the Act that shall be paid by a domestic corporation related to said specified foreign subsidiary, etc., pursuant to the provisions of said paragraph, (hereinafter referred to as the "amount of creditable foreign corporation taxes" in this Article) shall be deemed to be payable by the domestic corporation in a business year specified respectively in the following items for the category of foreign corporation taxes listed in the relevant items:

- (i) The foreign corporation tax that was imposed on the domestic corporation on its income for the relevant taxable business year of said specified foreign subsidiary, etc. on or prior to the final day of the business year for which the provisions of Article 66-6, paragraph (1) of the Act are applied regarding the amount equivalent to the taxable retained income for the relevant taxable business year: The business year subject to the provisions of Article 66-6, paragraph (1) of the Act
 - (ii) The foreign corporation tax that was imposed on the domestic corporation on its income for the relevant taxable business year of said specified foreign subsidiary, etc. after the final day of the business year for which the provisions of Article 66-6, paragraph (1) of the Act are applied regarding the amount equivalent to the taxable retained income for the relevant taxable business year (where the provisions of Article 66-7, paragraph (2) of the Act are applied, after the final day of the consolidated business year for which the provisions of Article 68-90, paragraph (1) of the Act were applied regarding the amount equivalent to the individually taxable retained income for the relevant taxable business year): Said business year involving the day on which the tax was imposed.
- (4) Where a specified foreign subsidiary, etc. has been subject to two or more foreign corporation taxes or to a foreign corporation tax twice or more on its income for a taxable business year, a domestic corporation to which the provisions of Article 66-6, paragraph (1) of the Act are applied, regarding the amount equivalent to the taxable retained income for the relevant taxable business year of said specified foreign subsidiary, etc., shall choose whether or not it will seek the application of the provisions of Article 66-7, paragraph (1) of the Act regarding the amount of respective foreign corporation taxes on the taxable retained income subject to the provisions of Article 66-6, paragraph (1) of the Act.
- (5) In the case where a domestic corporation was subject to the provisions of Article 66-7, paragraph (1) of the Act, regarding the amount of foreign corporation tax imposed on the income of a specified foreign subsidiary, etc. related to the domestic corporation, when said amount of foreign corporation tax was reduced in a business year after the business year subject to the

- provisions of said paragraph (hereinafter referred to as the "applicable business year" in this paragraph), it shall be deemed that the remaining amount after deducting the amount listed in item (ii) from the amount listed in item (i) has been reduced from the part of said amount of foreign corporation tax that was deemed to be the amount of creditable foreign corporation tax payable by the domestic corporation, pursuant to the provisions of paragraph (1) of said Article, as on the day of the reduction of said foreign corporation tax:
- (i) The part of said amount of foreign corporation tax that was deemed to be the amount of creditable foreign corporation tax payable by the domestic corporation in the applicable business year
 - (ii) The part that is deemed to be the amount of creditable foreign corporation tax payable by the domestic corporation when the provisions of Article 66-7, paragraph (1) of the Act are applied in the applicable business year to said amount of foreign corporation tax after the reduction.
- (6) In the case where a domestic corporation was subject to the provisions of Article 68-91, paragraph (1) of the Act, regarding the amount of foreign corporation tax imposed on the income of a specified foreign subsidiary, etc. related to the domestic corporation, when said amount of foreign corporation tax was reduced in a business year after the consolidated business year subject to the provisions of said paragraph (hereinafter referred to as the "applicable consolidated business year" in this paragraph), it shall be deemed that the remaining amount after deducting the amount listed in item (ii) from the amount listed in item (i) has been reduced from the part of said amount of foreign corporation tax that was deemed to be the amount of individually creditable foreign corporation tax payable by the domestic corporation, pursuant to the provisions of paragraph (1) of said Article (hereinafter referred to as the "amount of individually creditable foreign corporation tax" in this Article), as on the day of the reduction of said foreign corporation tax:
- (i) The part of said amount of foreign corporation tax that was deemed to be the amount of individually creditable foreign corporation tax payable by the domestic corporation in the applicable consolidated business year
 - (ii) The part that is deemed to be the amount of individually creditable foreign corporation tax payable by the domestic corporation when the provisions of Article 68-91, paragraph (1) of the Act are applied in the applicable consolidated business year to said amount of foreign corporation tax after the reduction.
- (7) Where the amount of creditable foreign corporation tax or individually creditable foreign corporation tax has been deemed to have been reduced, pursuant to the provisions of paragraph (5) or the preceding paragraph, the provisions of Article 69, paragraph (10) of the Corporation Tax Act shall apply as specified in Article 150 (excluding paragraph (2)) of the Order for

Enforcement of the Corporation Tax Act. In this case, in paragraph (1) of said Article, the term "Article 69, paragraph (8) of the Act (including the cases where it is applied pursuant to the provisions of paragraph (9) of said Article by deeming the amount to be as specified therein)" shall be deemed to be replaced with "Article 69, paragraph (8) of the Act (including the cases where it is applied pursuant to the provisions of paragraph (9) of said Article by deeming the amount to be as specified therein) and Article 66-7, paragraph (1) (Credit for Foreign Tax on Taxable Retained Income of Specified Foreign Subsidiaries, etc. of Domestic Corporations) of the Act on Special Measures Concerning Taxation (including the cases where it is applied pursuant to the provisions of paragraph (2) of said Article);" and the term "the amount of reduced creditable foreign corporation tax" shall be deemed to be replaced with "the amount of reduced creditable foreign corporation tax (including the amount of creditable foreign corporation tax or individually creditable foreign corporation tax that is deemed to have been reduced pursuant to the provisions of Article 39-18, paragraph (5) or paragraph (6) (Reduction of Foreign Corporation Tax on Taxable Retained Income of Specified Foreign Subsidiaries, etc.) of the Order for Enforcement of the Act on Special Measures Concerning Taxation)."

- (8) Where there is any amount included in the gross profits pursuant to the provisions of Article 66-6, paragraph (1) of the Act for calculating the amount of income for the relevant business year of a domestic corporation listed in the items of said paragraph, said amount included in gross profits shall be included in the foreign income prescribed in the main clause of Article 142, paragraph (3) of the Order for Enforcement of the Corporation Tax Act for calculating the maximum amount of deduction prescribed in Article 69, paragraph (1) of the Corporation Tax Act for the relevant business year of said domestic corporation; provided, however, that in the case where the state of the head office of a specified foreign subsidiary, etc. related to the domestic corporation is a state or territory that does not impose any foreign corporation taxes prescribed in Article 141, paragraph (1) of said Order on the income of said specified foreign subsidiary, etc., the amount to be included in said foreign income shall be the amount equivalent to one-third of said amount included in the gross profits.
- (9) The part of the amount of foreign corporation taxes listed in the items of paragraph (3) that are deemed to be the amount of creditable foreign corporation tax payable by a domestic corporation related to a specified foreign subsidiary, etc., pursuant to the provisions of Article 66-7, paragraph (1) of the Act, shall be included in foreign income prescribed in the main clause of Article 142, paragraph (3) of the Order for Enforcement of the Corporation Tax Act for calculating the maximum amount of deduction prescribed in Article 69,

paragraph (1) of the Corporation Tax Act for a business year specified respectively in the relevant items of the domestic corporation.

- (10) Out of the amount deemed to have been reduced from the amount of creditable foreign corporation tax or individually creditable foreign corporation tax, pursuant to the provisions of paragraph (5) or paragraph (6), the amount equivalent to the amount to be appropriated, pursuant to the provisions of paragraph (7), for deduction from the amount of creditable foreign corporation tax to be paid prescribed in Article 150, paragraph (1) of the Order for Enforcement of the Corporation Tax Act under the provisions of said paragraph or for deduction from the amount exceeding the maximum amount of deduction prescribed in paragraph (3) of said Article under the provisions of said paragraph shall be included in deductible expenses for calculating the amount of income for a business year of a domestic corporation prescribed in paragraph (5) or paragraph (6) for making such deduction. In this case, said amount to be included in deductible expenses shall be allocated as the amount of deductible expenses for calculating the amount of foreign income prescribed in the main clause of Article 142, paragraph (3) of said Order.
- (11) The business year specified by Cabinet Order prescribed in Article 66-7, paragraph (3) of the Act shall be the business year specified respectively in the items of paragraph (3), in accordance with the category of the amount of foreign corporation tax imposed on the income of a specified foreign subsidiary, etc.
- (12) In the case where there is any taxed amount of retained income prescribed in Article 66-8, paragraph (1) of the Act (including the amount deemed to be the taxed amount of retained income pursuant to the provisions of paragraph (2) or paragraph (3) of said Article) that was included in deductible expenses for calculating the amount of income for the relevant business year of a domestic corporation prescribed in Article 66-8, paragraph (1) of the Act, pursuant to the provisions of said paragraph, in the business year of the domestic corporation including the day on which any of the events listed in the items of said paragraph occurred with regard to a specified foreign subsidiary, etc. related to said domestic corporation, or an affiliated foreign company related to said domestic corporation, when said taxed amount of retained income included in deductible expenses includes the amount of foreign corporation tax on said specified foreign subsidiary, etc. that was deemed to be the amount of creditable foreign corporation tax payable by said domestic corporation, pursuant to the provisions of Article 66-7, paragraph (1) of the Act, and which consists of taxable retained income pertaining to what was the basis for calculating the amount for which a deduction under the provisions of Article 69, paragraphs (1) to (3) of the Corporation Tax Act shall be made, pursuant to the provisions of Article 66-7, paragraph (1) of the Act, or that was

deemed to be the amount of individually creditable foreign corporation tax payable by said domestic corporation, pursuant to the provisions of Article 68-91, paragraph (1) of the Act, and which consists of individually taxable retained income pertaining to what was the basis for calculating the amount for which a deduction under the provisions of Article 81-15, paragraphs (1) to (3) of the Corporation Tax Act shall be made, pursuant to the provisions of Article 68-91, paragraph (1) of the Act, the part of the amount corresponding to the amount of foreign corporation tax on the specified foreign subsidiary, etc. that was deemed to be the amount of creditable foreign corporation tax payable by said domestic corporation, which was the basis for said calculation, and which consists of said taxable retained income or the part of the amount corresponding to the amount of foreign corporation tax on the specified foreign subsidiary, etc. that was deemed to be the amount of individually creditable foreign corporation tax payable by said domestic corporation, which was the basis for said calculation, and which consists of said individually taxable retained income shall be deemed to have been reduced on the final day of the relevant business year. In this case, the provisions of Article 69, paragraph (10) of said Act shall apply by replacing the terms in said paragraph as follows: the term "the part of the amount deemed to be payable by said domestic corporation pursuant to the provisions of paragraph (8)" shall be deemed to be replaced with "the part of the amount deemed to be payable by said domestic corporation pursuant to the provisions of paragraph (8), and out of the amount of foreign corporation tax to be imposed on the income of a specified foreign subsidiary, etc. prescribed in Article 66-7, paragraph (1) (Credit for Foreign Tax on Taxable Retained Income of Specified Foreign Subsidiaries, etc. of Domestic Corporations) of the Act on Special Measures Concerning Taxation, the part of the amount deemed to be payable by said domestic corporation pursuant to the provisions of said paragraph;" the term "in the case where said amount of foreign corporation tax was reduced (" shall be deemed to be replaced with "in the case where said amount of foreign corporation tax was reduced (in the case where the reduction is deemed to have been made pursuant to the provisions of Article 39-18, paragraph (12) (Calculation, etc. of Foreign Corporation Tax on Taxable Retained Income of Specified Foreign Subsidiaries, etc.) of the Order for Enforcement of the Act on Special Measures Concerning Taxation; or" the term "the part of the amount deemed to be payable by said domestic corporation pursuant to the provisions of paragraph (8) of said Article" shall be deemed to be replaced with "the part of the amount deemed to be payable by said domestic corporation pursuant to the provisions of paragraph (8) of said Article, and out of the amount of foreign corporation tax to be imposed on the income of a specified foreign subsidiary, etc. prescribed in Article 68-91, paragraph (1) (Credit for Foreign Tax on the

Individually Taxable Retained Income of the Specified Foreign Subsidiary, etc. of a Consolidated Corporation) of said Act, the part of the amount deemed to be payable by said domestic corporation pursuant to the provisions of said paragraph;" and the term "paragraphs (1) to (3) of said Article" shall be deemed to be replaced with "Article 81-15, paragraphs (1) to (3)."

- (13) The provisions of paragraph (7) shall apply mutatis mutandis where the amount of creditable foreign corporation tax or individually creditable foreign corporation tax is deemed to have been reduced pursuant to the provisions of the preceding paragraph.
- (14) The amount of foreign corporation tax that was deemed to be the part of the creditable foreign corporation tax payable by a domestic corporation prescribed in paragraph (12), pursuant to the provisions of Article 66-7, paragraph (1) of the Act, that is deemed to have been reduced pursuant to the provisions of paragraph (12) shall be included in deductible expenses for calculating the amount of income for a business year prescribed in said paragraph of said domestic corporation. In this case, said amount to be included in deductible expenses shall be allocated as the amount of deductible expenses for calculating the amount of foreign income prescribed in the main clause of Article 142, paragraph (3) of the Order for Enforcement of the Corporation Tax Act.
- (15) With respect to the application of the provisions of Article 73 of the Order for Enforcement of the Corporation Tax Act in the business year subject to the provisions of the preceding paragraph of a domestic corporation prescribed in said paragraph, the term "(Inclusion in Gross Profits of the Amount of Foreign Tax of Specified Foreign Subsidiaries, etc. to be Deducted from Corporation Tax)" in paragraph (2), item (x) of said Article shall be deemed to be replaced with "(Inclusion in Gross Profits of the Amount of Foreign Tax of Specified Foreign Subsidiaries, etc. to be Deducted from Corporation Tax) and Article 39-18, paragraph (14) (Calculation, etc. of Foreign Corporation Tax on Taxable Retained Income of Specified Foreign Subsidiaries, etc.) of the Order for Enforcement of the Act on Special Measures Concerning Taxation."
- (16) The provisions of Article 66-8, paragraph (5) and paragraph (6) of the Act shall apply mutatis mutandis where the provisions of paragraph (14) shall apply.
- (17) In the case where there is any amount to be included in deductible expenses for calculating the amount of income for the relevant business year of a domestic corporation prescribed in Article 66-8, paragraph (1) of the Act, pursuant to the provisions of said paragraph, in the business year of said domestic corporation including the day on which any of the events listed in the items of said paragraph occurred, with regard to a specified foreign subsidiary, etc. related to said domestic corporation, or an affiliated foreign company

related to said domestic corporation; with regard to the calculation of the maximum amount of deduction prescribed in Article 69, paragraph (1) of the Corporation Tax Act for the relevant business year of said domestic corporation, said amount included in deductible expenses shall be allocated as the amount of deductible expenses for calculating the amount of foreign income prescribed in the main clause of Article 142, paragraph (3) of the Order for Enforcement of the Corporation Tax Act; provided however, that in the case where the state of the head office of the specified foreign subsidiary, etc. is a state or territory that does not impose any foreign corporation taxes prescribed in Article 141, paragraph (1) of said Order on the income of said specified foreign subsidiary, etc., the amount to be allocated as the amount of deductible expenses for calculating the amount of said foreign income shall be the amount equivalent to one-third of said amount included in the deductible expenses.

(Calculation of the Taxed Amount of Dividend, etc. of Specified Foreign Subsidiaries, etc.)

Article 39-19 (1) The affiliated foreign company prescribed in Article 66-8, paragraph (1) of the Act which is specified by Cabinet Order shall be one of the affiliated foreign companies that holds the taxed amount of a dividend, etc. before deduction prescribed in Article 39-16, paragraph (3), item (iii) (referred to as the "taxed amount of a dividend, etc. before deduction" in the following paragraph) pertaining to a specified foreign subsidiary, etc. prescribed in Article 66-8, paragraph (1) of the Act (hereinafter referred to as a "specified foreign subsidiary, etc." in this Article).

(2) The amount calculated as specified by Cabinet Order prescribed in Article 66-8, paragraph (1) of the Act shall be the amount specified respectively in the following items for the category of cases listed in the relevant items (excluding the amount to be deducted for calculating the amount of taxable retained income, pursuant to the provisions of Article 39-16, paragraph (2), pertaining to a specified foreign subsidiary, etc.):

(i) Where an event listed in Article 66-8, paragraph (1), item (i) of the Act has occurred with regard to a specified foreign subsidiary, etc. related to a domestic corporation prescribed in said paragraph (excluding the case where said event occurred during the business year or consolidated business year preceding the business year of the domestic corporation including the day on which two months had elapsed after the day following the final day of the business year of the specified foreign subsidiary, etc. including the base day for the payment of a dividend of surplus, etc. specified in Article 66-8, paragraph (1), item (i) of the Act (hereinafter the business year including such base day shall be referred to as the "base business year" in this item and the following paragraph, and such business year of the domestic

corporation shall be referred to as the "applicable business year" in the following paragraph)), when said amount of a dividend of surplus, etc. proves to exceed the amount of a dividend of surplus, etc. to be deducted for calculating the amount of eligible retained income prescribed in Article 66-6, paragraph (1) of the Act for the relevant base business year of the specified foreign subsidiary, etc.: The amount obtained by multiplying said excess amount by the ratio of the shares, etc. for considering the claims held by said domestic corporation that are prescribed in Article 39-16, paragraph (3), item (i) out of the total issued shares, etc. of said specified foreign subsidiary, etc. at the end of said base business year (in the case where a dividend of surplus, etc. has been paid to an affiliated foreign company related to the domestic corporation (excluding a specified foreign subsidiary, etc. related to the domestic corporation and a specified foreign subsidiary, etc. prescribed in Article 68-90, paragraph (1) of the Act; hereinafter the same shall apply in this paragraph) whose tax burden imposed in the state of the head office on the amount of the dividend of surplus, etc. that it receives is not more than the low tax-burden base or to any other specified foreign subsidiary, etc. related to the domestic corporation (including a specified foreign subsidiary, etc. prescribed in Article 68-90, paragraph (1) of the Act; hereinafter the same shall apply in this paragraph); excluding the shares, etc. for considering the claims indirectly held (meaning the shares, etc. for considering the claims indirectly held prescribed in Article 39-16, paragraph (3), item (ii); the same shall apply in the following item) via said affiliated foreign company and said other specified foreign subsidiary, etc.)

(ii) Where an event listed in Article 66-8, paragraph (1), item (ii) of the Act has occurred with regard to a specified foreign subsidiary, etc. related to a domestic corporation prescribed in said paragraph: The amount obtained by multiplying the amount specified in said item by the ratio of the shares, etc. for considering the claims held by said domestic corporation that are prescribed in Article 39-16, paragraph (3), item (i) out of the total issued shares, etc. of said specified foreign subsidiary, etc. at the time when said event occurred (in the case where money or any other assets have been delivered to an affiliated foreign company related to the domestic corporation whose tax burden imposed in the state of the head office on the amount that it receives as specified in Article 66-8, paragraph (1), item (ii) of the Act is not more than the low tax-burden base or to any other specified foreign subsidiary, etc. related to the domestic corporation; excluding the shares, etc. for considering the claims indirectly held via said affiliated foreign company and said other specified foreign subsidiary, etc.)

(iii) Where an event listed in Article 66-8, paragraph (1), item (iii) of the Act has occurred with regard to an affiliated foreign company related to a

domestic corporation prescribed in said paragraph: The amount specified in said item (where said amount has been received from an affiliated foreign company that falls under the category of any other specified foreign subsidiary, etc., the remaining amount after deducting from said amount, the amount equivalent to the sum of the amount to be deducted for calculating the amount of eligible retained income, taxable retained income or individually taxable retained income pertaining to said other specified foreign subsidiary, etc. and the amount to be included in deductible expenses due to said event, under the provisions of said paragraph or Article 68-92, paragraph (1) of the Act), with the taxed amount of a dividend, etc. before deduction as the upper limit.

(3) With respect to the application of the provisions of item (i) of the preceding paragraph, in the case where payment has been made for two or more dividends of surplus, etc. whose base dates for the payment are included in the base business year, with regard to a specified foreign subsidiary, etc. related to a domestic corporation prescribed in Article 66-8, paragraph (1) of the Act (where payment was made for said two or more dividends of surplus, etc. on a day within a business year or consolidated business year preceding the applicable business year pertaining to the base business year for said dividend of surplus, etc. (hereinafter such paid dividend of surplus, etc. shall be referred to as a "specified dividend of surplus, etc." in this paragraph), excluding said two or more dividends of surplus) (including the cases where payment has been made for a specified dividend of surplus, etc. and payment has not been made for a dividend of surplus, etc. whose base date for payment is included in said base business year, up to the day on which six months have elapsed after the final day of the base business year for said specified dividend of surplus, etc.); the amount specified in item (i) of the preceding paragraph shall be the amount obtained by multiplying the excess amount when the amount listed in item (i) exceeds the amount listed in item (ii) by the ratio prescribed in item (i) of said paragraph and then deducting therefrom the amounts listed in item (iii) and item (iv):

(i) The sum of a dividend of surplus, etc. (limited to that whose base date for payment is included in said base business year) that said specified foreign subsidiary, etc. has paid, up to the final day of the business year of the domestic corporation including the day on which an event listed in Article 66-8, paragraph (1), item (i) of the Act occurred (where no dividend of surplus, etc. other than a specified dividend of surplus, etc. was paid, up to the final day of the business year including the day on which six months have elapsed after the final day of the base business year for said specified dividend of surplus, etc.)

(ii) The sum of the amounts to be deducted for calculating the amount of

- eligible retained income for said base business year of said specified foreign subsidiary, etc., with regard to the sum of the dividends of surplus, etc. set forth in the preceding item
- (iii) The sum of the amounts to be deducted for calculating the amount of taxable retained income for said base business year of said specified foreign subsidiary, etc., with regard to the sum of the dividends of surplus, etc. set forth in item (i)
- (iv) The sum of the amounts included in deductible expenses, pursuant to the provisions of said paragraph or Article 68-92, paragraph (1) of the Act, in a business year or consolidated business year preceding the business year of said domestic corporation that includes the day on which an event listed in Article 66-8, paragraph (1), item (i) of the Act occurred, with regard to the sum of the dividends of surplus, etc. set forth in item (i).
- (4) In the case where a domestic corporation prescribed in Article 66-8, paragraph (1) of the Act holds the taxed amount of retained income prescribed in said paragraph that pertains to a specified foreign subsidiary, etc. related to said domestic corporation, and the taxed amount of retained income prescribed in Article 66-9-8, paragraph (1) of the Act that pertains to a specified foreign corporation prescribed in Article 66-9-6, paragraph (1) of the Act (limited to a foreign corporation that is the same as said specified foreign subsidiary, etc.) related to said domestic corporation, the amount calculated as specified by Cabinet Order prescribed in Article 66-8, paragraph (1) of the Act shall not exceed the amount calculated pursuant to the provisions of the preceding two paragraphs based on the remaining amount after deducting the amount to be included in deductible expenses pursuant to the provisions of Article 66-9-8, paragraph (1) of the Act from the amount specified in the items of Article 66-8, paragraph (1) of the Act.
- (5) With respect to the application of the provisions of Article 66-8, paragraph (1) of the Act in or after the business year including the day of a qualified merger prescribed in paragraph (3) of said Article (referred to as a "qualified merger, etc." in the following paragraph) of a domestic corporation set forth in said paragraph, in the case where the provisions of said paragraph apply, the taxed amount of retained income specified in the items of said paragraph (meaning the taxed amount of retained income prescribed in paragraph (1) of said Article; hereinafter the same shall apply in this Article) or the individually taxed amount of retained income (meaning the individually taxed amount of retained income prescribed in Article 68-92, paragraph (1) of the Act; hereinafter the same shall apply in this Article) shall be deemed to be the taxed amount of retained income for a business year of said domestic corporation specified respectively in the following items for the category of business years or consolidated business years listed in the relevant items of a

merged corporation, split corporation, corporation making a capital contribution in kind, or corporation effecting a post-formation acquisition of assets and/or liabilities (referred to as a "merged corporation, etc." in the following paragraph):

- (i) A business year within ten years prior to the merger prescribed in Article 66-8, paragraph (3), item (i) of the Act (hereinafter referred to as a "business year within ten years prior to the merger" in this paragraph and the following paragraph) of a merged corporation pertaining to a qualified merger or a business year within ten years prior to the company split prescribed in paragraph (3), item (ii) of said Article (hereinafter referred to as a "business year within ten years prior to the company split" through to paragraph (7)) of a split corporation pertaining to a qualified split-off-type company split (excluding a business year within ten years prior to the merger or business year within ten years prior to the company split listed in the following item): The relevant business year of said domestic corporation including the first day of a business year within ten years prior to the merger of said merged corporation or the relevant business year of said domestic corporation including the first day of a business year within ten years prior to the company split of said split corporation
- (ii) A business year within ten years prior to the merger of a merged corporation pertaining to a qualified merger that started on or after the first day of the business year including the day of said qualified merger of the domestic corporation (hereinafter referred to as the "business year of the merger" in this item) or a business year within ten years prior to the company split of a split corporation pertaining to a qualified split-off type company split that started on or after the first day of the business year including the day of said qualified split-off type company split of the domestic corporation (hereinafter referred to as the "business year of the split succession" in this item): The business year including the day preceding the first day of the business year of the merger or business year of the split succession of said domestic corporation
- (iii) A business year within ten years prior to the company split, etc. prescribed in Article 66-8, paragraph (3), item (iii) of the Act (hereinafter referred to as a "business year within ten years prior to the company split, etc." in this Article) of a split corporation, etc. (meaning a split corporation, corporation making a capital contribution in kind, or corporation effecting a post-formation acquisition of assets and/or liabilities; hereinafter the same shall apply in this paragraph and paragraph (8)) pertaining to a qualified spin-off-type company split, etc. (meaning a qualified spin-off-type company split, etc. prescribed in Article 66-8, paragraph (3), item (iii) of the Act; hereinafter the same shall apply in this paragraph and paragraph (8)) (excluding a business

- year within ten years prior to the company split when falling under the case listed in the following item and a business year within ten years prior to the company split, etc. listed in item (v)): The relevant business year of said domestic corporation including the first day of a business year within ten years prior to the company split, etc. of said split corporation, etc.
- (iv) A business year of a split corporation, etc. pertaining to a qualified spin-off-type company split, etc. that includes the day of said qualified spin-off-type company split, etc. or a business year within ten years prior to the company split, etc. of the split corporation, etc. where the first day of the consolidated business year is before the first day of the business year of said domestic corporation that includes the day of said qualified spin-off-type company split, etc.: The relevant business year of said domestic corporation including the final day of a business year within ten years prior to the company split, etc. of said split corporation, etc.
- (v) A business year within ten years prior to the company split, etc. of a split corporation, etc. pertaining to a qualified spin-off-type company split, etc. that started on or after the first day of a business year of said domestic corporation including the day of said qualified spin-off-type company split, etc. (hereinafter referred to as the "business year of the split succession, etc." in this item): The relevant business year of said domestic corporation including the day preceding the first day of the business year of the split succession, etc.
- (6) In the case where the first day of the oldest business year or consolidated business year out of the relevant business years or consolidated business years that started within ten years prior to the first day of the business year including the day of a qualified merger, etc. of a domestic corporation set forth in Article 66-8, paragraph (3) of the Act (hereinafter referred to as the "first day of the business year of the domestic corporation ten years before" in this paragraph) falls after the first day of the oldest business year or consolidated business year out of a business year within ten years prior to the merger, business year within ten years prior to the company split or business year within ten years prior to the company split, etc. of a merged corporations, etc. pertaining to said qualified merger, etc. (hereinafter referred to as a "business year of the merged corporations, etc. within the preceding ten years" in this paragraph) (in the case of a qualified merger, etc. made among two or more merged corporations, etc., after the first day of the relevant business year or consolidated business year of the merged corporations, etc. whichever started the earliest; hereinafter referred to as the "first day of the business year of the merged corporations, etc. ten years before" in this paragraph), the provisions of the preceding paragraph shall apply by deeming the respective periods classifying the period between said first day of the business year of the merged

corporations, etc. ten years before and the day preceding said first day of the business year of the domestic corporation ten years before (in the case where said domestic corporation is to be established through said qualified merger, etc., the day preceding the first day of the business year of the domestic corporation including the day of the qualified merger, etc.; hereinafter the same shall apply in this paragraph) by the corresponding business year of the merged corporations, etc. within the preceding ten years pertaining to said first day of the business year of the merged corporations, etc. ten years before (for the period including said preceding day, the period between the first day of the business year or consolidated business year of said merged corporation, etc. including said preceding day and the day preceding said first day of the business year of the domestic corporation ten years before) to be the relevant business year of said domestic corporation.

- (7) The amount calculated as specified by Cabinet Order prescribed in Article 66-8, paragraph (3), item (ii) of the Act shall be the amount specified respectively in the following items for the category of the taxed amount of retained income or individually taxed amount of retained income listed in the relevant items:
- (i) The taxed amount of retained income: The amount obtained by multiplying respectively the taxed amount of retained income for a business year within ten years prior to the company split of a split corporation pertaining to a qualified split-off-type company split the ratio of the shares, etc. for considering the claims held prescribed in Article 39-16, paragraph (3), item (i) (hereinafter referred to as the "shares, etc. for considering the claims held" in this Article) that are listed in (b) out of the shares, etc. for considering the claims held that are listed in (a):
 - (a) Said specified foreign subsidiary, etc.'s shares, etc. for considering the claims held which the split corporation held immediately prior to said qualified split-off-type company split
 - (b) Said specified foreign subsidiary, etc.'s shares, etc. for considering the claims held which are to be transferred from the split corporation to a domestic corporation as set forth in Article 66-8, paragraph (3) of the Act through said qualified split-off-type company split
 - (ii) The individually taxed amount of retained income: The amount obtained by multiplying respectively the individually taxed amount of retained income for a business year within ten years prior to the company split of a split corporation pertaining to a qualified split-off-type company split by the ratio of the shares, etc. for considering the claims held that are listed in (b) out of the shares, etc. for considering the claims held that are listed in (a):
 - (a) Said specified foreign subsidiary, etc.'s shares, etc. for considering the claims held which the split corporation held immediately prior to said qualified split-off-type company split

- (b) Said specified foreign subsidiary, etc.'s shares, etc. for considering the claims held which are to be transferred from the split corporation to a domestic corporation set forth in Article 66-8, paragraph (3) of the Act through said qualified split-off-type company split.
- (8) The amount calculated as specified by Cabinet Order prescribed in Article 66-8, paragraph (3), item (iii) of the Act shall be the amount specified respectively in the following items for the category of the taxed amount of retained income or individually taxed amount of retained income listed in the relevant items:
 - (i) The taxed amount of retained income: The amount obtained by multiplying respectively the taxed amount of retained income for a business year within ten years prior to the company split, etc. of a split corporation, etc. pertaining to a qualified spin-off-type company split, etc. by the ratio of the shares, etc. for considering the claims held that are listed in (b) out of the shares, etc. for considering the claims held that are listed in (a):
 - (a) Said specified foreign subsidiary, etc.'s shares, etc. for considering the claims held which the split corporation, etc. held immediately prior to said qualified spin-off-type company split, etc.
 - (b) Said specified foreign subsidiary, etc.'s shares, etc. for considering the claims held which are to be transferred from the split corporation, etc. to a domestic corporation set forth in Article 66-8, paragraph (3) of the Act through said qualified spin-off-type company split
 - (ii) The individually taxed amount of retained income: The amount obtained by multiplying respectively the individually taxed amount of retained income for a business year within ten years prior to the company split, etc. of a split corporation, etc. pertaining to a qualified spin-off-type company split, etc. by the ratio of the shares, etc. for considering the claims held that are listed in (b) out of the shares, etc. for considering the claims held that are listed in (a):
 - (a) Said specified foreign subsidiary, etc.'s shares, etc. for considering the claims held which the split corporation, etc. held immediately prior to said qualified spin-off-type company split, etc.
 - (b) Said specified foreign subsidiary, etc.'s shares, etc. for considering the claims held which are to be transferred from the split corporation, etc. to a domestic corporation set forth in Article 66-8, paragraph (3) of the Act through said qualified spin-off-type company split.
- (9) The amount included in deductible expenses pursuant to the provisions of Article 66-8, paragraph (1) of the Act shall be included in the amount of income prescribed in Article 9, paragraph (1), item (i), (a) of the Order for Enforcement of the Corporation Tax Act for calculating the amount of revenue reserves of a domestic corporation subject to the provisions of Article 66-8, paragraph (1) of the Act.

