

KPMG Japan Tax Newsletter

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2023 TAX REFORM

AMENDMENTS TO THE ELECTRONIC PRESERVATION SYSTEM FOR ACCOUNT BOOKS, ETC.

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Regarding the electronic preservation system for account books, etc., the entire system was fundamentally amended under the 2021 tax reform and various amendments were made to the system under the 2023 tax reform from the viewpoints of improving productivity through digitization of accounting, promoting telework, digitizing tax information and contribution to the spread and generalization of excellent national tax-related account books based on the recommendation of the government tax commission and the state of digitization of the economy and society.

We have set out below an outline of the amendments to the electronic preservation system for account books, etc. under the 2023 tax reform.

(We set out the information about the amendments to the electronic preservation system for account books, etc., under the 2021 tax reform in the Tax Newsletter '[2021 Tax Reform Proposals — Amendments to the Electronic Preservation System](#)' issued on 26 January 2021)

I. Preservation System for National Tax-Related Account Books and Documents by Electromagnetic Records

1. Amendments to the scope of the special national tax-related account books

Where the preservation obligor files an amended tax return or receives a reassessment on income tax (excluding withholding income tax), corporation tax or consumption tax related to the matters of the electromagnetic records in the so-called ‘excellent national tax-related account books,’ the rate of additional tax for understatement levied on the omission of the declaration related to such recorded matters is reduced by 5 percent.

The ‘excellent national tax-related account books’ are those that satisfy certain preservation requirements for maintenance and preservation of electromagnetic records in the special national tax-related account books (for which a preservation obligor has submitted a certain application form to the competent tax office in advance).

From the perspective of further transitioning to highly reliable electronic account books, the scope of the special national tax-related account books related to income tax (excluding withholding income tax) and corporation tax was amended as follows:

(1) Outline

The scope of the special national tax-related account books related to income tax (excluding withholding income tax) and corporation tax^(*) before and after the 2023 tax reform is as follows:

	Before the 2023 tax reform	After the 2023 tax reform
Income tax (excluding withholding income tax)	Journals, general ledger and <u>other necessary books</u> which a blue-form tax return filing person must preserve and record the matters related to transactions	The ‘other necessary books’ on the left was amended as shown below.
Corporation tax	Journals, general ledger and <u>other necessary books</u> which a blue-form tax return filing company must preserve and record the matters related to transactions	

^(*) No amendments to the special national tax-related account books for consumption tax

[Other necessary books]

In order to correct accounting errors as a whole, which affect taxable income directly, all sub-ledgers for any accounts in the income statement are in scope of the special national tax-related account books since those accounts will affect the calculation of the tax base and tax amount directly. From the same viewpoint, the scope of the sub-ledgers for the accounts in the balance sheet is limited to the accounts which are closely related to the accounts in the income statement and substantially necessary for understanding of the fluctuation of those accounts. Therefore, the ‘other necessary books’ for income tax (excluding withholding income tax) and corporation tax purposes are limited to the following items ((iv) is excluded for income tax purposes.):

	Items	Example of sub-ledgers
(i)	Matters related to notes receivable and notes payable (excluding accommodation bills)	Ledger for notes receivable / notes payable
(ii)	Matters related to accounts receivable (including accrued processing fees and other items similar in nature to accounts receivable) and other receivables (excluding matters related to deposits and withdrawals from checking accounts)	Ledger for accounts receivable / loans / unsettled items
(iii)	Matters related to accounts payable (including accrued processing fees and other items similar in nature to accounts payable) and other payables	Ledger for accounts payable / loans / unsettled items
(iv)	Matters related to securities (excluding those that are commodities)	Ledger for receipt and delivery of securities
(v)	Matters related to depreciable assets	Ledger for fixed assets
(vi)	Matters related to deferred assets	Ledger for deferred assets
(vii)	Matters related to sales (including processing, other services rendered and other items of a similar nature to sales, etc.) and other income	Ledger for sales
(viii)	Matters related to purchases and other expenses (excluding wages, salary allowances, legal welfare expenses and welfare expenses for corporation tax purposes)	Ledger for purchases / expenses, wage ledger (only for income tax purposes)

(2) Timing of application

The amendments in 1. above are applied to national tax for which the statutory tax return filing due date is on or after 1 January 2024.

