



KPMG Japan Tax Newsletter

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SPECIAL GRACE PERIOD PROVISION INTRODUCED BY THE 'EMERGENCY ECONOMIC MEASURES FOR COVID-19'

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The 'Emergency Economic Measures for Covid-19', which were decided by the Cabinet on 7 April 2020, proposed various tax measures for taxpayers who find themselves in a difficult position due to Covid-19 and the measures to prevent its spread.

On 30 April, the 'Act on Temporary Special Provisions for National Tax Laws to Respond to Covid-19' (hereinafter referred to as the 'Covid-19 Special Tax Act') and the 'Act on Partial Amendments to Local Taxes and Other Related Acts' (hereinafter referred to as the 'Revised Local Tax Law'), which form the basis for the tax measures, were enacted and promulgated on the same day, along with related cabinet orders and ministerial ordinances.

This newsletter sets out an outline of the 'Special Grace Period Provision' among the tax measures introduced under the 'Emergency Economic Measures for Covid-19' based on the above laws, the relevant cabinet orders, ministerial ordinances and related administrative guidance released by the National Tax Agency.

(This newsletter updates the information on the Special Grace Period Provision covered in our KPMG Japan Tax Newsletter [New Tax Measures Introduced by the 'Emergency Economic Measures for COVID-19'](#) issued on 24 June 2020.)

I. Overview

A special deferment period of one year for the payment of national tax (hereinafter referred to as the 'Special Grace Period Provision') has been established for taxpayers whose business revenue decreased substantially due to Covid-19.

The Act on General Rules for National Tax contains a provision which allows for a deferral of tax payment in the event substantial losses are realized in a disaster (Article 46 Para 1). This article is the basis for this Special Grace Period Provision.

An overview of the Special Grace Period Provision is as follows (details are provided in II. below, and thereafter):

Conditions	If a taxpayer qualifies under both of the following provisions, the taxpayer will be deemed to have suffered a substantial loss to property as a result of an earthquake, windstorm, flood, lightning, fire, or other similar disaster as provided in Article 46 Para 1 of the Act on General Rules for National Tax, and shall be granted a grace period for the payment of tax.	
	(i)	The taxpayer's business suffered a substantial decrease in revenue, etc. on or after 1 February 2020 due to Covid-19 and measures to prevent its spread.
	(ii)	The taxpayer is found to be temporarily unable to pay all or part of its national tax liability that is due by the Specified Date (1 February 2021) ^(*) .
Eligible national taxes	Almost all national taxes, whose payment due dates are between 1 February 2020 and 1 February 2021 ^(*) (excluding stamp duty which is payable by affixing a stamp) → May also be applied retroactively to national taxes that were due on or before 30 April 2020, the enactment date of this law (as well as national taxes that have come due but remain unpaid, which were subject to deferment through other provisions).	
Grace period	A period of one year or less	
Provision of collateral	Not necessary	
Delinquent tax	Exempt	
Application process	In principle, by application which should be filed by the payment due date of the national tax (extended due date in the event an extension to filing and payment due dates for the national taxes has been granted)	

^(*) Initially, the Specified Date had been stipulated as '31 January 2021'. Thereafter, the Specified Date was amended to '1 February 2021' by the cabinet order promulgated on 26 June 2020. (The Specified Date in the following sections is 1 February 2021 as well.)

II. Requirements to Meet the Conditions

1. Decrease in revenue

A 'decrease in revenue' as a result of Covid-19 in conditions (i) in the above schedule means a decrease in a taxpayer's business revenue due to Covid-19 and measures to prevent its spread. The following are some examples of reasons for a 'decrease in revenue':

- As a result of the taxpayer, relatives of the taxpayer, or employees, etc. being infected by Covid-19
- As a result of the effects of various measures, such as compliance with requests to cancel events or refrain from going out, entry restriction to Japan, and requests for deferment of rent payments

2. Substantial decrease in revenue

A 'substantial decrease in revenue' in conditions (i) in the above schedule means a situation where the ratio of A to B below indicates a decrease of 20 percent or more.