(Determination, etc. of Affiliated Foreign Companies)

Article 39-20 (1) In the case referred to in Article 66-6, paragraph (1) of the Act, whether or not a foreign corporation falls under the category of an affiliated foreign company shall be determined according to its status at the end of the relevant business year of said foreign corporation and whether or not a domestic corporation falls under the category of a corporation listed in the items of said paragraph shall be determined according to its status at the end of the relevant business year of an affiliated foreign company related to such corporation.

(2) Where a domestic corporation listed in the items of Article 66-6, paragraph (1) of the Act has been dissolved through a merger by the day on which two months have elapsed after the final day of the relevant business year of an affiliated foreign company related to said domestic corporation, the number of the shares, etc. of said affiliated foreign company prescribed in paragraph (2), item (iii) of said Article which were directly and indirectly held by the domestic corporation (hereinafter referred to as the "number of the shares, etc. directly and indirectly held" in this paragraph) and which have been succeeded to by the merging corporation pertaining to the merger shall be deemed to be the number of the shares, etc. directly and indirectly held by the merging corporation on the final day of the relevant business year of said affiliated foreign company.

(3) The amount included in the gross profits of a domestic corporation subject to the provisions of Article 66-6, paragraph (1) of the Act, pursuant to the provisions of said paragraph, shall not be included in the amount of income, etc. prescribed in the provisions of Article 67, paragraph (3) and paragraph (5) of the Corporation Tax Act for applying these provisions.

(4) The amount included in the gross profits pursuant to the provisions of Article 66-6, paragraph (1) of the Act shall not be included in the amount of income prescribed in Article 9, paragraph (1), item (i), (a) of the Order for Enforcement of the Corporation Tax Act for calculating the amount of revenue reserves of a domestic corporation subject to the provisions of Article 66-6, paragraph (1) of the Act.

Section 8-5 Special Provisions on Taxation on Income of the Specified Foreign Corporations of a Domestic Corporation That Is a Specially-Related Shareholder, etc.

(Scope, etc. of Specially-Related Shareholders, etc.)

Article 39-20-8 (1) An individual who has a special relationship specified by Cabinet Order prescribed in Article 66-9-6, paragraph (1) of the Act to a person

who falls under the category of a specified shareholder, etc. shall be any of the following:

- (i) An individual who has a special relationship prescribed in Article 4, paragraph (1) of the Order for Enforcement of the Corporation Tax Act to a person who falls under the category of a specified shareholder, etc. (meaning a specified shareholder, etc. prescribed in Article 66-9-6, paragraph (2), item (i) of the Act; hereinafter the same shall apply in this paragraph and the following paragraph)
 - (ii) An officer (meaning an officer prescribed in Article 2, item (xv) of the Corporation Tax Act; hereinafter the same shall apply in this Section) of a corporation that falls under the category of a specified shareholder, etc. and a person listed in the items of Article 72-3 of the Order for Enforcement of the Corporation Tax Act with a relationship to said officer (referred to as a "specially-related person" in the following item)
 - (iii) An officer of a specially-related domestic corporation (meaning a specially-related domestic corporation prescribed in Article 66-9-6, paragraph (2), item (ii) of the Act; hereinafter the same shall apply in this Section) and a specially-related person of said officer.
- (2) A corporation which has a special relationship specified by Cabinet Order prescribed in Article 66-9-6, paragraph (1) of the Act to a person who falls under the category of a specified shareholder, etc. shall be any of the following:
- (i) Where a specified shareholder, etc. (including an individual who has a special relationship to said specified shareholder, etc. as prescribed in item (i) or item (ii) of the preceding paragraph) or an individual who has a special relationship to a specially-related domestic corporation as prescribed in item (iii) of said paragraph (hereinafter referred to as a "person determined to be a shareholder, etc." in this paragraph) controls any other corporation, said other corporation
 - (ii) Where a person determined to be a shareholders, etc. and a corporation which has a special relationship thereto as prescribed in the preceding item control any other corporation, said other corporation
 - (iii) Where a person determined to be a shareholders, etc. and a corporation which has a special relationship thereto as prescribed in the preceding two items control any other corporation, said other corporation.
- (3) The provisions of Article 4, paragraph (3) and paragraph (4) of the Order for Enforcement of the Corporation Tax Act shall apply mutatis mutandis where the provisions of the preceding paragraph shall apply.
- (4) The relationship specified by Cabinet Order prescribed in Article 66-9-6, paragraph (1) of the Act shall be the relevant relationship in the case where a specially-related shareholder, etc. prescribed in said paragraph (hereinafter referred to as a "specially-related shareholder, etc." in this Section) and a

specially-related domestic corporation have a relationship where the ratio of the shares, etc. indirectly held by the specially-related shareholder, etc. pertaining to the specially-related domestic corporation (meaning the ratio specified respectively in the following items for the category of cases listed in the relevant items (where this falls under both of the following cases, the sum of the ratios specified respectively as follows)) is 80 percent or more:

- (i) Where out of the total number or total amount of shares or capital contributions issued by a foreign corporation (excluding that falling under the category of a specially-related shareholder, etc.; hereinafter the same shall apply in this item) which is a shareholder, etc. (meaning a shareholder, etc. prescribed in Article 2, item (xiv) of the Corporation Tax Act; hereinafter the same shall apply in this Section) of a specially-related domestic corporation (such issued shares or capital contributions shall exclude shares that said foreign corporation holds in itself and the total number or total amount of such issued shares or capital contributions shall be referred to as the "issued shares, etc." in this Section), a specially-related shareholder, etc. holds 80 percent or more of the number or the amount of such shares, etc. (meaning shares or capital contributions; hereinafter the same shall apply in this Section): The ratio of the number or the amount of the shares, etc. of the specially-related domestic corporation held by said foreign corporation which is a shareholder, etc. out of the total issued shares, etc. of said specially-related domestic corporation (where there are two or more such foreign corporations which are shareholders, etc., the sum of the ratios calculated for each of them)
- (ii) Where a single corporation or two or more corporations are interposed between a corporation which is a shareholder, etc. of a specially-related domestic corporation (excluding a foreign corporation which is a shareholder, etc. set forth in the preceding item falling under the case listed in said item and a corporation falling under the category of a specially-related shareholder, etc.) and a specially-related shareholder, etc. and have a link with them through holding the shares, etc. (where said corporation which is a shareholder, etc. is a domestic corporation and said interposed corporations is a (are all) domestic corporations, excluding said domestic corporations and a corporation falling under the category of a specially-related shareholder, etc.; hereinafter referred to as "corporations related through capital contribution" in this item) (limited to the case where 80 percent or more of the number or the amount of the issued shares, etc. of both the corporations related through capital contribution and the corporation which is a shareholder, etc. are held by a specially-related shareholder, etc. or corporations related through capital contribution (such specially-related shareholder, etc. or foreign corporations related through capital contribution

shall be limited to those 80 percent or more of the number or the amount of whose issued shares, etc. are held by a specially-related shareholder, etc. or other corporations related through capital contribution)): The ratio of the number or the amount of the shares, etc. of a specially-related domestic corporation held by said corporation which is a shareholder, etc. out of the total issued shares, etc. of said specially-related domestic corporation (where there are two or more such corporations which are shareholders, etc., the sum of the ratios calculated for each of them).

- (5) A foreign corporation specified by Cabinet Order prescribed in Article 66-9-6, paragraph (1) of the Act shall be any of the following:
- (i) A foreign corporation falling under the category of a foreign corporation which is a shareholder, etc. prescribed in item (i) of the preceding paragraph, where the ratio of the shares, etc. held indirectly as prescribed in the preceding paragraph is 80 percent or more
 - (ii) A foreign corporation falling under the category of a foreign corporation which is a shareholder, etc. prescribed in item (ii) of the preceding paragraph and a foreign corporation falling under the category of a corporation related through capital contribution prescribed in said item, where the ratio of the shares, etc. held indirectly as prescribed in the preceding paragraph is 80 percent or more
 - (iii) A foreign corporation, over 50 percent of the number or the amount of whose issued shares, etc. are held directly or indirectly by a foreign corporation listed in the preceding two items (excluding a foreign corporation falling under the category of a foreign corporation listed in the preceding two items and a foreign corporation falling under the category of a specially-related shareholder, etc.).
- (6) In item (iii) of the preceding paragraph, whether or not a foreign corporation directly or indirectly holds over 50 percent of the issued shares, etc. shall be determined based on the sum of the ratio of the shares, etc. held directly by a first foreign corporation listed in item (i) and item (ii) of said paragraph pertaining to a second foreign corporation (excluding a foreign corporation falling under the category of a foreign corporation listed in item (i) or item (ii) of said paragraph and a foreign corporation falling under the category of a specially-related shareholder, etc.; hereinafter the same shall apply in this paragraph) (such ratio of the shares, etc. held directly shall mean the ratio of the number or the amount of the shares, etc. of the second foreign corporation held by the first foreign corporation listed in item (i) and item (ii) of the preceding paragraph out of the total issued shares, etc. of said second foreign corporation) and the ratio of the shares, etc. held indirectly by the first foreign corporation listed in item (i) and item (ii) of said paragraph pertaining to said second foreign corporation (such ratio of the shares, etc. held indirectly shall

mean the ratio specified respectively in the following items for the category of cases listed in the relevant items (where this falls under both of the following cases, the sum of the ratios specified respectively as follows)):

- (i) Where a first foreign corporation listed in item (i) and item (ii) of the preceding paragraph holds over 50 percent of the number or the amount of the issued shares, etc. of a foreign corporation which is the shareholder, etc. of a second foreign corporation: The ratio of the number or the amount of the shares, etc. of said second foreign corporation held by said foreign corporation which is its shareholder, etc. out of the total issued shares, etc. of said second foreign corporation (where there are two or more such foreign corporations which are shareholders, etc., the sum of the ratios calculated for each of them)
 - (ii) Where a single foreign corporation or two or more foreign corporations are interposed between a single foreign corporation which is a shareholder, etc. of a second foreign corporation (excluding a foreign corporation which is a shareholder, etc. set forth in the preceding item falling under the case listed in said item) and a foreign corporation listed in item (i) and item (ii) of the preceding paragraph and have a link with them through holding the shares, etc. (hereinafter referred to as a "foreign corporations related through capital contribution" in this item) (limited to the case where over 50 percent of the number or the amount of the issued shares, etc. in both the foreign corporation related through capital contribution and in the foreign corporation which is the shareholder, etc. are held by the first foreign corporation listed in item (i) and item (ii) of said paragraph or by a foreign corporation related through capital contribution (such first foreign corporation or foreign corporation related through capital contribution shall be limited to those for which over 50 percent of the number or the amount of the issued shares, etc. are held by a foreign corporation listed in item (i) and item (ii) of said paragraph or any other corporations related through capital contribution)): The ratio of the number or the amount of the shares, etc. of said second foreign corporation held by said foreign corporation which is a shareholder, etc. out of the total issued shares, etc. of said second foreign corporation (where there are two or more such foreign corporations which are shareholders, etc., the sum of the ratios calculated for each of them).
- (7) An affiliated foreign corporation specified by Cabinet Order prescribed in Article 66-9-6, paragraph (1) of the Act shall be any of the following:
- (i) An affiliated foreign corporation (meaning an affiliated foreign corporation prescribed in Article 66-9-6, paragraph (1) of the Act; hereinafter the same shall apply in this Section) which has its head office or principal office in a state or territory where there are no taxes imposed on corporate income
 - (ii) An affiliated foreign corporation whose tax imposed on its income for the

- relevant business year is 25 percent or less of said income.
- (8) The provisions of Article 39-14, paragraph (2) shall apply mutatis mutandis to the determination as to whether or not an affiliated foreign corporation falls under the category of an affiliated foreign corporation set forth in item (ii) of the preceding paragraph.
- (9) An individual who has a special relationship to a shareholder, etc. specified by Cabinet Order prescribed in Article 66-9-6, paragraph (2), item (i) of the Act shall be an individual who has a special relationship prescribed in Article 4, paragraph (1) of the Order for Enforcement of the Corporation Tax Act to a shareholder, etc. of a domestic corporation.
- (10) A corporation which has a special relationship to a shareholder, etc. specified by Cabinet Order prescribed in Article 66-9-6, paragraph (2), item (i) of the Act shall be any of the following:
- (i) Where one of the shareholders, etc. of a domestic corporation (where said domestic corporation holds shares, etc. in itself, excluding said domestic corporation; hereinafter referred to as a "person determined to be a shareholder, etc." in this paragraph) (regarding a person determined to be a shareholder, etc. who is an individual, said person determined to be a shareholder, etc. and an individual who has a special relationship thereto as prescribed in the preceding paragraph; hereinafter the same shall apply in this paragraph) controls any other corporation, said other corporation
 - (ii) Where one of the persons determined to be a shareholder, etc. and a corporation which has a special relationship thereto as prescribed in the preceding item govern any other corporation, said other corporation
 - (iii) Where one of the persons determined to be a shareholder, etc. and a corporation which has a special relationship thereto as prescribed in the preceding two items control any other corporation, said other corporation.
- (11) The provisions of Article 4, paragraph (3) and paragraph (4) of the Order for Enforcement of the Corporation Tax Act shall apply mutatis mutandis where the provisions of the preceding paragraph shall apply.
- (12) A domestic corporation specified by Cabinet Order prescribed in Article 66-9-6, paragraph (2), item (ii) of the Act shall be a domestic corporation which has received the transfer of almost all the assets and liabilities of a specified domestic corporation prescribed in said item immediately prior to a merger, split, transfer of business or for other reasons (hereinafter referred to as "specified reasons" in this paragraph) due to said specified reasons.

(Calculation of Undistributed Income of Specified Foreign Corporations)

- Article 39-20-9 (1) The amount of undistributed income calculated in accordance with the standards specified by Cabinet Order prescribed in Article 66-9-6, paragraph (2), item (iii) of the Act shall be the amount calculated, pursuant to

the provisions of Article 39-15, paragraph (1) or paragraph (2), or paragraph (3) of said Article, with regard to the income of a specified foreign corporation prescribed in Article 66-9-6, paragraph (1) of the Act (hereinafter referred to as a "specified foreign corporation" in this Article and paragraph (1) and paragraph (2) of the following Article) in its settlement of accounts for the relevant business year.

- (2) The amount obtained as a result of an adjustment for the amount of a loss prescribed in Article 66-9-6, paragraph (2), item (iii) of the Act shall be the amount obtained by calculating the amount of income, pursuant to the provisions of the preceding paragraph, with regard to the income of a specified foreign corporation in its settlement of accounts for the relevant business year (hereinafter referred to as the "amount of adjusted income" in this paragraph) and then deducting therefrom the amount equivalent to the sum of the loss incurred in business years that commenced within seven years preceding the first day of the relevant business year (excluding a business year that commenced before October 1, 2007 and a business year during which the corporation did not fall under the category of a specified foreign corporation (including a specified foreign corporation prescribed in Article 40-10, paragraph (1) or Article 68-93-6, paragraph (1) of the Act)) (such loss shall exclude the amount deducted in business years preceding said relevant business year pursuant to the provisions of this paragraph or Article 39-120-9, paragraph (2)) (where said sum of the loss exceeds the amount of adjusted income for the relevant business year, said amount of adjusted income).
- (3) A loss prescribed in the preceding paragraph shall be a loss calculated with regard to the amount of income of a specified foreign corporation in its settlement of accounts for the relevant business year, where the calculation has been made pursuant to the provisions of paragraph (1).
- (4) The provisions of Article 39-15, paragraph (7) and paragraph (8) shall apply mutatis mutandis where the amount of income of a specified foreign corporation in its settlement of accounts for the relevant business year is calculated pursuant to the provisions of paragraph (1) or paragraph (2) of said Article.

(Calculation, etc. of the Amount of Taxable Retained Income of Specified Foreign Corporations)

- Article 39-20-10 (1) The amount obtained as a result of an adjustment to the amount of undistributed income set forth in Article 66-9-6, paragraph (1) of the Act for the amount of taxes and a dividend of surplus, etc. on said undistributed income shall be the amount calculated with regard to the amount of undistributed income prescribed in Article 66-9-6, paragraph (2), item (iii) of the Act for the relevant business year of a specified foreign

- corporation, pursuant to the provisions of Article 39-16, paragraph (1).
- (2) The amount calculated as specified by Cabinet Order prescribed in Article 66-9-6, paragraph (1) of the Act shall be the amount calculated with regard to the eligible retained income (meaning the eligible retained income prescribed in said paragraph; hereinafter the same shall apply in this Section) for the relevant business year of a specified foreign corporation related to a domestic corporation which is a specially-related shareholder, etc., pursuant to the provisions of Article 39-16, paragraphs (2) to (4).
- (3) The provisions of Article 39-16, paragraph (5) shall apply mutatis mutandis to the number of shares or the amount of capital contributions of a foreign corporation specified by Cabinet Order as being held indirectly as prescribed in Article 66-9-6, paragraph (2), item (iv) of the Act. In this case, in Article 39-16, paragraph (5), item (i), the term "an individual" shall be deemed to be replaced with "a resident (meaning a resident prescribed in Article 2, paragraph (1), item (i)-2 of the Act; hereinafter the same shall apply in this paragraph);" the term "said individual" shall be deemed to be replaced with "said resident;" and in item (ii) of said paragraph, the term "an individual" shall be deemed to be replaced with "a resident;" and the term "said individual" shall be deemed to be replaced with "said resident."
- (4) The amount of expenses specified by Cabinet Order set forth in Article 66-9-6, paragraph (1) of the Act which is applied by replacing the terms pursuant to the provisions of paragraph (3) of said Article shall be the amount calculated with regard to the sum of personnel expenses for officers and employees of a specified foreign corporation engaged in the business of said specified foreign corporation prescribed in paragraph (3) of said Article, pursuant to the provisions of Article 39-16, paragraph (10).

(Determination, etc. of Business of Specified Foreign Corporations)

- Article 39-20-11 (1) The person specified by Cabinet Order prescribed in Article 66-9-6, paragraph (4), item (i) of the Act shall be any of the following:
- (i) Other consolidated corporations which have the consolidated full controlling interest with a consolidated corporation falling under the category of a specially-related shareholder, etc. which pertains to a specified foreign corporation prescribed in Article 66-9-6, paragraph (4), item (i) of the Act (hereinafter referred to as a "specified foreign corporation" in this paragraph) that is mainly engaged in business listed in item (i) of said paragraph (such other consolidated corporations shall exclude those falling under the category of specially-related shareholders, etc. pertaining to said specified foreign corporation)
- (ii) A person who holds over 50 percent of the number or the amount of the total issued shares, etc. of a corporation falling under the category of a

- specialty-related shareholder, etc. pertaining to a specified foreign corporation that is mainly engaged in business listed in Article 66-9-6, paragraph (4), item (i) of the Act (excluding a person falling under the category of a specialty-related shareholder, etc. pertaining to said specified foreign corporation and a person falling under the category of persons listed in the preceding item)
- (iii) A person who holds over 50 percent of the number or the amount of the total issued shares, etc. of a consolidated corporation falling under the category of a specialty-related shareholder, etc. (where said consolidated corporation is a consolidated subsidiary corporation, a consolidated parent corporation related to said consolidated corporation) which pertains to a specified foreign corporation that is mainly engaged in business listed in Article 66-9-6, paragraph (4), item (i) of the Act (excluding a person falling under the category of a specialty-related shareholder, etc. pertaining to said specified foreign corporation and a person falling under the category of persons listed in the preceding two items)
 - (iv) An affiliated foreign corporation related to a specialty-related shareholder, etc. pertaining to a specified foreign corporation that is mainly engaged in business listed in Article 66-9-6, paragraph (4), item (i) of the Act
 - (v) A corporation which is a shareholder, etc. prescribed in Article 39-20-8, paragraph (4), item (ii) or corporations related through capital contribution which intervene between a specialty-related domestic corporation and a specialty-related shareholder, etc. pertaining to a specified foreign corporation that is mainly engaged in business listed in Article 66-9-6, paragraph (4), item (i) of the Act (excluding a person falling under the category of persons listed in item (i) or the preceding item)
 - (vi) A person who has a special relationship specified by Cabinet Order prescribed in Article 66-9-6, paragraph (1) of the Act to the persons listed as follows (excluding a person who falls under the category of the specialty-related domestic corporation of a specified foreign corporation that is mainly engaged in business listed in Article 66-9-6, paragraph (4), item (i) of the Act, a person who falls under the category of a specialty-related shareholder, etc. and a person who falls under the category of persons listed in the preceding items):
 - (a) A specified foreign corporation that is mainly engaged in business listed in Article 66-9-6, paragraph (4), item (i) of the Act
 - (b) A specialty-related domestic corporation pertaining to a specified foreign corporation that is mainly engaged in business listed in Article 66-9-6, paragraph (4), item (i) of the Act
 - (c) An individual or corporation falling under the category of a specialty-related shareholder, etc. pertaining to a specified foreign corporation that

is mainly engaged in business listed in Article 66-9-6, paragraph (4), item (i) of the Act

(d) Those listed in the preceding items

- (2) The provisions of Article 39-17, paragraph (2) and paragraph (3) shall apply mutatis mutandis to the case specified by Cabinet Order prescribed in Article 66-9-6, paragraph (4), item (i) of the Act. In this case, the term "those listed in the items of Article 40-4, paragraph (1), items of Article 66-6, paragraph (1), items of Article 68-90, paragraph (1) of the Act and the items of the preceding paragraph" in Article 39-17, paragraph (2), item (i) shall be deemed to be replaced with "a specially-related domestic corporation prescribed in Article 66-9-6, paragraph (2), item (ii) of the Act, specially-related shareholder, etc. prescribed in paragraph (1) of said Article and those listed in the items of Article 39-20-11, paragraph (1)."
- (3) The provisions of Article 39-17, paragraph (5) shall apply mutatis mutandis to the case specified by Cabinet Order prescribed in Article 66-9-6, paragraph (4), item (ii) of the Act.

(Calculation, etc. of Foreign Corporation Tax on Taxable Retained Income of Specified Foreign Corporations)

- Article 39-20-12 (1) The amount calculated as specified by Cabinet Order prescribed in Article 66-9-7, paragraph (1) of the Act shall be the amount calculated, pursuant to the provisions of Article 39-18, paragraph (1), with regard to the amount of foreign corporation tax (meaning foreign corporation tax prescribed in Article 69, paragraph (1) of the Corporation Tax Act; the same shall apply in paragraph (3)) to be imposed on a specified foreign corporation prescribed in Article 66-9-7, paragraph (1) of the Act (referred to as a "specified foreign corporation" in paragraph (3)) on its income for a business year containing eligible retained income.
- (2) In the case where the provisions of Article 69, paragraphs (1) to (7), paragraph (10) and paragraphs (15) to (18) of the Corporation Tax Act are applied by deeming the calculated amount to be the amount of creditable foreign corporation tax prescribed in paragraph (1) of said Article payable by a domestic corporation that is a specially-related shareholder, etc. pursuant to the provisions of Article 66-9-7, paragraph (1) of the Act, the matters concerning the application of these provisions shall be as prescribed in the provisions of Article 39-18, paragraphs (2) to (10) and paragraphs (12) to (17).
- (3) The business year specified by Cabinet Order prescribed in Article 66-9-7, paragraph (3) of the Act shall be the business year specified respectively in the items of Article 39-18, paragraph (3), in accordance with the category of the amount of foreign corporation tax imposed on the income of a specified foreign corporation.

(Calculation of Taxed Amount of Dividend, etc. of Specified Foreign Corporations)

- Article 39-20-13 (1) The affiliated foreign corporation prescribed in Article 66-9-8, paragraph (1) of the Act which is specified by Cabinet Order shall be one of the affiliated foreign corporations which holds the taxed amount of a dividend, etc. before deduction pertaining to a specified foreign corporation prescribed in Article 66-9-8, paragraph (1) of the Act (hereinafter referred to as a "specified foreign corporation" through to paragraph (3)) (such taxed amount of a dividend, etc. before deduction shall mean the taxed amount of a dividend, etc. before deduction prescribed in Article 39-16, paragraph (3), item (iii), when calculating the amount of eligible retained income for the relevant business year of a specified foreign corporation as prescribed in Article 39-16, paragraphs (2) to (4), pursuant to the provisions of Article 39-20-10, paragraph (2)).
- (2) The amount calculated as specified by Cabinet Order prescribed in Article 66-9-8, paragraph (1) of the Act shall be the amount obtained by calculating the amount specified in the items of said paragraph, where an event listed in the items of said paragraph has occurred, with regard to a specified foreign corporation related to a domestic corporation which is a specially-related shareholder, etc. or an affiliated foreign corporation related to said domestic corporation as prescribed in said paragraph, pursuant to the provisions of Article 39-19, paragraph (2) and paragraph (3).
- (3) In the case where a domestic corporation, which is a specially-related shareholder, etc. prescribed in Article 66-9-8, paragraph (1) of the Act, holds the taxed amount of retained income prescribed in said paragraph that pertains to a specified foreign corporation related to said domestic corporation and the taxed amount of retained income prescribed in Article 66-8, paragraph (1) of the Act that pertains to a specified foreign subsidiary, etc. prescribed in Article 66-6, paragraph (1) of the Act (limited to a foreign corporation that is the same as said specified foreign corporation) related to said domestic corporation, the amount calculated as specified by Cabinet Order prescribed in Article 66-9-8, paragraph (1) of the Act shall not exceed the amount calculated pursuant to the provisions of the preceding paragraph based on the remaining amount after deducting the amount to be included in deductible expenses pursuant to the provisions of Article 66-8, paragraph (1) of the Act from the amount specified in the items of Article 66-9-8, paragraph (1) of the Act.
- (4) The matters concerning the application of the provisions of Article 66-8, paragraphs (3) to (6) of the Act which are applied mutatis mutandis pursuant to Article 66-9-8, paragraph (3) of the Act shall be as prescribed in the provisions of Article 39-19, paragraphs (5) to (8).

(5) The provisions of Article 39-19, paragraph (9) shall apply mutatis mutandis to the calculation of the amount of revenue reserves of a domestic corporation which is a specially-related shareholder, etc. subject to the provisions of Article 66-9-8, paragraph (1) of the Act.

(Determination, etc. of Specified Relationship)

Article 39-20-14 (1) Where the provisions of Article 66-9-6, paragraph (1) of the Act shall apply, whether or not a domestic corporation falls under the category of a specified domestic corporation prescribed in Article 66-9-6, paragraph (2), item (i) of the Act shall be determined according to its status immediately before an event causing a specified relationship prescribed in paragraph (1) of said Article occurred, and whether or not said specified relationship actually exists afterwards between a specially-related shareholder, etc. and a specially-related domestic corporation and whether or not a foreign corporation falls under the category of an affiliated foreign corporation shall be determined according to its status at the end of the relevant business year of said specially-related domestic corporation.

(2) Where a foreign corporation has been determined as falling under the category of an affiliated foreign corporation at the end of the relevant business year of a specially-related domestic corporation, pursuant to the provisions of the preceding paragraph, the provisions of Article 66-9-6 of the Act shall apply to the eligible retained income for the relevant business year including the day on which said affiliated foreign corporation (limited to that falling under the category of a specified foreign corporation prescribed in Article 66-9-6, paragraph (1) of the Act) was determined as falling under such category.

(3) Where a domestic corporation which is a specially-related shareholder, etc. pertaining to a specially-related domestic corporation has been dissolved through a merger by the day on which two months have elapsed after the final day of the relevant business year of an affiliated foreign corporation related to said domestic corporation, the number of the shares, etc. of said affiliated foreign corporation prescribed in Article 66-9-6, paragraph (2), item (iv) of the Act which were directly and indirectly held by the domestic corporation (hereinafter referred to as the "number of the shares, etc. directly and indirectly held" in this paragraph) and which have been transferred to the merging corporation pertaining to the merger (such merging corporation shall be limited to one falling under the category of a specially-related shareholder, etc. related to said specially-related domestic corporation and one that proves to fall under the category of a specially-related shareholder, etc. related to said specially-related domestic corporation by receiving the transfer of the number of the shares, etc. of said affiliated foreign corporation directly and indirectly held by said domestic corporation through the merger; hereinafter the same

shall apply in this paragraph) shall be deemed to be the number of the shares, etc. directly and indirectly held by the merging corporation on the final day of the relevant business year of said affiliated foreign corporation.

- (4) The provisions of Article 39-20, paragraph (3) and paragraph (4) shall apply mutatis mutandis to the application of the provisions of Article 67, paragraph (3) and paragraph (5) of the Corporation Tax Act and the calculation of the amount of revenue reserves of a domestic corporation which is a specially-related shareholder, etc., where there is any amount included in the gross profits of said domestic corporation pursuant to the provisions of Article 66-9-6, paragraph (1) of the Act.
- (5) The provisions of Article 14-10, paragraphs (1) to (5) and paragraphs (7) to (11) of the Order for Enforcement of the Corporation Tax Act shall apply mutatis mutandis where the provisions of Article 66-9-6, paragraph (8) of the Act shall apply under the provisions of said Article (excluding paragraph (3), paragraph (4) and paragraph (6)) to Article 66-9-9 of the Act, Articles 39-20-8 to 39-20-10 (excluding paragraph (4)), and Article 39-20-12 to this Article.
- (6) With regard to a trust corporation or a beneficiary of a trust subject to corporation taxation prescribed in Article 4-7 of the Corporation Tax Act, in addition to what is specified in the preceding paragraph, other necessary matters concerning the application of the provisions of Article 66-9-6 (excluding paragraph (3), paragraph (4) and paragraph (6)) to Article 66-9-9 of the Act, Articles 39-20-8 to 39-20-10 (excluding paragraph (4)), or Article 39-20-12 to this Article shall be specified by Ordinance of the Ministry of Finance.

Section 9 Other Special Provisions

(Interest from Deposits, etc. Managed in a Special International Financial Transactions Account to Which the Special Provisions on Tax Exemption Do Not Apply)

Article 39-30 The interest specified by Cabinet Order prescribed in Article 67-11, paragraph (1) of the Act shall be the interest to be received by a foreign corporation prescribed in said paragraph which is attributed to business conducted by said person in Japan at any fixed place prescribed in Article 141, item (i) of the Corporation Tax Act.

(Special Provisions on Taxation of Special Purpose Companies)

Article 39-32-2

- (9) With regard to the application of the provisions of Article 73, paragraph (2) and Article 77-2, paragraph (2) of the Order for Enforcement of the Corporation Tax Act to special purpose companies, the term "without applying the following provisions" in these provisions shall be deemed to be replaced with "without

applying the following provisions and the provisions of Article 67-14, paragraph (1) (Special Provisions on Taxation of Special Purpose Companies) of the Act on Special Measures Concerning Taxation."

- (10) The amount of foreign corporation tax prescribed in Article 67-14, paragraph (4) of the Act that is to be credited under said paragraph (hereinafter referred to as the "amount of creditable foreign corporation tax" in this Article) shall be the sum of the amounts that remain after deducting, from the amounts specified in the following items for persons listed in the respective items, the amount of a dividend of profit (meaning the amount of a dividend of profit prescribed in Article 67-14, paragraph (1) of the Act; hereinafter the same shall apply in this Article) of a special purpose company pertaining to the amount of creditable foreign corporation tax that these persons are to receive (where said sum of the amounts exceeds the amount of foreign corporation tax prescribed in Article 67-14, paragraph (4) of the Act that the special purpose company has paid, the amount of said paid foreign corporation tax):
- (i) A resident prescribed in Article 2, paragraph (1), item (i)-2 of the Act: The amount obtained by dividing the amount of the dividend of profit that the resident is to receive by the rate that remains after deducting the tax rate prescribed in Article 182, item (ii) of the Income Tax Act from one
 - (ii) A domestic corporation: The amount obtained by dividing the amount of the dividend of profit that the domestic corporation is to receive by the rate that remains after deducting the tax rate prescribed in Article 213, paragraph (2), item (ii) of the Income Tax Act from one
 - (iii) A nonresident prescribed in Article 2, paragraph (1), item (i)-2 of the Act or a foreign corporation: The amount obtained by dividing the amount of the dividend of profit that the nonresident or foreign corporation is to receive by the rate that remains after deducting the tax rate prescribed in Article 213, paragraph (1), item (i) of the Income Tax Act from one.
- (11) When a special purpose company collects income tax on the amount of a dividend of profit (limited to the amount pertaining to the business year for which it is to pay the amount of creditable foreign corporation tax) pursuant to the provisions of Article 181 or Article 212 of the Income Tax Act, said amount of creditable foreign corporation tax shall be credited against the amount of income tax that it is to collect and pay.
- (12) Where the provisions of Article 67-14, paragraph (4) of the Act has applied to the amount of a dividend of profit of a special purpose company that an individual or a corporation is to receive, the amount of creditable foreign corporation tax pertaining to said amount of dividend of profit shall be added to said amount of dividend of profit that these persons are to receive.
- (13) A special purpose company, which was subject to the provisions of Article 67-14, paragraph (4) of the Act, shall preserve a document certifying that the

amount of foreign corporation tax prescribed in said paragraph has been imposed and other documents specified by Ordinance of the Ministry of Finance, as specified by Ordinance of the Ministry of Finance.

