

Japan Tax Bulletin

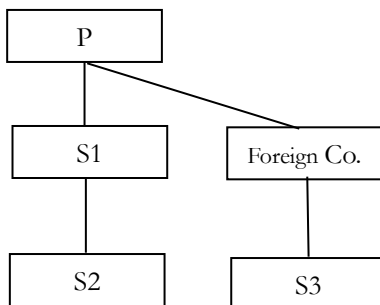
Group Tax Relief

February 2021

The group tax relief system will be introduced for business years beginning after March 31, 2022, replacing the current consolidated tax return system. Corporate taxpayers that elect to file consolidated tax returns are deemed to elect for the group tax relief system automatically unless they notify the tax office otherwise. Under the consolidated tax return system, a consolidation parent company files a consolidated tax return for corporations included in the consolidation. Under the group relief system, each corporation in the group files a tax return after transferring losses within the group corporations.

1. Groups that qualify for group tax relief

Corporations within a 100% ownership group are allowed to elect for group tax relief. Where a foreign corporation is interposed in the 100% ownership, a 100%-owned subsidiary does not qualify for group tax relief. In the diagram below, where S1, S2 and S3 are 100%-owned subsidiaries of P, S3 does not qualify for group tax relief.



2. Pro-rata loss transfer

Losses generated by group corporations are transferred to profit-making corporations based on the profit amounts. The example below illustrates the transfer of losses within a group of qualifying companies.

	P	S(i)	S(ii)	S(iii)
Income (loss) before transfer	500	100	(50)	(250)
Loss transfer	(250)*1	(50)*2	50*3	250*4
Income after loss transfer	250	50	0	0

*1 $300 \times 500 / (500 + 100)$

*2 $300 \times 100 / (500 + 100)$

*3 $300 \times 50 / (50 + 250)$

*4 $300 \times 250 / (50 + 250)$

3. Utilization of tax losses carried forward in group corporations

3.1 Specified tax losses

Specified tax losses are tax losses incurred in a group corporation which are not subject to mark-to-market valuation for certain assets when joining the group tax relief system, within 10 business years before the group tax relief is utilized. "Specified tax losses" is a SRLY (Separate-Return-Limitation-Year) rule where specified tax losses are deducted from the income of the group corporation which incurred the tax losses.

3.2 Non-specified tax losses

Non-specified tax losses are transferred to group corporations based on the deductible limits of non-specified tax losses, being 100% (where the group corporation is a Small- or Medium-sized Enterprise) or 50% (where the group corporation is a large corporation) of taxable income after the deduction of specified tax losses.

3.3 Tax losses of a group corporation which is not to subject mark-to-market valuation

Tax losses of a group corporation, which is not to subject mark-to-market valuation, incurred in business years before the commencement of the group taxation relief or joining the group are disregarded.

4. Mark-to-market valuation

Certain assets of group corporations will be evaluated at mark to market when the group taxation relief commences or a group corporation joins the group. Assets subject to mark-to-market valuation are fixed assets, land held as inventory, securities, monetary claims and deferred assets. Assets with book value of below JPY10M are not subject to mark-to-market valuation.

When the group taxation relief commences, the group parent corporation and group subsidiary corporations which are 100% owned by the parent and are expected to continue as such, are not subject to mark-to-market valuation. A newly incorporated 100% subsidiary and a 100% subsidiary that joined the group by a qualified share for share exchange transaction are not subject to mark-to-market valuation. A group subsidiary which is expected to satisfy conditions for qualified corporate reorganizations (A: continuation of 100% ownership, continuation of employment of employees and, continuation of principal businesses, or B: joint business with another group corporation.) is not subject to mark to market valuation.

5. *Application*

A group parent corporation and all group 100%-owned subsidiary corporations are required to file an application for group tax relief 3 months before the first day of the business year when the group taxation relief is utilized.

6. *Business year*

The business year of the group parent corporation is applied to all group subsidiaries even if the business year of a group subsidiary corporation is different from that of the group parent corporation.