



TAX UPDATE

NATIONAL TAX AGENCY - UPDATE OF FAQs RELATING TO COVID-19

On 26 February 2021, the National Tax Agency updated the 'FAQs about the tax treatments for the tax filing and tax payment procedures, etc. relating to COVID-19' (Japanese only) which have been updated several times since the original release on 25 March 2020.

The following FAQs relating to corporation tax are newly added:

■ 5 Tax Treatments relating to COVID-19

<Corporation Tax>

Q7. Timing of revenue recognition of subsidies, etc.

The FAQ explains the basic concept about the timing of revenue recognition of subsidies, etc. received from the national or local government under the provisions of Article 22 of the corporation tax law (in principle, a company must recognize revenue in the fiscal year including the day when the company is entitled to the subsidies, etc.).

Also, the timing of revenue recognition in the following cases is also explained with a chart and journal entries:

- Where a company is entitled to subsidies, etc. to compensate certain expenses
- Where a company applies inclusion in deductible expenses of the depreciated amount of fixed assets based on the book value of assets reduced by the amount of the national subsidies, etc. spent for the acquisition or improvement of its fixed assets

Q7-2 Timing of revenue recognition of interest subsidies under the special interest subsidy provision related to COVID-19

The special interest subsidy provision related to COVID-19 is a provision that a company can receive up-front payment for the subsidy equivalent to the lump-sum amount of interest expenses on a loan for the period of up to 3 years ('Interest Subsidy'), given the condition that the company is loaned money from a certain financial institution such as the Japan Finance Corporation, in order to make the interest expense generated by the loan substantially interest-free.

In case the amount equivalent to the interest expense fluctuates due to the changes in terms and conditions of the loan contract, the amount of the Interest Subsidy will be fixed at 3 years from the start of the loan based on the amount equivalent to interest actually paid. Therefore, since the amount of the Interest Subsidy has not been fixed as revenue at the time of receipt of the Interest Subsidy, the FAQ explains that the same amount of revenue as the interest expense will be recognized corresponding to the amount of interest expense, etc. actually incurred.

Q7-3 Timing of revenue recognition of the subsidies for credit guarantee fees under the provision of substantially interest-free loans from private financial institutions with no-collateral condition

The provision of substantially interest-free loans from private financial institutions with a no-collateral condition^(*) is the provision that was introduced under the 'Emergency Economic Measures for COVID-19' (the Cabinet decided in April 2020) and will allow private financial institutions to provide companies with substantially interest-free loans with a no-collateral condition, the deferment of principal for up to 5 years and reduction/exemption of the payment of credit guarantee fees.

Under this provision, a company that is loaned money can receive subsidies from the government for the amount equivalent to all or half of the credit guarantee fees charged by the Credit Guarantee Corporations.

In this regard, the FAQ indicates the following accounting and tax treatments:

- Where a company receives subsidies from the government for the amount equivalent to all of the credit guarantee fees:
The company does not need to make any accounting journal entries because the government pays the credit guarantee fees to the Credit Guarantee Corporations. (same for tax purposes)
- Where a company receives subsidies from the government for the amount equivalent to half of the credit guarantee fees:
The company must record the half of the credit guarantee fees paid by the company in assets as prepaid guarantee fees, etc. and amortize the prepaid guarantee fees and charges to expenses over the guarantee periods for accounting purposes. (same for tax purposes)

^(*) Refer to the '[Private Financial Institutions Start Provision of Substantially Interest-free Funds without Requiring Collateral](#)' on the website of the Ministry of Economy, Trade and Industry

In addition to the above, two existing FAQs in the section '1 Extension of Filing and Payment Due Dates' were also updated. Furthermore, the FAQs about tax treatments with respect to the subsidies, etc. for income tax and consumption tax were updated/added in the same section '5 Tax Treatments relating to COVID-19' above.