



KPMG Japan Tax Newsletter

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2020 TAX REFORM PROPOSALS

REVISION TO CONSOLIDATED TAX RETURN FILING SYSTEM (SHIFT TO JAPANESE GROUP RELIEF SYSTEM)

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The ruling coalition (the Liberal Democratic Party and New Komeito) agreed on the 'Outline of the 2020 Tax Reform Proposals' (Proposal) on 12 December 2019. We have set out below a summary of the revisions to the Consolidated Tax Return Filing System included in the Proposal.

The Proposal itself is only an indicative outline and is unclear with respect to some of the contemplated changes. The details of the tax reform will be unveiled in the bills revising the tax laws and the succeeding amended tax laws, cabinet orders and ministerial ordinances. Please note that the final tax reform could differ from the Proposal depending on the outcome of discussions in the Diet.

Background of the Proposal

The Consolidated Tax Return Filing System is a mechanism to tax group companies as a single tax unit. This system was introduced in 2002 in order to enhance corporate reorganizations and contribute to the maintenance and strengthening of international competitiveness of Japanese companies and structural reform of the economy.

While the Consolidated Tax Return Filing System has been utilized effectively for 18 years since its inception, it has been pointed out that the calculation of tax under the system is extremely complex, and substantial time is required for correction of the tax amount after a tax audit by the tax authorities. Consequently, there are many groups which do not elect to use the Consolidated Tax Return Filing System despite the benefit of aggregating profits and losses.

Therefore, the Tax Commission of the Japanese government conducted an examination of the Consolidated Tax Return Filing System from the viewpoint of simplification of the system to reduce the administrative burden and to provide neutrality and fairness. As a result, they reported the direction of the revision of the Consolidated Tax Return Filing System on 27 August 2019.

By virtue of the 2020 tax reform, based on the above report, the Consolidated Tax Return Filing System will be revised fundamentally to the new so-called 'Japanese Group Relief System.'

Main Points of the Proposal

- The Japanese Group Relief System will allow aggregation of profits and losses or current taxable income and tax net operating losses (NOLs) of companies belonging to a 100 percent group, although each company in the group continues to calculate and file their tax returns individually. (Where a company belonging to the 100 percent group under the Japanese Group Relief System (Aggregation Group) is subject to amendments or corrections of its corporation tax returns in a tax audit, such amendments or corrections will not give an impact to the corporation tax returns of other companies in the same Aggregation Group in principle.)
- The treatment of the crystallization of built-in gains/losses and brought-forward tax NOLs of the Aggregation Group etc. at the start of, or at the time of participation in, the Japanese Group Relief System will be consistent with those under the corporate re-organization taxation rules. It is expected that the scope of crystallization of built-in gains/losses or extinguishment of brought-forward tax NOLs will be narrower than the Consolidated Tax Return Filing System. On the other hand, there may be the cases where a parent company of the Aggregation Group will be subject to crystallization of built-in gains/losses, extinguishment of brought-forward tax NOLs and/or restriction on usage of tax NOLs or unrealized losses on certain assets, although those are not required under the current Consolidated Tax Return Filing System.