(Special Provisions on Taxation of Investment Corporations)

Article 39-32-3

- (8) The requirements specified by Cabinet Order prescribed in Article 67-15, paragraph (1), item (ii), (g) of the Act shall be that an investment corporation has not borrowed funds from any person other than an institutional investor prescribed in item (i), (b), 2. of said paragraph.
- (9) With regard to the application of the provisions of Article 73, paragraph (2) and Article 77-2, paragraph (2) of the Order for Enforcement of the Corporation Tax Act to investment corporations, the term "without applying the following provisions" in these provisions shall be deemed to be replaced with "without applying the following provisions and the provisions of Article 67-15, paragraph (1) (Special Provisions on Taxation of Investment Corporations) of the Act on Special Measures Concerning Taxation."
- (10) The amount of foreign corporation tax prescribed in Article 67-15, paragraph (5) of the Act that is to be credited under said paragraph (hereinafter referred to as the "amount of creditable foreign corporation tax" in this Article) shall be the sum of the amounts that remain after deducting, from the amount specified in the following items for persons listed in the respective items, the amount of a dividend, etc. (meaning the amount of a dividend, etc. prescribed in Article 67-15, paragraph (1) of the Act; hereinafter the same shall apply in this Article) of an investment corporation pertaining to the amount of creditable foreign corporation tax that these persons are to receive (where said sum of the amounts exceeds the amount of foreign corporation tax prescribed in Article 67-15, paragraph (5) of the Act that the investment corporation has paid, the amount of said paid foreign corporation tax):
- (i) A resident prescribed in Article 2, paragraph (1), item (i)-2 of the Act: The amount obtained by dividing the amount of the dividend, etc. that the resident is to receive by the rate that remains after deducting the tax rate prescribed in Article 182, item (ii) of the Income Tax Act from one
 - (ii) A domestic corporation: The amount obtained by dividing the amount of the dividend, etc. that the domestic corporation is to receive by the rate that remains after deducting the tax rate prescribed in Article 213, paragraph (2), item (ii) of the Income Tax Act from one
 - (iii) A nonresident prescribed in Article 2, paragraph (1), item (i)-2 of the Act or a foreign corporation: The amount obtained by dividing the amount of the dividend, etc. that the nonresident or foreign corporation is to receive by the rate that remains after deducting the tax rate prescribed in Article 213,

- paragraph (1), item (i) of the Income Tax Act from one.
- (11) When an investment corporation collects income tax on the amount of a dividend, etc. (limited to the amount pertaining to the business year for which it is to pay the amount of creditable foreign corporation tax) pursuant to the provisions of Article 181 or Article 212 of the Income Tax Act, said amount of creditable foreign corporation tax shall be credited against the amount of income tax that it is to collect and pay.
- (12) Where the provisions of Article 67-15, paragraph (5) of the Act have applied to the amount of a dividend, etc. of an investment corporation that an individual or a corporation is to receive, the amount of creditable foreign corporation tax pertaining to said amount of dividend, etc. shall be added to said amount of dividend, etc. that these persons are to receive.
- (13) An investment corporation which was subject to the provisions of Article 67-15, paragraph (5) of the Act shall preserve a document certifying that the amount of foreign corporation tax prescribed in said paragraph has been imposed and other documents specified by Ordinance of the Ministry of Finance, as specified by Ordinance of the Ministry of Finance.

(Interest from and Bond Issue Discounts for Foreign Private Bonds to Which the Special Provisions on Tax Exemption Do Not Apply)

Article 39-33 (1) The interest or bond issue discounts specified by Cabinet Order prescribed in Article 67-16, paragraph (2) of the Act shall be the interest or bond issue discounts listed as follows:

- (i) The interest or bond issue discounts to be received by a foreign corporation listed in Article 141, item (i) of the Corporation Tax Act which is attributed to business conducted by said person in Japan at any fixed place prescribed in said item
- (ii) The interest or bond issue discounts to be received by a foreign corporation listed in Article 141, item (ii) or item (iii) of the Corporation Tax Act which is attributed to the person's business prescribed in these items.
- (2) The profit from the redemption specified by Cabinet Order prescribed in Article 67-16, paragraph (3) of the Act shall be the profit from the redemption listed as follows:
- (i) The profit from the redemption to be received by a foreign corporation listed in Article 141, item (i) of the Corporation Tax Act which is attributed to business conducted by said person in Japan at any fixed place prescribed in said item
- (ii) The profit from the redemption to be received by a foreign corporation listed in Article 141, item (ii) or item (iii) of the Corporation Tax Act which is attributed to the person's business prescribed in these items.

(Special Provisions on Taxation on Book-Entry National Bonds in Separate Trading)

Article 39-33-2 The amount specified by Cabinet Order prescribed in Article 67-17, paragraph (2) of the Act shall be the amount specified respectively in the following items for the category of cases listed in the relevant items:

- (i) Where a foreign corporation holds book-entry national bonds in separate trading (meaning book-entry national bonds in separate trading prescribed in Article 67-17, paragraph (1) of the Act; hereinafter the same shall apply in this Article) that falls under the category of securities for buying and selling prescribed in Article 61-3, paragraph (1), item (i) of the Corporation Tax Act at the end of a business year, and when any valuation loss prescribed in Article 61-3, paragraph (2) of the Corporation Tax Act has been incurred for said book-entry national bonds in separate trading: The amount equivalent to said valuation loss
- (ii) Where a foreign corporation holds book-entry national bonds in separate trading that falls under the category of securities for redemption prescribed in Article 119-14 of the Order for Enforcement of the Corporation Tax Act at the end of a business year, and when any adjusted loss prescribed in Article 139-2, paragraph (2) of said Order has been incurred for said book-entry national bonds in separate trading: The amount equivalent to said adjusted loss
- (iii) Where an event listed in Article 68, paragraph (1), item (ii), (a) of the Order for Enforcement of the Corporation Tax Act has occurred with regard to book-entry national bonds in separate trading held by a foreign corporation, and when their book value has been reduced by accounting for the amount as a loss through changes in the valuation pursuant to the provisions of Article 33, paragraph (2) of the Corporation Tax Act: The amount equivalent to the amount with the variance prescribed in said paragraph as the upper limit
- (iv) Where a foreign corporation has transferred book-entry national bonds in separate trading, and when any loss on the transfer prescribed in Article 61-2, paragraph (1) of the Corporation Tax Act has been incurred for the transfer of said book-entry national bonds in separate trading: The amount equivalent to said loss on the transfer
- (v) Where, in a business year when a foreign corporation holds book-entry national bonds in separate trading, the amount that should be included in deductible expenses for calculating the amount of income for the relevant business year contains the amount of selling expenses, general administrative expenses and any other expenses prescribed in Article 22, paragraph (3), item (ii) of the Corporation Tax Act that arose in connection with both a business that creates income for the holding or transfer of book-

entry national bonds in separate trading and a business that creates income other than said income (hereinafter referred to as the "amount of common expenses" in this item): The amount equivalent to the part of said amount of common expenses that is to be appropriated as deductible expenses for calculating the amount of income for the holding or transfer of said book-entry national bonds in separate trading, based on the amount of revenue, asset value, the number of employees, and any other standards that are deemed to be rational in light of the details of the business conducted by said foreign corporation and the nature of the expenses.

(Special Provisions on the Scope of a Qualified Merger, etc.)

Article 39-34-3 (1) A merger satisfying the requirements specified by Cabinet Order prescribed in Article 68-2-3, paragraph (1) of the Act shall be a merger that satisfies all of the following requirements:

- (i) Any of the principal businesses conducted by a merged corporation before the merger and any of the businesses conducted by a merging corporation before the merger are interrelated
- (ii) The sum of the amounts of sales, revenue and any other profits from the businesses conducted without interruption by a merging corporation before the merger does not fall below approximately half of the sum of such amounts from the businesses conducted without interruption by a merged corporation before the merger
- (iii) The principal businesses conducted by a merging corporation before the merger do not fall under any of the following:
 - (a) The holding of shares (including capital contributions; hereinafter the same shall apply in this Article) or bonds
 - (b) The provision of industrial property rights or any other rights concerning technology, production methods involving special technology or any other equivalent rights or methods (including the right to use such rights) or copyrights (including publication rights, neighboring rights and any other equivalent rights)
- (iv) Before the merger, a merging corporation has an office, store, factory or any other fixed facility that is considered to be necessary for conducting its principal business in Japan, and takes charge of managing, controlling and operating the business on its own account
- (v) The majority of specified officers (meaning specified officers prescribed in Article 4-2, paragraph (4), item (ii) of the Order for Enforcement of the Corporation Tax Act; hereinafter the same shall apply in this Article) of a merging corporation before the merger are not those listed as follows:
 - (a) Persons who are officers (meaning officers prescribed in Article 2, item (xv) of the Corporation Tax Act; hereinafter the same shall apply in this

- Article) or have status as officials and employees of a merged corporation or who were formerly officers or employees of said merged corporation
- (b) Persons who are officers or have status as officers and employees of a foreign parent corporation of a merging corporation (meaning a corporation (limited to a foreign corporation) that has a relationship specified by Cabinet Order prescribed in Article 2, item (xii)-8 of the Corporation Tax Act; hereinafter the same shall apply in this item) or who were formerly officers or employees of said foreign parent corporation
 - (c) Persons who have a special relationship prescribed in Article 4, paragraph (1) of the Order for Enforcement of the Corporation Tax Act to a person listed in (a) or (b).
- (2) The company split satisfying the requirements specified by Cabinet Order prescribed in Article 68-2-3, paragraph (2) of the Act shall be the company split that satisfies all of the following requirements:
- (i) Any of the businesses conducted by a split corporation before the company split, which is to be conducted by a succeeding corporation in the company split as a result of said company split, and any of the businesses conducted by the succeeding corporation in the company split before said company split are interrelated
 - (ii) The sum of the amounts of sales, revenue and any other profits from the businesses conducted without interruption by a succeeding corporation in the company split before the company split does not fall below approximately half of the sum of such amounts from the businesses conducted without interruption by a split corporation before the company split
 - (iii) The principal businesses conducted by a succeeding corporation in the company split before the company split do not fall under any of the following:
 - (a) The holding of shares or bonds
 - (b) The provision of industrial property rights or any other rights concerning technology, production methods involving special technology or any other equivalent rights or methods (including the right to use such rights) or copyrights (including publication rights, neighboring rights and any other equivalent rights)
 - (iv) Before the company split, a succeeding corporation in the company split has an office, store, factory or any other fixed facility that is considered to be necessary for conducting its principal business in Japan, and takes charge of managing, controlling and operating the business on its own account
 - (v) The majority of specified officers of a succeeding corporation in the company split before the company split are not those listed as follows:
 - (a) Persons who are officers or have status as officers and employees of a split corporation or who were formerly officers or employees of said split corporation

- (b) Persons who are officers or have status as officers and employees of the foreign parent corporation of a succeeding corporation in the company split (meaning a corporation (limited to a foreign corporation) that has a relationship specified by Cabinet Order prescribed in Article 2, item (xii)-11 of the Corporation Tax Act; hereinafter the same shall apply in this item) or who were formerly officers or employees of said foreign parent corporation
 - (c) Persons who have a special relationship prescribed in Article 4, paragraph (1) of the Order for Enforcement of the Corporation Tax Act to a person listed in (a) or (b).
- (3) The company split specified by Cabinet Order prescribed in Article 68-2-3, paragraph (2), item (i) of the Act shall be the company split in which almost all of the assets and liabilities pertaining to a split corporation immediately prior to said company split are to be transferred to a succeeding corporation in the company split.
- (4) The share exchange satisfying the requirements specified by Cabinet Order prescribed in Article 68-2-3, paragraph (3) of the Act shall be the share exchange that satisfies all of the following requirements:
- (i) Any of the principal businesses conducted by a wholly owned subsidiary corporation in a share exchange before the share exchange and any of the businesses conducted by the fully controlling parent corporation in the share exchange before the share exchange are interrelated
 - (ii) The sum of the amounts of sales, revenue and any other profits from the businesses conducted without interruption by a fully controlling parent corporation in a share exchange before the share exchange does not fall below approximately half of the sum of such amounts from the businesses conducted without interruption by the wholly owned subsidiary corporation in the share exchange before the share exchange
 - (iii) The principal businesses conducted by a fully controlling parent corporation in a share exchange before the share exchange do not fall under any of the following:
 - (a) The holding of shares or bonds
 - (b) The provision of industrial property rights or any other rights concerning technology, production methods involving special technology or any other equivalent rights or methods (including the right to use such rights) or copyrights (including publication rights, neighboring rights and any other equivalent rights)
 - (iv) Before the share exchange, the fully controlling parent corporation in the share exchange has an office, store, factory or any other fixed facility that is considered to be necessary for conducting its principal business in Japan, and takes charge of managing, controlling and operating the business on its

- own account
- (v) The majority of specified officers of a fully controlling parent corporation in a share exchange before the share exchange are not those listed as follows:
 - (a) Persons who are officers or have status as officers and employees of a wholly owned subsidiary corporation in a share exchange or who were formerly officers or employees of said wholly owned subsidiary corporation in the share exchange
 - (b) Persons who are officers or have status as officers and employees of the foreign parent corporation of a fully controlling parent corporation in a share exchange (meaning a corporation (limited to a foreign corporation) that has a relationship specified by Cabinet Order prescribed in Article 2, item (xii)-16 of the Corporation Tax Act; hereinafter the same shall apply in this item) or who were formerly officers or employees of said foreign parent corporation
 - (c) Persons who have a special relationship prescribed in Article 4, paragraph (1) of the Order for Enforcement of the Corporation Tax Act to a person listed in (a) or (b).
 - (5) The foreign corporation specified by Cabinet Order prescribed in Article 68-2-3, paragraph (5), item (i) of the Act shall be that listed as follows:
 - (i) A foreign corporation that has its head office or principal office in a state or territory where there are no taxes imposed on corporate income
 - (ii) A foreign corporation, in any of the business years that started within two years prior to the first day of the business year of the foreign corporation including the date of a merger, company split, share exchange, or capital contribution in kind set forth in Article 68-2-3, paragraphs (1) to (4) of the Act, whose tax imposed on its income for the relevant business year was 25 percent or less of said income.
 - (6) The provisions of Article 39-14, paragraph (2) shall apply mutatis mutandis to the determination as to whether or not a foreign corporation falls under the category of a foreign corporation set forth in item (ii) of the preceding paragraph.
 - (7) A foreign corporation that satisfies all of the following requirements shall not be included in the category of foreign corporations listed in the items of paragraph (5):
 - (i) A corporation's principal businesses do not fall under any of the categories of the holding of shares or bonds, the provision of industrial property rights or any other rights concerning technology, production methods involving special technology or any other equivalent rights or methods (including the right to use such rights) or copyrights (including publication rights, neighboring rights and any other equivalent rights), or the lending of vessels or aircraft

- (ii) A corporation has an office, store, factory or any other fixed facility that is considered to be necessary for conducting its principal business in the state or territory where its head office or principal office is located, and takes charge of managing, controlling and operating the business on its own account
- (iii) In any of the business years that started within two years prior to the first day of the business year of the foreign corporation including the date of a merger, company split, share exchange, or capital contribution in kind set forth in Article 68-2-3, paragraphs (1) to (4) of the Act (hereinafter such business year shall be referred to as a "business year(s) within the preceding two years" in this item), the foreign corporation falls under any of the cases specified respectively as follows for the category of its principal businesses listed as follows:
 - (a) Wholesale business, banking business, trust business, financial instruments business, insurance business, water transportation business or air transportation business: The cases specified respectively as follows for the category of its principal businesses listed as follows:
 1. Wholesale business: Where, out of the total revenue from selling inventory assets for any of the business years within the preceding two years (where there are any commissions to be received for agent or intermediary services for the buying or selling of inventory assets, such revenues shall include the amount from the transactions for which said commissions were generated; hereinafter referred to as the "amount of sales transactions" in this item), the ratio of the sum of the amount of sales transactions with a person other than affiliated persons exceeds 50 percent, or out of the sum of the acquisition costs for acquiring inventory assets for any of the business years within the preceding two years (where there are any commissions to be received for agent or intermediary services for the buying or selling of inventory assets, such acquisition costs shall include the amount from the transactions for which said commissions were generated; hereinafter referred to as the "amount of purchase transactions" in this item), the ratio of the sum of the amount of purchase transactions with a person other than affiliated persons exceeds 50 percent
 2. Banking business: Where, out of the sum of the total interest received for any of the business years within the preceding two years, the ratio of the sum of said interest to be received from a person other than affiliated persons exceeds 50 percent, or out of the sum of the total interest paid for any of the business years within the preceding two years, the ratio of the sum of said interest to be paid to a person other than affiliated persons exceeds 50 percent

3. Trust business: Where, out of the sum of the total trust charge for any of the business years within the preceding two years, the ratio of the sum of said trust charge to be received from a person other than affiliated persons exceeds 50 percent
 4. Financial instruments business: Where, out of the sum of the total commissions received (including profits from the buying and selling of securities) for any of the business years within the preceding two years, the ratio of the sum of said commissions to be received from a person other than affiliated persons exceeds 50 percent
 5. Insurance business: Where, out of the sum of the total premium income for any of the business years within the preceding two years, the ratio of the sum of said premium income to be received from a person other than affiliated persons (where said premium income pertains to reinsurance, limited to premium income from insurance for assets held by a person other than affiliated persons or damages incurred by a person other than affiliated persons) exceeds 50 percent
 6. Water transportation business or air transportation business: Where, out of the total revenue from the operation or rental of vessels or operation or rental of aircrafts for any of the business years within the preceding two years, the ratio of the sum of said revenue to be received from a person other than affiliated persons exceeds 50 percent.
- (b) Business other than those listed in (a): The cases specified respectively as follows for the category of its principal businesses listed as follows:
1. Real estate business: Where conducting a buying and selling or rental business of real estate (including acts to let others use said real estate) (real estate shall include the rights thereon; hereinafter the same shall apply in this item) mainly located in the state of the head office (meaning a state or territory where the head office or principal office is located; hereinafter the same shall apply in this item), providing agent or intermediary services for the buying and selling or rental business of said real estate, and managing said real estate
 2. Rental and leasing business: Where conducting a rental business for goods to be provided for use mainly in the state of the head office
 3. Business other than those listed in (a) and in 1. and 2.: Where conducting a business mainly in the state of the head office.
- (8) Where transactions between a foreign corporation and its affiliated person are conducted indirectly via a person other than the affiliated person of said foreign corporation (hereinafter referred to as a "non-affiliated person" in this paragraph), transactions between said foreign corporation and said non-affiliated person shall be deemed to have been conducted directly between said foreign corporation and said affiliated person and the provisions of item (iii),

- (a) of the preceding paragraph shall apply, except in the case where there are justifiable grounds for having said non-affiliated person intervene in such transactions.
- (9) The affiliated person prescribed in paragraph (7), item (iii), (a) and the preceding paragraph shall be that listed as follows:
- (i) When there is a relationship between a foreign corporation and any other corporation whereby either one of the corporations directly or indirectly holds over 50 percent of the total number or total amount of the second corporation's issued shares or capital contributions (excluding the shares that either corporation holds in itself; hereinafter referred to as the "issued shares, etc." in this Article), said second corporation (excluding a corporation falling under the category of persons listed in the following item)
 - (ii) When there is a relationship whereby over 50 percent of the total number or total amount of the issued shares, etc. of a foreign corporation and any other corporation are respectively held directly or indirectly by the same person (where said person is an individual, said individual and an individual who has a special relationship prescribed in Article 4, paragraph (1) of the Order for Enforcement of the Corporation Tax Act to said individual), said other corporation.
- (10) The relationship specified by Cabinet Order prescribed in Article 68-2-3, paragraph (5), item (ii) of the Act shall be the relationship listed as follows:
- (i) When there is a relationship whereby a first domestic corporation directly or indirectly holds over 50 percent of the total number or total amount of a second domestic corporation's issued shares, etc., said relationship (excluding relationships falling under the category of relationships listed in the following item)
 - (ii) When there is a relationship whereby over 50 percent of the total number or total amount of two domestic corporations' respective issued shares, etc. are held directly or indirectly by the same person (where said person is an individual, said individual and an individual who has a special relationship prescribed in Article 4, paragraph (1) of the Order for Enforcement of the Corporation Tax Act to said individual), the relationship between said two domestic corporations.
- (11) Whether or not there is any relationship listed in the items of the preceding paragraph shall be determined according to its status immediately prior to a merger, company split or share exchange set forth in Article 68-2-3, paragraphs (1) to (3) of the Act.
- (12) The provisions of Article 39-12, paragraph (2) and paragraph (3) shall apply mutatis mutandis where the provisions of paragraph (9) or paragraph (10) shall apply. In this case the term "50 percent or more" in paragraph (2) and paragraph (3) of said Article shall be deemed to be replaced with "over 50

percent."

- (13) A nonresident who has a special relationship specified by Cabinet Order prescribed in Article 68-2-3, paragraph (5), item (iii) of the Act to a resident or domestic corporation shall be a nonresident prescribed in Article 2, paragraph (1), item (i)-2 of the Act who has a special relationship prescribed in Article 39-14, paragraph (3) to a resident or domestic corporation prescribed in said item.
- (14) The relationship specified by Cabinet Order prescribed in Article 68-2-3, paragraph (5), item (iv) of the Act shall be a relationship listed as follows:
- (i) When there is a relationship between a foreign corporation and a domestic corporation whereby said foreign corporation directly or indirectly holds 80 percent or more of the total number or total amount of said domestic corporation's issued shares, etc., said relationship (excluding relationships falling under the category of relationships listed in the following item)
 - (ii) When there is a relationship whereby 80 percent or more of the total number or total amount of the issued shares, etc. of a foreign corporation and a domestic corporation are respectively held directly or indirectly by the same person (where said person is an individual, said individual and an individual who has a special relationship prescribed in Article 4, paragraph (1) of the Order for Enforcement of the Corporation Tax Act to said individual), the relationship between said foreign corporation and domestic corporation.
- (15) The provisions of Article 39-12, paragraph (2) and paragraph (3) shall apply mutatis mutandis where the provisions of the preceding paragraph shall apply. In this case the term "50 percent or more" in paragraph (2) and paragraph (3) of said Article shall be replaced with "80 percent or more."
- (16) Matters concerning the determination as to whether or not the merger, company split or share exchange satisfies the requirements listed in the items of paragraph (1), the items of paragraph (2) or the items of paragraph (4) and any other matters necessary for the application of the provisions of the preceding paragraphs shall be specified by Ordinance of the Ministry of Finance.

(Special Provisions on Taxation of Shareholders, etc. in the Event of Specified Merger, etc.)

- Article 39-35 (1) The provisions of Article 119-7-2, paragraph (1) of the Order for Enforcement of the Corporation Tax Act shall apply mutatis mutandis to the relationship specified by Cabinet Order prescribed in Article 68-3, paragraph (1) of the Act; and the provisions of Article 119-7-2, paragraph (3) of said Order shall apply mutatis mutandis to the relationship specified by Cabinet Order prescribed in Article 68-3, paragraph (3) of the Act, respectively.
- (2) Where a corporation has, as a result of a merger (limited to a merger that

does not fall under the category of a qualified merger) of a domestic corporation to which said corporation issued old shares (meaning shares (including capital contributions; hereinafter the same shall apply in this Article) that were held by said corporation), been provided with shares of a foreign corporation which has a relationship specified by Cabinet Order prescribed in Article 68-3, paragraph (1) of the Act, when the shares of said foreign corporation are shares of a specified foreign corporation with less tax burden (meaning a specified foreign corporation with less tax burden prescribed in Article 68-2-3, paragraph (5), item (i) of the Act; hereinafter the same shall apply in paragraph (4)), the provisions of Article 119, paragraph (1), item (v) of the Order for Enforcement of the Corporation Tax Act (including the cases where it is applicable to the calculation made pursuant to the provisions of Article 142 of the Corporation Tax Act) shall not apply to the acquisition costs of the provided shares.

- (3) Where a corporation has, as a result of a specified split-off-type company split prescribed in Article 68-3, paragraph (2) of the Act which was implemented by a domestic corporation to which said corporation issued old shares (meaning shares that were held by said corporation), been provided with shares of a specified foreign parent corporation prescribed in said paragraph, the provisions of Article 119, paragraph (1), item (vi) of the Order for Enforcement of the Corporation Tax Act (including the cases where it is applicable to the calculation made pursuant to the provisions of Article 142 of the Corporation Tax Act) shall not apply to the acquisition costs of the provided shares.
- (4) Where a corporation has, as a result of a share exchange (limited to a share exchange that does not fall under the category of a qualified share exchange) implemented by a domestic corporation to which said corporation issued old shares (meaning shares that were held by said corporation), been provided with shares of a foreign corporation which has a relationship specified by Cabinet Order prescribed in Article 68-3, paragraph (3) of the Act, when the shares of said foreign corporation are shares of a specified foreign corporation with less tax burden, the provisions of Article 119, paragraph (1), item (viii) of the Order for Enforcement of the Corporation Tax Act (including the cases where it is applicable to the calculation made pursuant to the provisions of Article 142 of the Corporation Tax Act) shall not apply to the acquisition costs of the provided shares.
- (5) Where a foreign corporation has, as a result of a specified a split-off-type company split prescribed in Article 68-3, paragraph (2) of the Act which was implemented by a domestic corporation to which said corporation issued old shares (meaning shares that were held by said corporation), been provided with shares of a specified foreign parent corporation prescribed in said paragraph, the provisions of Article 188, paragraph (1), item (xvii) of the Order

for Enforcement of the Corporation Tax Act shall not apply to the calculation made, with regard to the amount of said foreign corporation's income categorized as domestic source income prescribed in Article 142 of the Corporation Tax Act, in accordance with the provisions of Article 61-2, paragraph (4) of said Act whose terms are replaced under the provisions of said paragraph.

(Special Provisions on Taxation of the Trust Corporation of a Special Purpose Trust)

Article 39-35-2

(8) With regard to the application of the provisions of Article 73, paragraph (2) and Article 77-2, paragraph (2) of the Order for Enforcement of the Corporation Tax Act in the case where the provisions of Article 68-3-2, paragraph (1) of the Act apply, the term "without applying the following provisions" in these provisions shall be deemed to be replaced with "without applying the following provisions and the provisions of Article 68-3-2, paragraph (1) (Special Provisions on Taxation of the Trust Corporation of a Special Purpose Trust) of the Act on Special Measures Concerning Taxation."

(9) The provisions of paragraph (1) to the preceding paragraph shall apply mutatis mutandis when applying the provisions of Article 68-3-2, paragraph (1), paragraph (2), paragraph (6), paragraph (8) and paragraph (9) of the Act which shall apply mutatis mutandis pursuant to paragraph (10) of said Article. In this case, the terms listed in the middle column of the following table which are used in the provisions listed in the left-hand column of said table shall be deemed to be replaced with the terms listed in the right-hand column of said table.

Paragr aph (2)	calculated without applying the provisions of said paragraph and Article 57, paragraph (1), Article 58, paragraph (1) and Article 59, paragraph (2) of the Corporation Tax Act	calculated without applying the provisions of Article 57, paragraph (1), Article 58, paragraph (1) and Article 59, paragraph (2) of the Corporation Tax Act in the case where the calculation is made, with regard to the income categorized as domestic source income prescribed in Article 141 of said Act, in accordance with these provisions, pursuant to the provisions of Article 68-3-2, paragraph (1) of the Act and Article 142 of the Corporation Tax Act
	income for the relevant business year	income categorized as domestic source income
Paragr aph (4)	said paragraph	Article 68-3-2, paragraph (10) of the Act

The preceding paragraph	With regard to the application of the provisions of Article 73, paragraph (2) and Article 77-2, paragraph (2) of the Order for Enforcement of the Corporation Tax Act in the case where the provisions of Article 68-3-2, paragraph (1) apply	In the case where the provisions of Article 68-3-2, paragraph (1) apply and where calculation is to be made, in accordance with the provisions of Article 73, paragraph (2) and Article 77-2, paragraph (2) of the Order for Enforcement of the Corporation Tax Act, with regard to income categorized as domestic source income prescribed in Article 141 of the Corporation Tax Act under Article 142 of said Act, with regard to the application of these provisions
	Article 68-3-2, paragraph (1) (Special Provisions on Taxation of the Trust Corporation of a Special Purpose Trust)	paragraph (1) of said Article which is applied mutatis mutandis pursuant to Article 68-3-2, paragraph (10) (Special Provisions on Taxation of the Trust Corporation of a Special Purpose Trust)

(10) The amount of foreign corporation tax prescribed in Article 68-3-2, paragraph (4) of the Act that is to be credited under said paragraph (hereinafter referred to as the "amount of creditable foreign corporation tax" in this Article) shall be the sum of the amounts that remain after deducting, from the amounts specified in the following items for the persons listed in the respective items, the amount of a distribution of profit (meaning the amount of a distribution of profit prescribed in Article 68-3-2, paragraph (1) of the Act; hereinafter the same shall apply in this Article) of special purpose trusts pertaining to the amount of creditable foreign corporation tax that these persons are to receive (where said sum of the amounts exceeds the amount of foreign corporation tax prescribed in Article 68-3-2, paragraph (4) of the Act that a trust corporation for special purpose trusts has paid, the amount of said paid foreign corporation tax):

- (i) A resident prescribed in Article 2, paragraph (1), item (i)-2 of the Act: The amount obtained by dividing the amount of the distribution of profit that the resident is to receive by the rate that remains after deducting the tax rate prescribed in Article 182, item (ii) of the Income Tax Act from one
- (ii) A domestic corporation: The amount obtained by dividing the amount of the distribution of profit that the domestic corporation is to receive by the rate that remains after deducting the tax rate prescribed in Article 213, paragraph (2), item (ii) of the Income Tax Act from one
- (iii) A nonresident prescribed in Article 2, paragraph (1), item (i)-2 of the Act or a foreign corporation: The amount obtained by dividing the amount of the distribution of profit that the nonresident or foreign corporation is to receive by the rate that remains after deducting the tax rate prescribed in Article

213, paragraph (1), item (i) of the Income Tax Act from one.

- (11) When a trust corporation for special purpose trusts collects income tax on the amount of a distribution of profit (limited to the amount pertaining to the business year for which it is to pay the amount of creditable foreign corporation tax) pursuant to the provisions of Article 181 or Article 212 of the Income Tax Act, said amount of creditable foreign corporation tax shall be credited against the amount of income tax that it is to collect and pay.
- (12) Where the provisions of Article 68-3-2, paragraph (4) of the Act have applied to the amount of a distribution of profit of special purpose trusts that an individual or a corporation is to receive, the amount of creditable foreign corporation tax pertaining to said amount of distribution of profit shall be added to said amount of distribution of profit that these persons are to receive.
- (13) A trust corporation for special purpose trusts, which was subject to the provisions of Article 68-3-2, paragraph (4) of the Act, shall preserve a document certifying that the amount of foreign corporation tax prescribed in said paragraph has been imposed and other documents specified by Ordinance of the Ministry of Finance, as specified by Ordinance of the Ministry of Finance.

(Special Provisions on Taxation of the Trust Corporation of a Special Investment Trusts)

Article 39-35-3

- (7) With regard to the application of the provisions of Article 73, paragraph (2) and Article 77-2, paragraph (2) of the Order for Enforcement of the Corporation Tax Act in the case where the provisions of Article 68-3-3, paragraph (1) of the Act apply, the term "without applying the following provisions" in these provisions shall be deemed to be replaced with "without applying the following provisions and the provisions of Article 68-3-3, paragraph (1) (Special Provisions on Taxation of the Trust Corporation of a Special Investment Trusts) of the Act on Special Measures Concerning Taxation."
- (8) The provisions of paragraph (1) to the preceding paragraph shall apply mutatis mutandis when applying the provisions of Article 68-3-3, paragraph (1), paragraph (2), paragraph (6), paragraph (8) and paragraph (9) of the Act which shall apply mutatis mutandis pursuant to paragraph (10) of said Article. In this case, the terms listed in the middle column of the following table which are used in the provisions listed in the left-hand column of said table shall be deemed to be replaced with the terms listed in the right-hand column of said table.