2. Reference information

For example, the following treatments are newly indicated in the Q&As related to the special national tax-related account books provided by the National Tax Agency (NTA):

- Where the special national tax-related account books are preserved, etc. in compliance with certain requirements and the application form for this measure has been submitted in advance, the preservation obligor is entitled to apply the reduced rate of additional tax for understatement, even if multiple accounting software programs are used for the preservation.
- The ‘notebooks, etc., which are prepared in addition to the excellent national tax-related account books’, are considered as merely supplementary materials containing the same contents described in the ‘excellent national tax-related account books,’ as long as all of the books related to the blue return filing are properly prepared in compliance with the certain requirements of the ‘excellent national tax-related account books.’ Therefore, even if the ‘notebooks, etc., which are prepared in addition to the excellent national tax-related account books’, are not preserved in compliance with the certain requirements for the ‘excellent national tax-related account books,’ the preservation obligor will not be disqualified from application of the reduced rate of the additional tax for understatement.
- Even if some of the tax-related account books, which were described in the submitted application form for this measure before 1 January 2024 based on the certain requirements before the 2023 tax reform, are not treated as the special national tax-related account books due to the 2023 tax reform, it is not necessary to submit a notification form for change in the application form for the measure,

because the matters stated in the application form for the measure have not been changed.

II. Scanner Preservation System for National Tax-Related Documents

1. Amendments to the preservation requirements

The preservation of electromagnetic records by a scanner is allowed for national tax-related documents other than book closing documents in lieu of the preservation of such documents provided that certain preservation requirements are satisfied.

From the perspective of further promoting the paperless operation in business, the following requirements of the scanner preservation system were amended in order to improve the convenience of the scanner preservation system:

(1) Abolishment of the preservation requirements of information about resolution, gradation and size

The preservation requirements of information about resolution, gradation and size of scanned national tax-related documents were abolished.

Even after the above requirements are abolished, the resolution during scanning is still required to be 200 dots or more per 25.4 mm (reading with a resolution above a certain level). In this regard, the Q&As related to the scanner preservation system for national tax-related documents provided by the NTA, which was updated in June 2023 by reflecting the 2023 tax reform, (hereinafter referred to as 'Scanner Preservation Q&As') states that the resolution at the time of scanning should be explained in an appropriate manner, such as by presenting property information, when the resolution is confirmed by the tax authority during a tax audit, etc.

(2) Abolishment of requirement regarding the confirmation of information about input person, etc.

When national tax-related documents are preserved by a scanner, it had been required to be able to confirm the person who enters the records related to the national tax-related documents or the person who directly supervises the person. This requirement was abolished.

(3) List of the preservation requirements

The following schedule shows the list of the preservation requirements of the scanner preservation system for national tax-related documents after the tax reform:

(i) Important documents

'Important documents' are national tax-related documents other than financial statements (excluding general documents).

Requirements	Before the 2021 tax reform	After the 2021 tax reform	After the 2023 tax reform
Limitation of input period	○	○	○
Scanning with resolution above a certain level	○	○	○
Scanning by color image	○	○	○
Time stamping	○	○(Amended)	○
Preservation of information about resolution and gradation	○	○	Abolished
Preservation of information about size	○	○	Abolished

Version management	○	○(Amended)	○
Confirmation of information about input person, etc.	○	○	Abolished
Appropriate administration	○	Abolished	—
Ensuring the inter-relationship between scanned documents and account books	○	○	○
Equipment of readable devices and output in an orderly format and in a clear state of electromagnetic records	○	○	○
Ensuring search functionality	○	○(Amended)	○
Maintenance of documents related to the development of computer processing systems	○	○	○

(ii) General documents

‘General documents’ are receipts, estimate sheets and order forms, etc.

Requirements	Before the 2021 tax reform	After the 2021 tax reform	After the 2023 tax reform
Scanning with resolution above a certain level	○	○	○
Scanning by grayscale	○	○	○
Time stamping	○	○(Amended)	○
Preservation of information about resolution and gradation	○	○	Abolished
Version management	○	○(Amended)	○
Confirmation of information about input person, etc.	○	○	Abolished
Ensuring the inter-relationship between scanned documents and account books	○	○	Abolished
Equipment of readable devices and output in an orderly format and in a clear state of electromagnetic records	○	○	○
Ensuring search functionality	○	○(Amended)	○
Maintenance of documents related to the development of computer processing systems	○	○	○

(iii) Important documents of the past

‘Important documents of the past’ are important documents created or received by a preservation obligor before starting the scanner preservation system.