- Under the current Consolidated Tax Return Filing System, pre-consolidation tax NOLs of a parent company are deductible in the Tax Consolidated Group. On the other hand, under the Japanese Group Relief System, tax NOLs brought forward by the parent company at the time immediately before the start of the Japanese Group Relief System will only be deducted from taxable income generated by the parent company as 'Specific Tax NOLs' in same manner as those of its subsidiaries.
- Although the Japanese Group Relief System will be applicable for fiscal years beginning on or after 1 April 2022, the transitional measures will allow companies which apply the current Consolidated Tax Return Filing System to go back to the Single Tax Return Filing System if they follow certain procedures.
- Where companies which apply the current Consolidated Tax Return Filing System shift to the Japanese Group Relief System, Specific Consolidated Tax NOLs attributable to the consolidated subsidiaries under the current Consolidated Tax Return Filing System will be treated as Specific Tax NOLs under the Japanese Group Relief System under the transitional measures. (Consolidated Tax NOLs under the Consolidated Tax Return Filing System (including pre-consolidation tax NOLs of the parent company) will be deductible among the Aggregation Group as Non-Specific Tax NOLs under the Japanese Group Relief System.)
- Companies which currently apply the Consolidated Tax Return Filing System need to examine whether they should go back to the Single Tax Return Filing System or shift to the Japanese Group Relief System by the implementation date of the Japanese Group Relief System. They should consider the impact of aggregation of profits and losses or taxable income and tax NOLs, availability of brought-forward/usage of tax NOLs or unrealized losses on certain assets and the administrative burden etc. under the Japanese Group Relief System.
- Companies which do not currently apply the Consolidated Tax Return Filing System need to examine whether (i) they will start the current Consolidated Tax Return Filing System under the current tax laws and then shift to the Japanese Group Relief System after implementation of the system by applying the transitional measures, (ii) they will apply the Japanese Group Relief System after its implementation or (iii) they will keep the Single Tax Return Filing System in consideration of various factors under the Japanese Group Relief System. (For example, in case of (i), tax NOLs incurred by a parent company at the time immediately before start of the Japanese Group Relief System will be deductible among the Aggregation Group as Non-Specific Tax NOLs under the Japanese Group Relief System.)

1. Applicable Companies

The Japanese Group Relief System will be applied to a Japanese parent company and all Japanese subsidiaries having a 100 percent control relationship which is the same as the Consolidated Tax Return Filing System.

The blue-return filing rules will be amended and the Japanese Group Relief System will be applicable provided that blue-returns are filed. Consequently, the applicable companies will be blue-return filing companies and the following companies, which had their approval for the blue-return filing cancelled or which withdrew from the blue-return filing, will be excluded from the Japanese Group Relief System.

- A company which received the cancellation notice of the approval for the blue-return filing if the fiscal year including the day on which five years have elapsed from the day on which the company has received the notice has not ended
- A company which withdrew its application for the blue-return filing if the fiscal year including the day on which one year has elapsed from the day on which the company has submitted a notice for withdrawal has not ended

2. Application Method

Although the application method for the Japanese Group Relief System and the methods of cancellation of the approval and withdrawal will be basically the same as those for the Consolidated Tax Return Filing System, the following amendments are proposed corresponding to the amendments of blue-return filing rules etc.

	Current tax law (Consolidated Tax Return Filing System)	Proposal (Japanese Group Relief System)
Application for the approval	<ul style="list-style-type: none"> • Application for the approval is submitted under the name of a parent company and all of its subsidiaries having 100% control relationships. (This system is not mandatory.) 	<ul style="list-style-type: none"> • Where a company which does not have the approval for blue-return filing received the approval for the Japanese Group Relief System, the company will be treated as if its blue-return filing is approved. • The rule will be the same as for the Consolidated Tax Return Filing System other than the above. (This system will not be mandatory.)
Due date of application	<ul style="list-style-type: none"> • Due date of the application is 3 months before the beginning date of the fiscal year in which the Consolidated Tax Return Filing System will be started. • Special treatments for the due date are provided for the cases where the Consolidated Tax Return Filing System will be started from the fiscal year in which a parent company is established or its next fiscal year. 	<ul style="list-style-type: none"> • Special treatments for the due date for the cases where the Japanese Group Relief System will be started from the fiscal year in which a parent company is established or its next fiscal year will not be applied in either of the following cases: <ol style="list-style-type: none"> (a) The assets of a parent company will be subject to the crystallization of built-in gains/losses. (b) The length of the fiscal year in which a parent company is established is 3 months or more. • The rule will be the same as for the Consolidated Tax Return Filing System other than the above.