Paragr aph (1)	trust corporation prescribed in Article 68-3-3, paragraph (1) of the Act	trust corporation prescribed in Article 68-3-3, paragraph (10) of the Act
Paragr aph (2)	calculated without applying the provisions of said paragraph and Article 57, paragraph (1), Article 58, paragraph (1) and Article 59, paragraph (2) of the Corporation Tax Act	calculated without applying the provisions of Article 57, paragraph (1), Article 58, paragraph (1) and Article 59, paragraph (2) of the Corporation Tax Act in the case where the calculation is made, with regard to the income categorized as domestic source income prescribed in Article 141 of said Act, in accordance with these provisions, pursuant to the provisions of Article 68-3-2, paragraph (1) of the Act and Article 142 of the Corporation Tax Act
	income for the relevant business year	income categorized as domestic source income
The precedi ng paragr aph	With regard to the application of the provisions of Article 73, paragraph (2) and Article 77-2, paragraph (2) of the Order for Enforcement of the Corporation Tax Act in the case where the provisions of Article 68-3-2, paragraph (1) apply	In the case where the provisions of Article 68-3-2, paragraph (1) apply and where calculation is to be made, in accordance with the provisions of Article 73, paragraph (2) and Article 77-2, paragraph (2) of the Order for Enforcement of the Corporation Tax Act, with regard to income categorized as domestic source income prescribed in Article 141 of the Corporation Tax Act under Article 142 of said Act, with regard to the application of these provisions
	Article 68-3-3, paragraph (1) (Special Provisions on Taxation of the Trust Corporation of a Special Investment Trust)	paragraph (1) of said Article which is applied mutatis mutandis pursuant to Article 68-3-3, paragraph (10) (Special Provisions on Taxation of the Trust Corporation of a Special Investment Trust)

(9) The amount of foreign corporation tax prescribed in Article 68-3-3, paragraph (4) of the Act that is to be credited under said paragraph (hereinafter referred to as the "amount of creditable foreign corporation tax" in this Article) shall be the sum of the amounts that remain after deducting, from the amount specified respectively in the following items for persons listed in the relevant items, the amount of a distribution of proceeds (meaning the amount of a distribution of proceeds prescribed in Article 68-3-3, paragraph (1) of the Act; hereinafter the same shall apply in this Article) of special investment trusts pertaining to the amount of creditable foreign corporation tax that these persons are to receive (where said sum of the amounts exceeds the amount of foreign corporation tax

prescribed in Article 68-3-3, paragraph (4) of the Act that a trust corporation for special investment trusts has paid, the amount of said paid foreign corporation tax):

- (i) A resident prescribed in Article 2, paragraph (1), item (i)-2 of the Act: The amount obtained by dividing the amount of the distribution of proceeds that the resident is to receive by the rate that remains after deducting the tax rate prescribed in Article 182, item (ii) of the Income Tax Act from one
 - (ii) A domestic corporation: The amount obtained by dividing the amount of the distribution of proceeds that the domestic corporation is to receive by the rate that remains after deducting the tax rate prescribed in Article 213, paragraph (2), item (ii) of the Income Tax Act from one
 - (iii) A nonresident prescribed in Article 2, paragraph (1), item (i)-2 of the Act or a foreign corporation: The amount obtained by dividing the amount of the distribution of proceeds that the nonresident or foreign corporation is to receive by the rate that remains after deducting the tax rate prescribed in Article 213, paragraph (1), item (i) of the Income Tax Act from one.
- (10) When a trust corporation for special investment trusts collects income tax on the amount of a distribution of proceeds (limited to the amount pertaining to the business year for which it is to pay the amount of creditable foreign corporation tax) pursuant to the provisions of Article 181 or Article 212 of the Income Tax Act, said amount of creditable foreign corporation tax shall be credited against the amount of income tax that it is to collect and pay.
- (11) Where the provisions of Article 68-3-3, paragraph (4) of the Act has applied to the amount of a distribution of proceeds of special investment trusts that an individual or a corporation is to receive, the amount of creditable foreign corporation tax pertaining to said amount of distribution of proceeds shall be added to said amount of distribution of proceeds that these persons are to receive.
- (12) A trust corporation for special investment trusts, which was subject to the provisions of Article 68-3-3, paragraph (4) of the Act, shall preserve a document certifying that the amount of foreign corporation tax prescribed in said paragraph has been imposed and other documents specified by Ordinance of the Ministry of Finance, as specified by Ordinance of the Ministry of Finance.

Section 25 Special Provisions, etc. on Taxation of the Transactions of Consolidated Corporations with Their Foreign Affiliated Persons

(Special Provisions on Taxation of the Transactions of Consolidated Corporations with Their Foreign Affiliated Persons)

Article 39-112 (1) The special relationship specified by Cabinet Order prescribed in Article 68-88, paragraph (1) of the Act shall be a relationship listed as

follows:

- (i) A relationship whereby one corporation directly or indirectly holds 50 percent or more of the total number or total amount of a second corporation's issued shares or capital contributions (excluding said the shares that either corporation holds in itself; hereinafter referred to as the "issued shares, etc." through to paragraph (3))
- (ii) Where 50 percent or more of the total number or total amount of the issued shares, etc. of two corporations are respectively held directly or indirectly by the same person (where said person is an individual, said individual and an individual who has a special relationship specified by Cabinet Order prescribed in Article 2, item (x) of the Corporation Tax Act to said individual; the same shall apply in item (v)), the relationship between said two corporations (excluding relationships falling under the category or relationships listed in the preceding item)
- (iii) A relationship whereby the existence of the facts listed as follows or any other facts equivalent thereto (referred to as a "specified fact" in the following item and item (v)) enables either of two corporations to determine substantially the whole or a part of the other corporation's business policies (excluding relationships falling under the category of relationships listed in the preceding two items):
 - (a) The fact that 50 percent or more of the officers or officers with the representative authority of one corporation are persons who double as officers or employees of a second corporation or who were formerly officers or employees of said second corporation
 - (b) The fact that one corporation depends on transactions with a second corporation for a considerable part of its business activities
 - (c) The fact that one corporation has borrowed a considerable part of the funds necessary for its business activities from a second corporation or has procured a considerable part of the funds necessary for its business activities by obtaining guarantees from said second corporation
- (iv) The relationship between a single corporation and any of the corporations listed as follows (excluding relationships falling under the category of relationships listed in the preceding three items):
 - (a) A corporation in a relationship whereby 50 percent or more of the number or the amount of its issued shares, etc. are held directly or indirectly by the single corporation or the whole or a part of its business policies can be substantially determined by said single corporation due to the existence of a specified fact
 - (b) A corporation in a relationship whereby 50 percent or more of the number or the amount of its issued shares, etc. are held directly or indirectly by a corporation listed in (a) or (c) or the whole or a part of its business policies

- can be substantially determined by said corporation due to the existence of a specified fact
- (c) A corporation in a relationship whereby 50 percent or more of the number or the amount of its issued shares, etc. are held directly or indirectly by a corporation listed in (b) or the whole or a part of its business policies can be substantially determined by said corporation due to the existence of a specified fact
 - (v) The relationship between two corporations whereby both corporations fall under the category of any of the corporations listed as follows (limited to the case where a single person prescribed in (a) is the same person and excluding relationships falling under the category of relationships listed in the preceding items):
 - (a) A corporation in a relationship whereby 50 percent or more of the number or the amount of its issued shares, etc. are held directly or indirectly by a single person or the whole or a part of its business policies can be substantially determined by said person due to the existence of a specified fact
 - (b) A corporation in a relationship whereby 50 percent or more of the number or the amount of its issued shares, etc. are held directly or indirectly by a corporation listed in (a) or (c) or the whole or a part of its business policies can be substantially determined by said corporation due to the existence of a specified fact
 - (c) A corporation in a relationship whereby 50 percent or more of the number or the amount of its issued shares, etc. are held directly or indirectly by a corporation listed in (b) or the whole or a part of its business policies can be substantially determined by said corporation due to the existence of a specified fact.
- (2) In the case referred to in item (i) of the preceding paragraph, whether or not the first corporation directly or indirectly holds 50 percent or more of the number or the amount of the second corporation's issued shares, etc. shall be determined according to the ratio obtained by adding the ownership ratio for the shares, etc. in said second corporation held directly by said first corporation (meaning the ratio of the number or the amount of the second corporation's shares or capital contributions held by the first corporation out of the total issued shares, etc. of the second corporation) and the ownership ratio for the shares, etc. in the second corporation held indirectly by the first corporation.
- (3) The ownership ratio for the shares, etc. held indirectly that is prescribed in the preceding paragraph shall be the ratio specified respectively in the following items for the category of cases listed in the relevant items (where this falls under both of the following cases, the sum of the ratios specified

respectively as follows):

- (i) Where 50 percent or more of the number or the amount of the issued shares, etc. of a corporation which is a shareholder, etc. (meaning a shareholder, etc. prescribed in Article 2, item (xiv) of the Corporation Tax Act; the same shall apply in the following item) of the second corporation set forth in the preceding paragraph are held by the first corporation set forth in the preceding paragraph: The ratio of the number or the amount of shares or capital contributions of the second corporation held by the corporation which is a shareholder, etc. out of the total issued shares, etc. of said second corporation (where there are two or more such corporations which are shareholders, etc., the sum of the ratios calculated for each of them)
- (ii) Where a single corporation or two or more corporations are interposed between a corporation which is a shareholder, etc. of the second corporation set forth in the preceding paragraph (excluding a corporation which is a shareholder, etc. set forth in the preceding item falling under the case listed in said item) and the first corporation set forth in the preceding paragraph and have a link with them through the holding of issued shares, etc. (hereinafter such interposed corporations shall be referred to as "corporations related through capital contribution" in this item) (limited to the case where 50 percent or more of the number or the amount of the issued shares, etc. of both the corporations related through capital contribution and the corporation which is a shareholder, etc. are held by the first corporation or by a corporation related through capital contribution (this shall be limited to those for whom 50 percent or more of the number or the amount of the issued shares, etc. are held by the first corporation or by another corporation related through capital contribution)): The ratio of the number or the amount of shares or capital contributions of the second corporation held by the corporation which is a shareholder, etc. out of the total issued shares, etc. of said second corporation (where there are two or more such corporations which are shareholders, etc., the sum of the ratios calculated for each of them).
- (4) The provisions of paragraph (2) shall apply mutatis mutandis to the determination of a relationship whereby the shares, etc. are directly or indirectly held as set forth in item (ii), item (iv) and item (v) of paragraph (1).
- (5) The normal profit margin specified by Cabinet Order prescribed in Article 68-88, paragraph (2), item (i), (b) of the Act shall be the ratio of the amount of gross profits gained by a person who purchased the same or similar inventory assets as those for a transaction with a foreign affiliated person prescribed in paragraph (1) of said Article (hereinafter referred to as a "transaction with a foreign affiliated person" in this Article) from a person with no special relationship thereto (meaning a special relationship as prescribed in said

paragraph) (hereinafter a person with no special relationship to the relevant person shall be referred to as a "non-affiliated person" through to paragraph (7) and the person who purchased such inventory assets shall be referred to as a "reseller" in this paragraph and paragraph (7), item (ii)) through a transaction to sell said same or similar inventory assets to a non-affiliated person (hereinafter referred to as a "comparable transaction" in this paragraph) (such gross profits shall mean the amount obtained by deducting the sum of the costs of said inventory assets for a comparable transaction from the total revenue arising from the sale of said inventory assets for a comparable transaction) against the sum of said revenue; provided, however, that where functions performed by the selling side or any other matters differ between a comparable transaction and a transaction in which the purchasing side of said inventory assets for a transaction with a foreign affiliated person sold the inventory assets to a non-affiliated person, such normal profit margin shall be the ratio after making the necessary adjustment for the differences in ratios caused by such disparity.

(6) The normal profit margin specified by Cabinet Order prescribed in Article 68-88, paragraph (2), item (i), (c) of the Act shall be the ratio of the amount of gross profits gained by a person who acquired the same or similar inventory assets as those for a transaction with a foreign affiliated person through the purchase (limited to a purchase from a non-affiliated person), manufacture or any other acts (hereinafter such person shall be referred to as a "seller" in this paragraph and item (iii) of the following paragraph) through a transaction to sell said same or similar inventory assets to a non-affiliated person (hereinafter referred to as a "comparable transaction" in this paragraph) (such gross profits shall mean the amount obtained by deducting the sum of the costs of said inventory assets for a comparable transaction from the total revenue arising from the sale of said inventory assets for a comparable transaction) against the sum of said costs; provided, however, that where functions performed by the selling side or any other matters differ between a comparable transaction and said transaction with a foreign affiliated person, such normal profit margin shall be the ratio after making a necessary adjustment for the differences in ratios caused by such disparity.

(7) The method specified by Cabinet Order prescribed in Article 68-88, paragraph (2), item (i), (d) of the Act shall be the method listed as follows:

(i) The method which uses, as the amount of consideration for a transaction with a foreign affiliated person, the amount calculated by deeming that the income, which arises from the purchase, manufacture, sale or any other acts conducted with regard to inventory assets for said transaction with a foreign affiliated person by a consolidated corporation set forth in Article 68-88, paragraph (1) of the Act or a foreign affiliated person prescribed in said

paragraph who is the foreign affiliated person of said consolidated corporation, is to be attributed to said consolidated corporation or foreign affiliated person, in accordance with the factors sufficient to estimate the amount of expenses or the value of fixed assets that such persons have spent or used for conducting such acts or any other levels of such persons' contribution to said income

- (ii) The method which uses, as the amount of consideration for a transaction with a foreign affiliated person, the remaining amount of consideration gained by the purchasing side of inventory assets for a transaction with a foreign affiliated person for having sold said inventory assets to a non-affiliated person (hereinafter such amount of consideration shall be referred to as the "resale price" in this item) after deducting the amount obtained by multiplying said resale price by the ratio of the amount listed in (a) against the amount listed in (b) (where functions performed by the selling side or any other matters differ between a transaction in which a reseller has sold the same or similar inventory assets as said inventory assets to a non-affiliated person (hereinafter referred to as a "comparable transaction" in this item) and a transaction in which the purchasing side of said inventory assets for a transaction with a foreign affiliated person sold the inventory assets to a non-affiliated person, by the ratio after making a necessary adjustment for the differences in ratios caused by such disparity) and then adding the selling expenses and general administrative expenses needed for the sale of said inventory assets for a transaction with a foreign affiliated person:
 - (a) The sum of the operating profits arising from the sale of said inventory assets for a comparable transaction
 - (b) The total revenue arising from the sale of said inventory assets for a comparable transaction
- (iii) The method which uses, as the amount of consideration for a transaction with a foreign affiliated person, the amount obtained by adding the amount of the costs spent by the selling side of inventory assets for a transaction with a foreign affiliated person for acquiring the inventory assets through the purchase, manufacture or any other acts (hereinafter referred to as the "amount of acquisition costs" in this item), the amount obtained by multiplying the amount listed in (a) by the ratio of the amount listed in (b) against the amount listed in (c) (where functions performed by the selling side or any other matters differ between a transaction in which a seller sold the same or similar inventory assets as said inventory assets to a non-affiliated person (hereinafter referred to as a "comparable transaction" in this item) and said transaction with a foreign affiliated person, by the ratio after making a necessary adjustment for the differences in ratios caused by such disparity), and the sum of the amounts listed in (a), 2.:

- (a) The sum of the amounts listed as follows:
 - 1. The amount of said acquisition costs
 - 2. The amount of the selling expenses and general administrative expenses needed for the sale of said inventory assets for a transaction with a foreign affiliated person
 - (b) The sum of the operating profits arising from the sale of said inventory assets for a comparable transaction
 - (c) The amount obtained by deducting the amount listed in (b) from the total revenue arising from the sale of said inventory assets for a comparable transaction
 - (iv) The method equivalent to those listed in the preceding two items.
- (8) The case specified by Cabinet Order prescribed in Article 68-88, paragraph (5) of the Act shall be the case where it has been determined in advance at the time of a transaction between a consolidated corporation set forth in said paragraph and a non-affiliated person set forth in said paragraph (hereinafter referred to as a "non-affiliated person" in this paragraph and the following paragraph) under a contract, etc. that the assets for said transaction are to be sold, transferred, lent or provided to the foreign affiliated person of said consolidated corporation set forth in paragraph (5) of said Article and where the amount of consideration for said sale, transfer, lending or provision is deemed to have been substantially determined between said consolidated corporation and said foreign affiliated person, and the case where it has been determined in advance at the time of a transaction between the foreign affiliated person of said consolidated corporation set forth in said paragraph and a non-affiliated person, under a contract, etc. that the assets for said transaction are to be sold, transferred, lent or provided to a consolidated corporation set forth in said paragraph and where the amount of consideration for said sale, transfer, lending or provision is deemed to have been substantially determined between said consolidated corporation and said foreign affiliated person.
- (9) Notwithstanding the provisions of Article 68-88, paragraph (2) of the Act, the arm's length price prescribed in paragraph (1) of said Article for a transaction that was deemed to be a transaction with a foreign affiliated person under the provisions of paragraph (5) of said Article shall be the amount calculated by applying the provisions of paragraph (2) of said Article by deeming that said transaction has been conducted between a consolidated corporation set forth in the preceding paragraph and its foreign affiliated person and by making a necessary adjustment with regard to the differences in the amount of consideration caused when a transaction between said consolidated corporation and said foreign affiliated person is conducted via a non-affiliated person.
- (10) The gross profit margin prescribed in Article 68-88, paragraph (6), item (i) of

the Act or any other ratio specified by Cabinet Order as a ratio equivalent thereto shall be the ratio of the amount of gross profits gained by a corporation which is engaged in the same type of business and whose size and other details are similar as prescribed in said item through said business for a business year including the day on which a transaction with a foreign affiliated person set forth in said item was conducted or for any other period equivalent thereto (such amount of gross profits shall mean the amount obtained by deducting the sum of the costs of inventory assets for the relevant business year or any other period equivalent thereto (where said business is other than that pertaining to the sale of inventory assets, the sum of equivalent costs or expenses; hereinafter referred to as the "amount of gross costs" in this paragraph) from the total revenue arising from the sale of said inventory assets (where said business is other than that pertaining to the sale of inventory assets, the total revenue from said business; hereinafter referred to as the "amount of gross revenue" in this paragraph)) against the amount of gross revenue or gross costs.

(11) The method specified by Cabinet Order as the method similar to the method specified by Cabinet Order prescribed in Article 68-88, paragraph (2), item (i), (d) of the Act or the method listed in paragraph (2), item (ii), (b) of said Article (limited to the method equal to that specified by said Cabinet Order) as prescribed in paragraph (6), item (ii) of said Article shall be the method listed in items (i) to (iv), in the case where a transaction with a foreign affiliated person is for the sale or purchase of inventory assets, and the method listed in item (i) or item (v), in the case where a transaction with a foreign affiliated person is for other than the sale or purchase of inventory assets:

(i) The method which uses, as the amount of consideration for a transaction with a foreign affiliated person, the amount calculated by deeming that the income, which arises from a business pertaining to a transaction with a foreign affiliated person set forth in Article 68-88, paragraph (6) of the Act for the business year including the date on which said transaction with a foreign affiliated person was conducted, based on financial statements containing the consolidated status of property and profits and losses of a corporate group which includes said consolidated corporation and a foreign affiliated person (meaning a foreign affiliated person prescribed in paragraph (1) of said Article) pertaining to said transaction with a foreign affiliated person conducted by said consolidated corporation (where the income arising from said business is not recorded separately from the income arising from other businesses in said financial statements, the income arising from businesses including said business; hereinafter the same shall apply in this item), or for any other period equivalent thereto, is to be attributed to such persons, in accordance with the factors sufficient to estimate the amount of expenses or the value of fixed assets that such persons have spent or used for

conducting said transaction with a foreign affiliated person (where the amount of expenses or the value of fixed assets spent or used for said business is not recorded separately from the amount of expenses or the value of fixed assets spent or used for other businesses in said financial statements, the amount of expenses or the value of fixed assets spent or used for businesses including said business) or any other levels of such persons' contribution to said income

(ii) The method which uses, as the amount of consideration for a transaction with a foreign affiliated person, the remaining amount of consideration gained by the purchasing side of inventory assets for a transaction with a foreign affiliated person for having sold said inventory assets to a non-affiliated person (meaning a person with no special relationship thereto as prescribed in Article 68-88, paragraph (1) of the Act) (hereinafter such amount of consideration shall be referred to as the "resale price" in this item) after deducting the amount obtained by multiplying said resale price by the ratio of the amount listed in (a) against the amount listed in (b) and then adding the selling expenses and general administrative expenses needed for the sale of said inventory assets for a transaction with a foreign affiliated person:

(a) The sum of the operating profits gained by a corporation which is engaged in the same or similar type of business as those pertaining to said transaction with a foreign affiliated person and whose size and other details are similar (hereinafter referred to as a "comparable business" in this item) through the sale of inventory assets for said comparable business for a business year including the day on which said transaction with a foreign affiliated person was conducted or for any other period equivalent thereto (hereinafter referred to as a "comparable business year" in this item)

(b) The total revenue arising from the sale of said inventory assets for a comparable business for said comparable business year

(iii) The method which uses, as the amount of consideration for a transaction with a foreign affiliated person, the amount obtained by adding the amount of the costs spent by the selling side of inventory assets for the transaction with a foreign affiliated person for acquiring the inventory assets through the purchase, manufacture or any other acts (hereinafter referred to as the "amount of acquisition costs" in this item), the amount obtained by multiplying the amount listed in (a) by the ratio of the amount listed in (b) against the amount listed in (c), and the sum of the amounts listed in (a), 2.:

(a) The sum of the amounts listed as follows:

1. The amount of said acquisition costs
2. The amount of the selling expenses and general administrative expenses

needed for the sale of said inventory assets for the transaction with a foreign affiliated person

- (b) The sum of the operating profits gained by a corporation which is engaged in the same or similar type of business as those pertaining to said transaction with a foreign affiliated person and whose size and other details are similar (hereinafter referred to as a "comparable business" in this item) through the sale of inventory assets for said comparable business for a business year including the day on which said transaction with a foreign affiliated person was conducted or for any other period equivalent thereto (hereinafter referred to as a "comparable business year" in this item)
 - (c) The amount obtained by deducting the amount listed in (b) from the total revenue arising from the sale of said inventory assets for the comparable business for said comparable business year
 - (iv) The method equivalent to those listed in the preceding two items
 - (v) The method equal to those listed in the preceding three items
- (12) The requirements specified by Cabinet Order prescribed in Article 68-88, paragraph (19) of the Act shall be the requirements listed as follows:
- (i) With regard to the arm's length price prescribed in Article 68-88, paragraph (19) of the Act which pertains to a transaction with a foreign affiliated person prescribed in said paragraph, the Minister of Finance has reached an agreement, under a tax convention prescribed in said paragraph, with the competent authority of a contracting state other than Japan of said tax convention
 - (ii) The contracting state other than Japan set forth in the preceding item reduces a tax for a foreign affiliated person prescribed in Article 68-88, paragraph (19) of the Act, based on the agreement set forth in the preceding item, and does not add to the amount to be refunded due to said tax reduction, the part of the amount equivalent to the interest on refund that corresponds to the base period for the calculation for which the Minister of Finance has reached an agreement with the competent authority of said contracting state other than Japan.
- (13) The delinquent tax imposed with regard to the corporation tax payable as prescribed in Article 68-88, paragraph (19) of the Act shall be the delinquent tax to be imposed on the amount obtained by deducting the amount equivalent to the corporation tax payable where the provisions of paragraph (1) of said Article do not apply from the corporation tax payable where the provisions of said paragraph apply.
- (14) Where the provisions of Article 68-88, paragraph (1), paragraph (2), item (i), (a) or (b), or paragraph (5) of the Act or the provisions of paragraph (5) shall apply, the existence of any special relationship prescribed in these provisions

or lack thereof shall be determined according to its status at the time when the relevant transactions were conducted.

- (15) With respect to the application of Article 155-16 of the Order for Enforcement of the Corporation Tax Act where the provisions of Article 68-88, paragraph (3) of the Act shall apply, the term "Article 81-6, paragraph (1) or paragraph (2) (Calculation of the Amount of Contributions Expended by Consolidated Corporations to be Excluded from Deductible Expenses) of the Act" in said Article shall be deemed to be replaced with "Article 81-6, paragraph (1) or paragraph (2) (Calculation of the Amount of Contributions Expended by Consolidated Corporations to be Excluded from Deductible Expenses) of the Act or Article 68-88, paragraph (3) (Special Provisions on Taxation of the Transactions of Consolidated Corporations with Their Foreign Affiliated Persons) of the Act on Special Measures Concerning Taxation;" and the term "Article 81-6, paragraph (2) of the Act" in item (ii) of said Article shall be deemed to be replaced with "Article 81-6, paragraph (2) of the Act or Article 68-88, paragraph (3) of the Act on Special Measures Concerning Taxation."

(Application Procedures, etc. for a Grace Period for Tax Payment under the Special Provisions on Taxation of the Transactions of Consolidated Corporations with Their Foreign Affiliated Persons)

Article 39-112-2 (1) The amount calculated as specified by Cabinet Order as the amount of corporation tax and additional tax for said corporation tax prescribed in Article 68-88-2, paragraph (1) of the Act shall be the sum of the amounts listed as follows:

- (i) The amount obtained by deducting the amount of corporation tax payable where the calculation has been made by deeming that the reassessment or determination for the objection prescribed in Article 68-88-2, paragraph (1) of the Act (meaning the reassessment or determination listed in Article 68-88, paragraph (16), item (i) of the Act; hereinafter the same shall apply in this item and paragraph (3), item (ii)) does not cover the part pertaining to the corporation tax prescribed in Article 68-88-2, paragraph (1) of the Act (referred to as the "amount of corporation tax not under a grace period" in the following item) from the amount of corporation tax payable based on said reassessment or determination (referred to as the "amount of corporation tax based on the reassessment or determination" in the following item)
- (ii) The amount obtained by deducting the amount of additional tax (meaning additional tax prescribed in Article 69 of the Act on General Rules for National Taxes; hereinafter the same shall apply in this item) to be imposed based on the amount of corporation tax not under a grace period from the amount of additional tax to be imposed based on the amount of corporation tax based on the reassessment or determination.

- (2) The case where there is no agreement prescribed in Article 68-88-2, paragraph (1) of the Act or any other case specified by Cabinet Order shall be the case listed respectively in the following items and the date specified by Cabinet Order prescribed in said paragraph shall be the date on which the Commissioner of the National Tax Agency notified the fact that the case falls under any of those listed in the relevant items:
- (i) Where the Commissioner of the National Tax Agency finds that an agreement set forth in Article 68-88-2, paragraph (1) of the Act (referred to as an "agreement" in the following item and item (iii)) cannot be reached even if the consultation prescribed in said paragraph (hereinafter referred to as a "mutual consultation" in this paragraph) is continued (excluding the case listed in the items of Article 68-88-2, paragraph (5) of the Act), when he/she has made a request for the termination of said mutual consultation to the competent authority of the other contracting state pertaining to said mutual consultation (meaning a contracting state other than Japan of a tax convention prescribed in Article 1-3, paragraph (1), item (ii); the same shall apply in the following item) and has obtained consent from said competent authority
 - (ii) Where the competent authority of the other contracting state pertaining to a consultation finds that an agreement cannot be reached even if said mutual consultation were continued, when the Commissioner of the National Tax Agency has received a request for the termination of said mutual consultation from said competent authority and has given his/her consent
 - (iii) Where an agreement has been reached on the amount of corporation tax prescribed in Article 68-88-2, paragraph (1) of the Act, when said agreement is not to change said amount of corporation tax.
- (3) A person intending to receive a grace period for tax payment under the provisions of Article 68-88-2, paragraph (1) of the Act shall submit a written application containing the matters listed as follows along with a document certifying that he/she has filed an objection set forth in said paragraph and other documents specified by Ordinance of the Ministry of Finance to the district director, etc. prescribed in Article 46, paragraph (1) of the Act on General Rules for National Taxes:
- (i) The name and place for tax payment of a corporation intending to receive said grace period for tax payment (where the place for tax payment and the location of its head office or principal office are different, the corporation's name, place for tax payment and location of the head office or principal office)
 - (ii) The business year, due date and the amount of payable corporation tax based on the reassessment or determination
 - (iii) The amount for which the corporation intends to receive a grace period for

- tax payment out of the amount set forth in the preceding item
- (iv) Where said amount for which the corporation intends to receive a grace period for tax payment exceeds 500,000 yen, the type, amount, value and location of the security listed in the items of Article 50 of the Act on General Rules for National Taxes which it intends to provide at the time of filing the application (when the security is a guarantee by a guarantor, the guarantor's name and the location, address or domicile of his/her head office or principal office) and any other matters for reference concerning the security (where there is any special circumstance whereby the corporation cannot provide security, said circumstance).
- (4) With respect to the application of the provisions of Article 23, paragraph (1) of the Order for Enforcement of the Act on General Rules for National Taxes, regarding the corporation tax for which a grace period for tax payment has been received pursuant to the provisions of Article 68-88-2, paragraph (1) of the Act, the term "or national tax" in Article 23, paragraph (1) of said Order shall be deemed to be replaced with "(including a grace period for tax payment under the provisions of Article 68-88-2, paragraph (1) (Grace Period for Tax Payment under the Special Provisions on Taxation of the Transactions of Consolidated Corporations with Their Foreign Affiliated Persons) of the Act on Special Measures Concerning Taxation) or national tax."

**Section 26 Special Provisions on Taxation on Interest on Liabilities, etc.
Payable to a Consolidated Corporation's Foreign Controlling
Shareholders, etc.**

- (Special Provisions on Taxation on Interest on Liabilities, etc. Payable to a Consolidated Corporation's Foreign Controlling Shareholders, etc.)
- Article 39-113 (1) The amount calculated as specified by Cabinet Order as the amount equivalent to the excess part prescribed in Article 68-89, paragraph (1) of the Act shall be the amount specified respectively in the following items for the category of cases listed in the relevant items:
- (i) Where the remaining amount after deducting the amount listed in (b) from the amount listed in (a) is equivalent to or less than the amount listed in (c): The amount obtained by calculating the amount of expenses listed in the items of paragraph (14) which said consolidated corporation pays for the relevant consolidated business year to its foreign controlling shareholder, etc. (meaning a foreign controlling shareholder, etc. prescribed in Article 68-89, paragraph (4), item (i) of the Act; hereinafter the same shall apply in this Article) and fund provider, etc. (meaning a fund provider, etc. prescribed in item (ii) of said paragraph; hereinafter the same shall apply in this Article) (such expense shall be limited to what is to be paid, in the case prescribed in

- item (ii) or item (iii) of paragraph (13), when the interest on liabilities pertaining to the funds set forth in those items is included in the taxable income (meaning the taxable income prescribed in Article 68-89, paragraph (4), item (ix) of the Act; the same shall apply in (b)) of the person who is to receive payment of said interest; such amount of expenses shall be referred to as the "amount of the guarantee charge, etc. related to taxable income" in the following item) and then multiplying said amount of expenses by the ratio obtained by dividing the remaining amount after deducting the amount listed in (c) from the amount listed in (a) (such remaining amount shall be referred to as the "amount exceeding the average balance of liabilities" in the following item and the following paragraph) by the amount listed in (b):
- (a) The average balance of liabilities (meaning the average balance of liabilities prescribed in Article 68-89, paragraph (4), item (v) of the Act; hereinafter the same shall apply in this Article) regarding the liabilities owed, for the relevant consolidated business year of said consolidated corporation, to said foreign controlling shareholder, etc. and fund provider, etc. (meaning the liabilities owed to a foreign controlling shareholder, etc. and a fund provider, etc. prescribed in item (iv) of said paragraph; hereinafter the same shall apply in this Article)
 - (b) The average balance of liabilities regarding the liabilities specified by Cabinet Order prescribed in Article 68-89, paragraph (4), item (iv) of the Act owed to a fund provider, etc. (limited to the liabilities regarding those whose interest is included in the taxable income of a person who is to receive payment of said interest)
 - (c) The amount obtained by multiplying the equity interest held by a foreign controlling shareholder, etc. for the relevant consolidated business year of said consolidated corporation (meaning the equity interest held by a foreign controlling shareholder, etc. prescribed in Article 68-89, paragraph (4), item (vi) of the Act; the same shall apply in paragraph (4) and paragraph (7)) by three (where said consolidated corporation receives the application of the provisions of paragraph (3) of said Article, by the multiple number prescribed in said paragraph; the same shall apply in the following paragraph)
- (ii) Where the remaining amount after deducting the amount listed in (b) from the amount listed in (a) of the preceding item exceeds the amount listed in (c): The sum of the amounts listed as follows:
- (a) The amount obtained by deducting the amount of the guarantee charge, etc. related to taxable income from the amount of interest on liabilities, etc. (meaning the interest on liabilities, etc. prescribed in Article 68-89, paragraph (4), item (iii) of the Act; hereinafter the same shall apply in this Article) that said consolidated corporation pays for the relevant

consolidated business year to said foreign controlling shareholder, etc. and fund provider, etc. and then multiplying the remaining amount after deduction by the ratio obtained by dividing the remaining amount after deducting the amount listed in (b) of the preceding item from the amount exceeding the average balance of liabilities by the remaining amount after deducting the amount listed in (b) of said item from the amount listed in (a) of said item

(b) The amount of guarantee charge, etc. for the taxable income.

