Tax Measures for Businesses to Mitigate the Economic Impact of COVID-19

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In brief

On April 7, 2020, a package of emergency fiscal measures to mitigate the economic impact of Covid-19 ("Emergency Measures") was approved by the Cabinet. The package includes special tax measures for businesses, such as reductions to fixed asset and property taxes, the deferral of tax payments and social security premiums, and exemptions from National Pension Insurance and National Health Insurance premium payments.

The Emergency Measures aim to support the economy during the immediate critical phase focused on preventing the spread of Covid-19. The government is expected to introduce further measures, focused on recovery of the economy and businesses, in a second phase once the virus has been contained.

The next step in the ratification process is for the draft Emergency Measure bill to be submitted to and approved by the Diet. It is expected that this will take place by the end of April.

To clarify its tax administration procedures in the current adverse environment, the National Tax Agency ("NTA") published guidance on 25 March 2020 and 8 April 2020 explaining in what circumstances taxpayers may apply under existing laws to extend tax return filing deadlines and defer tax payments if they have been affected by COVID-19 ("NTA FAQ").

In detail

Tax Measures in the Emergency Measures

Major tax measures proposed in The Emergency Measures that will apply to businesses are as follows.

1. One-year grace period to pay national and local taxes

Under existing laws, taxpayers may apply to defer national and local tax payments for a period up to one year due to unavoidable circumstances. The existing laws do not define what a taxpayer must demonstrate to qualify for deferral, but a taxpayer must explain the reasons for the application for deferral and provide details of assets, revenues and expenses. In principle, taxpayers must also provide collateral, such as real estate or corporate bonds, but this requirement may be waived if the taxpayer does not own any of the assets that are listed in the law as collateral. The existing laws also provide for an extension to tax return filing deadlines of up to two months after unavoidable circumstances are over. The NTA FAQ provides examples of unavoidable circumstances relating to COVID-19, including restrictions imposed on the movement of employees, closure of a taxpayer's accounting department, or when a responsible finance person has contracted the virus and is unable to work.

Under the Emergency Measures, if a taxpayer's revenue has significantly decreased in a period of one month or more between February 1, 2020 and the tax payment due date, taxpayers may apply to defer the payment of national tax, local tax, and social insurance premiums for one year without providing any collateral and without paying interest on the unpaid amount.

A significant decrease is generally a reduction of 20% or more compared to the same period in the previous fiscal year. Taxpayers may apply to defer payments that are already overdue.

When considering an application for deferral, the tax office will assess the taxpayer's financial position, for example by examining working capital forecasts over the next six months. Verbal explanations of the significant decrease or impact on the taxpayer's business may also be accepted.

2. Carry back of losses (applicable to national taxes only)

Under the current rule, small and medium sized enterprises ("SMEs") may carry back losses to the previous fiscal year. For this purpose, SMEs are defined as companies with paid in capital of 100 million yen or less, excluding 100% owned subsidiaries of large companies (companies with paid in capital of 500 million yen or more), mutual companies, investment companies, and trustee companies.

It is now proposed that the capital threshold for taxpayers wanting to carry back losses will be extended to companies with paid in capital over 100 million yen but 1 billion yen or less (it is yet to be confirmed if the capital threshold for parent companies will also be increased accordingly).

Eligible taxpayers may carry back losses incurred in fiscal periods ending between February 1, 2020 and January 31, 2022.

3. Reductions in property taxes

If an SME, as defined below, has suffered a decrease in revenue within any three months from February to October 2020 of 30% or more compared to the previous fiscal year, fixed assets tax and city planning tax on depreciable assets and office buildings ("Property Taxes") will be reduced. If revenue has decreased by 30% or more but less than 50%, Property Taxes will be reduced by half. If revenue has decreased by 50% or more, Property Taxes will be fully waived.

For the purposes of the reduction in Property Taxes, corporate taxpayers will be defined as SMEs if they have paid in capital of 100 million yen or less, or in the case where there is no capital, they have 1,000 or fewer employees.

This rule will apply for assets owned as of January 1, 2021.

4. Tax incentives for SMEs that invest in remote working (applicable to national taxes only)

SMEs, as defined for the above reductions in property taxes rules, that invest in facilities to improve remote working may immediately depreciate the costs incurred or claim tax credits (based on 7% or 10% of the acquisition cost) of up to 20% of their corporate tax liability.

Applications may be made up until March 31, 2021 and further details will be provided later.

5. Filing for consumption tax exempt status

For voluntary consumption tax elections, a taxpayer must apply to be a taxable enterprise or tax exempt enterprise before the beginning of the fiscal year and must continually apply the same status for two fiscal years. However, if a taxpayer's sales in a certain period of one month or more are reduced by 50% compared to the previous fiscal year, the taxpayer may change its elected consumption tax status after the start of the fiscal period after obtaining approval from the tax office.

This exception will apply to periods in which the consumption tax return filing deadline falls after the enactment of the Emergency Measures and where sales have declined between February 1, 2020 and January 31, 2021.

The takeaway

The Emergency Measures are not yet enacted in law, but Japanese companies affected by COVID-19 should begin considering now whether they may be eligible to apply for any of the measures, or whether they would benefit from an immediate application under the existing laws to defer their tax return filing or tax payment deadlines.

Let's talk

For a deeper discussion of how this issue might affect your business, please contact:

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