

# Japan Tax Update

Monthly tax update



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## Tax Deductible Remuneration Paid to Directors

As a part of the 2006 corporate tax reform, the deductibility of remuneration paid to company directors has been expanded. Under the previous law, remuneration paid to directors on an irregular basis (i.e. in a manner other than equal monthly installments) or remuneration that was determined in proportion to the company's earnings was treated as a non-deductible directors' bonus for corporate tax purposes.

Effective from fiscal years commencing on or after April 1, 2006, the following payments to directors are deductible:

1. **Fixed monthly payments;**
2. **Fixed payments in accordance with an advance notice to the tax office; and**
3. **Performance bonuses paid in proportion to the company's earnings to directors who engage in the operation of the company's business.**

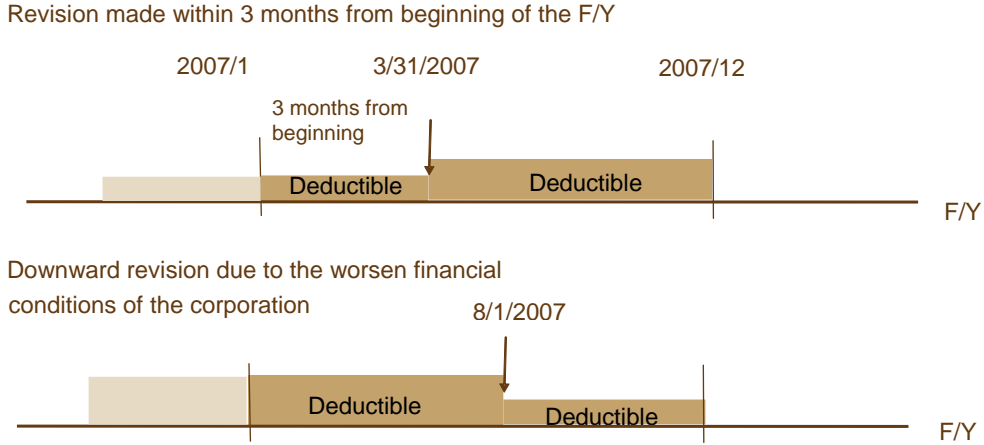
### 1. Fixed monthly payments

This type of payment is deductible without any advance notice to the tax office or disclosure provided the relevant legal procedures have been followed (i.e. approval at the shareholders meeting or within the maximum amount specified in the company's by-laws). However, it should be noted that if the monthly amount is increased or decreased by way of a resolution at a shareholders meeting or compensation committee, such revision should be made within 3 months from the beginning of the fiscal year.

If a revision is made after 3 months from the beginning of the fiscal year to increase monthly payments, in principle, the portion exceeding the equal monthly installments will not be deductible.

If a revision is made after 3 months from the beginning of the fiscal year to decrease monthly payments, the company must have a specific reason, generally that due to worsening financial conditions, it has been decided to reduce monthly payments. Without such reason, in principle, the difference between the original monthly payment and reduced monthly payment made after the decrease will not be deductible.

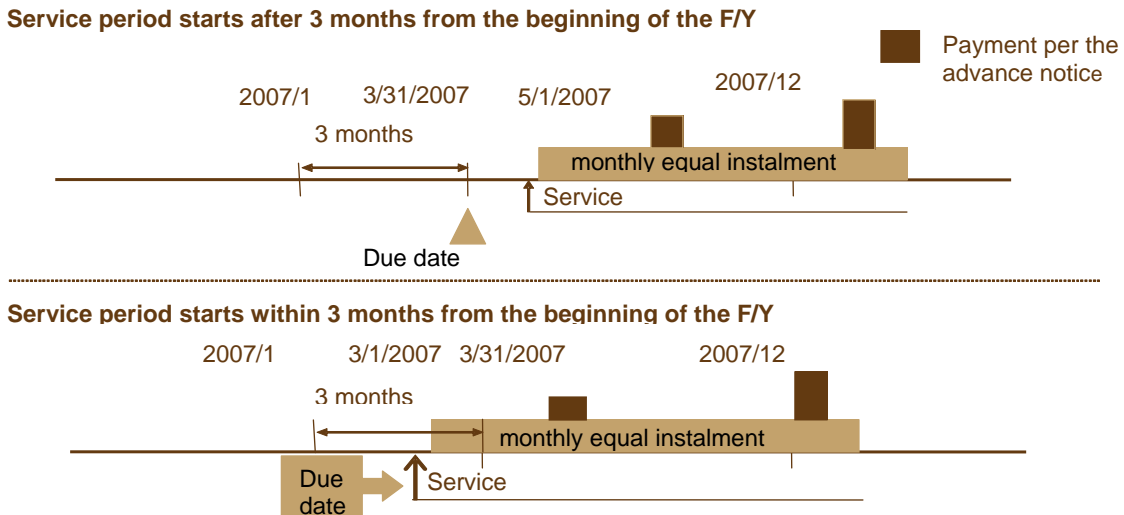
**Directors remuneration, monthly equal instalment**



