

March 2011

Japan tax alert

Ernst & Young Shinnihon Tax



Tohoku earthquake related tax matters

(This tax alert is a summary of the Japanese tax alert published on the same topic on 25 March 2011.)

Ernst & Young Shinnihon Tax express our heartfelt sympathy and condolences for all of those affected by the recent Tohoku earthquake and aftermath.

Please accept our deepest concerns for your safety and wishes that those who have been impacted by these tragic events can achieve a swift recovery.

Tax deductions for contributions or donations

Contributions or donations made by corporate or individual taxpayers to the following organizations are deductible in calculating their taxable income:

- ▶ National or Local Governments
- ▶ The Japanese Red Cross Society
- ▶ Press (newspapers, broadcasters etc.)
- ▶ The Central Community Chest of Japan
- ▶ Specified NPOs etc.

For corporate taxpayers

The full amount of the contributions or donations is tax deductible (CTL37③).

When corporate taxpayers donate their products to unspecified numbers of victims for the purpose of relief, the cost of the products is deductible in calculating their taxable income (CTL Basic Circular 9-4-6-4).

Corporate taxpayers claiming this tax treatment should prepare schedule 14(2) documentation and attach it to their tax return. They should also preserve documentation* that records full information relating to these qualifying contributions or donations.

For individual taxpayers

As much of the contributions or donations as exceeds JPY2,000 is tax deductible, the amount of the contributions or donations, however, may

not exceed 40% of the taxpayer's overall income (ITL78①②).

Individual taxpayers claiming this tax treatment should fill in the relevant deduction of donations column on their tax return form and attach necessary documents* confirming that the matter relates to qualifying contributions or donations to their tax return or show the documents* when filing their tax return.

**The necessary documents confirming information relating to qualifying contributions or donations are as follows:*

- ▶ *Payment slips from National or Local Government*
- ▶ *Receipts*
- ▶ *Deposit receipts issued by fund-raising organizations*
- ▶ *Receipts from the Japan Post Office where using postal transfer to make donations to the Japanese Red Cross Society or The Central Community Chest of Japan*

Note that as these documents are not issued for contributions or donations to charity boxes placed privately, the tax deduction for contributions would not be available for such cases. It is important therefore that contributions or donations are made in a way in which documentary evidence is obtained for these purposes.

Taxation for consolation payments from companies to employees in distress

Consolation money relating to the disaster paid by corporations to their directors or employees is not taxable if amounts are deemed reasonable

according to commonly accepted norms (ITL Basic Circular 9-23).

Extension of due date of filing returns and tax payment

For taxpayers where the place of tax payment is within the affected Aomori, Iwate, Miyagi, Fukushima or Ibaraki Prefectures

The due date for filing tax returns and making tax payments for all national taxes on or after 11 March 2011 has been extended for these areas. The due date will be announced taking into consideration taxpayers' conditions.

For taxpayers other than in the previously mentioned prefectures

The due date for filing tax returns and making tax payments for all national taxes after 11 March 2011 may be extended if it is difficult for the taxpayers to file their tax returns, or to make tax payments, due to direct damage by the disaster.

Taxpayers claiming this exceptional treatment must apply to the director of the tax office which has jurisdiction over their tax payments for an extension of their due date.

Comments or general inquiries regarding this tax alert may be directed to our Corporate Communications team at tax.marketing@jp.ey.com.

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EYTAX SCORE CC20110329-1

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