(2) With respect to the application of the provisions of the preceding paragraph where the remaining amount after deducting the amount obtained by multiplying the amount of equity capital (meaning the amount of equity capital prescribed in Article 68-89, paragraph (4), item (vii) of the Act; hereinafter the same shall apply in this Article) for the relevant consolidated business year of said consolidated corporation by three from the average balance of liabilities regarding the total liabilities prescribed in Article 68-89, paragraph (1) of the Act for the relevant consolidated business year of said consolidated corporation is less than the amount exceeding the average balance of liabilities for the relevant consolidated business year of said consolidated corporation, in item (i) of the preceding paragraph, the term "the remaining amount after deducting the amount listed in (b) from the amount listed in (a) is equivalent to or less than the amount listed in (c)" shall be deemed to be replaced with "the remaining amount after deducting the amount obtained by multiplying the amount of equity capital prescribed in Article 68-89, paragraph (4), item (vii) of the Act for the relevant consolidated business year of said consolidated corporation by three from the average balance of liabilities regarding the total liabilities prescribed in Article 68-89, paragraph (1) of the Act for the relevant consolidated business year of said consolidated corporation (hereinafter such remaining amount shall be referred to as "the amount exceeding the average balance of the total liabilities" in this paragraph) is equivalent to or less than the amount listed in (b);" the term "Article 68-89, paragraph (4), item (i) of the Act" shall be deemed to be replaced with "paragraph (4), item (i) of said Article;" and the term "remaining amount after deducting the amount listed in (c) from the amount listed in (a) (such remaining amount shall be referred to as the "amount exceeding the average balance of liabilities" in the following item and the following paragraph)" shall be deemed to be replaced with "the amount exceeding the average balance of the total liabilities;" and in item (ii) of said paragraph, the term "the remaining amount after deducting the amount listed in (b) from the amount listed in (a) of the preceding item exceeds the amount listed in (c)" shall be deemed to be replaced with "the amount exceeding the average balance of the total liabilities exceeds the amount listed in (b) of the preceding item;" and the term "the amount exceeding the average balance of

liabilities" shall be deemed to be replaced with "the amount exceeding the average balance of the total liabilities."

- (3) Where the provisions of Article 68-89, paragraph (1) of the Act shall apply, the amount of interest on liabilities, etc. to be paid by a consolidated corporation prescribed in said paragraph to said foreign controlling shareholder, etc. and fund provider, etc. for the relevant consolidated business year shall be based on the amount posted by said consolidated corporation as an expense for the relevant consolidated business year.
- (4) With respect to the application of the provisions of Article 68-89, paragraph (1) of the Act where there are two or more foreign controlling shareholders, etc. of a consolidated corporation, the average balance of liabilities regarding the liabilities owed to foreign controlling shareholders, etc. and fund providers, etc., equity interest held by foreign controlling shareholders, etc. and the amount of interest on liabilities, etc. to be paid to foreign controlling shareholders, etc. and fund providers, etc. shall be based on the sum of the average balance of liabilities regarding the liabilities owed to foreign controlling shareholders, etc. and fund providers, etc., equity interest held by foreign controlling shareholders, etc. and the amount of interest on liabilities, etc. to be paid to foreign controlling shareholders, etc. and fund providers, etc., respectively.
- (5) The average balance of liabilities pertaining to a specified bond transaction with a repurchase/resale agreement, etc. which is calculated as specified by Cabinet Order and is to be deducted from the average balance of liabilities regarding the liabilities owed to a foreign controlling shareholder, etc. and a fund provider, etc. prescribed in Article 68-89, paragraph (2) of the Act shall be the average balance of liabilities regarding the liabilities owed to the foreign controlling shareholder, etc. and fund provider, etc. of the consolidated corporation which pertain to a specified bond transaction with a repurchase/resale agreement, etc. (meaning a specified bond transaction with a repurchase/resale agreement, etc. prescribed in Article 68-89, paragraph (4), item (viii) of the Act; the same shall apply in the following paragraph and paragraph (8)) (where said average balance of liabilities exceeds the average balance of assets regarding assets pertaining to a specified bond transaction with a repurchase/resale agreement, etc. (the average balance of assets shall mean the amount calculated by a reasonable method as the average balance of said assets' book value for the relevant consolidated business year; the same shall apply in the following paragraph), such calculated average balance of liabilities shall be said average balance of assets; such average balance of assets shall be referred to as the "average balance of liabilities after adjustment" in paragraph (8)).
- (6) The average balance of liabilities pertaining to a specified bond transaction with a repurchase/resale agreement, etc. which is calculated as specified by

Cabinet Order and is to be deducted from the average balance of liabilities regarding the total liabilities for the relevant consolidated business year prescribed in Article 68-89, paragraph (2) of the Act shall be the average balance of liabilities regarding the total liabilities for the relevant consolidated business year (limited to those which are to be the cause of payment of interest on liabilities, etc.; the same shall apply in paragraph (10)) which pertain to a specified bond transaction with a repurchase/resale agreement, etc. (where said average balance of liabilities exceeds the average balance of assets regarding assets pertaining to a specified bond transaction with a repurchase/resale agreement, etc., such calculated average balance of liabilities shall be said average balance of assets).

- (7) The multiple number applicable to the equity interest held by a foreign controlling shareholder, etc. which is calculated as specified by Cabinet Order prescribed in Article 68-89, paragraph (2) of the Act shall be the multiple number obtained by calculating the average balance of liabilities by deducting the average balance of liabilities pertaining to a specified bond transaction with a repurchase/resale agreement, etc. calculated as specified by Cabinet Order prescribed in said paragraph from the average balance of liabilities regarding the liabilities owed to a foreign controlling shareholder, etc. and a fund provider, etc. prescribed in said paragraph and then dividing the calculated average balance of liabilities by the equity interest held by the foreign controlling shareholder, etc. of the consolidated corporation; and the multiple number applicable to the amount of equity capital which is calculated as specified by Cabinet Order prescribed in said paragraph shall be the multiple number obtained by calculating the average balance of liabilities by deducting the average balance of liabilities pertaining to a specified bond transaction with a repurchase/resale agreement, etc. calculated as specified by Cabinet Order prescribed in said paragraph from the average balance of liabilities regarding the total liabilities for the relevant consolidated business year prescribed in said paragraph and then dividing the calculated average balance of liabilities by the amount of equity capital of said consolidated corporation.
- (8) The amount of interest on liabilities, etc. pertaining to a specified bond transaction with a repurchase/resale agreement, etc. which is calculated as specified by Cabinet Order and is to be deducted from the amount of interest on liabilities, etc. to be paid to a foreign controlling shareholder, etc. and a fund provider, etc. prescribed in Article 68-89, paragraph (2) of the Act shall be the amount obtained by multiplying the amount of interest on liabilities, etc. to be paid to the foreign controlling shareholder, etc. and fund provider, etc. of the consolidated corporation which pertain to a specified bond transaction with a repurchase/resale agreement, etc. by the ratio obtained by dividing the

average balance of liabilities after adjustment by the average balance of liabilities regarding the liabilities pertaining to said specified bond transaction with a repurchase/resale agreement, etc.

- (9) With respect to the application of the provisions of paragraphs (1) to (4) in the case where the provisions of Article 68-89, paragraph (2) of the Act is applied, the term "and then multiplying said amount of expenses by the ratio" in paragraph (1), item (i) shall be deemed to be replaced with ", then deducting the amount obtained by multiplying the part of said amount of expenses that pertains to a specified bond transaction with a repurchase/resale agreement, etc. (meaning a specified bond transaction with a repurchase/resale agreement, etc. prescribed in Article 68-89, paragraph (4), item (viii) of the Act; hereinafter the same shall apply in this item) by the ratio obtained by dividing the average balance of liabilities after adjustment (meaning the average balance of liabilities after adjustment prescribed in paragraph (5); hereinafter the same shall apply in this item) regarding the liabilities for said amount by the average balance of liabilities (meaning the average balance of liabilities prescribed in paragraph (4), item (v) of said Article; hereinafter the same shall apply in this Article) regarding the liabilities for said amount which pertains to a specified bond transaction with a repurchase/resale agreement, etc., and then multiplying the remaining amount after deduction by the ratio;" the term "The average balance of liabilities (meaning the average balance of liabilities prescribed in item (v) of said paragraph; hereinafter the same shall apply in this Article)" in (a) of paragraph (1), item (i) shall be deemed to be replaced with "The remaining amount after deducting the average balance of liabilities after adjustment from the average balance of liabilities;" the term "The average balance of liabilities" in (b) of said item shall be deemed to be replaced with "The remaining amount after deducting the average balance of liabilities after adjustment regarding said liabilities from the average balance of liabilities;" the term "three" in (c) of said item shall be deemed to be replaced with "two;" the term "The amount obtained by deducting the amount of the guarantee charge, etc. related to taxable income" in (a) of paragraph (1), item (ii) shall be deemed to be replaced with "The amount obtained by deducting the sum of the amount of interest on liabilities, etc. pertaining to a specified bond transaction with a repurchase/resale agreement, etc. prescribed in paragraph (2) of said Article and the amount of the guarantee charge, etc. related to taxable income;" the term "where the remaining amount after deducting the amount" in paragraph (2) shall be deemed to be replaced with "where the remaining amount after deducting the sum of the average balance of liabilities regarding the average balance of liabilities which pertain to a specified bond transaction with a repurchase/resale agreement, etc. prescribed in paragraph (6) and the amount;" and the term "by three" in said paragraph shall be

deemed to be replaced with "by two."

- (10) The percentage specified by Cabinet Order prescribed in Article 68-89, paragraph (3) of the Act shall be the percentage of the amount of the total liabilities of a domestic corporation whose business size set forth in paragraph (3) of said Article and other details are similar to those of a consolidated corporation which seeks the application of the provisions of said paragraph (hereinafter referred to as an "applicable corporation" in this paragraph) on the final day of any of said domestic corporation's relevant business years or consolidated business years that ended within three years until the final day of the applicable corporation's relevant consolidated business year (where said applicable corporation receives the application of the provisions of paragraph (2) of said Article, the percentage of the remaining amount of the total liabilities after deducting the amount specified by Ordinance of the Ministry of Finance) against the sum of the amounts of stated capital, statutory reserve, and surplus on the same day. In this case, where there are any fractions after two decimal places, they shall be rounded up.
- (11) The special relationship specified by Cabinet Order prescribed in Article 68-89, paragraph (4), item (i) of the Act shall be a relationship listed as follows:
- (i) A relationship whereby out of the total number or total amount of issued shares or capital contributions of said consolidated corporation (excluding shares it holds in itself or capital contributions held thereby) (hereinafter referred to as the "issued shares, etc." in this Article), 50 percent or more of shares or capital contributions (hereinafter referred to as the "shares, etc." in this Article) are held directly or indirectly by a foreign controlling shareholder, etc.
 - (ii) Where 50 percent or more of the issued shares, etc. of said consolidated corporation and a foreign corporation are respectively held directly or indirectly by the same person (where said person is an individual, including an individual who has a special relationship prescribed in Article 4, paragraph (1) of the Order for Enforcement of the Corporation Tax Act to said individual), the relationship between said consolidated corporation and said foreign corporation (excluding any relationship falling under that listed in the preceding item)
 - (iii) A relationship whereby the existence of the facts listed as follows or any other facts equivalent thereto between said consolidated corporation and a nonresident (meaning a nonresident prescribed in Article 2, paragraph (1), item (i)-2 of the Act) or a foreign corporation (hereinafter such nonresident or foreign corporation shall be referred to as a "nonresident, etc." in this item) enables said nonresident, etc. to determine substantially the whole or a part of said consolidated corporation's business policies (excluding any relationship falling under that listed in the preceding two items):

- (a) The fact that said consolidated corporation depends on transactions with said nonresident, etc. for a considerable part of its business activities
 - (b) The fact that said consolidated corporation has borrowed a considerable part of the funds necessary for its business activities from said nonresident, etc. or has procured a considerable part of the funds necessary for its business activities by obtaining guarantees from said nonresident, etc.
 - (c) The fact that 50 percent or more of the officers or officers with the representative authority of said consolidated corporation are persons who are officers or have status as officers and employees of said foreign corporation or who were formerly said foreign corporation's officers or employees.
- (12) The provisions of Article 39-112, paragraph (2) and paragraph (3) shall apply mutatis mutandis to the determination as to whether or not 50 percent or more of the issued shares, etc. set forth in item (i) and item (ii) of the preceding paragraph are held directly or indirectly.
- (13) A person who provides a consolidated corporation with funds and a person specified by Cabinet Order as being related to such provision of funds as prescribed in Article 68-89, paragraph (4), item (ii) of the Act shall be any of the following:
- (i) Where it is found that the foreign controlling shareholder, etc. of the consolidated corporation has provided said consolidated corporation with funds via a third party: Said third party
 - (ii) Where it is found that a foreign controlling shareholder, etc. of the consolidated corporation has offered guarantees for said consolidated corporation's liabilities to a third party and thereby said third party has provided said consolidated corporation with funds: Said third party
 - (iii) Where it is found that bonds that the foreign controlling shareholder, etc. of the consolidated corporation has lent to said consolidated corporation (including bonds lent by a third party to said consolidated corporation based on guarantees for said consolidated corporation's liabilities offered by said foreign controlling shareholder, etc.) have been provided to any other third party as security and have been transferred in a bond transaction with a repurchase/resale agreement (meaning a bond transaction with a repurchase/resale agreement prescribed in Article 42-2, paragraph (1) of the Act) or lent in a cash-secured bond lending transaction (meaning a cash-secured bond lending transaction prescribed in Article 66-5, paragraph (4), item (viii) of the Act) and thereby said other third party has provided said consolidated corporation with funds: Said third party and other third party.
- (14) The expense specified by Cabinet Order prescribed in Article 68-89, paragraph (4), item (iii) of the Act shall be the expense listed as follows:
- (i) In the case prescribed in item (ii) of the preceding paragraph, the guarantee

- charge for the liabilities set forth in said item which a consolidated corporation set forth in said item pays its foreign controlling shareholder, etc.
- (ii) In the case prescribed in item (iii) of the preceding paragraph, the charge for bonds set forth in said item or guarantee charge for the liabilities set forth in said item which a consolidated corporation set forth in said item pays to its foreign controlling shareholder, etc. or the charge for bonds set forth in said item which said consolidated corporation pays to a third party set forth in said item.
- (15) The liabilities specified by Cabinet Order prescribed in Article 68-89, paragraph (4), item (iv) of the Act shall be the liabilities set forth in the items of paragraph (13) in the cases prescribed in the relevant items.
- (16) The amount calculated as specified by Cabinet Order as the average amount of liabilities prescribed in Article 68-89, paragraph (4), item (v) of the Act shall be the amount calculated by a reasonable method as the average balance of the book value of the liabilities for the relevant consolidated business year.
- (17) The amount calculated as specified by Cabinet Order as the interest on a consolidated corporation's net assets held by a foreign controlling shareholder, etc. as prescribed in Article 68-89, paragraph (4), item (vi) of the Act shall be the amount obtained by multiplying the amount of equity capital for the relevant consolidated business year of said consolidated corporation by the ratio of the shares, etc. regarding said consolidated corporation held directly or indirectly by a foreign controlling shareholder, etc. on the final day of the relevant consolidated business year out of said consolidated corporation's issued shares, etc.
- (18) The shares, etc. held directly or indirectly as prescribed in the preceding paragraph shall be the total number or the sum of a consolidated corporation's shares, etc. that are held directly by its foreign controlling shareholder, etc. and the consolidated corporation's shares, etc. that are held indirectly by said foreign controlling shareholder, etc. (meaning the shares, etc. calculated by multiplying said consolidated corporation's issued shares, etc. by the ratio specified respectively in the following items for the category of cases listed in the relevant items (where this falls under both of the following cases, the sum of the ratios specified respectively as follows)):
- (i) Where the whole or a part of the issued shares, etc. of any other domestic corporation which is a shareholder, etc. (meaning a shareholder, etc. prescribed in Article 2, item (xiv) of the Corporation Tax Act; hereinafter the same shall apply in this item and paragraph (22)) of a consolidated corporation are held by said consolidated corporation's foreign controlling shareholder, etc.: The ratio obtained by multiplying said foreign controlling shareholder, etc.'s ratio of shareholding (meaning the ratio of the shares, etc. held by a shareholder, etc. out of the total issued shares, etc.; hereinafter the

same shall apply in this paragraph and paragraph (22)) pertaining to said other domestic corporation by said other domestic corporation's ratio of shareholding pertaining to said consolidated corporation (where there are two or more other domestic corporations, the sum of the ratios calculated for each of them)

- (ii) Where a single domestic corporation or two or more domestic corporations are interposed between the consolidated corporation and any other domestic corporation, the whole or a part of whose issued shares, etc. are held by said consolidated corporation's foreign controlling shareholder, etc. (hereinafter such interposed domestic corporation shall be referred to as "domestic corporations related through capital contribution" in this paragraph) and said foreign controlling shareholder, etc., said other domestic corporation, domestic corporations related through capital contribution and said consolidated corporation have a link through the holding of the shares, etc.: The ratio obtained by multiplying said foreign controlling shareholder, etc.'s ratio of shareholding in said other domestic corporation sequentially by said other domestic corporation's ratio of shareholding in the domestic corporation related through capital contribution, by the domestic corporation related through capital contribution's ratio of shareholding in the other domestic corporation related through capital contribution, and by the domestic corporation related through capital contribution's ratio of shareholding in said consolidated corporation (where there are two or more links, the sum of the ratios calculated for each of them).
- (19) Where a consolidated corporation and its foreign controlling shareholder, etc. have a relationship as listed in paragraph (11), item (ii), when the same person prescribed in said item is a resident or any other domestic corporation prescribed in Article 2, paragraph (1), item (i)-2 of the Act, the provisions of the preceding two paragraphs shall apply by deeming said same person to be a foreign controlling shareholder, etc. related to said consolidated corporation.
- (20) The amount calculated as specified by Cabinet Order as the amount of net assets prescribed in Article 68-89, paragraph (4), item (vii) of the Act shall be the remaining amount after deducting the amount listed in item (ii) from the amount listed in item (i) (where said remaining amount is less than the amount of consolidated individual stated capital, etc. prescribed in Article 2, item (xvii)-2 of the Corporation Tax Act on the final day of the relevant consolidated business year of said consolidated corporation (where said amount of consolidated individual stated capital, etc. is less than the amount of stated capital or capital contributions, said amount of stated capital or capital contributions; hereinafter referred to as the "amount of consolidated individual stated capital, etc." in this paragraph and paragraph (22)), such calculated amount shall be said amount of consolidated individual stated capital, etc.):

- (i) The amount calculated by a reasonable method as the average balance of the book value of the total assets for the relevant consolidated business year of said consolidated corporation (such book value shall mean the remaining amount after deducting the amount set aside as reserve funds by the appropriation of surplus and the amount set aside as reserves for special depreciation pursuant to the provisions of Article 52-3 or Article 68-41 of the Act (limited to the amount set aside as reserve funds by the appropriation of surplus) in lieu of reducing the book value of fixed assets by accounting for the amount as a loss)
 - (ii) The amount calculated by a reasonable method as the average balance of the book value of the total liabilities for the relevant consolidated business year of said consolidated corporation.
- (21) The book value set forth in paragraph (5) and paragraph (16) and the preceding paragraph shall be based on the amount of assets or liabilities that said domestic corporation entered in its accounting books.
- (22) Where any other domestic corporation which is a shareholder, etc. of a consolidated corporation or where domestic corporations related through capital contribution (meaning a single domestic corporation or two or more domestic corporations which have a link with said consolidated corporation and said other domestic corporation through the holding of shares, etc.; the same shall apply in the following paragraph) are interposed between said consolidated corporation and its foreign controlling shareholder, etc., when the amount obtained by multiplying the amount of consolidated individual stated capital, etc. on the final day of the relevant consolidated business year of said consolidated corporation by the ratio of said consolidated corporation's shareholding in said other domestic corporation or domestic corporation related through capital contribution exceeds the amount of stated capital, etc. prescribed in Article 39-13, paragraph (22) of said other domestic corporation or domestic corporation related through capital contribution on the same day (for a corporation falling under the category of a corporation subject to corporation tax on consolidated income prescribed in Article 2, item (xvi) of the Corporation Tax Act, when such amount exceeds the amount of consolidated individual stated capital, etc.), the amount of equity capital pertaining to said consolidated corporation shall be the remaining amount after deducting from said amount of equity capital, the smaller amount of either said excess amount or the amount of the liabilities owed by said other domestic corporation or domestic corporation related through capital contribution to the consolidated corporation's foreign controlling shareholder, etc. and fund provider, etc. on the same day (referred to as the "deductible amount" in the following paragraph).
- (23) In the case prescribed in the preceding paragraph, when deeming a domestic corporation related through capital contribution set forth in said paragraph to

be the consolidated corporation set forth in said paragraph and if there is any deductible amount pertaining to said domestic corporation related through capital contribution, the amount of stated capital, etc. set forth in said paragraph of said domestic corporation related through capital contribution shall be the remaining amount after deducting said deductible amount from said amount of stated capital, etc.; and the amount of the liabilities owed by said domestic corporation related through capital contribution to a foreign controlling shareholder, etc. and a fund provider, etc. set forth in said paragraph shall be the amount obtained by adding the amount of the liabilities owed to said foreign controlling shareholder, etc. and fund provider, etc. and said deductible amount.

- (24) With respect to the application of the provisions of Article 155-8 of the Order for Enforcement of the Corporation Tax Act in the case where the provisions of Article 68-89, paragraph (1) of the Act apply, the term "the sum of the amount of interest on liabilities prescribed in said paragraph to be paid for the relevant business year" in Article 155-8, paragraph (1) of said Order shall be deemed to be replaced with "the sum of the amount of interest on liabilities prescribed in said paragraph to be paid for the relevant business year (where there is any amount that shall not be included in deductible expenses pursuant to the provisions of Article 68-89, paragraph (1) (Special Provisions on Taxation on Interest on Liabilities, etc. Payable to a Consolidated Corporation's Foreign Controlling Shareholders, etc.) of the Act on Special Measures Concerning Taxation, such sum shall be the remaining amount after deducting said amount);" the term "the sum of the amount of interest on liabilities that a domestic corporation set forth in said paragraph pays for the business year set forth in said paragraph" in paragraph (2) of said Article shall be deemed to be replaced with "the sum of the amount of interest on liabilities that a domestic corporation set forth in said paragraph pays for the business year set forth in said paragraph (where there is any amount that shall not be included in deductible expenses pursuant to the provisions of Article 68-89, paragraph (1) (Special Provisions on Taxation on Interest on Liabilities, etc. Payable to a Consolidated Corporation's Foreign Controlling Shareholders, etc.) of the Act on Special Measures Concerning Taxation, such sum shall be the remaining amount after deducting said amount);" the term "the amount listed in item (i)" in paragraph (1) and paragraph (2) of said Article shall be deemed to be replaced with "the amount listed in item (i) (where there is any amount that shall not be included in deductible expenses pursuant to the provisions of Article 68-89, paragraph (1) of the Act on Special Measures Concerning Taxation, such amount shall be the remaining amount after deducting the amount equivalent to the amount exceeding the average balance of liabilities prescribed in Article 39-113, paragraph (1), item (i) (Calculation of the Amount

of Interest on Liabilities, etc. Payable by Consolidated Corporations to Foreign Controlling Shareholders, etc. to be Excluded from Deductible Expenses) of the Order for Enforcement of the Act on Special Measures Concerning Taxation (including the cases where it is applied by replacing the terms under the provisions of paragraph (9) of said Article) (in the case where the provisions of paragraph (1) of said Article are applied by replacing the terms under the provisions of paragraph (2) of said Article, after deducting the amount equivalent to the amount exceeding the average balance of the total liabilities prescribed in said item which is applied by replacing the terms under the provisions of paragraph (2) of said Article))."

Section 27 Special Provisions on Taxation on Income of a Consolidated Corporation's Specified Foreign Subsidiaries

(Scope of the Specified Foreign Subsidiary, etc. of a Consolidated Corporation)

Article 39-114 (1) The foreign affiliated person specified by Cabinet Order prescribed in Article 68-90, paragraph (1) of the Act shall be any of the following:

- (i) A foreign affiliated person that has its head office or principal office in a state or territory where there are no taxes imposed on corporate income (meaning a foreign affiliated person prescribed in Article 68-90, paragraph (2), item (i) of the Act; hereinafter the same shall apply in this Section)
 - (ii) A foreign affiliated person whose tax imposed on its income for the relevant business year is 25 percent or less of said income.
- (2) Whether or not a foreign affiliated person falls under the category of a foreign affiliated person set forth in item (ii) of the preceding paragraph shall be determined as specified as follows:
- (i) The amount of income set forth in item (ii) of the preceding paragraph shall be the amount obtained by adding the amount of income calculated pursuant to the provisions of the laws and regulations concerning foreign corporation taxes (meaning foreign corporation taxes prescribed in Article 69, paragraph (1) of the Corporation Tax Act; hereinafter the same shall apply in this Section) of the state or territory where said foreign affiliated person's head office or principal office is located (hereinafter referred to as the "state of the head office" in this Section) (where there are two or more laws and regulations concerning said foreign corporation taxes, pursuant to the provisions of the principal ones; hereinafter referred to as the "laws and regulations of the state of the head office" in this paragraph) with regard to said foreign affiliated person's income in its settlement of accounts for the relevant business year and the sum of the amounts listed in (a) to (e) pertaining to said calculated amount of income and then deducting therefrom

the amount listed in (f) pertaining to said calculated amount of income:

- (a) The amount of income which shall not be included in the foreign corporation tax base under the laws and regulations of the state of the head office (excluding the amounts listed as follows):
 1. The amount of a dividend of surplus, dividend of profit or distribution of surplus prescribed in Article 23, paragraph (1), item (i) of the Corporation Tax Act (hereinafter referred to as a "dividend of surplus, etc." in this Section) to be received from a corporation located in the state of the head office (including the amount specified in Article 68-92, paragraph (1), item (ii) of the Act; hereinafter referred to as the "amount of a dividend, etc." in this paragraph)
 2. The amount of a dividend, etc. to be received from a corporation located in a state or territory other than the state of the head office, which shall not be included in the foreign corporation tax base on condition that the ratio of the shares, etc. (meaning shares or capital contributions; hereinafter the same shall apply in this Section) held by the foreign affiliated person out of the total number or total amount of said corporation's issued shares or capital contributions (excluding shares that said corporation holds in itself) (hereinafter referred to as the "issued shares, etc." in this Section) is not less than the ratio specified by said laws and regulations of the state of the head office
- (b) The amount of a dividend, etc. that the foreign affiliated person shall pay and which is included in deductible expenses
- (c) The amount of foreign corporation tax that the foreign affiliated person shall pay and which is included in deductible expenses
- (d) The amount equivalent to the amount of reserves among the casualty reserves set forth in Article 57-5, paragraph (1) or Article 57-6, paragraph (1) of the Act (hereinafter referred to as the "insurance reserves" in this paragraph and paragraph (2) of the following Article) that the foreign affiliated person has saved, which are included in deductible expenses, which are not to be included in deductible expenses when the provisions of Article 57-5 or Article 57-6 of the Act apply
- (e) Where the amount of the insurance reserves that has been set aside by the foreign affiliated person and has been included in gross profits (limited to the insurance reserves that are set aside when the provisions of Article 57-5 or Article 57-6 of the Act apply) does not reach the amount that should be included in gross profits when these provisions apply, the amount of said shortfall
- (f) The amount of foreign corporation tax that shall be refunded to the foreign affiliated person and which is included in gross profits
- (ii) The amount of tax set forth in item (ii) of the preceding paragraph shall be

the sum of the amounts listed as follows:

- (a) The amount of foreign corporation tax to be imposed on the amount of the foreign affiliated person's income in its settlement of accounts for the relevant business year in the state of the head office or in a state or territory other than the state of the head office (including the amount to be deducted from the foreign corporation tax in the state of the head office by deeming that said foreign affiliated person has paid said amount under the laws and regulations of the state of the head office and excluding the amount of foreign corporation tax to be imposed on the amount listed in (a), 2. of the preceding item)
- (b) The amount of foreign corporation tax reduced or exempted for the foreign affiliated person for the relevant business year in the state of the head office and which is deemed to have been paid by said foreign affiliated person pursuant to the provisions of a tax convention prescribed in Article 1-3, paragraph (1), item (ii) in the case where the affiliated foreign company's domestic corporation is subject to the provisions of Article 69, paragraph (8) or Article 81-15, paragraph (8) of the Corporation Tax Act
- (iii) Where foreign corporation tax rates of the state of the head office increase in accordance with the amount of income, the amount of foreign corporation tax set forth in (a) of the preceding item shall be the amount calculated based on the highest rates out of such tax rates
- (iv) Where the amount of income set forth in item (ii) of the preceding paragraph proves to be a loss, the amount of foreign corporation tax shall be determined based on the foreign corporation tax rate to be applied in the state of the head office to any income that arises from revenue from the foreign affiliated person's principal business (in the case where said revenue falls under the category of the amount listed in 1. or 2. of item (i), (a), revenue other than said revenue)

(Calculation of the Undistributed Income of the Specified Foreign Subsidiary, etc. of a Consolidated Corporation)

Article 39-115 (1) The amount of undistributed income calculated in accordance with the standards specified by Cabinet Order prescribed in Article 68-90, paragraph (2), item (ii) of the Act shall be the remaining amount after deducting the amount listed in item (iii) pertaining to the income of a specified foreign subsidiary, etc. prescribed in paragraph (1) of said Article (hereinafter referred to as a "specified foreign subsidiary, etc." in this Article and paragraphs (1) to (3) of the following Article) in its settlement of accounts for the relevant business year from the sum of the amount listed in item (i) and the amount listed in item (ii) pertaining to said income (where the amount listed in item (i) pertaining to said income is a loss, said amount of

undistributed income shall be the remaining amount after deducting the sum of said amount of loss and the amount listed in item (iii) pertaining to said income from the amount listed in item (ii) pertaining to said income):