<p>Rejection of application</p>	<ul style="list-style-type: none"> • The commissioner of the National Tax Agency may reject the application in case where it is identified that the application will unreasonably reduce the company's corporation tax burden. 	<ul style="list-style-type: none"> • The following will be added to the reasons for rejection of the application: <ul style="list-style-type: none"> ✓ Concealing or disguising all or a part of transactions in the books and records ✓ There is a reasonable ground for finding that there are untrue descriptions or records. • The rule will be the same as for the Consolidated Tax Return Filing System other than the above.
<p>Cancellation of approval</p>	<ul style="list-style-type: none"> • The commissioner of the National Tax Agency is able to cancel the approval if the books and records are insufficient, or concealing or disguising are identified in the books and records. 	<ul style="list-style-type: none"> • Where the approval for the blue-return filing is canceled, the approval for the application of the Japanese Group Relief System will lapse. (The cancellation of the approval will not be retroactive.) • The rule will be the same as for the Consolidated Tax Return Filing System other than the above. (Specific reasons for the cancellation of the Japanese Group Relief System will not be provided.)
<p>Withdrawal of application</p>	<ul style="list-style-type: none"> • The application can be withdrawn due to unavoidable reasons with the approval of the commissioner of the National Tax Agency. 	<ul style="list-style-type: none"> • A company which has had the application for the Japanese Group Relief System approved will not be allowed to withdraw the blue-return filing. • The rule will be the same as for the Consolidated Tax Return Filing System other than the above.

Under the Consolidated Tax Return Filing System, the commissioner of the National Tax Agency, the commissioner of the Regional Taxation Bureau or the district director of the Tax Office have right to make necessary directions to the companies belonging to the 100 percent group under the Consolidated Tax Return Filing System about the books and records, if necessary. Based on the amendments of the blue-return filing rules, the same measures will be provided under the Japanese Group Relief System.

3. Filing and Tax Payments

The Japanese Group Relief System will apply separate filing method and treat the parent company and its subsidiaries in the same Aggregation Group as separate tax payment units which is materially different from the filing method under the Consolidated Tax Return Filing System. The mechanism of the filing and tax payment indicated in the Proposals are as follows:

	Current tax law (Consolidated Tax Return Filing System)	Proposal (Japanese Group Relief System)
Tax payment unit	<ul style="list-style-type: none"> A company group which applies the Consolidated Tax Return Filing System (unified filing method) 	<ul style="list-style-type: none"> Each company in the Aggregation Group which applies the Japanese Group Relief System (separate filing method)
Tax fiscal year	<ul style="list-style-type: none"> Tax fiscal year is the tax fiscal year of a consolidated parent company. 	<ul style="list-style-type: none"> As with the Consolidated Tax Return Filing System, the tax fiscal year will be the tax fiscal year of the parent company. In addition, the following amendments will be provided with respect to the tax fiscal year at the start of, at the time of participation in, or withdrawing from the Japanese Group Relief System (Same as for the Consolidated Tax Return Filing System other than the below): ✓ The special measure for the participation date of the Japanese Group Relief System: The special measure will be added such that the next day after the end of the fiscal year (for accounting purposes) which includes the day prior to the establishment of the 100% control relationship is deemed as the effective date of the approval and the beginning date of the tax fiscal year. ✓ The measure that the ending date of the tax fiscal year of withdrawing company which begins from the withdrawal date is matched with the ending date of the tax fiscal year of the parent company: This measure will be abolished.
e-Tax filing	<ul style="list-style-type: none"> It is a requirement to file tax returns through the e-Tax system where the stated capital of a consolidated parent company is over JPY100 million. (A consolidated parent company can file the statements of taxable income attributable to each consolidated subsidiary together through the e-Tax system.) 	<ul style="list-style-type: none"> Companies which apply the Japanese Group Relief System will be obliged to file tax returns through the e-Tax system^(*). (Filing, application and notification of subsidiaries can be conducted together using the electronic signature of a parent company through the e-Tax system.) ^(*) The submission method of the attachments and the special measure for the case where it is difficult to use the e-Tax filing system will be same as for a large-sized company which is obliged to file tax returns through the e-Tax system under the current tax law.

<p>Filing of interim tax returns by provisional book closing</p>	<ul style="list-style-type: none"> Filing of interim tax returns by provisional book closing is performed by the tax consolidated group. 	<ul style="list-style-type: none"> Filing of interim tax returns by provisional book closing will be performed by all companies in the Aggregation Group.
<p>Special measure for the extension of filing due date</p>	<ul style="list-style-type: none"> In principle, filing due date is extendable by 2 months based on the application by a consolidated parent company under certain conditions. 	<ul style="list-style-type: none"> The same as for the Consolidated Tax Return Filing System, in principle, the filing due date will be extendable by 2 months based on the application by a parent company under certain conditions. Where a parent company has obtained approval for the extension of the filing due date, it will be deemed that its subsidiaries (including subsidiaries which participate in the Japanese Group Relief System which obtained the extension approval) are also approved for the extension. A company which withdraws from the Japanese Group Relief System will lose the right of the extension above from the fiscal year beginning after the withdrawal date.