A	Revenue earned in the Base Period (a continuous period of one month or more between 1 February 2020 and the payment due date of the national tax to which the grace period is intended to be applied)
B	Revenue ^(*1) earned in a corresponding period ^(*2) within one year immediately preceding the Base Period mentioned in A

(*1) If the amount of revenue earned in the corresponding period is unknown, the amount may be computed by dividing the total revenue earned in the one year period immediately preceding the Base Period by 12 and allocating it, or any other method deemed to be appropriate.

(*2) If there is no period that corresponds to the Base Period, a period up to January 2020 that is close in proximity to the Base Period, or a period that is deemed to be appropriately comparable to the revenue earned in the Base Period may be used instead.

III. Eligible National Taxes

The national taxes to which the Special Grace Period Provision may be applied are the following national taxes, for which payment is due by the Specified Date (1 February 2021).

(i)	National tax for which the tax liability is determined on or before the following dates for each of the following categories of national tax (excluding stamp duty which is payable by affixing a stamp, and certain license and registration tax, etc.), for which the payment due date is on or after 1 February 2020, and the amount of which was determined on or before the date the taxpayer made the application for the Special Grace Period Provision:	
	(a)	National taxes which are collected through withholding, etc. Last day of the month of the Specified Date: 28 February 2021
	(b)	National taxes other than those mentioned in (a) Specified Date: 1 February 2021
(ii)	Consumption tax amounts which were determined on or before the date the taxpayer made the application, for which the payment due dates are on or after 1 February 2020, relating to transfers, etc. of consumption taxable assets in a tax period which ended on or before Specified Date (1 February 2021)	
(iii)	Estimated tax payments of national tax relating to interim tax returns for income tax, corporation tax, local corporate tax and consumption tax, for which the payment due dates are on or after 1 February 2020	

IV. Special Grace Period

The period of deferral allowed under the Special Grace Period Provision is up to one year from the tax payment due date (deferral is until the filing due date of the final tax return with respect to tax mentioned in III. (iii) above).

The length of the tax payment grace period will be determined by considering the facts and circumstances of the decrease in the taxpayer's revenue due to Covid-19, etc. and the resulting temporary difficulty of the taxpayer to pay all or part of their national tax liability.

V. Amount of Deferral under Special Grace Period Provision

Where the taxpayer has difficulty paying all or part of their national tax liability, the amount of tax deferred under the Special Grace Period Provision is the amount of tax that the taxpayer is temporarily having difficulty paying which is calculated by subtracting (ii) (minimum of JPY 0) from (i).

(i)	The national tax amount payable
(ii)	Amount of (a) - (b)
(a)	The amount of cash and deposits held by the taxpayer on the day the taxpayer's ability to pay the taxes was determined
(b)	Working capital that is required to continue business operations for at least 6 months (where the taxpayer is a company)

VI. Application Process

A taxpayer that wishes to avail of the Special Grace Period Provision needs to file an application form by the following due date, along with documentation to demonstrate the decrease in revenue suffered as a result of Covid-19 and an inventory of assets.

	Application due date (standard rule)	Provisional measure For national tax, for which the payment due date is before 1 July 2020
Standard rule	Payment due date of the national tax to which the Special Grace Period Provision is intended to be applied	30 June 2020
Special rule	Where the director of the tax office determines that a compelling reason exists, applications filed after the payment due date of the national tax may still be accepted.	Where the director of the tax office determines that a compelling reason exists, applications filed on or after 1 July 2020 may still be accepted.

VII. Other

1. Tax payment method

The national tax for which payments were deferred under the Special Grace Period Provision may be paid at any time during the grace period or in instalments.

In case the taxpayer is unable to pay the taxes within the grace period and is able to apply one of the other tax payment deferral measures

, the taxpayer may be allowed to pay the taxes owed in instalments.

2. Local Tax

A similar Special Grace Period Provision has been enacted with respect to local taxes under the Revised Local Tax Law.

(The Specified Date of local tax is stipulated as '31 January 2021' as of 17 July 2020. It is assumed that the Specified Date will also be amended to '1 February 2021' in line with the amendment of national tax in future.)

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