**2. Fixed payments in accordance with an advance notice to the tax office**

A pre-determined bonus is deductible provided the company has filed an advance notice with the tax office by the earlier of (i) 3 months from the beginning of the accounting fiscal year, or (ii) the day immediately before the relevant director commences the provision of his/her services. The notice must be filed annually for each director in respect of which a fixed bonus is expected to be paid. If the actual payment is different from the amount specified in the advance notice, the company cannot claim a deduction for the payment.

**Directors remuneration, fixed payment per the advance notice**



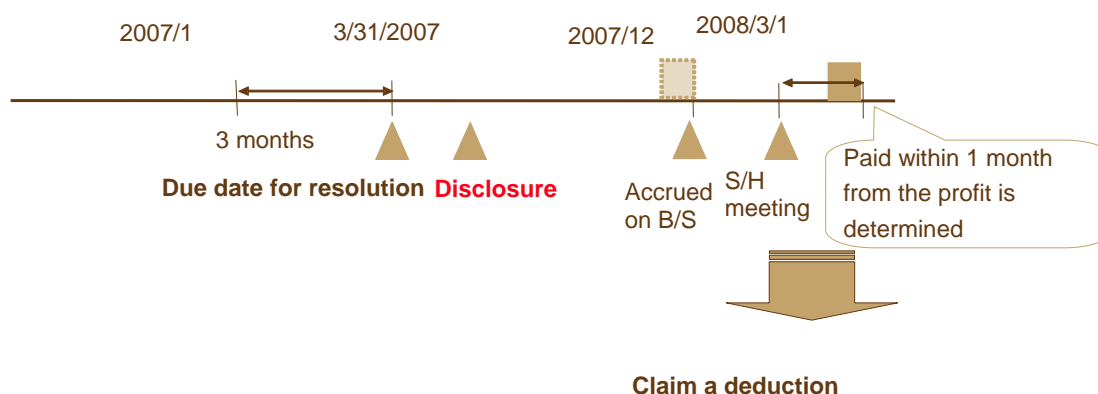
### 3. Performance bonuses paid in proportion to the company's earnings to directors who engage in the operation of the company's business

A deduction for this type of payment can only be claimed by a company which is subject to an external audit pursuant to the Japanese Securities Exchange Act. A bonus that is determined in proportion to the company's earnings is deductible provided the following conditions are satisfied:

1. The remuneration is paid to directors who engage in the operation of the company's business and the company (excluding family companies or group subsidiary companies).
2. The remuneration formula is decided at a shareholders' meeting, compensation committee, audit committee or any similar organization within 3 months from the beginning of the fiscal year.
3. The remuneration formula and the definition of profit to which the formula is applied (by class of directors) is disclosed in the Japanese 10-K (a report similar to that filed by listed companies in other countries disclosing information relating to financial position and corporate activities).
4. The remuneration to be paid to each operating director (with prescribed ceiling) is calculated using the same formula.
5. The remuneration is paid or expected to be paid within 1 month after the profit of the company is finalized (ex. the income statement is approved at the shareholders' meeting (in the example below, March 1, 2008)).
6. The amount of remuneration is recognized as an expense in the company's income statement.

#### Directors remuneration, profit related

Requirements for corporate tax



You have a vision. PricewaterhouseCoopers helps bring that vision to reality. We hope you enjoy the current issue of Japan Tax Update and appreciate your comments or ideas for what you'd like to see covered in future issues.

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