Under the Japanese Group Relief System, a parent company and its subsidiaries will be jointly liable for all of the tax liabilities of other companies in the Aggregation Group, which is the same as for the Consolidated Tax Return Filing System.

4. Crystallization of Built-in Gains/Losses at the Start of or at the Time of Participation in the Japanese Group Relief System

In principle, the Consolidated Tax Return Filing System requires the crystallization of built-in gains/losses on certain assets of the subsidiaries or the participating companies at the start of or at the time of participation in the system. This comes from the view point that it is appropriate that a company is taxed as a single tax payment unit for taxable income earned by the business activities of the company and a company group is taxed as a single tax payment unit for taxable income earned by the business activities of the company group.

Although the Japanese Group Relief System will not change the tax payment unit, the system will allow aggregation of profits and losses etc. as if a company group is a single company as explained in '6. Calculation of Taxable Income and Corporation Tax Liability'. Consequently, the crystallization of built-in gains/losses will be required at the start of or at the time of participation in the Japanese Group Relief System under certain circumstances.

Since there are many differences between the Consolidated Tax Return Filing System and the corporate reorganization taxation rules, and these differences are leading to a lack of neutrality in the tax treatment, the Japanese Group Relief System will have the following rules to segregate a company not subject to the crystallization of built-in gains/losses from a company subject to the crystallization of built-in gains/losses consistent with those under the corporate reorganization taxation rules.

[Companies NOT subject to the crystallization of built-in gains/losses]

■ At the start of the Japanese Group Relief System

	Current tax law (Consolidated Tax Return Filing System)	Proposal (Japanese Group Relief System)
Parent company	All types of parent company	A parent company which will be expected to maintain 100% control relationships with its subsidiaries
Subsidiary	A subsidiary which satisfies one of the following (Specific Consolidated Subsidiary): (a) A 100% owned subsidiary underneath a parent company that was established by a Share-Transfer (Kabushiki-Iten) conducted within 5 years before the beginning date of the fiscal year when the Consolidated Tax Return Filing System is started ^(*) (b) A long-held subsidiary (100% control relationship has been maintained for more than 5 years from the beginning date of the fiscal year in which the Consolidated Tax Return Filing System is started.) (c) A newly established subsidiary within the company group within 5 years before the beginning date of the fiscal year in which the Consolidated Tax Return System is started ^(*) (d) A company that has become a 100% owned subsidiary thorough a tax-qualified Share-for-Share Exchange (Kabushiki-Kokan) etc. conducted within 5 years before the beginning date of the fiscal year when the Consolidated Tax Return Filing System is started ^(*) (e) A long-held subsidiary owned by a merged company etc. under a tax-qualified merger etc. conducted within 5 years before the beginning date of the fiscal year when the Consolidated Tax Return Filing System is started provided that the 100% control relationship with the merged company etc. has been maintained for more than 5 years mentioned above) ^(*) (f) A company that has become a 100% owned subsidiary under a repurchase transaction of less than one unit etc. within 5 years before the beginning date of the fiscal year when the Consolidated Tax Return Filing System is started ^(*)	A subsidiary which will be expected to maintain 100% control relationship with its parent company

^(*) Given the condition that the 100 percent control relationship with the parent company has been maintained from that event.

