

Japan Tax Bulletin

Electronic Preservation System for Books/Documents

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The Act on Special Measures for Preservation of National Tax-Related Books and Documents Prepared Using Computers (hereinafter referred to as the "Act on Electronic Preservation System for Books/Documents") has been revised and it will take effect on January 1, 2022.

The Act on Electronic Preservation Books/Documents permits preservation by electromagnetic records, etc., and stipulates the following: (1) preservation of national tax-related books by electromagnetic records (Article 4.1) or preservation on microfilm (Article 5.1), (2) preservation of national tax-related documents by electromagnetic records (Article 4.2) or preservation on microfilm (Article 5.2), (3) preservation of national tax-related documents by electromagnetic records using scanners (Article 4.3) or preservation on microfilm (Article 5.3), and (4) preservation of electronic transactions by electromagnetic records or preservation on microfilm (Article 7).

1. *Electronic Preservation for Books/Documents*

(1) Abolition of the prior-approval system by the chief of the tax office

The requirement for prior approval by the chief of the tax office, which was required for the preservation of books and documents related to national tax by electromagnetic records or microfilms as stipulated in Articles 4 and 5 of the Act, has been abolished.

Under the law, there is a distinction between national tax-related books and national tax-related documents.

Books related to national taxation are books that must be kept and preserved according to the provisions of laws related to national taxation, such as journal ledgers, cash receipts and disbursements ledgers, accounts receivable ledgers, fixed asset ledgers, sales ledgers, purchase ledgers, and general ledgers. Documents related to national taxes are documents that must be preserved according to the provisions of laws related to national taxes, such as balance sheets, profit and loss statements, inventory sheets, invoices, order forms, contracts, and receipts.

(2) Reduction of additional tax on under-reporting for excellent electronic books

Under the revision, there are "excellent" electronic books and "other" electronic books. Those obliged to preserve the books by using electromagnetic records, meeting the requirements for "excellent" electronic books, and submitting a notification to the head of the competent tax office in advance will receive a 5% reduction in the additional tax on under-reporting. This notification of special application must be submitted by the statutory due date of the national tax return to which the additional tax on under-reporting is to be applied¹.

(2)-1 Preservation requirements for "excellent" electronic books

If all of the following items are met, a book will be recognized as an "excellent" electronic book.

- i) When corrections or deletions of recorded items are made, a computer processing system capable of confirming these facts and details shall be used.
- ii) If the input is made after the regular business processing period, a computer processing system shall be used to verify this fact.
- iii) It must be possible to confirm the relationship between the recorded items in the electronic books and the recorded items in other books related to the electronic books.
- iv) Documents related to the system (system outline, system specifications, operation manuals, administrative processing manuals, etc.) must be prepared.
- v) A computer (such as a personal computer), programs, displays, printers, and their operation manuals must be arranged at the storage location so that they can output promptly in an orderly and clear format on a screen or document.

Search requirements²:

- A) It is possible to search by date of transaction, transaction amount, or client.
- B) It is possible to search by dates or specifying the scope of amounts.
- C) It is possible to search by a combination of two or more arbitrary record items.

(2)-2 Preservation requirements for "other" electronic books

Only the following are required:

- The record must be made in accordance with the principles of regular bookkeeping (generally double-entry bookkeeping).
- Documents related to the system (system outline, system specifications, operation manuals, administrative processing manuals, etc.) must be prepared (see (2)-1.iv above).
- A computer (such as a personal computer), programs, displays, printers, and their operation manuals must be arranged at the storage location so that they can output promptly in an orderly and clear format on a screen or document (see (2)-1.v above).
- The company shall be able to respond to requests by tax officials to download electromagnetic records.

¹ National Tax Agency's QA39 on bookkeeping documents prepared using a computer (July 2021).

² If the person obliged to preserve is able to respond to the request of downloading electromagnetic records based on the right of inquiry and inspection by tax officials, (B) and (C) of the search requirements are no longer required. The same applies to 2. Scanner preservation and 3. Electronic transactions as described below.

