

# Revisions to Japan's E-Storage Act in the 2023 Tax Reform Proposals

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## In brief

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Japan's Ruling Party released the FY2023 tax reform proposals (the 'Proposal'), on December 16, 2022; it includes proposed revisions to the Electronic Book and Document Storage Act (the 'e-Storage Act'). The proposed revisions would ease the requirements for companies to obtain the 'quality electronic books' designation, as well as relax the conditions under which taxpayers can electronically store documentation via scanning. Further, under the Proposal, taxpayers who can provide a valid reason as to why they are unable to maintain e-Transaction data digitally in compliance with e-Storage Act requirements would be able to keep data without satisfying such requirements (that is, they could maintain the documents in hard form).

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## In detail

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### 1. Quality electronic books

Under the e-Storage Act, taxpayers that meet certain requirements and submit the relevant application can obtain the 'quality electronic books' designation. This designation allows a taxpayer to be eligible for a 5% decrease in the applicable penalty tax if assessed on a future audit.

The 2023 Tax Reform Proposal has clarified the scope of books required to be maintained in order to obtain the designation, as set out below:

1. Journals
2. General ledger
3. Books other than 1. and 2., related to the entry of the following items:
  - i. Notes receivable and payable, excluding accommodation notes
  - ii. Accounts receivable and other receivables (excluding items related to deposits/withdrawals from current accounts)
  - iii. Accounts payable and other liabilities
  - iv. Securities (excluding commodities)
  - v. Depreciable assets
  - vi. Deferred assets
  - vii. Sales and other income
  - viii. Purchases, expenses, and other costs (excluding wages, salaries and allowances, welfare expenses)

This amendment would apply to national taxes for which the statutory due date of the tax returns falls on or after January 1, 2024.

## **2. Relaxation in requirements for scanned documents**

The Proposal set out the following revisions to the requirements for maintaining scanned copies of national tax-related documents:

1. The requirement to retain information about the resolution, color, and size of scanned documents would be abolished.
2. The requirement to record the personnel responsible for scanning the document would be abolished.
3. The scope of documents required to be interconnected with books would be reduced to include only important documents (invoices, contracts, receipts, etc).

This amendment would apply to national tax-related documents saved on or after January 1, 2024.

## **3. E-Transaction data**

### **(1) Relaxation in conditions necessary to store e-Transaction data digitally**

- i. The search function requirements would no longer be mandatory for taxpayers who meet the following conditions:
  - A company with sales of JPY 50 million or less in its 'base period' (the year two years prior to the current fiscal year), or
  - Documents related to e-Transaction data are maintained in hard copy and are organized according to transaction date and counterpartyBoth of the above require, however, that the taxpayer comply with a request from the tax authorities to download taxpayer data.
- ii. The requirement to record data about the personnel responsible for storing the data would be abolished.

### **(2) Exemption from requirement to electronically store data from e-Transactions**

The e-Storage Act previously mandated that data from e-Transactions must be maintained electronically, in compliance with e-Storage Act requirements for maintaining such data, effective January 1, 2022. Under Japan's previous tax reform, however, a transitional measure was passed exempting taxpayers who had a valid reason from the requirement to store such data electronically in compliance with e-Storage Act rules. This transitional measure expired, however, on December 31, 2023. The Proposal introduces a new exemption to the requirement to store e-Transaction data digitally. In order to take advantage of the new exemption, a taxpayer must (i) be able to accommodate a request by the tax office to download the digital data and (ii) provide a hard copy of the data to the tax office on request. Thus, even if the taxpayer does not otherwise satisfy all the relevant e-Storage Act requirements relating to e-Transaction data, the taxpayer must store such data digitally, and must maintain hard copies of the data to provide on request to the tax office. (This differs from the previous transitional measure which did not explicitly require taxpayers to present or submit downloaded data to the tax office).

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## The takeaway

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Due to relaxation in e-Storage rules in recent years, more taxpayers have been taking advantage of the opportunity to digitize tax and accounting records in Japan. The 2023 Tax Reform Proposal provides for some further relaxation, which may allow taxpayers to broaden the scope of the documents they are retaining electronically.

Additionally, the relaxation of the requirement to maintain e-Transaction data solely in digital form if certain conditions are met should also come as a relief to taxpayers that had otherwise been having difficulty complying with the e-Storage Act rules by the December 31, 2023 deadline. Taxpayers that wish to take advantage of this relaxation should consult with their tax advisors to confirm that they are satisfying relevant conditions so as to be eligible for the relaxation.

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## Let's talk

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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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## Japan Tax Update

PwC Tax Japan has launched a new e-learning program called Tax Academy in October 2022, to support those wishing to develop their skills in the international tax field. For tax professionals outside Japan, the '[Introduction to Japanese taxes](#)' series within Tax Academy provides a basic outline of the Japanese tax system, including corporate tax and consumption tax, and covers key points of international tax practice in English.

Please click here for details and to apply (charges apply):

[www.pwc.com/jp/e/tax-academy](http://www.pwc.com/jp/e/tax-academy)

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