
Japan: New assets and liabilities reporting requirement

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In brief

Under the 2015 Tax Reform, the Assets and Liabilities Statement (*Zaisan Saimu Meisaisho*) will be changed to the Assets and Liabilities Reporting form (*Zaisan Saimu Chosho*) resulting in an increase in the disclosure of information regarding individual taxpayers' worldwide assets and liabilities. This new form will help ensure the completeness and appropriateness of the reporting and filing of individual income tax returns and inheritance tax returns.

The filing requirement of the new Assets and Liabilities Reporting form could apply not only to permanent tax residents, but also potentially to non-permanent tax residents and non-residents as well (see explanation below). Also, unlike the previous statement, there will be penalties for non-compliance.

In detail

Overview of the new Assets and Liabilities Reporting form

Following the recent introduction of the Overseas Assets Reporting form starting with the 2013 tax year, the reporting of the Assets and Liabilities Statement will change starting with the 2015 tax year, with the first report due on March 15, 2016 for individual taxpayers.

The Assets and Liabilities Statement (*Zaisan saimu Meisaisho*) will be changed to the Assets and Liabilities Reporting (*Zaisan Saimu Chosho*) form with additional criteria to determine whether there is a requirement to file

this new form. In addition to the previous condition of net income exceeding JPY 20 million, only individuals with worldwide assets with fair value of JPY 300 million or more or assets subject to the 'Exit Tax' amounting to JPY 100 million or more as of December 31st would be required to file this form.

The previous Assets and Liabilities Statement had to be filed with the individual's income tax return. The new Assets and Liabilities Reporting form is a stand-alone form with supporting detailed schedules and needs to be filed separately from the income tax return.

In addition and perhaps most importantly, there will be

potential penalties for non-compliance.

Individuals subject to the new Assets and Liabilities Reporting form

An individual who needs to file an individual income tax return and meets the following conditions is required to file this form:

Please note that the individual income tax return includes the tax return for non-residents who report Japan source income subject to aggregate taxation, such as income from rental properties in Japan or Japan source business income etc. (Income tax law Article 166).

- a) An individual whose net income in the tax year reportable on the income tax return exceeds JPY 20 million.

AND

- b) An individual who owns worldwide assets with a total gross value of JPY 300 million or more **or** holds assets subject to the 'Exit Tax' with a total gross value of JPY 100 million or more, as of December 31st of the tax year.

**Assets subject to the 'Exit Tax' are financial assets such as stock, bonds, derivative transactions etc. The fact that the taxpayer would not be subject to the Exit Tax due to nationality and/or visa status is irrelevant.*

Assets and liabilities subject to the new form

The Assets and Liabilities Reporting form requires the reporting of global assets and liabilities. Individuals required to submit both the Assets and Liabilities Reporting form and the Overseas Assets Reporting form do

not need to report the overseas assets in the Assets and Liabilities Reporting form if such assets are disclosed in the Overseas Assets Reporting form. Otherwise, worldwide assets and liabilities need to be reported in the Assets and Liabilities Reporting form.

Valuation of assets and liabilities

The value of assets for the purpose of the Assets and Liabilities Reporting is either the fair value or estimated value as of December 31 of that year. The 'fair value' is a value that is commonly established through a transaction between unrelated parties. This includes an appraisal value by a professional person and the ending price published at a financial instruments exchange (this guideline is the same as for the Overseas Assets Reporting). The 'estimated value' means a value computed in a rational manner based on the asset's acquisition price or a sample selling price of a similar asset.

In addition to fair values or estimated values of assets, the acquisition cost is also required to be reported for 'securities'. The acquisition cost for securities also needs to be reported in the Overseas Assets Reporting form

starting from the 2015 tax year (due on March 15, 2016).

For liabilities, the principal of debt or loan as of December 31 of that year needs to be reported in the Assets and Liabilities Reporting form.

Tax audits and penalty tax

The Assets and Liabilities Reporting form is subject to tax audits by the tax authorities. The law permits the right of inspection to the tax authorities regarding the reporting.

There are special applications of penalty taxes assessed on underreporting of income taxes and inheritance taxes in connection with this new requirement. If the penalty tax is due to an understatement of income from assets and liabilities which have been properly disclosed on the Assets and Liabilities Reporting form, the penalty tax rate will be reduced by 5 percentage points. Conversely, if the penalty tax is due to an understatement of income from the assets and liabilities which have not been properly disclosed on the Assets and Liabilities Reporting form, then the penalty tax rate will be increased by 5 percentage points.

Comparison between Assets and Liabilities Statement, new Assets and Liabilities Reporting form and Overseas Assets Reporting form

	OLD Assets and Liabilities Statement (AL Statement)	NEW Assets and Liabilities Reporting (ALR)	Overseas Assets Reporting (OAR)
	Up until and including the 2014 tax year	Commencing with the 2015 tax year	Commencing with the 2013 tax year
Filing requirement	Individual taxpayers with income tax return filing requirement and whose net income in the year exceeds JPY 20 million	Individual taxpayers with income tax return filing requirement and whose net income in the year exceeds JPY 20 million AND Who hold worldwide assets with a gross fair value of	Permanent tax residents in Japan whose overseas assets with a gross fair value of JPY 50 million or more as of December 31 (regardless of whether the individual

		JPY 300 million or more as of December 31 st OR hold assets subject to the exit tax amounting to JPY 100 million or more as of December 31 st	is required to file a tax return).
Assets and/or liabilities subjected to reporting	Worldwide assets and liabilities	Worldwide assets and liabilities (for individuals required to file both ALR and OAR, assets reported on the OAR do not need to be reported on ALR.)	Overseas assets only
Filing due date	March 15 of the following year (AL Statement should be filed with the tax return.)	March 15 of the following year. Filed separately from the tax return.	March 15 of the following year. Filed separately from the tax return.
Penalty tax due to an understatement on income tax return and inheritance tax return	None	5% discount on the under-reporting penalty if related assets are reported on the timely-filed ALR. 5% additional penalty if not reported on the ALR.	5% discount on the under-reporting penalty if related assets are reported on the timely-filed OAR. 5% additional penalty if not reported on the OAR.
Penalty for non-filing without any allowable reasons or fraudulent reporting	None	None	Imprisonment up to 1 year, or a fine up to JPY 500,000
Penalty for rejection or encumbrance to inquiries from tax authorities	None	Imprisonment up to 1 year, or a fine up to JPY 500,000	Imprisonment up to 1 year, or a fine up to JPY 500,000

The takeaway

It is anticipated that this change should reduce the number of individuals subject to the Assets and Liabilities Reporting obligation compared to the former Assets and

Liabilities Statement. However, for individuals who are required to file this form, additional information will need to be disclosed and there will be penalties for non-compliance.

Taxpayers should familiarize themselves with the new form and the additional requirement to the Overseas Assets Reporting form and ensure that their individual income tax returns and inheritance tax returns are in full compliance.

Let's talk

For a deeper discussion of how this issue might affect your business, please contact your regular Global Mobility Services engagement team or one of the following professionals from PwC Japan:

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