- (i) The amount of income or loss calculated, with regard to the income of a specified foreign subsidiary, etc. in its settlement of accounts for the relevant business year, in accordance with the provisions of Part II, Chapter I, Section 1, Subsection 2 to Subsection 9 (excluding Article 23, Article 26, paragraphs (1) to (4), Article 28, Articles 38 to 41, Article 55, paragraph (3), Article 57, Article 58, Article 59, and Articles 61-11 to 61-13 of the Corporation Tax Act), and Subsection 11 of said Act, and the provisions of Article 43, Article 45-2, Article 52-2, Article 57-5, Article 57-6, Article 57-8, Article 57-10, Article 61-4, Articles 65-7 to 65-9 (limited to the part pertaining to item (xix) of the table in Article 65-7, paragraph (1) of the Act), Article 66-4, paragraph (3), Article 67-12 and Article 67-13 of the Act (hereinafter referred to as the "provisions of the laws and regulations of Japan" in this item) (where the provisions of Article 68-88, paragraph (1) or Article 66-4, paragraph (1) of the Act is applied to a transaction with a consolidated corporation listed in the items of Article 68-90, paragraph (1) of the Act (including other consolidated corporations which have the consolidated full controlling interest with said consolidated corporation) or a domestic corporation listed in the items of Article 66-6, paragraph (1) of the Act that is the domestic corporation of said specified foreign subsidiary, etc., the amount of income or loss calculated in accordance with the provisions of the laws and regulations of Japan by deeming that the transaction was carried out at the arm's length price prescribed in these provisions)
 - (ii) The amount of corporate income tax payable in the relevant business year (meaning taxes to be imposed based on the amount of the corporation's income in the state of the head office or in a state or territory other than the state of the head office or by local entities in such state or territory including the state of the head office (including taxes listed in the items of Article 141, paragraph (2) of the Order for Enforcement of the Corporation Tax Act to be imposed in such state or territory or by local entities in such state or territory) and taxes equivalent to incidental taxes to be imposed incidentally as prescribed in Article 2, item (xlv) of the Corporation Tax Act (excluding interest tax) and other taxes similar to the tax equivalent to said incidental taxes; hereinafter the same shall apply in this Section)
 - (iii) The amount of corporate income tax to be refunded in the relevant business year.
- (2) Notwithstanding the provisions of the preceding paragraph, a consolidated corporation listed in the items of Article 68-90, paragraph (1) of the Act may deem that the amount obtained by adding the amount of income calculated,

with regard to the income of a specified foreign subsidiary, etc. in its settlement of accounts for the relevant business year, pursuant to the provisions of the laws and regulations concerning corporate income taxes of the state of the head office of said specified foreign subsidiary, etc. (where there are two or more laws and regulations concerning said corporate income taxes, pursuant to the provisions of the principal ones; hereinafter referred to as the "laws and regulations of the state of the head office" in this paragraph), (where the provisions of Article 68-88, paragraph (1) or Article 66-4, paragraph (1) of the Act is applied to a transaction between said specified foreign subsidiary, etc. and said consolidated corporation (including other consolidated corporations which have the consolidated full controlling interest with said consolidated corporation) or domestic corporation listed in the items of Article 66-6, paragraph (1) of the Act, the amount of income calculated pursuant to the provisions of the laws and regulations of the state of the head office by deeming that the transaction was carried out at the arm's length price prescribed in said paragraph), and the sum of the amount listed in items (i) to (xiii) pertaining to said calculated amount of income and then deducting therefrom the amount listed in items (xiv) to (xvi) pertaining to said calculated amount of income (where the amount calculated pursuant to the provisions of the laws and regulations of the state of the head office proves to be a loss, said amount shall be the remaining amount after deducting the sum of said amount of loss and the amount listed in items (xiv) to (xvi) pertaining to said calculated amount from the sum of the amounts listed in items (i) to (xiii) pertaining to said calculated amount) shall be the amount calculated in accordance with the standards specified by Cabinet Order prescribed in Article 68-90, paragraph (2), item (ii) of the Act; provided, however, that this shall apply only when said other consolidated corporations are not subject to the provisions of the preceding paragraph with regard to said calculated amount pertaining to said specified foreign subsidiary, etc.:

- (i) The amount of income which shall not be included in the corporate income tax base for the relevant business year under the laws and regulations of the state of the head office
- (ii) The amount of a dividend of surplus, etc. (including the amount specified in Article 68-92, paragraph (1), item (ii) of the Act; referred to as the "amount of a dividend, etc." in the following paragraph) that the specified foreign subsidiary, etc. shall pay and which is included in deductible expenses for the relevant business year
- (iii) The excess amount that exceeds the amount equivalent to that to be included in deductible expenses, when the provisions of Article 31 of the Corporation Tax Act apply, out of the amount included in deductible expenses for the relevant business year as the depreciation allowance for the

- depreciable assets that the specified foreign subsidiary, etc. holds (excluding goodwill obtained on or before March 31, 1998) (such inclusive amount shall be limited to the amount calculated, with the acquisition costs of said depreciable assets (where there is any amount of past depreciation already included in deductible expenses for the relevant business year, the amount after deducting said amount) as the limit of the amount to be included in deductible expenses for the relevant business year)
- (iv) The amount equivalent to that included in deductible expenses for the relevant business year due to changes in the valuation of the assets that the specified foreign subsidiary, etc. holds, which is not to be included in deductible expenses when the provisions of Article 33 of the Corporation Tax Act apply
 - (v) The amount equivalent to the amount of remuneration to be paid to the officers (meaning the officers prescribed in Article 2, item (xv) of the Corporation Tax Act; the same shall apply in paragraph (5) of the following Article) of the specified foreign subsidiary, etc. included in deductible expenses for the relevant business year, which is not to be included in deductible expenses when the provisions of Article 34 or Article 35 of said Act apply
 - (vi) The amount equivalent to the amount of remuneration to be paid to employees of the specified foreign subsidiary, etc. included in deductible expenses for the relevant business year, which is not to be included in deductible expenses when the provisions of Article 36 of the Corporation Tax Act apply
 - (vii) The amount equivalent to the amount of a contribution that the specified foreign subsidiary, etc. shall make (excluding a contribution to the state of the head office or local entities in such state which is equivalent to that prescribed in Article 37, paragraph (3), item (i) of the Corporation Tax Act) and which is included in deductible expenses for the relevant business year, which is not to be included in deductible expenses when the provisions of paragraph (1) of said Article and Article 66-4, paragraph (3) of the Act apply
 - (viii) The amount of corporate income tax that the specified foreign subsidiary, etc. shall pay and which is included in deductible expenses for the relevant business year
 - (ix) The amount of a loss incurred in business years preceding said relevant business year, pursuant to the provisions of the laws and regulations of the state of the head office that are equivalent to those of Article 57, Article 58 or Article 59 of the Corporation Tax Act, which is included in deductible expenses for the relevant business year
 - (x) The amount equivalent to the amount of insurance reserves that the specified foreign subsidiary, etc. has set aside, which is included in

- deductible expenses for the relevant business year and which is not to be included in deductible expenses when the provisions of Article 57-5 or Article 57-6 of the Act apply
- (xi) Where the amount that has been included in gross profits for the relevant business year regarding the insurance reserves set aside by the specified foreign subsidiary, etc. (limited to the insurance reserves that can be set aside when the provisions of Article 57-5 or Article 57-6 of the Act apply) does not reach the amount that should be included in gross profits when these provisions apply, the amount of said shortfall
 - (xii) The amount equivalent to the amount of expenses equivalent to entertainment and social expenses prescribed in Article 61-4, paragraph (1) of the Act that the specified foreign subsidiary, etc. shall pay and which is included in deductible expenses for the relevant business year, which is not to be included in deductible expenses when the provisions of said Article apply
 - (xiii) The amount equivalent to the amount of a loss of the specified foreign subsidiary, etc. (meaning the amount of a loss related to a partnership, etc. prescribed in Article 67-12, paragraph (1) of the Act or the amount of a loss prescribed in Article 67-13, paragraph (1) of the Act incurred due to a partnership business prescribed in said paragraph), which is not to be included in deductible expenses when the provisions of Article 67-12, paragraph (1) or Article 67-13, paragraph (1) of the Act apply
 - (xiv) The amount equivalent to the amount which is to be included in deductible expenses when the provisions of Article 67-12, paragraph (2) or Article 67-13, paragraph (2) of the Act apply
 - (xv) The amount of corporate income tax to be refunded to the specified foreign subsidiary, etc. which is included in gross profits for the relevant business year
 - (xvi) The amount equivalent to that included in gross profits for the relevant business year due to changes in the valuation of the assets that the specified foreign subsidiary, etc. holds, which is not to be included in gross profits when the provisions of Article 25 of the Corporation Tax Act apply.
- (3) Where there is any amount of a deductible dividend, etc. (meaning the amount equivalent to the amount specified respectively in the following items for the category of cases listed in the relevant items; hereinafter the same shall apply in this paragraph) for the relevant business year of the specified foreign subsidiary, etc. of a consolidated corporation listed in the items of Article 68-90, paragraph (1) of the Act, the amount calculated in accordance with the standards specified by Cabinet Order prescribed in Article 68-90, paragraph (2), item (ii) of the Act shall be the remaining amount after deducting said amount of a deductible dividend, etc. from the amount calculated pursuant to these

provisions, notwithstanding the provisions of paragraph (1) or the preceding paragraph:

- (i) Where the amount of a dividend, etc. that the specified foreign subsidiary, etc. receives from any other of its consolidated corporation's specified foreign subsidiaries, etc. (including a specified foreign subsidiary, etc. prescribed in Article 66-6, paragraph (1) of the Act; hereinafter referred to as the "other specified foreign subsidiary, etc." in this paragraph) in the relevant business year does not exceed the amount of a dividend payable corresponding to the capital contributions by said specified foreign subsidiary, etc. out of the total amount of a dividend payable by said other specified foreign subsidiary, etc. in the business year including the base date for paying said dividend, etc. (hereinafter referred to as the "base business year" in this paragraph) and said base business year is the business year during which the individually taxable retained income prescribed in Article 68-90, paragraph (1) of the Act (hereinafter referred to as the "individually taxable retained income" in this Section) or taxable retained income prescribed in Article 66-6, paragraph (1) of the Act (hereinafter referred to as the "taxable retained income" in this Section) arises: The amount of said dividend, etc.
 - (ii) Where the amount of a dividend, etc. that the specified foreign subsidiary, etc. receives from any other of its consolidated corporation's specified foreign subsidiaries, etc. in the relevant business year exceeds the amount of a dividend payable corresponding to the capital contributions for the base business year pertaining to said amount of a dividend, etc.: Where the amount of a dividend payable corresponding to the capital contributions for the relevant business year preceding the base business year of said other specified foreign subsidiary, etc. is to be appropriated to said amount of a dividend, etc. in reverse chronological order and said amount of a dividend, etc. has been categorized for the relevant business year in accordance with said amount of a dividend payable corresponding to the capital contributions for the relevant business year, the sum of the amount of a dividend, etc. to be appropriated with the amount of a dividend payable corresponding to the capital contributions for the business year during which the individually taxable retained income or taxable retained income arises.
- (4) In the preceding paragraph and this paragraph, the meanings of the terms listed respectively in the following items shall be as specified respectively in the relevant items:
- (i) The amount of a dividend payable: The remaining amount after deducting the sum of the amounts listed as follows from the amount of undistributed income prescribed in Article 68-90, paragraph (2), item (ii) of the Act for the relevant business year of a specified foreign subsidiary, etc. (where there is any amount of a deductible dividend, etc. prescribed in the preceding

paragraph, or where the provisions of Article 68-88, paragraph (1) or Article 66-4, paragraph (1) of the Act are applied to a transaction with a consolidated corporation listed in the items of Article 68-90, paragraph (1) of the Act pertaining to said specified foreign subsidiary, etc. and the amount of income to be reduced pursuant to the provisions of paragraph (1) or paragraph (2) contains any amount that shall not be paid to said consolidated corporation, the amount obtained by adding together those amounts to such amount of undistributed income) (where the amount of corporate income tax to be refunded as prescribed in (a) exceeds the amount of corporate income tax payable as prescribed in (a), the amount obtained by adding said amount of undistributed income and said excess amount and then deducting therefrom the sum of the amounts listed in (b) and (c)):

- (a) The amount of corporate income tax payable in the relevant business year (where there is any amount of corporate income tax to be refunded in the relevant business year, the remaining amount after deducting said amount of corporate income tax to be refunded)
- (b) The amount payable due to the appropriation of surplus for the relevant business year (excluding the amount of corporate income tax and the amount of a dividend of surplus, etc.)
- (c) The amount paid as the expenses for the relevant business year (excluding the amount of corporate income tax and the amount of a dividend of surplus, etc.) which was included in the amount of undistributed income prescribed in Article 68-90, paragraph (2), item (ii) of the Act for the relevant business year, because said amount was not included in deductible expenses for calculating the amount of income pursuant to the provisions of paragraph (1) or paragraph (2) or was included in the amount of income pursuant to the provisions of said paragraph

(ii) The amount of a dividend payable corresponding to the capital contributions: The amount obtained by multiplying the amount of a dividend payable by a specified foreign subsidiary, etc. by the ratio of the number or the amount of the shares, etc. of said specified foreign subsidiary, etc. that any other specified foreign subsidiary, etc. (hereinafter referred to as the "other specified foreign subsidiary, etc." in this item) holds out of the total issued shares, etc. of said specified foreign subsidiary, etc. (where said specified foreign subsidiary, etc. holds the issued shares, etc. in which claims prescribed in Article 66-6, paragraph (1) of the Act (hereinafter referred to as the "claims" in this item and paragraph (3) of the following Article) with different contents are vested, or the shares, etc. in which claims with different contents are deemed to be substantially vested (referred to as the "shares, etc. in which different claims are vested" in paragraph (3) of the

- following Article), the ratio of the amount of a dividend of surplus, etc. that said other specified foreign subsidiary, etc. can receive based on said claims out of the total amount of a dividend of surplus, etc.).
- (5) The amount obtained as a result of an adjustment for the amount of a loss prescribed in Article 68-90, paragraph (2), item (ii) of the Act shall be the amount obtained by calculating the amount of income, pursuant to the provisions of paragraph (1), paragraph (2) or paragraph (3), with regard to the income of a specified foreign subsidiary, etc. in its settlement of accounts for the relevant business year (hereinafter referred to as the "amount of adjusted income" in this paragraph and paragraph (7)) and then deducting therefrom the amount equivalent to the sum of the loss incurred in business years that commenced within seven years before the first day of the relevant business year (excluding business years during which the company did not fall under the category of a specified foreign subsidiary, etc. (including specified foreign Subsidiaries, etc. prescribed in Article 40-4, paragraph (1) or Article 66-6, paragraph (1) of the Act)) (such loss shall exclude the amount deducted in business years preceding said relevant business year pursuant to the provisions of this paragraph or Article 39-15, paragraph (5)) (where said sum of the loss exceeds the amount of adjusted income for the relevant business year, said amount of adjusted income).
- (6) A loss prescribed in the preceding paragraph shall be a loss calculated where the provisions of paragraph (1), paragraph (2) or paragraph (3) are applied to the amount of income of a specified foreign subsidiary, etc. in its settlement of accounts for the relevant business year.
- (7) When making a calculation set forth in paragraph (1), item (i), if there is any amount to be included in deductible expenses in the relevant business year, pursuant to the provisions of Article 33 and Articles 42 to 53 of the Corporation Tax Act, and the provisions of Article 43, Article 45-2, Article 52-2, Article 57-5, Article 57-6, Article 57-8, Articles 65-7 to 65-9 (limited to the part pertaining to item (xix) of the table in Article 65-7, paragraph (1) of the Act), Article 67-12, paragraph (2) and Article 67-13, paragraph (2) of the Act, whose provisions are to apply under the provisions of said item, said amount shall be included in deductible expenses for calculating the amount of adjusted income for the relevant business year, only when detailed statements concerning the inclusion of said amount in deductible expenses are attached to a consolidated final return form for the relevant business year set forth in Article 68-90, paragraph (5) of the Act; provided, however, that this shall not apply when the competent district director with jurisdiction over the consolidated parent corporation's place for tax payment finds that there was unavoidable reason for the failure to attach detailed statements and said detailed statements have been submitted.

(8) Where a consolidated corporation, which was subject to the provisions of paragraph (1) for calculating the amount of income of the specified foreign subsidiary, etc. in its settlement of accounts for the relevant business year, seeks the application of paragraph (2) for calculating the amount of income of the specified foreign subsidiary, etc. in its settlement of accounts for the relevant business year in consolidated business years following the one to which the provisions of paragraph (1) have been applied; or where a consolidated corporation, which was subject to the provisions of paragraph (2) for calculating the amount of income of the specified foreign subsidiary, etc. in its settlement of accounts for the relevant business year, seeks the application of paragraph (1) for calculating the amount of income of the specified foreign subsidiary, etc. in its settlement of accounts for the relevant business year in consolidated business years following the one to which the provisions of paragraph (2) have been applied, it shall receive approval from the competent district director with jurisdiction over the consolidated parent corporation's place for tax payment, in advance.

(Calculation, etc. of the Amount of Individually Taxable Retained Income of the Specified Foreign Subsidiaries, etc. of a Consolidated Corporation)

Article 39-116 (1) The amount obtained as a result of an adjustment to the amount of undistributed income set forth in Article 68-90, paragraph (1) of the Act for the amount of taxes and a dividend of surplus, etc. on said undistributed income shall be the remaining amount after deducting the sum of the amounts listed as follows from the amount of undistributed income prescribed in Article 68-90, paragraph (2), item (ii) (hereinafter referred to as the "amount of undistributed income" in this paragraph) for the relevant business year of a specified foreign subsidiary, etc. (where the amount of corporate income tax to be refunded as prescribed in item (i) exceeds the amount of corporate income tax payable as prescribed in said item, such remaining amount shall be the amount obtained by adding the amount of undistributed income and said excess amount and then deducting therefrom the amount listed in item (ii)). In this case, when the sum of the amounts listed in item (i) and item (ii) exceeds said amount of undistributed income, the amount listed in item (i) shall be deducted first and then the amount listed in item (ii) shall be deducted:

- (i) The amount of corporate income tax payable in the relevant business year (where there is any amount of corporate income tax to be refunded in the relevant business year, the remaining amount after deducting said amount of corporate income tax to be refunded)
- (ii) The sum of the amount of a dividend of surplus, etc. by deeming the relevant business year to be the base business year (meaning the business

year including the base day for paying a dividend of surplus, etc.; hereinafter the same shall apply in this item) (such amount of a dividend of surplus, etc. shall be limited to that for which the payment obligation was fixed by the final day of the consolidated business year of the consolidated corporation of the specified foreign subsidiary, etc., which includes the day on which two months have elapsed after the day following the final day of the relevant business year; hereinafter the same shall apply in this item) (where the whole or a part of the amount of a dividend of surplus, etc. by deeming the relevant business year to be the base business year has been paid to any person listed as follows, said sum shall be deemed to be zero):

- (a) Affiliated foreign companies of a consolidated corporation (excluding the specified foreign subsidiary, etc. (including a specified foreign subsidiary, etc. prescribed in Article 66-6, paragraph (1) of the Act) of said consolidated corporation) whose tax burden imposed, in the state of the head office, on the amount of the dividend of surplus, etc. that it receives is not more than the tax-burden base specified by Ordinance of the Ministry of Finance as being extremely low, compared with that imposed on corporate income in Japan (referred to as the "low tax-burden base" in Article 39-119, paragraph (2))
 - (b) Other specified foreign subsidiaries, etc. (including a specified foreign subsidiary, etc. prescribed in Article 66-6, paragraph (1) of the Act; the same shall apply in item (iii) of the following paragraph) of the consolidated corporation.
- (2) The amount calculated as specified by Cabinet Order prescribed in Article 68-90, paragraph (1) of the Act shall be the amount obtained by multiplying the eligible retained income prescribed in said paragraph for the relevant business year of the specified foreign subsidiary, etc. of a consolidated corporation listed in the items of said paragraph (hereinafter referred to as the "eligible retained income" in this Section) by the ratio of the shares, etc. for considering the claims held by said consolidated corporation out of the total issued shares, etc. of said specified foreign subsidiary, etc. at the end of the relevant business year of said specified foreign subsidiary, etc. (where any of the events listed in item (i) or item (ii) occurred with regard to said specified foreign subsidiary, etc. or an event listed in item (iii) occurred with regard to an affiliated foreign company of said consolidated corporation (limited to those that hold the taxed amount of a dividend, etc. before deduction pertaining to said specified foreign subsidiary, etc.) in the relevant consolidated business year of said consolidated corporation related to the application of the provisions of said paragraph, such amount shall be the remaining amount after deducting the amount specified respectively in these items from said calculated amount):
- (i) An event listed in Article 68-92, paragraph (1), item (i) of the Act (limited to

the payment of a dividend of surplus, etc. which has not been deducted for calculating the amount of eligible retained income of the specified foreign subsidiary, etc.): The amount obtained by multiplying the amount of a dividend of surplus, etc. (where said amount of a dividend of surplus, etc. exceeds the eligible retained income, the amount equivalent to said eligible retained income) by the ratio of the shares, etc. for considering the claims held by the consolidated corporation out of the total issued shares, etc. of said specified foreign subsidiary, etc. at the end of the relevant business year pertaining to said eligible retained income (excluding the shares, etc. for considering the claims indirectly held via a person listed in item (ii), (a) and (b) of the preceding paragraph with a relationship to said consolidated corporation)

(ii) an event listed in Article 68-92, paragraph (1), item (ii) of the Act: The amount obtained by multiplying the amount specified in said item by the ratio of the shares, etc. for considering the claims held by said consolidated corporation at the time when said event occurred out of the total issued shares, etc. of said specified foreign subsidiary, etc. at the time when said event occurred (where the amount specified in said item has been delivered to a person listed in item (ii), (a) and (b) of the preceding paragraph who is a person with a relationship to said consolidated corporation, excluding the shares, etc. for considering the claims indirectly held via such person)

(iii) An event listed in Article 68-92, paragraph (1), item (iii) of the Act: The amount specified in said item (where said amount has been received from an affiliated foreign company that falls under the category of any other specified foreign subsidiary, etc. of the consolidated corporation, the remaining amount after deducting from said amount, the amount equivalent to the sum of the amount to be deducted for calculating the eligible retained income, individually taxable retained income or taxable retained income of said other specified foreign subsidiary, etc. and the amount to be included in deductible expenses due to an event under the provisions of said paragraph or Article 66-8, paragraph (1) of the Act), with the taxed amount of a dividend, etc. before deduction as the upper limit.

(3) In the preceding paragraph and this paragraph, the meanings of the terms listed respectively in the following items shall be as specified respectively in the relevant items:

(i) The shares, etc. for considering the claims held: The number or the amount adding together the number or the amount of the shares, etc. of a foreign corporation directly held by a consolidated corporation (where said foreign corporation holds the issued shares, etc. in which different claims are vested, the number or the amount obtained by multiplying the issued shares, etc. of said foreign corporation by the ratio of the amount of a dividend of surplus,

etc. that said consolidated corporation can receive based on said claims out of the total amount) and the shares, etc. for considering the claims indirectly held

(ii) The shares, etc. for considering the claims indirectly held: The number or the amount of the shares, etc. obtained by multiplying the issued shares, etc. of a foreign corporation by the ratio specified respectively in the following items for the category of cases listed in the relevant items (where this falls under both of the following cases, the sum of the ratios specified respectively as follows):

(a) Where a consolidated corporation holds the whole or a part of the issued shares, etc. of a second foreign corporation which is the shareholder, etc. (meaning shareholders, etc. prescribed in Article 2, item (xiv) of the Corporation Tax Act; hereinafter the same shall apply in this Article) of a first foreign corporation (hereinafter such second foreign corporation shall be simply referred to as the "second foreign corporation" in (a)): The ratio obtained by multiplying said consolidated corporation's ratio of shareholding (meaning the ratio of the number or the amount of the shares, etc. held by the shareholders, etc. out of the total issued shares, etc. of the corporation that issues said shares, etc. (where said issuing corporation holds the issued shares, etc. in which different claims are vested, the ratio of the amount of a dividend of surplus, etc. that said shareholder, etc. can receive based on said claims out of the total amount); hereinafter the same shall apply in this item) in said second foreign corporation by said second foreign corporation's ratio of shareholding in said first foreign corporation (where there are two or more such second foreign corporations, the sum of the ratios calculated for each of them)

(b) Where a single foreign corporation or two or more foreign corporations are interposed between a first foreign corporation and a second foreign corporation (limited to a second foreign corporation for which the whole or a part of the issued shares, etc. are held by a consolidated corporation; hereinafter referred to as the "second foreign corporation" in this item) (hereinafter such interposed foreign corporations shall be referred to as a "foreign corporations related through capital contribution" in this item) and said consolidated corporation, said second foreign corporation, foreign corporations related through capital contribution and said first foreign corporation have a link through the holding of shares, etc.: The ratio obtained by multiplying said consolidated corporation's ratio of shareholding in said second foreign corporation sequentially by said second foreign corporation's ratio of shareholding in the foreign corporation related through capital contribution, by the foreign corporation related through capital contribution's ratio of shareholding in any other foreign

corporations related through capital contribution, and by the foreign corporation related through capital contribution's ratio of shareholding in said first foreign corporation (where there are two or more links, the sum of the ratios calculated for each of them)

- (iii) The taxed amount of a dividend, etc. before deduction: Out of the amount of a dividend of surplus, etc. which an affiliated foreign company of the consolidated corporation received from the specified foreign subsidiary, etc. of said consolidated corporation during a period of two years or less preceding the day on which an event listed in item (iii) of the preceding paragraph occurred (such amount of a dividend of surplus, etc. shall include the amount specified in Article 68-92, paragraph (1), item (ii) of the Act) and which shall not be deducted for calculating the amount of individually taxable retained income pertaining to said specified foreign subsidiary, etc., under the provisions of the preceding paragraph (including the amount that shall not be included in the amount calculated as specified by Cabinet Order prescribed in Article 68-92, paragraph (1) of the Act pertaining to said specified foreign subsidiary, etc., as calculated under the provisions of Article 39-119, paragraph (2) or paragraph (3)), the part which corresponds to the shares, etc. for considering the claims of said specified foreign subsidiary, etc. indirectly held by said consolidated corporation via said affiliated foreign company (such part shall exclude the amount already appropriated for the application of the provisions of the preceding paragraph, paragraph (1) of said Article, and Article 39-16, paragraph (2), and the provisions of Article 66-8, paragraph (1) of the Act).
- (4) The deduction of the amount specified in the items of paragraph (2) under the provisions of said paragraph shall be made first with the amount specified in item (i) of said paragraph and then sequentially with the amount specified in item (ii) of said paragraph and the amount specified in item (iii) of said paragraph.
- (5) The amount of expenses specified by Cabinet Order set forth in Article 68-90, paragraph (1) of the Act which is applied by replacing the terms pursuant to the provisions of paragraph (3) of said Article shall be the sum of personnel expense for officers and employees of a specified foreign subsidiary, etc. engaged in the business at said specified foreign subsidiary, etc. prescribed in paragraph (3) of said Article (limited to the amount of income calculated in accordance with the provisions of the laws and regulations of Japan prescribed in paragraph (1), item (i) of the preceding Article or pursuant to the provisions of paragraph (2) of said Article or the amount to be included in deductible expenses for calculating the amount of a loss for the relevant business year of said specified foreign subsidiary, etc.).

(Determination, etc. of the Business of the Specified Foreign Subsidiary, etc. of a Consolidated Corporation)

Article 39-117 (1) The person specified by Cabinet Order prescribed in Article 68-90, paragraph (4), item (i) of the Act shall be any of the following:

- (i) Other consolidated corporations which have the consolidated full controlling interest with a consolidated corporation listed in the items of Article 68-90, paragraph (1) of the Act which pertains to a specified foreign subsidiary, etc. prescribed in Article 68-90, paragraph (4) of the Act (hereinafter referred to as a "specified foreign subsidiary, etc." in this paragraph) that is mainly engaged in business listed in item (i) of said paragraph
- (ii) A person who holds over 50 percent of the total number or total amount of the issued shares, etc. of a consolidated corporation listed in the items of Article 68-90, paragraph (1) of the Act (where said consolidated corporation is a consolidated subsidiary corporation, the consolidated parent corporation of said consolidated corporation) which pertains to a specified foreign subsidiary, etc. that is mainly engaged in business listed in Article 68-90, paragraph (4), item (i) of the Act (excluding a person falling under any of those listed in the items of Article 40-4, paragraph (1), items of Article 66-6, paragraph (1), items of Article 68-90, paragraph (1) of the Act and the preceding item who is a person with a relationship to said specified foreign subsidiary, etc.)
- (iii) A person who holds over 50 percent of the total number or total amount of the issued shares, etc. of a domestic corporation listed in the items of Article 66-6, paragraph (1) of the Act which pertains to a specified foreign subsidiary, etc. that is mainly engaged in business listed in Article 68-90, paragraph (4), item (i) of the Act (excluding a person falling under any of those listed in the items of Article 40-4, paragraph (1), items of Article 66-6, paragraph (1), items of Article 68-90, paragraph (1) of the Act and the preceding two items who is a person with a relationship to said specified foreign subsidiary, etc.)
- (iv) Where a person listed in the items of Article 40-4, paragraph (1), items of Article 66-6, paragraph (1) or items of Article 68-90, paragraph (1) of the Act with a relationship to a specified foreign subsidiary, etc. that is mainly engaged in business listed in Article 68-90, paragraph (4), item (i) of the Act holds the shares, etc. indirectly pertaining to said specified foreign subsidiary, etc. (such shares, etc. shall mean the number of shares or the amount of capital contributions of a foreign corporation specified by Cabinet Order as being held through indirect ownership as prescribed in Article 66-6, paragraph (2), item (iii) of the Act), the second foreign corporation prescribed in paragraph Article 39-16, paragraph (5), item (i) or the second foreign corporation and foreign corporations related through capital contribution prescribed in item (ii) of said paragraph which pertain to said shares, etc.

held indirectly

- (v) A person who has a special relationship specified by Cabinet Order prescribed in Article 66-6, paragraph (2), item (vi) of the Act to any of the persons listed as follows (excluding a person who falls under the category of a person listed in the items of Article 40-4, paragraph (1), items of Article 66-6, paragraph (1), items of Article 68-90, paragraph (1) of the Act and the preceding items who is a person with a relationship to a specified foreign subsidiary, etc. that is mainly engaged in business listed in Article 68-90, paragraph (4), item (i) of the Act):
 - (a) A specified foreign subsidiary, etc. that is mainly engaged in business listed in Article 68-90, paragraph (4), item (i) of the Act
 - (b) A person listed in the items of Article 40-4, paragraph (1), items of Article 66-6, paragraph (1) or items of Article 68-90, paragraph (1) of the Act with a relationship to a specified foreign subsidiary, etc. that is mainly engaged in business listed in Article 68-90, paragraph (4), item (i) of the Act
 - (c) A person listed in the preceding items.
- (2) The case specified by Cabinet Order prescribed in Article 68-90, paragraph (4), item (i) of the Act shall be any of the cases specified respectively in the following items, in accordance with the category of the principal business to be conducted for the relevant business year of a specified foreign subsidiary, etc. prescribed in said paragraph:
 - (i) Wholesale business: Where, out of the total revenue from selling inventory assets for the relevant business year (where there are any commissions to be received for agent or intermediary services for the buying or selling of inventory assets for the relevant business year, such revenues shall include the amount from the transactions for which said commissions were generated; hereinafter referred to as the "amount of sales transactions" in this item), the ratio of the sum of the amount of sales transactions with a person other than affiliated persons (meaning those listed in the items of Article 40-4, paragraph (1), items of Article 66-6, paragraph (1), items of Article 68-90, paragraph (1) of the Act and the items of the preceding paragraph who are affiliated persons of the specified foreign subsidiary, etc.; hereinafter the same shall apply in this paragraph and the following paragraph) exceeds 50 percent, or out of the sum of the acquisition costs for acquiring inventory assets for the relevant business year (where there are any commissions to be received for agent or intermediary services for the buying or selling of inventory assets for the relevant business year, such acquisition costs shall include the amount from the transactions for which said commissions were generated; hereinafter referred to as the "amount of purchase transactions" in this item), the ratio of the sum of the amount of purchase transactions with a person other than affiliated persons exceeds 50

percent

- (ii) Banking business: Where, out of the sum of the total interest received for the relevant business year, the ratio of the sum of said interest to be received from a person other than affiliated persons exceeds 50 percent, or out of the sum of the total interest paid for the relevant business year, the ratio of the sum of said interest to be paid to a person other than affiliated persons exceeds 50 percent
 - (iii) Trust business: Where, out of the sum of the total trust charge for the relevant business year, the ratio of the sum of said trust charge to be received from a person other than affiliated persons exceeds 50 percent
 - (iv) Financial instruments business: Where, out of the sum of the total commissions received (including profits from the buying and selling of securities) for the relevant business year, the ratio of the sum of said commissions to be received from a person other than affiliated persons exceeds 50 percent
 - (v) Insurance business: Where, out of the sum of the total premium income for the relevant business year, the ratio of the sum of said premium income to be received from a person other than affiliated persons (where said premium income pertains to reinsurance, limited to premium income from insurance for assets held by a person other than affiliated persons or damages incurred by a person other than affiliated persons) exceeds 50 percent
 - (vi) Water transportation business or air transportation business: Where, out of the total revenue from the operation or rental of vessels or operation or rental of aircraft for the relevant business year, the ratio of the sum of said revenue to be received from a person other than affiliated persons exceeds 50 percent.
- (3) Where transactions prescribed in the preceding paragraph between a specified foreign subsidiary, etc. and its affiliated person are conducted indirectly via a person other than affiliated persons of said specified foreign subsidiary, etc. (hereinafter referred to as a "non-affiliated person" in this paragraph), transactions between said specified foreign subsidiary, etc. and said non-affiliated person shall be deemed to have been conducted directly between said specified foreign subsidiary, etc. and said affiliated person and the provisions of the items of the preceding paragraph shall apply, except in the case where there are reasonable grounds for having said non-affiliated person intervene in such transactions.
- (4) The case specified by Cabinet Order prescribed in Article 68-90, paragraph (4), item (ii) of the Act shall be any of the cases specified respectively in the following items, in accordance with the category of the principal business to be conducted for the relevant business year of a specified foreign subsidiary, etc. prescribed in said paragraph:

- (i) Real estate business: Where conducting a buying and selling or rental business of real estate (including acts to let others use said real estate) (real estate shall include the rights thereon; hereinafter the same shall apply in this item) mainly located in the state of the head office, providing agent or intermediary services for the buying and selling or rental business of said real estate, and managing said real estate
- (ii) Rental and leasing business: Where conducting a rental business for goods to be provided for use mainly in the state of the head office
- (iii) Business other than those listed in paragraph (2) and the preceding two items: Where conducting a business mainly in the state of the head office.