Requirements	Before the 2021 tax reform	After the 2021 tax reform	After the 2023 tax reform
Submission of a notification form	○	○	○
Scanning with resolution above a certain level	○	○	○
Scanning by color image	○	○	○
Time stamping	○	○(Amended)	○
Preservation of information about resolution and gradation	○	○	Abolished
Preservation of information about size	○	○	Abolished
Version management	○	○(Amended)	○
Confirmation of information about input person, etc.	○	○	Abolished
Appropriate administration	○	Abolished	—

Ensuring the inter-relationship between scanned documents and account books	○	○	○
Equipment of readable devices and output in an orderly format and in a clear state of electromagnetic records	○	○	○
Ensuring search functionality	○	○(Amended)	○
Maintenance of documents related to the development of computer processing systems	○	○	○

(4) Timing of application

The amendments in 1. above are applied to national tax-related documents that are preserved on or after 1 January 2024.

2. Reference information

For example, the following treatments regarding the requirement for ensuring search functionality are newly stated in the Administrative Guidance and the Scanner Preservation Q&As provided by the NTA:

- Regarding the search function, in principle, it is necessary to be able to search electronic data to be preserved throughout a tax period. However, where there are reasonable grounds for difficulty of searching for electronic data subject to preservation throughout a tax period, it is acceptable that the search can be performed by specifying a range for each storage medium or for each reasonable period within a tax period.
- The ‘transaction date or other date’ as a record item in the search function refers to the date that should be described in the national tax-related document and the date on which the transaction in a delivered/received national tax related document is conducted basically. However, where multiple transactions are recorded together in a single national tax-related document, it is acceptable to treat the date which is recorded as the issue date or receipt date at the delivery or receipt of the national tax-related document as the ‘transaction date or other date’, as long as the preservation obligor applies such treatments under consistent rules for each tax period.

III. Preservation System for Electromagnetic Records related to Transaction Information of Electronic Transactions

1. Amendments to the preservation requirements

Where a preservation obligor regarding income tax (excluding withholding income tax) and corporation tax carries out electronic transactions in which transaction information is exchanged by electromagnetic methods, the transaction information must be preserved by electromagnetic records in accordance with preservation requirements listed in the schedule below. By virtue of the 2023 tax reform, the requirements for ensuring search functionality and time stamping were amended.

Requirements		Before the 2021 tax reform	After the 2021 tax reform	After the 2023 tax reform
Maintenance of documents related to the development of computer processing systems (where using an in-house developed program)		○	○	○
Equipment of readable devices and output in an orderly format and in a clear state of electromagnetic records		○	○	○
Ensuring search functionality		○	○ (Amended)	○ (Amended)
Either of the measures on the right	Sending or receiving the transaction information after putting time stamp	○	○	○
	Time stamping	○	○ (Amended)	○ (Amended)
	Using the system by which corrections or deletions of electromagnetic records can be confirmed, or corrections or deletions cannot be made	○	○	○
	Maintenance of administration rules for the prevention of the corrections and deletions	○	○	○

(1) Amendments to the requirement for ensuring search functionality

The requirement for ensuring search functionality was amended as follows:

[Before the 2023 tax reform]

■ Principle

All of the following requirements must be satisfied:

(A)	Transaction date and other dates, transaction amount and counterparty ('search items') can be set as search conditions.
(B)	Search conditions can be set for search items of dates or amounts by designating the scope.
(C)	Search conditions can be set by combining two or more search items arbitrarily.

← [Special provision for download request]
 Where the preservation obligor follows the request for download of electromagnetic records by the NTA, etc. based on its rights of question and inspection, (B) and (C) on the left are not required.

■ Special provisions for preservation obligor with low sales

Where a preservation obligor satisfies both of the following conditions, the requirements for ensuring a search functionality are not applied.

