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KPMG Japan tax newsletter

New Reporting Requirement for Overseas Assets



Under the 2012 tax reform, a new reporting requirement for overseas assets held by individual residents was introduced. The Japanese tax authorities have made endeavors to grasp overseas assets held by individual residents through various measures including collecting information from 'Statement of Remittances/Receipts to/from Foreign Countries', which financial institutions are obliged to submit to tax offices to report details of remittances/receipts to/from foreign countries if the amount of each transaction is over JPY1 million. By virtue of introducing this new reporting requirement, the Japanese tax authorities are increasing their enforcement level to collect such information.

While we have already released newsletters to inform about this new reporting requirement, we set out again in this newsletter the main points of the new reporting requirement, reflecting amendments under the 2013 tax reform and items clarified in the administrative guidelines and FAQs released by the National Tax Agency this year.

1. New Reporting Requirement for Overseas Assets

(1) Individuals who are obliged to submit 'Statement of Overseas Assets'

Japanese permanent residents who own overseas assets valued at over JPY50 million as of the end of a calendar year must submit 'Statement of Overseas Assets' to report their overseas assets.

Under Japanese tax law, residents (non-permanent residents/permanent residents) and non-residents are categorized as follows:

Resident (an individual who has their domicile in Japan or has resided in Japan for a continuous period of 1 year or more)	Non-permanent resident (a resident who does not have Japanese nationality and has lived in Japan for 5 years or less in the last 10 years)	←required to submit the statement
	Permanent resident (a resident other than a non-permanent resident)	
Non-resident (an individual other than a resident)		

(2) Place and deadline for submitting 'Statement of Overseas Assets'

A permanent resident that is required to submit 'Statement of Overseas Assets' must submit the statement to the competent tax office having jurisdiction over the domicile (or the residence, if not having the domicile) of the person by 15 March of the following year.

As 15 March 2014 is Saturday, the first deadline for submitting the 'Statement of Overseas Assets' is 17 March 2014.

(3) Definition of overseas assets

'Overseas assets' mean assets located outside Japan and where assets are located is determined basically based on the rules prescribed under the Inheritance Tax Law. Please see some examples below:

Types of assets	Place where the assets are located
Movable/Immovable	Location of the movable/immovable
Deposit in financial institutions	Location of an office which accepted the deposit
Bond/Stock/Stock option ^(*)	Location of the head office of an entity issuing the bond/stock/stock option ^(*)
Japanese Government Bond (JGB)	Japan ^(*)
Bond issued by the foreign national government	The foreign country ^(*)

^(*) Stock options that are not exercisable as of the end of a calendar year are not required to be declared in the 'Statement of Overseas Assets' for the year.

^(*) Where those are managed in accounts of financial institutions, regardless of the above, those managed in accounts established with overseas offices of financial institutions will be treated as overseas assets and those managed in accounts established with domestic offices of financial institutions will be treated as domestic assets.

(4) Value of overseas assets

The value of overseas assets is assessed at 'fair market value' or 'estimated value' as of the end of the calendar year. The following examples of the calculation of 'estimated value' are indicated in FAQs released by the National Tax Agency:

Types of assets	How to calculate 'estimated value'
Building (where it has not been used for business purposes)	It is allowed to calculate the 'estimated value' based on one of the following: (1) The tax basis of the building for fixed asset tax purposes (if a tax equivalent to the Japanese fixed asset tax is imposed on the building under tax laws of the foreign country or the foreign local governments) (2) The amount of the acquisition cost of the building, reflecting fluctuations in the value after the acquisition, which are estimated using reasonable methods (3) The sale value of the building, if it is sold for the period from 1 January of the following year to the deadline of the 'Statement of Overseas Assets' (4) The amount of the acquisition cost of the building less the depreciation costs after the acquisition
Household movable asset (a movable tangible asset used for non-business purposes, such as furniture and cars)	The amount of the acquisition cost of the asset less the depreciation costs after the acquisition
Stock option	['The value of the stock at the end of the year to be acquired by the exercise of the stock option' – 'The option price per share'] x 'Number of shares to be acquired by the exercise of the stock option'

The value in foreign currencies should be translated into Japanese yen using the TTB as of the end of the year released by a financial institution with which the submitter of the 'Statement of Overseas Assets' has dealings (for an asset such as a bank account, the TTB released by the financial institution managing the bank account should be used.).

