

Japan Tax Bulletin

Entertainment expenses

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The deductibility of entertainment expenses under Japan corporate tax law is a complicated topic. This newsletter explains the deductibility of entertainment expenses in general and also in relation to the special sub-category of entertainment expenses for meals and drinks.

1. What are entertainment expenses under Japan corporate tax law?

Entertainment expenses under Japan corporate tax law are expenses for entertainment, relationship building, confidential activities and other costs, with purposes of relationship building, treating, gifting, other similar activities towards clients, suppliers, and other business-related individuals (Act on Special Measures Concerning Taxation 61-4-4).

The wording in the law about entertainment expenses is not clear, but court case judgements show there are three conditions for expenses to be treated as entertainment expenses:

- (i) The party to whom the expenditure is made is a person related to the taxpayer's business, etc.
- (ii) The purpose of the expenditure is to strengthen the relationship of friendship with the person related to the business, etc. and to promote the smooth progress of business transactions.
- (iii) The form of the action is entertainment, hospitality, consolation, gift-giving or other similar actions

The restriction of deductibility of entertainment expenses depends on the nature of expenses, amount of stated capital and other factors.

2. Entertainment expenses for meals and drinks

Entertainment expenses for meal and drinks are common entertainment expenses, such as having dinner with clients or suppliers. Under Japan corporate tax law, the treatment of entertainment expenses for meals and drinks varies depending on whether the expense per person is below or above the JPY10,000 threshold.

The threshold amount used to be JPY5,000 per person however it has been revised to JPY10,000 per person since April 1st, 2024 (Act on Special Measures Concerning Taxation 61-4-6-2).

Entertainment expenses for meals and drinks are fully deductible if the amount is JPY10,000 or less per person for the event. However, it does not apply if it is solely for executives or

employees of the corporation or their relatives. In addition, corporations have to keep documents with the following matters for the deduction to apply (Regulation for Enforcement of the Act on Special Measures Concerning Taxation 21-18-4):

- (i) The date of the event;
- (ii) The names of clients, suppliers, other business-related corporations or individuals who attended the event and its relationship;
- (iii) The number of attendees;
- (iv) The amount of expenses, the name and address of restaurant, etc. If the name or location is not clear due to some reasons such as the absence of a restaurant, it is the name or address of the payee on the receipt etc.; and
- (v) Other necessary details to clarify that the expenses are for meals and drinks.

If the entertainment expenses for meal and drink per person is over JPY10,000 for the event, the deductibility depends on amount of stated capital amount as follows:

Amount of stated capital as of the fiscal year end	Entertainment expenses for meals and drinks
Over JPY10 billion	Not deductible
Over JPY100 million, up to JPY10 billion	50% deductible
JPY100 million or less	Deductible up to JPY8 million of entertainment expenses or 50% deductible

However, the deduction of up to JPY8 million for entertainment expenses does not apply to corporations that have a complete controlled relationship with a corporation with stated capital of JPY500 million or more, even if the amount of stated capital is JPY100 million or less (Act on Special Measures Concerning Taxation 61-4-2, Corporate tax law 66-5-2). It has been not deductible for corporations with stated capital of JPY10 billion since a tax law amendment in 2020 (Act on Special Measures Concerning Taxation 61-4-1).

3. General entertainment expenses

Entertainment expenses for meals and drinks is a special sub-

category of general entertainment expenses but not all entertainment expenses that include food and drink fall under this sub-category. Some of these are described below:

- (i) Expenses for travel, performance shows for the enjoyment of clients or suppliers or other business-related individuals are considered common general entertainment expenses.
- (ii) Expenses for a corporation's anniversary party or opening ceremony of a new corporation building and souvenir gifts are also considered common general entertainment expenses. However, ordinary meals and drinks provided to employees with more or less fairness during events such as corporation anniversaries, national holidays, and opening ceremony of a new corporation building are treated as welfare expenses, not entertainment expenses.
- (iii) Expenses for dinner among specific employees are considered general entertainment expenses, not entertainment expenses for meals and drinks regardless of the threshold JPY10,000 per person.
- (iv) Gifts such as a set of food and drink for mid-year or year-end events are not considered acts of meals and drinks. Therefore, these kinds of expenses are entertainment expenses, but not entertainment expenses for meals and drinks.
- (v) Expenses normally required for refreshments, lunch boxes, and other costs to provide similar meals and drinks, related to business meetings are not classed as entertainment expenses but business meeting expenses.

4. Entertainment expenses and amount of stated capital

Similar to entertainment expenses for meals and drinks, the amount of stated capital determines whether general entertainment expenses are deductible as follows:

Amount of stated capital as of fiscal year end	Entertainment expenses excluding those for meals and drinks
Over JPY10 billion	Not deductible
Over JPY100 million, up to JPY10 billion	Not deductible
JPY100 million or less	Deductible up to JPY8 million of entertainment expenses

The deduction of up to JPY8 million for entertainment expenses does not apply to corporations that have a complete controlled relationship with a corporation with stated capital of

JPY500 million or more, even if the amount of stated capital is JPY100 million (Act on Special Measures Concerning Taxation 61-4-2, Corporate tax law 66-5-2).

5. Other non-entertainment expenses

The following expenses are not entertainment expenses:

- (i) Expenses to benefit solely employees such as athletic events, performance shows and travel are considered as welfare expenses. However, if it is not for all employees, it may be considered entertainment expenses or salary for the employees depending on the situation.
- (ii) Expenses such as confidential expenses, entertainment expenses, relationship building expenses, travel expenses, etc., paid to employees or directors which are not clearly for the corporation's business, are considered salary.
- (iii) Expenses normally required for providing samples or trial products to customers, etc., are not considered entertainment expenses due to their advertising nature.
- (iv) Expenses for gifts and monetary contributions to employees and directors in accordance with specific rules for special occasions such as their own or their relatives' celebrations and hardships, are welfare expenses. Gifts or monetary contributions for marriage and condolences are typical examples.

6. Other considerations

Other considerations are as follows:

- (i) Under Japan corporate tax law, clients, suppliers, and other business-related individuals can mean not only those who have direct transactions with the corporation but also those who are indirectly-related to the interest of the corporation, as well as directors, employees, shareholders etc.
- (ii) The timing is determined based on when the events occurred, not whether they were recorded as suspense payments or payables etc.