

E-Storage Rules: Proposed Transitional Measure regarding e-Transaction Data Retention Requirement under 2022 Tax Reform

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In brief

Under the Electronic Book and Document Storage Act (the ‘e-Storage Act’), the rule allowing taxpayers to print out and maintain data from electronic transactions (‘e-Transactions’)¹ in hard copy, if taxpayers cannot satisfy the requirements to maintain such data digitally, was set to expire with regard to e-Transactions taking place on or after January 1, 2022. Some taxpayers expressed concern that they would not have appropriate systems in place by deadline. The tax reform proposals released by the ruling party (LDP) on December 10, 2021 (the ‘2022 Tax Reform Proposal’) include a transitional measure that would push back the implementation date of the mandatory requirement for two years. Thus, under the 2022 Tax Reform Proposal, taxpayers otherwise unable to satisfy the requirements under the e-Storage Act to maintain e-Transaction data digitally would be able to keep such data digitally, as long as they can print out the data in hard form on request, for e-Transactions undertaken up to December 31, 2023. We discuss this and other changes in more detail below.

In detail

1. e-Transaction Data

(1) Current Status of Law

Under current law, where a taxpayer that is required to maintain documents in connection with income tax or corporate income tax undertakes an e-Transaction, they must meet certain requirements under the e-Storage Act in order to maintain the e-Transaction data digitally. For example, in order to ensure the integrity of a taxpayer’s e-Transaction data, the rules require that either (i) a timestamp is attached by the sender of the transaction data, (ii) the recipient applies timestamp, and the name of person saving the data or their supervisor is recorded, (iii) the data is exchanged / maintained on a system that can either track details of corrections and deletions to data, or prevents corrections to or deletions of the data, **or** (iv) the company establishes administrative procedures that prevent corrections or deletions of the records of the electric data without due reason.²

¹ Electronic transaction data refers to data of transactions whose transactional information is exchanged in a purely electronic format, including e-invoices, EDI data, etc.

² This list is not exhaustive; additional requirements apply with regard to maintaining e-Transaction data digitally. Please feel free to contact PwC Japan Tax for a more detailed discussion of applicable requirements.

If a taxpayer cannot satisfy the requirements, the rules permit a taxpayer the option to print out the e-Transaction data and maintain it in hard form. The option for a taxpayer to print out and maintain such data in hard form was currently set to expire, however, for e-Transactions undertaken on or after January 1, 2022. Thus, taxpayers undertaking e-Transactions would be required to ensure that all the requirements to maintain such data in digital form were satisfied by the end of 2021, without the option of being able to print out the data and maintain it in hard form thereafter.

(2) Proposed Transitional Measure

According to the 2022 Tax Reform Proposal, where the tax authorities recognize that a taxpayer is facing an unavoidable situation and cannot maintain e-Transaction data in compliance with the rules regarding maintenance of such data, and assuming the taxpayer is able to output the data via a printer in response to a request by a tax examiner in an orderly and legible manner, a transitional measure would relax the data retention requirement for that taxpayer (that is, the measure would allow the taxpayer to maintain the e-Transaction data even if some of the applicable requirements to do so were not met). This transitional measure would have effect with regard to e-Transactions undertaken from January 1, 2022 to December 31, 2023.

The 2022 Tax Reform Proposal also notes that the taxpayer will not be required to make any sort of submission or filing of a tax application requesting permission to take advantage of this transitional measure.

2. Timestamps under e-Storage Act: National Authentication System

Under currently effective rules, a taxpayer may only use a timestamp for e-Storage Act purposes on scanned copies of national tax related transaction materials or e-Transaction data if the timestamp was made by a producer that had received approval from the Japan Data Communications Association ('DEKYO'). To more directly oversee the timestamp authentication process, the government instituted a national timestamp authentication system in 2021, and according to the 2022 Tax Reform Proposal, a taxpayer will be required to use timestamps produced by companies that have obtained approval by the Minister of Internal Affairs on or after April 1, 2022.

The 2022 Tax Reform Proposal contains a transitional measure, however, that gives timestamp producers more time to obtain government approval under the new system. Thus, timestamps produced by companies with DEKYO approval should continue to be acceptable for scanned national tax related data and e-Transaction data saved from April 1, 2022 to July 29, 2023.

The takeaway

The proposed change in the implementation date of the mandatory provision relating to e-Transaction data should come as a relief to taxpayers continuing to make efforts to confirm that they are compliant with the requirements to maintain e-Transaction data digitally. Nevertheless, the transitional measure is still only a proposal, and there could be changes when it is discussed going forward in Japan's Diet. Additionally, even though the proposal would give taxpayers more time to comply with the mandatory aspect of the e-Transactions data rules, it is essential that taxpayers make efforts now, to ensure that their systems will be compliant before the transitional provision expires for e-Transactions undertaken on or after January 1, 2024.

Let's talk

We would be happy to discuss how these rules may apply to your company, or to answer any questions. Please feel free to contact us

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