(Calculation, etc. of Foreign Corporation Tax on the Individually Taxable Retained Income of a Specified Foreign Subsidiary, etc.)

Article 39-118 (1) The amount calculated as specified by Cabinet Order prescribed in Article 68-91, paragraph (1) of the Act shall be the amount obtained by multiplying the amount of foreign corporation tax to be imposed on a specified foreign subsidiary, etc. prescribed in said paragraph (hereinafter referred to as a "specified foreign subsidiary, etc." in this Article) on its income for a business year containing eligible retained income (hereinafter referred to as a "taxable business year" through to paragraph (4)) by the ratio of the individually taxable retained income pertaining to a consolidated corporation prescribed in Article 68-91, paragraph (1) of the Act out of the sum of the eligible retained income for the relevant taxable business year (where there is any amount of a deductible dividend, etc. prescribed in Article 39-115, paragraph (3), the amount obtained by adding said amount) and the amount of a dividend of surplus, etc. to be deducted for calculating the amount of said eligible retained income (where said amount exceeds said individually taxable retained income, the amount equivalent to said individually taxable retained income).

(2) In the case where a specified foreign subsidiary, etc. has been subject to two or more foreign corporation taxes or to a foreign corporation tax twice or more on its income for a taxable business year, when the consolidated corporation of said specified foreign subsidiary, etc. seeks the application of the provisions of Article 68-91, paragraph (1) (including the cases where it is applied pursuant to the provisions of paragraph (2) of said Article by deeming the amount to be as specified therein; hereinafter the same shall apply in this Article) or Article 66-7, paragraph (1) (including the cases where it is applied pursuant to the provisions of paragraph (2) of said Article by deeming the amount to be as specified therein; hereinafter the same shall apply in this Article) of the Act in two or more business years or consolidated business years; with respect to the application of the provisions of Article 68-91, paragraph (1) of the Act for a

consolidated business year following the first one of said two or more consolidated business years or business years, the amount obtained by deducting the amount listed in item (ii) (the amount listed in item (iii), when seeking the application of the provisions of Article 68-91, paragraph (1) of the Act for the first time after receiving the application of the provisions of Article 66-7, paragraph (1) of the Act) from the amount listed in item (i) shall be deemed to be the calculated amount prescribed in the preceding paragraph:

- (i) The amount calculated pursuant to the provisions of the preceding paragraph regarding the sum of the amount of foreign corporation taxes that were imposed on income for the relevant taxable business year by the final day of a consolidated business year subject to the provisions of Article 68-91, paragraph (1) of the Act (hereinafter referred to as the "applicable consolidated business year" in this paragraph) (such amount of foreign corporation taxes shall be limited to those to which the provisions of Article 68-91, paragraph (1) or Article 66-7, paragraph (1) of the Act were chosen to apply, pursuant to the provisions of paragraph (4) or Article 39-18, paragraph (4); hereinafter the same shall apply in this paragraph)
 - (ii) The amount calculated pursuant to the provisions of the preceding paragraph regarding the sum of the amount of foreign corporation taxes that were imposed on income for the relevant taxable business year by the day preceding the first day of the applicable consolidated business year
 - (iii) The amount calculated pursuant to the provisions of Article 39-18, paragraph (1) regarding the sum of the amount of foreign corporation taxes that were imposed on income for the relevant taxable business year by the day preceding the first day of the applicable consolidated business year
- (3) Out of the amount of foreign corporation taxes that were imposed on a specified foreign subsidiary, etc. on its income for a taxable business year, the amount deemed to be the amount of individually creditable foreign corporation taxes prescribed in Article 68-91, paragraph (1) of the Act that shall be paid by the consolidated corporation of said specified foreign subsidiary, etc., pursuant to the provisions of said paragraph, (hereinafter referred to as the "amount of individually creditable foreign corporation taxes" in this Article) shall be deemed to be payable by the consolidated corporation in a consolidated business year specified respectively in the following items for the category of foreign corporation taxes listed in the relevant item:
- (i) The foreign corporation tax that was imposed on the consolidated corporation on its income for the relevant taxable business year of said specified foreign subsidiary, etc. on or prior to the final day of the consolidated business year for which the provisions of Article 68-90, paragraph (1) of the Act are applied regarding the amount equivalent to the individually taxable retained income for the relevant taxable business year:

The consolidated business year subject to the provisions of Article 68-90, paragraph (1) of the Act

- (ii) The foreign corporation tax that was imposed on the consolidated corporation on its income for the relevant taxable business year of said specified foreign subsidiary, etc. after the final day of the consolidated business year for which the provisions of Article 68-90, paragraph (1) of the Act are applied regarding the amount equivalent to the individually taxable retained income for the relevant taxable business year (where the provisions of Article 68-91, paragraph (2) of the Act are applied, after the final day of the business year for which the provisions of Article 66-6, paragraph (1) of the Act were applied regarding the amount equivalent to the taxable retained income for the relevant taxable business year): Said consolidated business year involving the day on which the tax was imposed.
- (4) Where a specified foreign subsidiary, etc. has been subject to two or more foreign corporation taxes or to a foreign corporation tax twice or more on its income for a taxable business year, a consolidated corporation to which the provisions of Article 68-90, paragraph (1) of the Act are applied, regarding the amount equivalent to the individually taxable retained income for the relevant taxable business year of said specified foreign subsidiary, etc., shall choose whether or not it will seek the application of the provisions of Article 68-91, paragraph (1) of the Act regarding the amount of respective foreign corporation taxes on the individually taxable retained income subject to the provisions of Article 68-90, paragraph (1) of the Act.
- (5) In the case where a consolidated corporation was subject to the provisions of Article 68-91, paragraph (1) of the Act, regarding the amount of foreign corporation tax imposed on the income of its specified foreign subsidiary, etc., when said amount of foreign corporation tax was reduced in a consolidated business year after the consolidated business year subject to the provisions of said paragraph (hereinafter referred to as the "applicable consolidated business year" in this paragraph), it shall be deemed that the remaining amount after deducting the amount listed in item (ii) from the amount listed in item (i) has been reduced from the part of said amount of foreign corporation tax that was deemed to be the amount of individually creditable foreign corporation tax payable by the consolidated corporation, pursuant to the provisions of paragraph (1) of said Article, as on the day of the reduction of said foreign corporation tax:
 - (i) The part of said amount of foreign corporation tax that was deemed to be the amount of individually creditable foreign corporation tax payable by the consolidated corporation in the applicable consolidated business year
 - (ii) The part that is deemed to be the amount of individually creditable foreign corporation tax payable by the consolidated corporation when the provisions

of Article 68-91, paragraph (1) of the Act are applied in the applicable consolidated business year to said amount of foreign corporation tax after the reduction.

- (6) In the case where a consolidated corporation was subject to the provisions of Article 66-7, paragraph (1) of the Act, regarding the amount of foreign corporation tax imposed on the income of its specified foreign subsidiary, etc., when said amount of foreign corporation tax was reduced in a consolidated business year after the business year subject to the provisions of said paragraph (hereinafter referred to as the "applicable business year" in this paragraph), it shall be deemed that the remaining amount after deducting the amount listed in item (ii) from the amount listed in item (i) has been reduced from the part of said amount of foreign corporation tax that was deemed to be the amount of creditable foreign corporation tax payable by the consolidated corporation, pursuant to the provisions of paragraph (1) of said Article (hereinafter referred to as the "amount of creditable foreign corporation tax" in this Article), as on the day of the reduction of said foreign corporation tax:
- (i) The part of said amount of foreign corporation tax that was deemed to be the amount of creditable foreign corporation tax payable by the consolidated corporation in the applicable business year
 - (ii) The part that is deemed to be the amount of creditable foreign corporation tax payable by the consolidated corporation when the provisions of Article 66-7, paragraph (1) of the Act are applied in the applicable business year to said amount of foreign corporation tax after the reduction.
- (7) Where the amount of individually creditable foreign corporation tax or creditable foreign corporation tax has been deemed to have been reduced, pursuant to the provisions of paragraph (5) or the preceding paragraph, the provisions of Article 81-15, paragraph (10) of the Corporation Tax Act shall apply as specified in Article 155-39 (excluding paragraph (2)) of the Order for Enforcement of the Corporation Tax Act. In this case, in paragraph (1) of said Article, the term "Article 81-15, paragraph (8) of the Act (including the cases where it is applied pursuant to the provisions of paragraph (9) of said Article by deeming the amount to be as specified therein)" shall be deemed to be replaced with "Article 81-15, paragraph (8) of the Act (including the cases where it is applied pursuant to the provisions of paragraph (9) of said Article by deeming the amount to be as specified therein) and Article 68-91, paragraph (1) (Credit for Foreign Tax on the Individually Taxable Retained Income of the Specified Foreign Subsidiary, etc. of a Consolidated Corporation) of the Act on Special Measures Concerning Taxation (including the cases where it is applied pursuant to the provisions of paragraph (2) of said Article by deeming the amount to be as specified therein);" and the term "the amount of individually reduced creditable foreign corporation tax" shall be deemed to be replaced with

"the amount of individually reduced creditable foreign corporation tax (including the amount of individually creditable foreign corporation tax or creditable foreign corporation tax that is deemed to have been reduced pursuant to the provisions of Article 39-118, paragraph (5) or paragraph (6) (Reduction of Foreign Corporation Tax on the Individually Taxable Retained Income of a Specified Foreign Subsidiary, etc.) of the Order for Enforcement of the Act on Special Measures Concerning Taxation)."

- (8) Where there is any amount included in the gross profits pursuant to the provisions of Article 68-90, paragraph (1) of the Act for calculating the amount of consolidated income for the relevant consolidated business year of a consolidated corporation listed in the items of said paragraph, said amount included in gross profits shall be included in the consolidated foreign income prescribed in the main clause of Article 155-28, paragraph (3) of the Order for Enforcement of the Corporation Tax Act for calculating the maximum amount of consolidated deduction prescribed in paragraph (1) of said Article for the relevant consolidated business year of said consolidated corporation; provided, however, that in the case where the state of the head office of the consolidated corporation's specified foreign subsidiary, etc. is a state or territory that does not impose any foreign corporation taxes prescribed in Article 141, paragraph (1) of said Order on the income of said specified foreign subsidiary, etc., the amount to be included in said consolidated foreign income shall be the amount equivalent to one-third of said amount included in the gross profits.
- (9) The part of the amount of foreign corporation taxes listed in the items of paragraph (3) that is deemed to be the amount of individually creditable foreign corporation tax payable by the consolidated corporation of a specified foreign subsidiary, etc., pursuant to the provisions of Article 68-91, paragraph (1) of the Act, shall be included in consolidated foreign income prescribed in the main clause of Article 155-28, paragraph (3) of the Order for Enforcement of the Corporation Tax Act for calculating the maximum amount of consolidated deduction prescribed in paragraph (1) of said Article for a consolidated business year specified respectively in the relevant items of the consolidated corporation.
- (10) Out of the amount deemed to have been reduced from the amount of individually creditable foreign corporation tax or creditable foreign corporation tax, pursuant to the provisions of paragraph (5) or paragraph (6), the amount equivalent to the amount to be appropriated, pursuant to the provisions of paragraph (7), for deduction from the amount of individually creditable foreign corporation tax to be paid prescribed in Article 155-39, paragraph (1) of the Order for Enforcement of the Corporation Tax Act under the provisions of said paragraph or for deduction from the amount exceeding the maximum amount of individual deduction prescribed in paragraph (3) of said Article under the

provisions of said paragraph shall be included in deductible expenses for calculating the amount of consolidated income for a consolidated business year of a consolidated corporation prescribed in paragraph (5) or paragraph (6) for making such deduction. In this case, said amount to be included in deductible expenses shall be allocated as the amount of deductible expenses for calculating the amount of consolidated foreign income prescribed in the main clause of Article 155-28, paragraph (3) of said Order.

- (11) The consolidated business year specified by Cabinet Order prescribed in Article 68-91, paragraph (3) of the Act shall be the consolidated business year specified respectively in the items of paragraph (3), in accordance with the category of the amount of foreign corporation tax imposed on the income of a specified foreign subsidiary, etc.
- (12) In the case where there is any individually taxed amount of retained income prescribed in Article 68-92, paragraph (1) of the Act (including the amount deemed to be the individually taxed amount of retained income pursuant to the provisions of paragraph (2) or paragraph (3) of said Article) that was included in deductible expenses for calculating the amount of consolidated income for the relevant consolidated business year of a consolidated corporation prescribed in Article 68-92, paragraph (1) of the Act, pursuant to the provisions of said paragraph, in the consolidated business year of the consolidated corporation including the day on which any of the events listed in the items of said paragraph occurred with regard to the specified foreign subsidiary, etc. of the domestic corporation, or an affiliated foreign company of said consolidated corporation, when said individually taxed amount of retained income included in deductible expenses includes the amount of foreign corporation tax on said specified foreign subsidiary, etc. that was deemed to be the amount of individually creditable foreign corporation tax payable by said consolidated corporation, pursuant to the provisions of Article 68-91, paragraph (1) of the Act, and which consists of individually taxable retained income pertaining to what was the basis for calculating the amount for which a deduction under the provisions of Article 81-15, paragraphs (1) to (3) of the Corporation Tax Act shall be made, pursuant to the provisions of Article 68-91, paragraph (1) of the Act, or that was deemed to be the amount of creditable foreign corporation tax payable by said consolidated corporation, pursuant to the provisions of Article 66-7, paragraph (1) of the Act, and which consists of taxable retained income pertaining to what was the basis for calculating the amount for which a deduction under the provisions of Article 69, paragraphs (1) to (3) of the Corporation Tax Act shall be made, pursuant to the provisions of Article 66-7, paragraph (1) of the Act, the part of the amount corresponding to the amount of foreign corporation tax on the specified foreign subsidiary, etc. that was deemed to be the amount of individually creditable foreign corporation tax

payable by said consolidated corporation, which was the basis for said calculation, and which consists of said individually taxable retained income or the part of the amount corresponding to the amount of foreign corporation tax on the specified foreign subsidiary, etc. that was deemed to be the amount of creditable foreign corporation tax payable by said consolidated corporation, which was the basis for said calculation, and which consists of said taxable retained income shall be deemed to have been reduced on the final day of the relevant consolidated business year. In this case, the provisions of Article 81-15, paragraph (10) of said Act shall apply by replacing the terms in said paragraph as follows: the term "the part of the amount deemed to be payable by said consolidated corporation pursuant to the provisions of paragraph (8)" shall be deemed to be replaced with "the part of the amount deemed to be payable by said consolidated corporation pursuant to the provisions of paragraph (8), and out of the amount of foreign corporation tax to be imposed on the income of a specified foreign subsidiary, etc. prescribed in Article 68-91, paragraph (1) (Credit for Foreign Tax on the Individually Taxable Retained Income of the Specified Foreign Subsidiaries, etc. of a Consolidated Corporation) of the Act on Special Measures Concerning Taxation, the part of the amount deemed to be payable by said consolidated corporation pursuant to the provisions of said paragraph;" the term "in the case where said amount of foreign corporation tax was reduced (" shall be deemed to be replaced with "in the case where said amount of foreign corporation tax was reduced (in the case where the reduction is deemed to have been made pursuant to the provisions of Article 39-118, paragraph (12) (Calculation, etc. of Foreign Corporation Tax on the Individually Taxable Retained Income of a Specified Foreign Subsidiary, etc.) of the Order for Enforcement of the Act on Special Measures Concerning Taxation, or;" the term "the part of the amount deemed to be payable by said consolidated corporation pursuant to the provisions of paragraph (8) of said Article" shall be deemed to be replaced with "the part of the amount deemed to be payable by said consolidated corporation pursuant to the provisions of paragraph (8) of said Article, and out of the amount of foreign corporation tax to be imposed on the income of a specified foreign subsidiary, etc. prescribed in Article 66-7, paragraph (1) (Credit for Foreign Tax on Taxable Retained Income of Specified Foreign Subsidiaries, etc. of Domestic Corporations) of said Act, the part of the amount deemed to be payable by said consolidated corporation pursuant to the provisions of said paragraph;" and the term "paragraphs (1) to (3) of said Article" shall be deemed to be replaced with "Article 69, paragraphs (1) to (3)."

- (13) The provisions of paragraph (7) shall apply mutatis mutandis where the amount of individually creditable foreign corporation tax or creditable foreign corporation tax is deemed to have been reduced pursuant to the provisions of

the preceding paragraph.

- (14) The amount of foreign corporation tax that was deemed to be the amount of individually creditable foreign corporation tax payable by a consolidated corporation prescribed in paragraph (12), pursuant to the provisions of Article 68-91, paragraph (1) of the Act, which is deemed to have been reduced pursuant to the provisions of paragraph (12) shall be included in deductible expenses for calculating the amount of consolidated income for a consolidated business year prescribed in said paragraph of said consolidated corporation. In this case, said amount to be included in deductible expenses shall be allocated as the amount of deductible expenses for calculating the amount of consolidated foreign income prescribed in the main clause of Article 155-28, paragraph (3) of the Order for Enforcement of the Corporation Tax Act.
- (15) With respect to the application of the provisions of Article 155-13 of the Order for Enforcement of the Corporation Tax Act in the consolidated business year subject to the provisions of the preceding paragraph of a consolidated corporation prescribed in said paragraph, the term "(Inclusion in Gross Profits of the Amount of Foreign Tax of Specified Foreign Subsidiaries, etc. to be Deducted from Corporation Tax)" in paragraph (2), item (viii) of said Article shall be deemed to be replaced with "(Inclusion in Gross Profits of the Amount of Foreign Tax of Specified Foreign Subsidiaries, etc. to be Deducted from Corporation Tax) and Article 39-118, paragraph (14) (Calculation, etc. of Foreign Corporation Tax on the Individually Taxable Retained Income of a Specified Foreign Subsidiary, etc.) of the Order for Enforcement of the Act on Special Measures Concerning Taxation."
- (16) The provisions of Article 68-92, paragraph (5) and paragraph (6) of the Act shall apply mutatis mutandis where the provisions of paragraph (14) shall apply.
- (17) In the case where there is any amount to be included in deductible expenses for calculating the amount of consolidated income for the relevant consolidated business year of a consolidated corporation prescribed in Article 68-92, paragraph (1) of the Act, pursuant to the provisions of said paragraph, in the consolidated business year of said consolidated corporation including the day on which any of the events listed in the items of said paragraph occurred, with regard to the specified foreign subsidiary, etc. of said consolidated corporation, or an affiliated foreign company of said consolidated corporation; with regard to the calculation of the maximum amount of individual deduction prescribed in Article 155-28, paragraph (1) of the Order for Enforcement of the Corporation Tax Act for the relevant consolidated business year of said consolidated corporation, said amount included in deductible expenses shall be allocated as the amount of deductible expenses for calculating the amount of consolidated foreign income prescribed in the main clause of paragraph (3) of

said Article; provided however, that in the case where the state of the head office of the specified foreign subsidiary, etc. is a state or territory that does not impose any foreign corporation taxes prescribed in Article 141, paragraph (1) of said Order on the income of said specified foreign subsidiary, etc., the amount to be allocated as the amount of deductible expenses for calculating the amount of said consolidated foreign income shall be the amount equivalent to one-third of said amount included in the deductible expenses.

(Calculation of the Taxed Amount of Dividend, etc. of Specified Foreign Subsidiaries, etc.)

Article 39-119 (1) Affiliated foreign companies prescribed in Article 68-92, paragraph (1) of the Act which are specified by Cabinet Order shall be affiliated foreign companies that hold the taxed amount of a dividend, etc. before deduction prescribed in Article 39-116, paragraph (3), item (iii) (referred to as the "taxed amount of a dividend, etc. before deduction" in the following paragraph) pertaining to a specified foreign subsidiary, etc. prescribed in Article 68-92, paragraph (1) of the Act (hereinafter referred to as a "specified foreign subsidiary, etc." in this Article).

(2) The amount calculated as specified by Cabinet Order prescribed in Article 68-92, paragraph (1) of the Act shall be the amount specified respectively in the following items for the category of cases listed in the relevant items (excluding the amount to be deducted for calculating the amount of individually taxable retained income, pursuant to the provisions of Article 39-116, paragraph (2), pertaining to a specified foreign subsidiary, etc.):

(i) Where an event listed in Article 68-92, paragraph (1), item (i) of the Act has occurred with regard to the specified foreign subsidiary, etc. of a consolidated corporation prescribed in said paragraph (excluding the case where said event occurred during the consolidated business year or business year preceding the consolidated business year of the consolidated corporation including the day on which two months had elapsed after the day following the final day of the business year of the specified foreign subsidiary, etc. including the base day for the payment of a dividend of surplus, etc. specified in Article 68-92, paragraph (1), item (i) of the Act (hereinafter the business year including such base day shall be referred to as the "base business year" in this item and the following paragraph, and such consolidated business year of the consolidated corporation shall be referred to as the "applicable consolidated business year" in the following paragraph)), when said amount of a dividend of surplus, etc. proves to exceed the amount of a dividend of surplus, etc. to be deducted for calculating the amount of eligible retained income prescribed in Article 68-90, paragraph (1) of the Act for the relevant base business year of the specified foreign subsidiary, etc.: The amount

obtained by multiplying said excess amount by the ratio of the shares, etc. for considering the claims held by said consolidated corporation that are prescribed in Article 39-116, paragraph (3), item (i) out of the total issued shares, etc. of said specified foreign subsidiary, etc. at the end of said base business year (in the case where the dividend of surplus, etc. has been paid to an affiliated foreign company of the consolidated corporation (excluding a specified foreign subsidiary, etc. related to the consolidated corporation and a specified foreign subsidiary, etc. prescribed in Article 66-6, paragraph (1) of the Act; hereinafter the same shall apply in this paragraph) whose tax burden imposed in the state of the head office on the amount of the dividend of surplus, etc. that it receives is not more than the low tax-burden base or to any other specified foreign subsidiary, etc. of the consolidated corporation (including a specified foreign subsidiary, etc. prescribed in Article 66-6, paragraph (1) of the Act; hereinafter the same shall apply in this paragraph); excluding the shares, etc. for considering the claims indirectly held (meaning the shares, etc. for considering the claims indirectly held prescribed in Article 39-116, paragraph (3), item (ii); the same shall apply in the following item) via said affiliated foreign company and said other specified foreign subsidiary, etc.)

(ii) Where an event listed in Article 68-92, paragraph (1), item (ii) of the Act has occurred with regard to the specified foreign subsidiary, etc. of a consolidated corporation prescribed in said paragraph: The amount obtained by multiplying the amount specified in said item by the ratio of the shares, etc. for considering the claims held by said consolidated corporation that are prescribed in Article 39-116, paragraph (3), item (i) out of the total issued shares, etc. of said specified foreign subsidiary, etc. at the time when said event occurred (in the case where money or any other assets have been delivered to an affiliated foreign company of the consolidated corporation whose tax burden imposed in the state of the head office on the amount that it receives as specified in Article 68-92, paragraph (1), item (ii) of the Act is not more than the low tax-burden base or to any other specified foreign subsidiary, etc. of the consolidated corporation; excluding the shares, etc. for considering the claims indirectly held via said affiliated foreign company and said other specified foreign subsidiary, etc.)

(iii) Where an event listed in Article 68-92, paragraph (1), item (iii) of the Act has occurred with regard to an affiliated foreign company of a consolidated corporation prescribed in said paragraph: The amount specified in said item (where said amount has been received from an affiliated foreign company that falls under the category of any other specified foreign subsidiary, etc., the remaining amount after deducting from said amount, the amount equivalent to the sum of the amount to be deducted for calculating the

amount of eligible retained income, individually taxable retained income or taxable retained income pertaining to said other specified foreign subsidiary, etc. and the amount to be included in deductible expenses due to said event, under the provisions of said paragraph or Article 66-8, paragraph (1) of the Act), with the taxed amount of a dividend, etc. before deduction as the upper limit.

(3) With respect to the application of the provisions of item (i) of the preceding paragraph, in the case where payment has been made for two or more dividends of surplus, etc. whose base dates for the payment are included in the base business year, with regard to the specified foreign subsidiary, etc. of a consolidated corporation prescribed in Article 68-92, paragraph (1) of the Act (where payment was made for said two or more dividends of surplus, etc. on a day within a consolidated business year or business year preceding the applicable consolidated business year pertaining to the base business year for said dividends of surplus, etc. (hereinafter such paid dividends of surplus, etc. shall be referred to as "specified dividends of surplus, etc." in this paragraph), excluding said two or more dividends of surplus) (including the cases where payment has been made for specified dividends of surplus, etc. and payment has not been made for dividends of surplus, etc. whose base dates for the payment are included in said base business year, up to the day on which six months have elapsed after the final day of the base business year for said specified dividends of surplus, etc.); the amount specified in item (i) of the preceding paragraph shall be the amount obtained by multiplying the excess amount when the amount listed in item (i) exceeds the amount listed in item (ii) by the ratio prescribed in item (i) of said paragraph and then deducting therefrom the amounts listed in item (iii) and item (iv):

(i) The sum of dividends of surplus, etc. (limited to that whose base date for payment is included in said base business year) that said specified foreign subsidiary, etc. has paid, up to the final day of the consolidated business year of the consolidated corporation including the day on which an event listed in Article 68-92, paragraph (1), item (i) of the Act occurred (where no dividend of surplus, etc. other than specified dividends of surplus, etc. was paid, up to the final day of the consolidated business year including the day on which six months have elapsed after the final day of the base business year for said specified dividends of surplus, etc.)

(ii) The sum of the amounts to be deducted for calculating the amount of eligible retained income for said base business year of said specified foreign subsidiary, etc., with regard to the sum of dividends of surplus, etc. set forth in the preceding item

(iii) The sum of the amounts to be deducted for calculating the amount of individually taxable retained income for said base business year of said

- specified foreign subsidiary, etc., with regard to the sum of dividends of surplus, etc. set forth in item (i)
- (iv) The sum of the amounts included in deductible expenses, pursuant to the provisions of said paragraph or Article 66-8, paragraph (1) of the Act, in a consolidated business year or business year preceding the consolidated business year of said consolidated corporation that includes the day on which an event listed in Article 68-92, paragraph (1), item (i) of the Act occurred, with regard to the sum of dividends of surplus, etc. set forth in item (i).
- (4) In the case where a consolidated corporation prescribed in Article 68-92, paragraph (1) of the Act holds the individually taxed amount of retained income prescribed in said paragraph that pertains to its specified foreign subsidiary, etc., and the individually taxed amount of retained income prescribed in Article 68-93-8, paragraph (1) of the Act that pertains to its specified foreign corporation prescribed in Article 68-93-6, paragraph (1) of the Act (limited to a foreign corporation that is the same as said specified foreign subsidiary, etc.), the amount calculated as specified by Cabinet Order prescribed in Article 68-92, paragraph (1) of the Act shall not exceed the amount calculated pursuant to the provisions of the preceding two paragraphs based on the remaining amount after deducting the amount to be included in deductible expenses pursuant to the provisions of Article 68-93-8, paragraph (1) of the Act from the amount specified in the items of Article 68-92, paragraph (1) of the Act.
- (5) With respect to the application of the provisions of Article 68-92, paragraph (1) of the Act in or after the consolidated business year including the day of a qualified merger prescribed in paragraph (3) of said Article (referred to as a "qualified merger, etc." in the following paragraph) of a consolidated corporation set forth in said paragraph, in the case where the provisions of said paragraph apply, the individually taxed amount of retained income specified in the items of said paragraph (meaning the individually taxed amount of retained income prescribed in paragraph (1) of said Article; hereinafter the same shall apply in this Article) or the taxed amount of retained income (meaning the taxed amount of retained income prescribed in Article 66-8, paragraph (1) of the Act; hereinafter the same shall apply in this Article) shall be deemed to be the individually taxed amount of retained income for a consolidated business year of said consolidated corporation specified respectively in the following items for the category of consolidated business years or business years listed in the relevant items of a merged corporation, split corporation, corporation making a capital contribution in kind, or corporation effecting a post-formation acquisition of assets and/or liabilities (referred to as a "merged corporation, etc." in the following paragraph):
- (i) A business year within ten years prior to the merger prescribed in Article

68-92, paragraph (3), item (i) of the Act (hereinafter referred to as a "business year within ten years prior to the merger" in this paragraph and the following paragraph) of a merged corporation pertaining to a qualified merger or a business year within ten years prior to the company split prescribed in paragraph (3), item (ii) of said Article (hereinafter referred to as a "business year within ten years prior to the company split" through to paragraph (7)) of a split corporation pertaining to a qualified split-off-type company split (excluding a business year within ten years prior to the merger or business year within ten years prior to the company split listed in the following item): The relevant consolidated business year of said consolidated corporation including the first day of a business year within ten years prior to the merger of said merged corporation or the relevant consolidated business year of said consolidated corporation including the first day of a business year within ten years prior to the company split of said split corporation

(ii) A business year within ten years prior to the merger of a merged corporation pertaining to a qualified merger that started on or after the first day of the consolidated business year including the day of said qualified merger of the consolidated corporation (hereinafter referred to as the "consolidated business year of the merger" in this item) or a business year within ten years prior to the company split of a split corporation pertaining to a qualified split-off-type company split that started on or after the first day of the consolidated business year including the day of said qualified split-off-type company split of the consolidated corporation (hereinafter referred to as the "consolidated business year of the split succession" in this item): The consolidated business year including the day preceding the first day of the consolidated business year of the merger or consolidated business year of the split succession of said consolidated corporation

(iii) A business year within ten years prior to the company split, etc. prescribed in Article 68-92, paragraph (3), item (iii) of the Act (hereinafter referred to as a "business year within ten years prior to the company split, etc." in this Article) of a split corporation, etc. (meaning a split corporation, corporation making a capital contribution-in-kind, or corporation effecting a post-formation acquisition of assets and/or liabilities; hereinafter the same shall apply in this paragraph and paragraph (8)) pertaining to a qualified spin-off-type company split, etc. (meaning a qualified spin-off-type company split, etc. prescribed in Article 68-92, paragraph (3), item (iii) of the Act; hereinafter the same shall apply in this paragraph and paragraph (8)) (excluding a business year within ten years prior to the company split when falling under the case listed in the following item and a business year within ten years prior to the company split, etc. listed in item (v)): The relevant consolidated

- business year of said consolidated corporation including the first day of a business year within ten years prior to the company split, etc. of said split corporation, etc.
- (iv) A consolidated business year of a split corporation, etc. pertaining to a qualified spin-off-type company split, etc. that includes the day of said qualified spin-off-type company split, etc. or a business year within ten years prior to the company split, etc. prescribed in said item of the split corporation, etc. where the first day of the business year falls before the first day of the consolidated business year of said consolidated corporation that includes the day of said qualified spin-off-type company split, etc.: The relevant consolidated business year of said consolidated corporation including the final day of a business year within ten years prior to the company split, etc. of said split corporation, etc.
- (v) A business year within ten years prior to the company split, etc. of a split corporation, etc. pertaining to a qualified spin-off-type company split, etc. that started on or after the first day of a consolidated business year of said consolidated corporation including the day of said qualified spin-off-type company split, etc. (hereinafter referred to as the "consolidated business year of the split succession, etc." in this item): The relevant consolidated business year of said consolidated corporation including the day preceding the first day of the consolidated business year of the split succession, etc.
- (6) In the case where the first day of the oldest consolidated business year or business year out of the relevant consolidated business years or business years that started within ten years prior to the first day of the consolidated business year including the day of a qualified merger, etc. of a consolidated corporation set forth in Article 68-92, paragraph (3) of the Act (hereinafter referred to as the "first day of the business year of the consolidated corporation ten years before" in this paragraph) falls after the first day of the oldest consolidated business year or business year out of a business year within ten years prior to the merger, business year within ten years prior to the company split or business year within ten years prior to the company split, etc. of a merged corporation(s), etc. pertaining to said qualified merger, etc. (hereinafter referred to as a "business year of the merged corporation(s), etc. within the preceding ten years" in this paragraph) (in the case of a qualified merger, etc. made among two or more merged corporations, etc., after the first day of the relevant consolidated business year or business year of the merged corporations, etc. whichever started the earliest; hereinafter referred to as the "first day of the business year of the merged corporations, etc. ten years before" in this paragraph), the provisions of the preceding paragraph shall apply by deeming respective periods classifying the period between said first day of the business year of the merged corporations, etc. ten years before and the day

preceding said first day of the business year of the consolidated corporation ten years before (in the case where said consolidated corporation is to be established through said qualified merger, etc., the day preceding the first day of the consolidated business year of the consolidated corporation including the day of the qualified merger, etc.; hereinafter the same shall apply in this paragraph) by the corresponding business year of the merged corporation(s), etc. within the preceding ten years pertaining to said first day of the business year of the merged corporations, etc. ten years before (for the period including said preceding day, the period between the first day of the consolidated business year or business year of said merged corporation, etc. including said preceding day and the day preceding said first day of the business year of the consolidated corporation ten years before) to be the relevant consolidated business year of said consolidated corporation.

