

Transformation of tax filing processes under the 2021 Tax Reform

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In brief

The 2021 Tax Reform Proposals contained a number of provisions accelerating the digital transformation of the administrative processes and procedures of the National Tax Agency, regional taxation bureaus and local tax offices (collectively, **NTA**). While discussion on these changes has been ongoing for some years, the COVID-19 pandemic highlighted the inability of the NTA to operate in any way approaching “business as usual” at critical times during the tax year. It became very clear that transformation was urgently required.

The 2021 Tax Reform Proposals were passed into law by the Japanese government on 26 March 2021 and promulgated on 31 March 2021. This newsletter provides a more detailed summary of the new legislation, and guidance that the NTA has also published, in relation to transformation of tax administrative processes and procedures.

Details of all the overall 2021 Tax Reform Proposals can be found here in print:

<https://www.pwc.com/jp/en/taxnews/pdf/jtu-20201214-en-169.pdf>

and here in webcast:

<https://www.pwc.com/jp/en/seminars/2021-japan-tax-reform.html>

In detail

1. Abolition of wet seals on paper filings

The 2021 Tax Reform has abolished the *hanko*, which has always been required to be affixed to paper documents filed with the tax office (the so-called “**wet seal**”). This is notwithstanding the fact that the wet seal carries no legal meaning and performs no legal purpose; verification of the relevant taxpayer’s identity and other critical information is provided by the taxpayer’s MyNumber (for individuals) or corporate number (for corporations), which are required to be provided on all tax forms and applications.

Therefore, from 1 April 2021, wet seals will no longer be required for any tax filings, except in the following cases:

- Where the taxpayer is submitting documents in relation to the provision of collateral for deferral of a tax payment, or the taxpayer is paying their tax obligation “in kind”
- Where the taxpayer is submitting documents relating to the division of property in inheritance or gift tax cases
- While a grantor is no longer required to affix a wet seal on a power of attorney in relation to submission of tax returns or the issuance of tax payment certificates, any request by a

grantee for the disclosure of personal information and other private documents will require a wet seal of the grantor

- At the request of financial institutions, the wet seal of the relevant bank will still need to be affixed to payment transfer request forms (*furikae iraiشو*) and direct payment notification forms (*direct noufu riyou todokedesho*) filed in paper form (although where these documents are submitted electronically through the e-tax system, there is no such requirement).

The NTA has already updated almost all relevant tax forms and applications to remove the space previously allocated to the wet seal (more details on this and other changes to the filing of documents related to exemption from withholding tax are provided below). Various tax regulations clarify that the previous tax forms can be used, without wet seal, even after 1 April 2021.

2. Electronic filing of documents related to exemption from withholding tax

The 2021 Tax Reform has abolished the requirement that various forms and associated documents relating to withholding tax be filed in hard copy. This includes permitting the electronic submission of various declarations and reports related to withholding tax for employees, such as declarations of dependent and spousal deductions, declarations regarding retirement income, etc.

However, of more interest to foreign companies or non-residents investing in Japan will be the application of this rule to the process for obtaining an exemption from withholding tax, either wholly or partially, for various categories of cross border transactions.

Exemption from withholding tax for interest or earnings received

The new law will permit electronic filing of various declarations related to interest or earnings received by foreign investors, for filings on or after 1 April 2021. This includes declarations or applications of exemption from corporate tax and withholding tax (and other relevant documents) for interest or earnings received from:

- Public and corporate bonds issued outside of Japan
- Public and corporate bonds under the bond settlement system
- Investments in Japanese limited partnership
- OTC derivative transactions with Japanese financial institutions
- Bond repo transactions with Japanese financial institutions

