

Japan Tax Bulletin

Clarifications on Foreign Tax Credit Documentation: Detailed Overview

January 2025

The Japan National Tax Agency (NTA) has recently issued an update correction to the documentation process for claiming foreign tax credits, specifically addressing errors in the Foreign Tax Credit Detail Sheet 「外国税額控除に関する明細書」. This update 「外国税額控除に関する明細書」の様式誤り等に関するお知らせ is pivotal for businesses engaged in international operations, ensuring that the documentation aligns precisely with the longstanding tax regulations and preventing any unintended over-claims of tax credits.

1. Understanding Japan's Foreign Tax Credit System

Japan's tax system is designed to mitigate the double taxation of income that might otherwise be taxed both in Japan and in another country. The foreign tax credit 「外国税額控除」, is a critical component of this system, providing relief by crediting foreign taxes paid against Japanese tax liabilities. *Importantly, the recent updates do not alter the tax laws themselves but refine the process by which these credits are claimed*, ensuring that businesses can continue to operate internationally without the deterrent of double taxation.

2. Detailed Analysis of the Documentation Error

The error discovered in the Calculation of Tax Credit Limit 「税額控除限度額の計算」 section of the detail sheet involved incorrect instructions for calculating the base amounts used in determining tax credits. Previously, the forms guided taxpayers to use pre-adjustment figures, which could result in incorrectly high claims for tax credits. The correct procedure, as clarified in the updated documentation, requires taxpayers to calculate the limit using figures adjusted for the Distributed Time Adjustment Foreign Tax Equivalent Amount Credit, or 「分配時調整外国税相当額控除」. This ensures that the calculations align accurately with the tax laws, preventing discrepancies in tax payments. Details of update is as below:

- (i) Error in the section Calculation of the Tax Credit Limit for Income Tax and Special Reconstruction Income Tax on the Foreign Tax Credit Detail Sheet (for Residents) (for fiscal year Reiwa 2 and beyond).

- (ii) The section describes incorrect and correct content for documenting the "Income Tax Amount 「所得税額」 ① and "Special Reconstruction Income Tax Amount" 「復興特別所得税額」 ② fields. The explanation concerns the instructions on the back of the form detailing how these amounts should be recorded.
- (iii) Below table outlines the errors and the correct methods for filling out specific fields related to income tax amounts on the Japanese tax form, especially when adjustments are needed due to specific tax credits.

Section	Incorrect	Correct
Income Tax Amount ① Field	The amount from the Tax Calculation section of the tax return's Standard Income Tax Amount field is transposed.	The amount from the Tax Calculation section of the tax return's Standard Income Tax Amount field is transposed. However, if the Distributed Time Adjustment Foreign Tax Equivalent Amount Credit is applicable, then the amount from item 7 of section 3 of the credit's detail sheet should be transposed instead.
Special Reconstruction Income Tax Amount ② Field	Calculate the amount by applying a 2.1% tax rate to the amount in the ① field.	The amount from the Tax Calculation section of the tax return's Special Reconstruction Income Tax Amount field should be transposed. However, if the Distributed Time Adjustment Foreign Tax Equivalent Amount Credit is applicable, then the amount from item 9 of section 3 of the credit's detail sheet should be transposed instead.



「外国税額控除に関する明細書（居住者用）（令和2年分以降用）」

【3 所得税及び復興特別所得税の控除限度額の計算】

3. Impact and Corrective Actions by the NTA

The NTA has acted swiftly to address this issue by revising the affected forms and updating the related software systems to prevent similar errors in the future. These corrections are crucial not only for maintaining the integrity of the tax system but also for ensuring that businesses can rely on the provided documentation to accurately compute their tax obligations.

4. Security Measures and Fraud Awareness

In conjunction with these updates, the NTA has issued warnings about potential fraud schemes that might exploit the confusion surrounding such corrections. Taxpayers are urged to verify any communications purportedly from tax authorities and to use only official channels for submitting documentation and making inquiries.

5. Implementation and Compliance

The revised forms were made available as of December 6, Reiwa 6 (2024), with the updates to software systems scheduled for completion by January 6, Reiwa 7 (2025). Businesses are encouraged to adopt these updated forms immediately to ensure compliance and to avoid errors in upcoming tax filings.

6. Conclusion

The NTA's proactive steps to correct the Foreign Tax Credit Detail Sheet and enhance the accuracy of tax credit claims reflect its commitment to upholding the integrity of Japan's tax system. Businesses operating across borders should take note of these updates, review their previous filings if necessary, and prepare for a smoother, more accurate tax filing process moving forward.

Additionally, given the complexities involved in applying these changes, it is highly advisable for businesses to consult with tax professionals. These experts can provide personalized advice tailored to specific circumstances, ensuring that all tax filings are accurate and compliant with the updated regulations.