(A)	Sales amount during the determination period ^(*) ≤ JPY10 million
(B)	The preservation obligor follows the request for download of electromagnetic records by the NTA, etc. based on its rights of question and inspection

^(*) In the case of a company, the fiscal year prior to the first preceding fiscal year of the fiscal year including the day on which the electronic transaction was made

[After the 2023 tax reform]

From the perspective of promoting the preservation of electromagnetic records that are identical to electronic data received from other parties, the conditions, by which the requirements for ensuring search functionality are not applied, will be amended as follows:

Conditions

Where both (A) and (B) below are satisfied, all of the requirements for ‘ensuring search functionality’ are not applied:

(A)	Either of the following is satisfied.	
	(a)	Sales amount during the determination period ^(*) < JPY50 million
	(b)	Where a preservation obligor follows the request for presentation or submission of output documents of the electromagnetic records related to transaction information of electronic transactions (limited to output documents in an orderly form and in a clear state and organized by transaction date and counterparty) by the NTA, etc.
(b)	The preservation obligor follows the request for download of electromagnetic records by the NTA, etc. based on its rights of question and inspection	

^(*) In the case of a company, the fiscal year prior to the first preceding fiscal year of the fiscal year including the day on which the electronic transaction was made

Regarding the condition (A)(a) above, the Q&As related to the preservation system for electromagnetic records related to transaction information of electronic transactions provided by the NTA, which were updated in June 2023 by reflecting the 2023 tax reform (hereinafter referred to as ‘Preservation of Electronic Transaction Q&As’) state as follows:

- Since this measure was established by taking into consideration the special provisions for consumption tax credit on purchases by small and medium-sized businesses under the Consumption Tax Law, the period to determine whether the sales amount exceeds JPY50 million will be determined in the same manner as the Consumption Tax Law.
- The ‘sales’ is ‘revenue from operating activities generally recorded as sales, sales revenue, operating revenue, etc.’, and does not include so-called non-operating income or extraordinary gains. Therefore, the ‘sales’ does not necessarily correspond to ‘taxable sales’ under the Consumption Tax Law.

Regarding the condition (A)(b) above, the Preservation of Electronic Transaction Q&As state as follows:

- Regarding the method of organizing output documents, the output documents must be organized in a regular manner with respect to the date and counterparty for each tax period in accordance with the method shown in the administrative guidance provided by the NTA.
- Although there are no specific provisions regarding the timing of outputting electromagnetic records, where the preservation obligor does not prepare in advance to output and organize the documents for timely presentation, it may be determined that the requirements for ensuring search functions are not satisfied. Therefore, it is desirable to output and organize documents regularly.

The Preservation of Electronic Transaction Q&As also state the following operational treatment of the requirement for ensuring search functionality:

- As for the case where the requirement for ensuring search functionality is to be satisfied by inputting file names, even if folders are saved separately by each ‘counterparty’ and the file names of transaction data saved in those separate folders are managed by inputting ‘transaction date or other date’ and ‘transaction amount,’ the requirement for ensuring search functionality is satisfied if the transaction date or other date, transaction amount and counterparty can be set as the search conditions.
- Regarding the search items of the requirement for ensuring search functionality, in addition to the method of using the transaction date and transaction amount recorded for each transaction, it is acceptable to use the delivery date or receipt date at the time of sending and receiving the electronic transaction data and total transaction amount recorded in the electronic transaction data, as long as the preservation obligor applies such treatments under consistent rules for each tax period.

(2) Amendments to the requirement for time stamping

The requirement for time stamping was amended as follows:

	Before the 2023 tax reform	After the 2023 tax reform
(A)	<p>A preservation obligor must put a time stamp at any of the following timing:</p> <ul style="list-style-type: none"> • Promptly after sending or receiving the transaction information of electronic transactions • Promptly (approximately within 2 months and 7 business days) after a normal period for processing of operation (Limited to the case where the rules for each administrative process and procedures from the preparation and receipt of national tax-related documents to the time stamping are established) 	No amendment
(B)	A preservation obligor must make it possible to confirm the information about the person who preserves the electromagnetic records, etc.	Abolished

(3) Timing of application

The amendments in (1) and (2) above are applied to transaction information of electronic transactions that are conducted on or after 1 January 2024.

2 . Amendments to measure for preserving output documents of electromagnetic records

(1) Outline

By virtue of the 2021 tax reform, the measure that allows the preservation of output documents created by outputting electromagnetic records related to transaction information of electronic transactions was abolished. Thereafter, the transitional measure was established under the 2022 tax reform that allows the preservation of output documents until 31 December 2023 as far as certain requirements are satisfied, such as the competent tax office acknowledges unavoidable reasons for the failure of

the preservation of the electromagnetic records related to transaction information of electronic transactions in compliance with the preservation requirements.

By virtue of the 2023 Tax Reform, the above transitional measure is abolished when the application deadline (31 December 2023) arrives, and a new grace measure was established for businesses that have reasonable grounds for not being able to comply with the system in time.