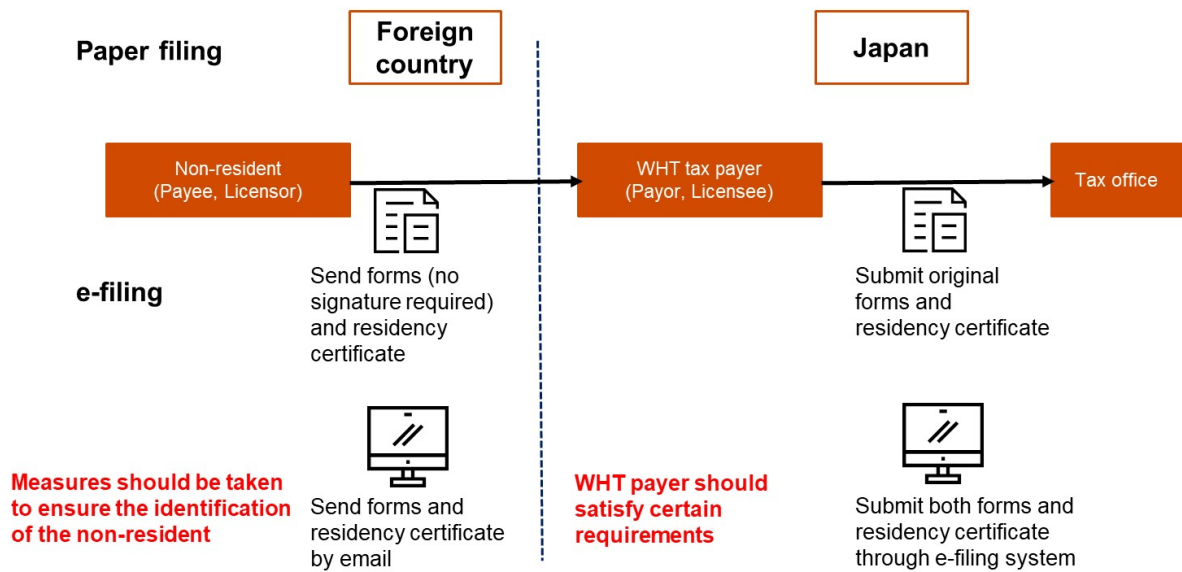
Applications filed under a relevant tax treaty

The abolition of the requirement for a wet seal on tax filings means that non-residents or foreign corporations are no longer required to sign application forms under a relevant treaty, i.e., for reduced withholding rates, exemptions from withholding, or withholding tax refunds. The revised treaty forms, without the signature requirements, are now uploaded on the NTA's website:

https://www.nta.go.jp/english/taxes/withholding/tax_convention.htm

In addition, however, the new law will also permit such applications submitted on or after 1 April 2021 to be (i) transmitted from the non-resident or foreign corporation to the person with the withholding tax obligation, i.e., the payor, in electronic format, and (ii) filed electronically with the relevant tax office. The new rules for wholly paper and wholly electronic filing processes, respectively, are shown in the diagram below. Under the electronic process, required attachments, such as resident's certificates, should be attached in scanned format, if an application is filed electronically.

Filing of income tax treaty applications after 2021 tax reform



When receiving such documents electronically from a non-resident or foreign corporation, the payor in the relevant transaction must satisfy the following requirements.

- They must have received any relevant forms required from the non-resident or foreign corporation in an appropriate secure electronic format
- They must have confirmed the identity of the non-resident or foreign corporation that has provided the forms
- They must take necessary measures to display on the PC screen and print out the screen shot of the documents filed electronically (for purposes of any future tax audit)

Confirmation of the identity of the non-resident or foreign corporation can be done in the following ways:

- The non-resident or foreign corporation e-signs the relevant forms, using an appropriate secure electronic signature certification process (“e-sign method”)
- The non-resident or foreign corporation uses an identification number and password provided by the payor to send information required in the application forms (“ID/password method”)
- The payor submits documents (prepared within the last 6 months) verifying the identity of the non-resident or foreign corporation (“document confirmation method”)

In contrast to the new rules described for receiving documents from a non-resident or foreign corporation in electronic format, there are no specific requirements that the payor must satisfy when receiving documents in paper format. Moreover, as it is no longer necessary for the non-resident or foreign corporation to sign the relevant treaty application forms (as described above), these forms could be completed by the payor (or their tax agent). Thus, the only paper document that should be sent by the non-resident or foreign corporation would be the certificate of residency.

Under the new electronic filing rules however, it is clear that unless the above requirements for both payors and non-resident or foreign corporations are met, the use of electronic means to transmit the relevant forms to the payor is not permitted. This may result in fewer taxpayers electing to transmit documents electronically than would otherwise be ideal.

Regarding the new electronic filing rules, the FAQ (Japanese only) was uploaded on the NTA’s website on 19 May 2021;

https://www.nta.go.jp/taxes/tetsuzuki/shinsei/annai/joyaku/denjiteikyo/pdf/0021003-199_03.pdf

The takeaway

The 2021 Tax Reform provisions regarding digitalization of administrative processes and procedures of the NTA that are described above will go some way to decreasing the tax administration burden on local taxpayers and their advisors and agents. They also demonstrate the Japanese government's commitment to digital transformation, of which tax is just one area. Going forward, we would expect more changes designed to further digitalize and increase the efficiency of the NTA in carrying out its functions.

Let's talk

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

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