■ **At the time of participation in the Japanese Group Relief System**

	Current tax law (Consolidated Tax Return Filing System)	Proposal (Japanese Group Relief System)
Subsidiary	<p>A subsidiary which satisfies one of the following (Specific Consolidated Subsidiary):</p> <ul style="list-style-type: none"> (a) A newly established subsidiary within the company group with a 100% control relationship (b) A company that has become a 100% owned subsidiary through a tax-qualified Share-for-Share Exchange (Kabushiki-Kokan) etc. (c) A long-held subsidiary owned by a merged company etc. under a tax-qualified merger etc. provided that the 100% control relationship with the merged company etc. has been maintained for more than 5 years before the merger etc. (d) A company that has become a 100% owned subsidiary under a repurchase transaction of less than one unit etc. 	<p>A subsidiary which will satisfies one of the following:</p> <ul style="list-style-type: none"> (a) A company that has become a 100% owned subsidiary through a tax-qualified Share-for-Share Exchange (Kabushiki-Kokan) etc. (b) A newly established subsidiary within the Aggregation Group (c) A subsidiary that satisfies all of the following conditions^(*) (where the control relationships exist at the time immediately before the participation, conditions (i)~(iii) only): <ul style="list-style-type: none"> (i) Continuity of 100% control relationship with a parent company (ii) Continuity of the engagement of the subsidiary's employees (iii) Continuity of the operation of the subsidiary's main business (iv) Relevancy of the subsidiary's main business with the business of any companies in the Aggregation Group (v) Relative proportions of each business size in the above (iv) (within 5 times) or continuity of the subsidiary's senior directors

^(*) Similar conditions for a tax-qualified corporate reorganization

[Companies subject to the crystallization of built-in gains/losses]

Companies other than [Companies NOT subject to the crystallization of built-in gains/losses] above

Since the Proposal does not mention the amendment of the scope of the assets subject to the crystallization of built-in gains/losses, it is reasonable to understand that the scope will be the same as under the Consolidated Tax Return Filing System.

5. Write-off of Tax NOLs and Restriction on Usage of Tax NOLs and Unrealized Losses on Certain Assets at the time immediately before the Start of or Participation in the Japanese Group Relief System

From the viewpoints of the protection against intentional control over tax costs by using tax NOLs or realization of unrealized losses, and consistency with the corporate reorganization taxation rules, tax NOLs of the companies, which are subject to crystallization of built-in gains/losses, at the time immediately before the start of or participation in the Japanese Group Relief System will be written off. Furthermore, certain companies, which are not subject to the crystallization of built-in gains/losses, will be subject to the write-off of a part of tax NOLs and/or the partial restriction on usage of tax NOLs and unrealized losses on certain assets at the time immediately before the start of or participation in the Japanese Group Relief System.

(1) Companies subject to the crystallization of built-in gains/losses

Tax NOLs of a company, which is subject to the crystallization of built-in gains/losses discussed in '4. Crystallization of Built-in Gains/Losses at the Start of or at the Time of Participation in the Japanese Group Relief System' above, at the time immediately before the start of or participation in the Japanese Group Relief System will be written off.

(2) Companies NOT subject to the crystallization of built-in gains/losses

The companies NOT subject to the crystallization of built-in gains/losses discussed in '4. Crystallization of Built-in Gains/Losses at the Start of or at the Time of Participation in the Japanese Group Relief System' above will be treated as follows:

A. Companies which is not subject to the write-off of tax NOLs and the restriction on usage of tax NOLs and unrealized losses on certain assets among 'companies NOT subject to the crystallization of built-in gains/losses'

Among 'companies NOT subject to the crystallization of built-in gains/losses', a company which satisfies either of the following conditions will not be subject to the write-off of tax NOLs and the restriction on usage of tax NOLs and unrealized losses on certain assets:

(A)	A company which had a control relationship with its parent company ^(*1) for over 5 years
(B)	The following company which conducts its business jointly with any of the companies in the Aggregation Group:
(a)	A company that had no control relationship with its parent company ^(*1) at the time immediately before the participation in the Japanese Group Relief System and falls under condition (c) in 'Companies <u>NOT subject to</u> the crystallization of built-in gains/losses' at the time of participation in the Japanese Group Relief System

(B)	(b)	<p>A company that has a control relationship with its parent company^(*1) at the time immediately before the start of or participation in the Japanese Group Relief System and meets all of the following conditions^(*2):</p> <ul style="list-style-type: none"> (i) Relevancy of the main business of the company with the business of any companies in the Aggregation Group (ii) Relative proportions of the business sizes in (i) above (within 5 times) or continuity of the company's senior directors (iii) Expansion of the main business of the company in (i) above (within 2 times) or continuity of the company's senior directors
	(c)	<p>A 100% owned subsidiary that participated in the Aggregation Group as a result of a non-tax-qualified Share-for-Share Exchange (Kabushiki-Kokan) etc. and satisfies all of the following conditions which are part of the conditions for a tax-qualified Share-for-Share Exchange (Kabushiki-Kokan) etc. for the purpose of conducting joint business etc.</p> <ul style="list-style-type: none"> (i) Relevancy of business (ii) Relative proportions of the business sizes (within 5 times) or continuity of the company's senior directors (iii) Continuity of the engagement of the employees (iv) Continuity of the operation of the main business (v) Continuity of 100% control relationship