2. *Scanner preservation*

National tax-related documents that are subject to scanner preservation include documents that:

- clarify the details of transactions at the beginning and end of a series of transaction processes (contracts, receipts);
- are created in the middle of a series of transactions (deposit slips, IOUs, bank passbooks, checks, promissory notes, securities delivery statements, bond applications, applications for contracts (without standardized terms and conditions), invoices, delivery notes, delivery slips, export certificates);
- are not directly linked to the flow of funds or goods (inspection receipts, receiving reports, cargo receipts, quotations, purchase orders, contracts application (with standardized terms and conditions)); and
- copies of these documents³.

National tax-related books (journal ledger, general ledger, other books, etc.) and financial documents (inventory, balance sheet, profit and loss statement, other documents, etc.) are not eligible for scanner preservation.

- (1) Relaxation of timestamp requirements, search requirements, etc.

It is no longer necessary for recipients to sign their own names on national tax-related documents when scanning them.

When a correction or deletion is made to an electronic record, if the fact and content of the correction or deletion can be verified in the cloud⁴ and it can be confirmed that the record was saved within the input period, it can replace the need for a timestamp.

- (2) Additional taxation on heavy tax measures

If there is concealment or disguise of national tax-related documents that have been scanned and saved, a 10% additional heavy tax will be imposed.

3. *Electronic transactions*

Electronic transactions refer to transactions in which transaction information is exchanged using electromagnetic systems. Transaction information refers to "matters that are normally included in order forms, contracts, delivery slips, receipts, quotations, and other similar documents" received or delivered in connection with transactions. Specifically, it refers to EDI (electronic data interchange) transactions, transactions via the Internet, etc., transactions in which transaction information is exchanged via e-mail, and transactions in which transaction information is exchanged via a website established on the Internet⁵.

- (1) Preservation requirements for electronic transactions

Requirement of truthfulness:

³ National Tax Agency's QA2 on scanner preservation (July 2021).

⁴ This includes cloud computing, etc., which cannot be corrected or deleted.

⁵ National Tax Agency's QA2 on electronic transactions (July 2021).

⁶ This is the same as Note 2 of the search requirements in the aforementioned "1. Electronic preservation for books/documents".

⁷ National Tax Agency's QA42 on electronic transactions (July 2021).

⁸ National Tax Agency's QA40 on electronic transactions (July 2021).

One of the following measures must be taken to ensure the veracity of the records:

- i) After the transaction information is time-stamped, the transaction information is exchanged.
- ii) Time-stamp the transaction information promptly after it is exchanged (or promptly after the normal period of time for processing the transaction has elapsed), and make it possible to check the information on the person or supervisor who is responsible for storing the information.
- iii) In the event of correction or deletion of recorded items, transaction information is exchanged and stored in a system that allows confirmation of these facts and details, or in a system that does not allow correction or deletion of recorded items.
- iv) Administrative rules are established regarding the prevention of corrections and deletions without justifiable reasons, and operate in accordance with those rules.

Visibility requirements:

- v) A computer (such as a personal computer), programs, displays, printers, and their operation manuals must be arranged at the storage location so that they can be output promptly in an orderly and clear format on a screen or document.
- vi) A summary of the computer processing system shall be provided.
- vii) Ensure that there is a search function for the books⁶.

- (2) Abolition of preservation of output documents, etc.

After January 1, 2022, if there is no disaster or other circumstances and the electromagnetic records are not preserved in accordance with the preservation requirements, the approval for blue return may be revoked, and the preservation requirements for electronic transactions must be met⁷.

Electromagnetic records pertaining to transaction information, etc. of electronic transactions for consumption tax purposes can continue to be preserved in the form of output documents.

- (3) Addition of heavy tax.

If there is a fact that electromagnetic records pertaining to transaction information of electronic transactions have been concealed or disguised, a measure to add 10% to the heavy additional tax imposed on the failure to file a return related to such fact has been established⁸.

4. *Period of application*

The above amendments will be applied to books and documents related to national tax which will be kept on or after January 1, 2022.