(5) Items to be declared in 'Statement of Overseas Assets'

Items to be declared in the 'Statement of Overseas Assets' are category, type, purpose of use (business/private), place, number and value of overseas assets and any other information if required. It is acceptable not to declare a minor asset (less than JPY100,000 per unit) if the minor asset is a movable tangible asset other than cash or precious metals, etc.

Statement of Overseas Assets as of 31 December XXXX						
Person having overseas assets		Place of domicile or residence				
		Name				
Category	Type	Purpose of use	Place	Number	Value	Other
Bank deposit	Ordinary	Private	●●●, US X Bank, X Branch		8,500,000	
Securities	Stock	Private	●●●, UK X plc.	6,000 shares	24,000,000	
●	●	●	●	●	●	
●	●	●	●	●	●	
●	●	●	●	●	●	
Total					xx,xxx,xxx	

Note that a summary sheet indicating the total amount for each category should be attached to the 'Statement of Overseas Assets'.

(6) Relation with 'Statement of Assets/Liabilities'

If an individual has an obligation to lodge their income tax return and their total income exceeds JPY20 million for a calendar year, the individual must submit a 'Statement of Assets/Liabilities' together with their income tax return to declare type, number and value of assets and amount of liabilities as of the end of the calendar year.

When an individual is required to submit both the 'Statement of Assets/Liabilities' and the 'Statement of Overseas Assets', the individual can complete the 'Statement of Assets/Liabilities' without filling in the details of their overseas assets.

2. Special Measures for Additional Taxes

When a taxpayer understates tax basis in tax returns or fails to lodge tax returns by the due date, if the Correction (lodging an amended tax return or a tax return after due date by the taxpayer, or taking action for reassessment/determination by tax offices) was made, additional tax for understatement or additional tax for failure to lodge will generally be imposed on the tax amount to be paid based on the Correction at the following rates:

Additional tax	Tax amount to be paid based on the Correction	Rate
Additional tax for understatement	Tax amount exceeding JPY500,000 or the tax amount declared by the original tax return, whichever is larger	15%
	Tax amount other than the above	10%
Additional tax for failure to lodge	Tax amount exceeding JPY500,000	20%
	Tax amount other than the above	15%

With respect to such additional taxes, the following special measures were introduced to encourage people to accurately declare their overseas assets:

	Measure to <u>reduce</u> additional tax	Measure to <u>increase</u> additional tax
Cases where the special measures are applied	<ul style="list-style-type: none"> Where the Correction was derived from overseas assets declared in 'Statement of Overseas Assets' submitted within due date 	<ul style="list-style-type: none"> Where 'Statement of Overseas Assets' was not submitted within due date, or Where the Correction was derived from overseas assets not declared in 'Statement of Overseas Assets' submitted within due date (including a case where the declaration was not sufficient)
Taxes subject to the special measures	<ul style="list-style-type: none"> Income tax on income derived from overseas assets Inheritance tax on overseas assets 	<ul style="list-style-type: none"> Income tax on income derived from overseas assets
Measures	Rate of additional tax for understatement/additional tax for failure to lodge is reduced by 5%.	Rate of additional tax for understatement/additional tax for failure to lodge is increased by 5%.

Even when the 'Statement of Overseas Assets' is submitted after the due date, if it is made voluntarily (i.e. not because of anticipating that a reassessment or determination will be made due to tax examination of overseas assets), such statement will be treated as being submitted within the due date for the purpose of the special measures.

The above special measures will be applied to 2013 income/inheritance and onwards for income/inheritance tax purposes.

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