Specifically, as long as an electronic transaction conducted by a preservation obligor satisfies all of the following conditions, the preservation obligor will be able to preserve the electromagnetic records related to transaction information of electronic transactions regardless of the preservation requirements:

(A)	The competent tax office acknowledges <u>reasonable grounds</u> for the failure of the preservation of the electromagnetic records related to transaction information of electronic transactions in compliance with the preservation requirements.
(B)	The preservation obligor follows the following request: (a) Request for downloading of the electromagnetic records related to transaction information of electronic transactions and (b) Request for presentation or submission of output documents of the electromagnetic records related to transaction information of electronic transactions (limited to output documents in an orderly form and in a clear state) by the NTA, etc. based on its right of question and inspection.

← (a): Preservation of electromagnetic records is assumed.
 ← (b): Preservation of output documents is assumed.

[‘Reasonable grounds’ in (A) above]

The ‘reasonable grounds’ in (A) above allows for the flexible application of the grace measure depending on the actual circumstances of the preservation obligors, even if there are no ‘unavoidable reasons’ required for the application of the previous transitional measure.

Specifically, the administrative guidance and the Preservation of Electronic Transaction Q&As state the following:

- The ‘reasonable grounds’ will be judged based on the actual situation of the preservation obligor. For example, it will fall under ‘reasonable grounds’ if the establishment of the system, etc. or the internal workflow are not ready in time, etc.
- Including the cases where the preservation obligor can preserve the electromagnetic records themselves but has reasons for not having the circumstances to satisfy the certain requirements at the time of the preservation of the electromagnetic records, even if those reasons are difficult to be viewed as the reasons not attributable to the preservation obligator (e.g., the establishment of the system, etc. or internal workflow for preservation of electromagnetic records in accordance with the certain requirements at the time of preservation are not ready in time), the preservation obligator is treated as having ‘reasonable grounds’ and does not need to satisfy the certain requirements at the time of preservation until the environment to satisfy such requirements is ready. However, this new measures for the preservation of output documents, etc. will not be applicable in case the preservation obligor does not preserve electromagnetic records related to transaction information of electronic transactions in accordance

with the certain requirements at the time of preservation, although the establishment of system, etc. or internal workflow are in place and the preservation obligor can preserve electromagnetic records in accordance with such requirements without funding or manpower, etc. issues.

(2) Timing of application

The amendments in (1) above are applied to transaction information of electronic transactions that are conducted on or after 1 January 2024.

3. Reference Information

The image of the method of preserving electromagnetic records related to transaction information of electronic transactions after the 2023 tax reform, taking into account the amendments in 1. and 2. above is as follows:

	Preservation obligor	Preservation requirements for ensuring search functionality	Other preservation requirements
Preservation method – 1	No limitation (Principle)	Necessary	<ul style="list-style-type: none"> Requirement for prevention of tampering (time stamping, etc.) Requirement for provision of readable devices, etc.
Preservation method – 2	Eligible company of new measure under the 2023 tax reform (See 2. above)	Unnecessary	<ul style="list-style-type: none"> Follow the request for presentation or submission of output documents Follow the request for downloading
Preservation method – 3	Preservation obligor with sales amount of JPY50 million or less (See [After the 2023 tax reform] (A)(a) in 1. (1) above)	Unnecessary	<ul style="list-style-type: none"> Requirement for prevention of tampering (time stamping, etc.) Requirement for provision of readable devices, etc. Follow the request for presentation or submission of output documents
Preservation method – 4	No limitation	Unnecessary	<ul style="list-style-type: none"> Requirement for prevention of tampering (time stamping, etc.) Requirement for provision of readable devices, etc. Follow the request for presentation or submission of output documents (need to be organized by date, etc.) Follow the request for downloading

IV. Closing Remarks

The electronic preservation system for account books, etc., which was fundamentally amended in the 2021 tax reform, has become more convenient by relaxing the requirements in the 2023 tax reform. In addition, the grace measure, which is a permanent provision for preserving output documents of electromagnetic records related to electronic transactions, has been established to accommodate the actual conditions of preservation obligors in the efforts to digitize national tax-related documents.

Since there are already many software products that comply with the preservation requirements of the preservation system for account books, etc., it is likely that many companies are already digitizing their accounting systems. However, since the invoicing system will start in October 2023, there will be an even greater need for digital transformation of accounting systems along with the preservation system for account books, etc.

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