



Japan Tax Bulletin

Tax Procedures at the time of Dissolution and Liquidation

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In some cases the shareholders of a company may wish to withdraw from the Japan market due to poor business results or other internal reasons. In these situations, Company Law prescribes the procedures that need to be undertaken to dissolve and liquidate the company.

1. Tax procedures for dissolution and liquidation

The first step requires a resolution to be made at a shareholders' meeting. Once this has been made, the dissolution procedures can commence, the company can close its doors and its residual assets be determined during the liquidation period. The tax procedures in the period from the dissolution until the completion of liquidation are as shown in the figure below:

2. Notification of dissolution

In cases where a company is dissolved, notifications need to be submitted to the tax office and other local government offices immediately. A certificate of registered matters needs to be attached to the notifications.

3. Tax returns for last business year

3.1. Taxable periods

Normally, the taxable period for a company is based on the fiscal year stipulated in its Articles of Association. When a company is dissolved in middle of a fiscal year, the taxable period is adjusted as shown for below for a stock company:

- 1) The period from the beginning of the business year to the date of dissolution
- 2) Every one year period from the day after the dissolution as a tax year in liquidation

The date of dissolution referred to above is the date of dissolution if it has been determined by a resolution at a shareholders' meeting, or the date of the shareholders' meeting for such dissolution.

3.2. Deadline for filing tax returns

A company which has been dissolved shall submit corporate tax returns for the last business year to the tax office and other local government offices within 2 months after the date of dissolution. If the company had applied previously to extend its filing deadline, the due date would be 3 months or the

time allowed by the tax authority.

4. Tax returns during the liquidation period prior to the determination of residual assets

During the liquidation process a company is required to file a corporate tax returns to the tax office and other local government offices within 2 months after the end of the tax year in liquidation. As with 3.2 above, the deadline may be extended.

5. Final tax returns

5.1. Final taxable period

In cases where the residual assets of a company in liquidation are determined before the end of a tax year during that liquidation, the period from the beginning of the tax year to the date of determination of residual assets shall be treated as the last taxable period.

5.2. Deadline for filing tax returns

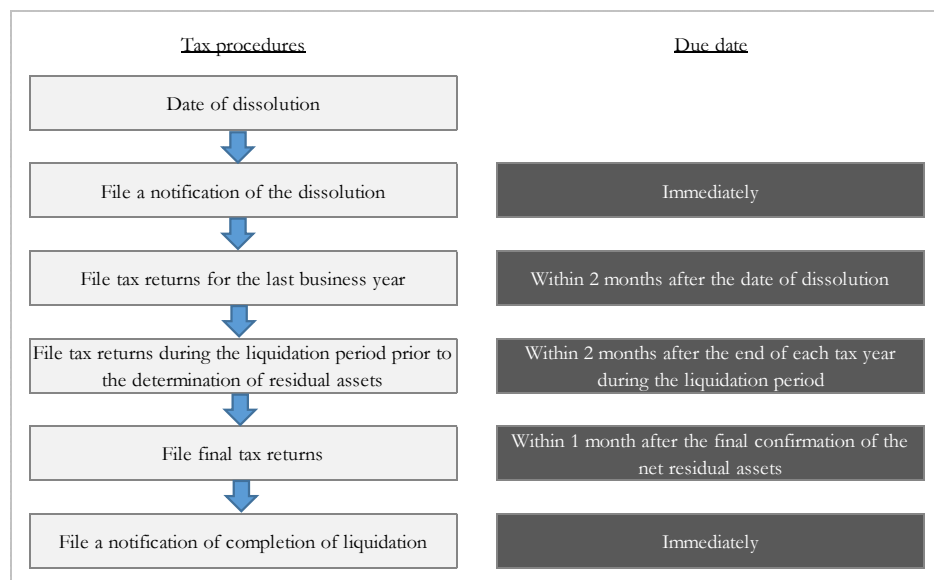
For the last taxable period, a company in liquidation should submit corporate tax returns to the taxation office and other local government offices within 1 month after the date of determination of residual assets. However, if the final distribution of residual assets is performed before this deadline, the company must file the returns by the day before the distribution date.

6. Notification of completion of liquidation

Once the liquidation process has been completed, notifications of such must be submitted to the tax office and other local government offices immediately. A Certificate of registered matters must be attached to the notifications

7. Tax on liquidation income (repealed)

Before 1 October 2010, an ordinary corporation was required to pay tax on its liquidation income. The tax base for the tax was equal to the value of the company's residual assets less the sum of its capital and retained earnings at the time the company was dissolved.





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Effective for company dissolutions occurring on or after 1 October 2010, the tax on liquidation income is repealed. After the repeal of the tax on liquidation income, a company will be taxable during the period of liquidation under the regular corporate tax rules.

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