(7) The amount calculated as specified by Cabinet Order prescribed in Article 68-92, paragraph (3), item (ii) of the Act shall be the amount specified respectively in the following items for the category of the individually taxed amount of retained income or taxed amount of retained income listed in the relevant items:

(i) The individually taxed amount of retained income: The amount obtained by multiplying respectively the individually taxed amount of retained income for a business year within ten years prior to the company split of a split corporation pertaining to a qualified split-off-type company split by the ratio of the shares, etc. for considering the claims held prescribed in Article 39-116, paragraph (3), item (i) (hereinafter referred to as the "shares, etc. for considering the claims held" in this Article) that are listed in (b) out of the shares, etc. for considering the claims held that are listed in (a):

(a) Said specified foreign subsidiary, etc.'s shares, etc. for considering the claims held which the split corporation held immediately prior to said qualified split-off-type company split

(b) Said specified foreign subsidiary, etc.'s shares, etc. for considering the claims held which are to be transferred from the split corporation to a consolidated corporation set forth in Article 68-92, paragraph (3) of the Act through said qualified split-off-type company split

(ii) The taxed amount of retained income: The amount obtained by multiplying respectively the taxed amount of retained income for a business year within ten years prior to the company split of a split corporation pertaining to a qualified split-off-type company split by the ratio of the shares, etc. for considering the claims held that are listed in (b) out of the shares, etc. for considering the claims held that are listed in (a):

(a) Said specified foreign subsidiary, etc.'s shares, etc. for considering the claims held which the split corporation held immediately prior to said

- qualified split-off-type company split
- (b) Said specified foreign subsidiary, etc.'s shares, etc. for considering the claims held which are to be transferred from the split corporation to a consolidated corporation set forth in Article 68-92, paragraph (3) of the Act through said qualified split-off-type company split.
- (8) The amount calculated as specified by Cabinet Order prescribed in Article 68-92, paragraph (3), item (iii) of the Act shall be the amount specified respectively in the following items for the category of the individually taxed amount of retained income or taxed amount of retained income listed in the relevant items:
- (i) The individually taxed amount of retained income: The amount obtained by multiplying respectively the individually taxed amount of retained income for a business year within ten years prior to the company split, etc. of a split corporation, etc. pertaining to a qualified spin-off-type company split, etc. by the ratio of the shares, etc. for considering the claims held that are listed in (b) out of the shares, etc. for considering the claims held that are listed in (a):
- (a) Said specified foreign subsidiary, etc.'s shares, etc. for considering the claims held which the split corporation, etc. held immediately prior to said qualified spin-off-type company split, etc.
- (b) Said specified foreign subsidiary, etc.'s shares, etc. for considering the claims held which are to be transferred from the split corporation, etc. to a consolidated corporation set forth in Article 68-92, paragraph (3) of the Act through said qualified spin-off-type company split
- (ii) The taxed amount of retained income: The amount obtained by multiplying respectively the taxed amount of retained income for a business year within ten years prior to the company split, etc. of a split corporation, etc. pertaining to a qualified spin-off-type company split, etc. by the ratio of the shares, etc. for considering the claims held that are listed in (b) out of the shares, etc. for considering the claims held that are listed in (a):
- (a) Said specified foreign subsidiary, etc.'s shares, etc. for considering the claims held which the split corporation, etc. held immediately prior to said qualified spin-off-type company split, etc.
- (b) Said specified foreign subsidiary, etc.'s shares, etc. for considering the claims held which are to be transferred from the split corporation, etc. to a consolidated corporation set forth in Article 68-92, paragraph (3) of the Act through said qualified spin-off-type company split.
- (9) The amount included in deductible expenses pursuant to the provisions of Article 68-92, paragraph (1) of the Act shall be included in the amount of individual income prescribed in Article 9-2, paragraph (1), item (i), (a) of the Order for Enforcement of the Corporation Tax Act for calculating the amount of

consolidated revenue reserves of a consolidated corporation subject to the provisions of Article 68-92, paragraph (1) of the Act.

(Determination, etc. of Affiliated Foreign Companies)

Article 39-120 (1) In the case referred to in Article 68-90, paragraph (1) of the Act, whether or not a foreign corporation falls under the category of an affiliated foreign company shall be determined according to its status at the end of its relevant business year, and whether or not a consolidated corporation falls under the category of a consolidated corporation listed in the items of said paragraph shall be determined according to its status at the end of the relevant business year of the affiliated foreign company of such consolidated corporation.

(2) Where a consolidated corporation listed in the items of Article 68-90, paragraph (1) of the Act has been dissolved through a merger by the day on which two months have elapsed since the final day of the relevant business year of said consolidated corporation's affiliated foreign company, the number of the shares, etc. of said affiliated foreign company prescribed in Article 66-6, paragraph (2), item (iii) of the Act which were directly and indirectly held by the consolidated corporation (hereinafter referred to as the "number of the shares, etc. directly and indirectly held" in this paragraph) and which have been succeeded to by the merging corporation in the merger shall be deemed to be the number of the shares, etc. directly and indirectly held by the merging corporation on the final day of the relevant business year of said affiliated foreign company.

(3) The amount included in the gross profits of a consolidated corporation subject to the provisions of Article 68-90, paragraph (1) of the Act, pursuant to the provisions of said paragraph, shall not be included in the amount of consolidated income, etc. prescribed in the provisions of Article 81-13, paragraph (2) and paragraph (4) of the Corporation Tax Act for applying these provisions.

(4) The amount included in the gross profits pursuant to the provisions of Article 68-90, paragraph (1) of the Act shall not be included in the amount of individual income prescribed in Article 9-2, paragraph (1), item (i), (a) of the Order for Enforcement of the Corporation Tax Act for calculating the amount of consolidated revenue reserves of a consolidated corporation subject to the provisions of Article 68-90, paragraph (1) of the Act.

(5) The provisions of Article 14-10, paragraphs (1) to (5) and paragraphs (7) to (11) of the Order for Enforcement of the Corporation Tax Act shall apply mutatis mutandis where the provisions of Article 68-90, paragraph (7) of the Act shall apply under the provisions of said Article (excluding paragraph (3), paragraph (4) and paragraph (6)) to Article 68-93 of the Act, Articles 39-114 to

39-116 (excluding paragraph (5)), and Article 39-118 to this Article.

- (6) With regard to a trust corporation or a beneficiary of a trust subject to corporation taxation prescribed in Article 4-7 of the Corporation Tax Act, in addition to what is specified in the preceding paragraph, other necessary matters concerning the application of the provisions of Article 68-90 (excluding paragraph (3), paragraph (4) and paragraph (6)) to Article 68-93 of the Act, or the provisions of Articles 39-114 to 39-116 (excluding paragraph (5)), or Article 39-118 to this Article shall be specified by Ordinance of the Ministry of Finance.

Section 28 Special Provisions on Taxation on Income of the Specified Foreign Corporations of a Consolidated Corporation That Is a Specially-Related Shareholder, etc.

(Scope, etc. of a Specially-Related Shareholder, etc.)

Article 39-120-8 (1) An individual who has a special relationship specified by Cabinet Order prescribed in Article 68-93-6, paragraph (1) of the Act to a person who falls under the category of specified shareholder, etc. shall be any of the following:

(i) An individual who has a special relationship prescribed in Article 4, paragraph (1) of the Order for Enforcement of the Corporation Tax Act to a person who falls under the category of a specified shareholder, etc. (meaning a specified shareholder, etc. prescribed in Article 68-93-6, paragraph (2), item (i) of the Act; hereinafter the same shall apply in this paragraph and the following paragraph)

(ii) An officer (meaning an officer prescribed in Article 2, item (xv) of the Corporation Tax Act; hereinafter the same shall apply in this Section) of a corporation falling under the category of a specified shareholder, etc. and a person listed in the items of Article 72-3 of the Order for Enforcement of the Corporation Tax Act with a relationship to said officer (referred to as a "specially-related person" in the following item)

(iii) An officer of a specially-related domestic corporation (meaning a specially-related domestic corporation prescribed in Article 68-93-6, paragraph (2), item (ii) of the Act; hereinafter the same shall apply in this Section) and a specially-related person with a relationship to said officer

(2) A corporation which has a special relationship specified by Cabinet Order prescribed in Article 68-93-6, paragraph (1) of the Act to a person who falls under the category of specified shareholder, etc. shall be any of the following:

(i) Where a specified shareholder, etc. (including an individual who has a special relationship thereto as prescribed in item (i) or item (ii) of the preceding paragraph) or an individual who has a special relationship to a specially-related domestic corporation as prescribed in item (iii) of said

paragraph (hereinafter referred to as a "person determined to be a shareholder, etc." in this paragraph) controls any other corporation, said other corporation

- (ii) Where a person determined to be a shareholder, etc. and a corporation which has a special relationship thereto as prescribed in the preceding item control any other corporation, said other corporation
 - (iii) Where a person determined to be a shareholder, etc. and a corporation which has a special relationship thereto as prescribed in the preceding two items control any other corporation, said other corporation.
- (3) The provisions of Article 4, paragraph (3) and paragraph (4) of the Order for Enforcement of the Corporation Tax Act shall apply mutatis mutandis where the provisions of the preceding paragraph shall apply.
- (4) The relationship specified by Cabinet Order prescribed in Article 68-93-6, paragraph (1) of the Act shall be the relevant relationship in the case where a specially-related shareholder, etc. prescribed in said paragraph (hereinafter referred to as a "specially-related shareholder, etc." in this Section) and a specially-related domestic corporation have a relationship where the ratio of the shares, etc. indirectly held by the specially-related shareholder, etc. in the specially-related domestic corporation (meaning the ratios specified respectively in the following items for the category of cases listed in the relevant items (where this falls under both of the following cases, the sum of the ratios specified respectively as follows)) is 80 percent or more:
- (i) Where out of the total number or total amount of shares or capital contributions issued by a foreign corporation (excluding one that falls under the category of a specially-related shareholder, etc.; hereinafter the same shall apply in this item) which is a shareholder, etc. (meaning a shareholder, etc. prescribed in Article 2, item (xiv) of the Corporation Tax Act; hereinafter the same shall apply in this Section) of a specially-related domestic corporation (such issued shares or capital contributions shall exclude those that said foreign corporation holds in itself and the total number or total amount of such issued shares or capital contributions shall be referred to as the "issued shares, etc." in this Section), a specially-related shareholder, etc. holds 80 percent or more of the number or the amount of such shares, etc. (meaning shares or capital contributions; hereinafter the same shall apply in this Section): The ratio of the number or the amount of shares, etc. in the specially-related domestic corporation held by the foreign corporation which is a shareholder, etc. out of the total issued shares, etc. of said specially-related domestic corporation (where there are two or more such foreign corporations which are shareholders, etc., the sum of the ratios calculated for each of them)
 - (ii) Where a single corporation or two or more corporations are interposed

between a corporation which is a shareholder, etc. of a specially-related domestic corporation (excluding a foreign corporation which is a shareholder, etc. set forth in the preceding item falling under the case listed in said item and a corporation falling under the category of a specially-related shareholder, etc.) and a specially-related shareholder, etc. and have a link with them through the holding of shares, etc. (where said corporation which is a shareholder, etc. is a domestic corporation and said interposed corporations are domestic corporations, excluding said domestic corporations and the corporation falling under the category of a specially-related shareholder, etc.; hereinafter referred to as "corporations related through capital contribution" in this item) (limited to the case where 80 percent or more of the number or the amount of the issued shares, etc. in both the corporations related through capital contribution and in the corporation which is a shareholder, etc. are held by the specially-related shareholder, etc. or by a corporation related through capital contribution (such specially-related shareholder, etc. or corporation related through capital contribution shall be limited to those for which 80 percent or more of the number or the amount of the issued shares, etc. are held by a specially-related shareholder, etc. or by another corporation related through capital contribution)): The ratio of the number or the amount of the shares, etc. in the specially-related domestic corporation held by said corporation which is a shareholder, etc. out of the total issued shares, etc. of said specially-related domestic corporation (where there are two or more such corporations which are shareholders, etc., the sum of the ratios calculated for each of them).

- (5) A foreign corporation specified by Cabinet Order prescribed in Article 68-93-6, paragraph (1) of the Act shall be any of the following:
- (i) A foreign corporation falling under the category of a foreign corporation which is a shareholder, etc. prescribed in item (i) of the preceding paragraph, where the ratio of the shares, etc. held indirectly as prescribed in said paragraph is 80 percent or more
 - (ii) A foreign corporation falling under the category of a foreign corporation which is a shareholder, etc. prescribed in item (ii) of the preceding paragraph where the ratio of the shares, etc. held indirectly as prescribed in the preceding paragraph is 80 percent or more and a foreign corporation falling under the category of a corporation related through capital contribution prescribed in said item
 - (iii) A foreign corporation for which over 50 percent of the number or the amount of the issued shares, etc. are held directly or indirectly by a foreign corporation listed in the preceding two items (excluding a foreign corporation falling under the category of a foreign corporation listed in the preceding two items and a foreign corporation falling under the category of a specially-

related shareholder, etc.).

(6) In item (iii) of the preceding paragraph, whether or not a foreign corporation directly or indirectly holds over 50 percent of the issued shares, etc. shall be determined based on the sum of the ratio of the shares, etc. held directly by a first foreign corporation listed in item (i) and item (ii) of said paragraph pertaining to a second foreign corporation (excluding a foreign corporation falling under the category of a foreign corporation listed in item (i) or item (ii) of said paragraph and a foreign corporation falling under the category of a specially-related shareholder, etc.; hereinafter the same shall apply in this paragraph) (such ratio of the shares, etc. held directly shall mean the ratio of the number or the amount of the shares, etc. of a second foreign corporation held by a first foreign corporation listed in item (i) and item (ii) of the preceding paragraph out of the total issued shares, etc. of said second foreign corporation) and the ratio of the shares, etc. held indirectly by a first foreign corporation listed in item (i) and item (ii) of said paragraph pertaining to said second foreign corporation (such ratio of the shares, etc. held indirectly shall mean the ratios specified respectively in the following items for the category of cases listed in the relevant items (where this falls under both of the following cases, the sum of the ratios specified respectively as follows)):

(i) Where a first foreign corporation listed in item (i) and item (ii) of the preceding paragraph holds over 50 percent of the number or the amount of the issued shares, etc. in a foreign corporation which is a shareholder, etc. of the second foreign corporation: The ratio of the number or the amount of the shares, etc. in the second foreign corporation held by said foreign corporation which is a shareholder, etc. out of the total issued shares, etc. of the second foreign corporation (where there are two or more such foreign corporations which are shareholders, etc., the sum of the ratios calculated for each of them)

(ii) Where a single foreign corporation or two or more foreign corporations are interposed between the foreign corporation which is a shareholder, etc. of the second foreign corporation (excluding a foreign corporation which is a shareholder, etc. set forth in the preceding item falling under the case listed in said item) and the first foreign corporation listed in item (i) and item (ii) of the preceding paragraph and have a link with them through the holding of shares, etc. (hereinafter referred to as "foreign corporations related through capital contribution" in this item) (limited to the case where over 50 percent of the number or the amount of the issued shares, etc. in both the foreign corporation related through capital contribution and in said foreign corporation which is a shareholder, etc. are held by the first foreign corporation listed in item (i) and item (ii) of said paragraph or by a foreign corporation related through capital contribution (such first foreign

corporation or foreign corporation related through capital contribution shall be limited to those for whom over 50 percent of the number or the amount of the issued shares, etc. are held by the first foreign corporation listed in item (i) and item (ii) of said paragraph or by another corporation related through capital contribution)): The ratio of the number or the amount of the shares, etc. of the second foreign corporation held by the foreign corporation which is a shareholder, etc. out of the total issued shares, etc. of the second foreign corporation (where there are two or more such foreign corporations which are shareholders, etc., the sum of the ratios calculated for each of them).

- (7) An affiliated foreign corporation specified by Cabinet Order prescribed in Article 68-93-6, paragraph (1) of the Act shall be any of the following:
- (i) An affiliated foreign corporation (meaning an affiliated foreign corporation prescribed in Article 68-93-6, paragraph (1) of the Act; hereinafter the same shall apply in this Section) which has its head office or principal office in a state or territory where there are no taxes imposed on corporate income
 - (ii) An affiliated foreign corporation whose tax to be imposed on its income for the relevant business year is 25 percent or less of said income.
- (8) The provisions of Article 39-114, paragraph (2) shall apply mutatis mutandis to the determination as to whether or not an affiliated foreign corporation falls under the category of an affiliated foreign corporation set forth in item (ii) of the preceding paragraph.

(Calculation of Undistributed Income of Specified Foreign Corporations)

- Article 39-120-9 (1) The amount of undistributed income calculated in accordance with the standards specified by Cabinet Order prescribed in Article 68-93-6, paragraph (2), item (iii) of the Act shall be the amount calculated, pursuant to the provisions of Article 39-115, paragraph (1) or paragraph (2), or paragraph (3) of said Article with regard to the income of a specified foreign corporation prescribed in Article 68-93-6, paragraph (1) of the Act (hereinafter referred to as a "specified foreign corporation" in this Article and paragraph (1) and paragraph (2) of the following Article) in its settlement of accounts for the relevant business year.
- (2) The amount obtained as a result of an adjustment for the amount of a loss prescribed in Article 68-93-6, paragraph (2), item (iii) of the Act shall be the amount obtained by calculating the amount of income pursuant to the provisions of the preceding paragraph with regard to the income of a specified foreign corporation in its settlement of accounts for the relevant business year (hereinafter referred to as the "amount of adjusted income" in this paragraph) and then deducting therefrom the amount equivalent to the sum of the loss incurred in business years that commenced within seven years preceding the first day of the relevant business year (excluding a business year that

commenced before October 1, 2007 and a business year during which the corporation did not fall under the category of a specified foreign corporation (including a specified foreign corporation prescribed in Article 40-10, paragraph (1) or Article 66-9-6, paragraph (1) of the Act)) (such loss shall exclude the amount deducted in business years preceding said relevant business year pursuant to the provisions of this paragraph or Article 39-20-9, paragraph (2)) (where said sum of the loss exceeds the amount of adjusted income for the relevant business year, said amount of adjusted income).

- (3) A loss prescribed in the preceding paragraph shall be a loss calculated with regard to the amount of income of a specified foreign corporation in its settlement of accounts for the relevant business year, where the calculation has been made pursuant to the provisions of paragraph (1).
- (4) The provisions of Article 39-115, paragraph (7) and paragraph (8) shall apply mutatis mutandis where the amount of income of a specified foreign corporation in its settlement of accounts for the relevant business year is calculated pursuant to the provisions of paragraph (1) or paragraph (2) of said Article.

(Calculation, etc. of the Amount of Individually Taxable Retained Income of a Specified Foreign Corporation)

- Article 39-120-10 (1) The amount obtained as a result of an adjustment to the amount of undistributed income set forth in Article 68-93-6, paragraph (1) of the Act for the amount of taxes and a dividend of surplus, etc. on said undistributed income shall be the amount calculated with regard to the amount of undistributed income prescribed in Article 68-93-6, paragraph (2), item (iii) of the Act for the relevant business year of a specified foreign corporation, pursuant to the provisions of Article 39-116, paragraph (1).
- (2) The amount calculated as specified by Cabinet Order prescribed in Article 68-93-6, paragraph (1) of the Act shall be the amount calculated with regard to the eligible retained income (meaning the eligible retained income prescribed in said paragraph; hereinafter the same shall apply in this Section) for the relevant business year of the specified foreign corporation of a consolidated corporation which is a specially-related shareholder, etc., pursuant to the provisions of Article 39-116, paragraphs (2) to (4).
 - (3) The amount of expenses specified by Cabinet Order set forth in Article 68-93-6, paragraph (1) of the Act which is applied by replacing the terms pursuant to the provisions of paragraph (3) of said Article shall be the amount calculated with regard to the sum of personnel expenses for officers and employees of a specified foreign corporation engaged in the business of said specified foreign corporation prescribed in paragraph (3) of said Article, pursuant to the provisions of Article 39-116, paragraph (5).

(Determination, etc. of Business of Specified Foreign Corporations)

Article 39-120-11 (1) The person specified by Cabinet Order prescribed in Article 68-93-6, paragraph (4), item (i) of the Act shall be any of the following:

- (i) Other consolidated corporations which have the consolidated full controlling interest with a consolidated corporation falling under the category of a specially-related shareholder, etc. which pertains to a specified foreign corporation prescribed in Article 68-93-6, paragraph (4), item (i) of the Act (hereinafter referred to as a "specified foreign corporation" in this paragraph) that is mainly engaged in business listed in item (i) of said paragraph (such other consolidated corporations shall exclude those falling under the category of specially-related shareholders, etc. pertaining to said specified foreign corporation)
- (ii) A person who holds over 50 percent of the number or the amount of the total issued shares, etc. of a corporation falling under the category of a specially-related shareholder, etc. pertaining to a specified foreign corporation that is mainly engaged in business listed in Article 68-93-6, paragraph (4), item (i) of the Act (excluding a person falling under the category of a specially-related shareholder, etc. pertaining to said specified foreign corporation and a person falling under the category of persons listed in the preceding item)
- (iii) A person who holds over 50 percent of the number or the amount of the total issued shares, etc. of a consolidated corporation falling under the category of a specially-related shareholder, etc. (where said consolidated corporation is a consolidated subsidiary corporation, the consolidated parent corporation of said consolidated corporation) which pertains to a specified foreign corporation that is mainly engaged in business listed in Article 68-93-6, paragraph (4), item (i) of the Act (excluding a person falling under the category of a specially-related shareholder, etc. pertaining to said specified foreign corporation and a person falling under the category of persons listed in the preceding two items)
- (iv) An affiliated foreign corporation of a specially-related shareholder, etc. pertaining to a specified foreign corporation that is mainly engaged in business listed in Article 68-93-6, paragraph (4), item (i) of the Act
- (v) A corporation which is a shareholder, etc. prescribed in Article 39-120-8, paragraph (4), item (ii) or a corporation related through capital contribution which is interposed between a specially-related domestic corporation and the specially-related shareholder, etc. of a specified foreign corporation that is mainly engaged in business listed in Article 68-93-6, paragraph (4), item (i) of the Act (excluding a person falling under the category of persons listed in item (i) or the preceding item)

- (vi) A person who has a special relationship specified by Cabinet Order prescribed in Article 68-93-6, paragraph (1) of the Act to a person listed as follows (excluding a person who falls under the category of the specially-related domestic corporation of a specified foreign corporation that is mainly engaged in business listed in Article 68-93-6, paragraph (4), item (i) of the Act, a person who falls under the category of a specially-related shareholder, etc., and a person who falls under the category of the persons listed in the preceding items):
 - (a) A specified foreign corporation that is mainly engaged in business listed in Article 68-93-6, paragraph (4), item (i) of the Act
 - (b) The specially-related domestic corporation of a specified foreign corporation that is mainly engaged in business listed in Article 68-93-6, paragraph (4), item (i) of the Act
 - (c) An individual or corporation falling under the category of a specially-related shareholder, etc. pertaining to a specified foreign corporation that is mainly engaged in business listed in Article 68-93-6, paragraph (4), item (i) of the Act
 - (d) Those listed in the preceding items.
- (2) The provisions of Article 39-117, paragraph (2) and paragraph (3) shall apply mutatis mutandis to the case specified by Cabinet Order prescribed in Article 68-93-6, paragraph (4), item (i) of the Act. In this case, the term "those listed in the items of Article 40-4, paragraph (1), items of Article 66-6, paragraph (1), items of Article 68-90, paragraph (1) of the Act and the items of the preceding paragraph" in Article 39-117, paragraph (2), item (i) shall be deemed to be replaced with "a specially-related domestic corporation prescribed in Article 68-93-6, paragraph (2), item (ii) of the Act, specially-related shareholder, etc. prescribed in paragraph (1) of said Article and those listed in the items of Article 39-120-11, paragraph (1)."
- (3) The provisions of Article 39-117, paragraph (4) shall apply mutatis mutandis to the case specified by Cabinet Order prescribed in Article 68-93-6, paragraph (4), item (ii) of the Act.

(Calculation, etc. of Foreign Corporation Tax on the Individually Taxable Retained Income of a Specified Foreign Corporation)

Article 39-120-12 (1) The amount calculated as specified by Cabinet Order prescribed in Article 68-93-7, paragraph (1) of the Act shall be the amount calculated, pursuant to the provisions of Article 39-118, paragraph (1), with regard to the amount of foreign corporation tax (meaning foreign corporation tax prescribed in Article 69, paragraph (1) of the Corporation Tax Act; the same shall apply in paragraph (3)) to be imposed on a specified foreign corporation prescribed in Article 68-93-7, paragraph (1) of the Act (referred to

as a "specified foreign corporation" in paragraph (3)) on its income for a business year containing eligible retained income.

- (2) In the case where the provisions of Article 81-15, paragraphs (1) to (7), (10) and, paragraphs (15) to (17) of the Corporation Tax Act are applied by deeming the calculated amount to be the amount of individually creditable foreign corporation tax prescribed in paragraph (1) of said Article payable by a consolidated corporation that is a specially-related shareholder, etc. pursuant to the provisions of Article 68-93-7, paragraph (1) of the Act, the matters concerning the application of these provisions shall be as prescribed in the provisions of Article 39-118, paragraphs (2) to (10) and paragraphs (12) to (17).
- (3) The consolidated business year specified by Cabinet Order prescribed in Article 68-93-7, paragraph (3) of the Act shall be the business year specified respectively in the items of Article 39-118, paragraph (3), in accordance with the category of the amount of foreign corporation tax imposed on the income of a specified foreign corporation.

(Calculation of Taxed Amount of Dividend, etc. of Specified Foreign Corporations)

- Article 39-120-13 (1) The affiliated foreign corporation prescribed in Article 68-93-8, paragraph (1) of the Act which is specified by Cabinet Order shall be one of the affiliated foreign corporations which holds the taxed amount of a dividend, etc. before deduction pertaining to a specified foreign corporation prescribed in Article 68-93-8, paragraph (1) of the Act (hereinafter referred to as a "specified foreign corporation" through to paragraph (3)) (such taxed amount of a dividend, etc. before deduction shall mean the taxed amount of a dividend, etc. before deduction prescribed in Article 39-116, paragraph (3), item (iii), when calculating the amount of eligible retained income for the relevant business year of a specified foreign corporation as prescribed in Article 39-116, paragraphs (2) to (4), pursuant to the provisions of Article 39-120-10, paragraph (2)).
- (2) The amount calculated as specified by Cabinet Order prescribed in Article 68-93-8, paragraph (1) of the Act shall be the amount obtained by calculating the amount specified in the items of said paragraph, where an event listed in the items of said paragraph has occurred, with regard to the specified foreign corporation of a consolidated corporation which is a specially-related shareholder, etc. or the affiliated foreign corporation of said consolidated corporation as prescribed in said paragraph, pursuant to the provisions of Article 39-119, paragraph (2) and paragraph (3).
 - (3) In the case where a consolidated corporation, which is a specially-related shareholder, etc. prescribed in Article 68-93-8, paragraph (1) of the Act, holds the individually taxed amount of retained income prescribed in said paragraph

that pertains to the specified foreign corporation of said consolidated corporation, and the individually taxed amount of retained income prescribed in Article 68-92, paragraph (1) of the Act that pertains to a specified foreign subsidiary, etc. prescribed in Article 68-90, paragraph (1) of the Act (limited to a foreign corporation that is the same as said specified foreign corporation) that is the specified foreign subsidiary, etc. of said consolidated corporation, the amount calculated as specified by Cabinet Order prescribed in Article 68-93-8, paragraph (1) of the Act shall not exceed the amount calculated pursuant to the provisions of the preceding paragraph based on the remaining amount after deducting the amount to be included in deductible expenses pursuant to the provisions of Article 68-92, paragraph (1) of the Act from the amount specified in the items of Article 68-93-8, paragraph (1) of the Act.

- (4) The matters concerning the application of the provisions of Article 68-92, paragraphs (3) to (6) of the Act which are applied mutatis mutandis pursuant to Article 68-93-8, paragraph (3) of the Act shall be as prescribed in the provisions of Article 39-119, paragraphs (5) to (8).
- (5) The provisions of Article 39-119, paragraph (9) shall apply mutatis mutandis to the calculation of the amount of consolidated revenue reserves of a consolidated corporation which is a specially-related shareholder, etc. subject to the provisions of Article 68-93-8, paragraph (1) of the Act.

(Determination, etc. of Specified Relationship)

Article 39-120-14 (1) The provisions of Article 39-20-14, paragraph (1) and paragraph (2) shall apply mutatis mutandis where the provisions of Article 68-93-6, paragraph (1) of the Act shall apply.

- (2) Where a consolidated corporation which is a specially-related shareholder, etc. pertaining to a specially-related domestic corporation has been dissolved through a merger by the day on which two months have elapsed after the final day of the relevant business year of the affiliated foreign corporation of said consolidated corporation, the number of the shares, etc. of said affiliated foreign corporation prescribed in Article 66-9-6, paragraph (2), item (iv) of the Act which were directly and indirectly held by the consolidated corporation (hereinafter referred to as the "number of the shares, etc. directly and indirectly held" in this paragraph) and which have been transferred to the merging corporation pertaining to the merger (such merging corporation shall be limited to one falling under the category of a specially-related shareholder, etc. of said specially-related domestic corporation and one that proves to fall under the category of a specially-related shareholder, etc. of said specially-related domestic corporation by receiving the transfer of the number of the shares, etc. of said affiliated foreign corporation directly and indirectly held by said consolidated corporation through the merger; hereinafter the same shall

apply in this paragraph) shall be deemed to be the number of the shares, etc. directly and indirectly held by the merging corporation on the final day of the relevant business year of said affiliated foreign corporation.

- (3) The provisions of Article 39-120, paragraph (3) and paragraph (4) shall apply mutatis mutandis to the application of the provisions of Article 81-13, paragraph (2) and paragraph (4) of the Corporation Tax Act and the calculation of the amount of consolidated revenue reserves of a consolidated corporation which is a specially-related shareholder, etc., where there is any amount included in gross profits of said consolidated corporation pursuant to the provisions of Article 68-93-6, paragraph (1) of the Act.
- (4) The provisions of Article 14-10, paragraphs (1) to (5) and paragraphs (7) to (11) of the Order for Enforcement of the Corporation Tax Act shall apply mutatis mutandis where the provisions of Article 68-93-6, paragraph (8) of the Act shall apply under the provisions of said Article (excluding paragraph (3), paragraph (4) and paragraph (6)) to Article 68-93-9 of the Act, Articles 39-120-8 to 39-120-10 (excluding paragraph (3)), and Article 39-120-12 to this Article.
- (5) With regard to a trust corporation or a beneficiary of a trust subject to corporation taxation prescribed in Article 4-7 of the Corporation Tax Act, in addition to what is specified in the preceding paragraph, other necessary matters concerning the application of the provisions of Article 68-93-6 (excluding paragraph (3), paragraph (4) and paragraph (6)) to Article 68-93-9 of the Act, Articles 39-120-8 to 39-120-10 (excluding paragraph (3)), or Article 39-120-12 to this Article shall be specified by Ordinance of the Ministry of Finance.