(*1) With regard to the parent company, the term 'control relationship with its parent company' shall be replaced by 'control relationship with any of the subsidiaries in the Aggregation Group'

(*2) Similar conditions to those for the restriction on usage of tax NOLs under the corporate reorganization taxation rules

B. Companies which is subject to the write-off of tax NOLs and the restriction on usage of tax NOLs and/or unrealized losses on certain assets among 'companies NOT subject to the crystallization of built-in gains/losses'

Among 'companies NOT subject to the crystallization of built-in gains/losses', a company which does not fall under 'A.' above will be subject to the write-off of a part of tax NOLs and/or the partial restriction on usage of tax NOLs and unrealized losses on certain assets depending on the following categories until earlier of (i) the day on which 5 years have elapsed from the day when the control relationship occurred or (ii) the day on which 3 years have elapsed from the start of or participation in the Japanese Group Relief System:

(a)	<p>In the case where a company starts a new business after the control relationship started</p>	<ul style="list-style-type: none"> • Tax NOLs which were incurred before the control relationship started will be extinguished. • Tax NOLs consisting of the realized losses which are generated from the assets held before the control relationship started and are realized before the start of or participation in the Japanese Group Relief System will be extinguished. • The deduction of the realized losses which are generated from the assets held before the control relationship started and are realized after the start of or participation in the Japanese Group Relief System will be disallowed.
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(b)	In the case where the ratio of depreciation expenses to the total costs of a company exceeds 30%	<ul style="list-style-type: none"> • Tax NOLs which will be incurred in the Aggregation Group will not be included in the aggregation of profits and losses and will be treated as Specific Tax NOLs.
(c)	In the case where a company does not fall under (a) nor (b)	<ul style="list-style-type: none"> • Among tax NOLs which will be incurred in the Aggregation Group, tax NOLs consisting of realized losses which are generated from the assets held before the control relationship started will not be included in the aggregation of profits and losses and will be treated as Specific Tax NOLs.

- The amount of realized losses on certain assets subject to the above restriction will be similar to those under the non-deductible losses rules applied to losses on the transfer of specified assets under the corporate reorganization taxation rules.
- Specific Tax NOLs are tax NOLs which will be allowed to be deducted from taxable income of a company to the extent of the taxable income generated by the company itself.

(3) Tax treatment of non-extinguished tax NOLs

Tax NOLs which are not extinguished under the provisions (1) and (2)B. above will be treated as Specific Tax NOLs. (Please refer to 6.(2) for the deduction of Specific Tax NOLs.)

Under the Consolidated Tax Return Filing System, a parent company is allowed to carry forward its tax NOLs at the start of the system to the tax consolidated group without any restrictions and aggregate them with profits of the subsidiaries. The tax treatment of tax NOLs at the time immediately before the start of or participation in the Consolidated Tax Return Filing System is as follows:

Parent company		Tax NOLs at the time immediately before the start of the Consolidated Tax Return Filing System are not extinguished.
Subsidiary	Specific Consolidated Subsidiary	Tax NOLs at the time immediately before the start of the Consolidated Tax Return Filing System are not extinguished. (Tax NOLs are deductible from taxable income of the Specific Consolidated Subsidiary to the extent of the taxable income generated by the Specific Consolidated Subsidiary itself.)
	Other than Specific Consolidated Subsidiary	Tax NOLs at the time immediately before the start of or participation in the Consolidated Tax Return Filing System are extinguished.

On the other hand, under the Japanese Group Relief System, tax NOLs of a parent company, which are not extinguished at the time immediately before the start of the Japanese Group Relief System, will not be allowed to be aggregated with taxable income generated by its subsidiaries as Specific Tax NOLs unlike the tax treatment under the Consolidated Tax Return Filing System.

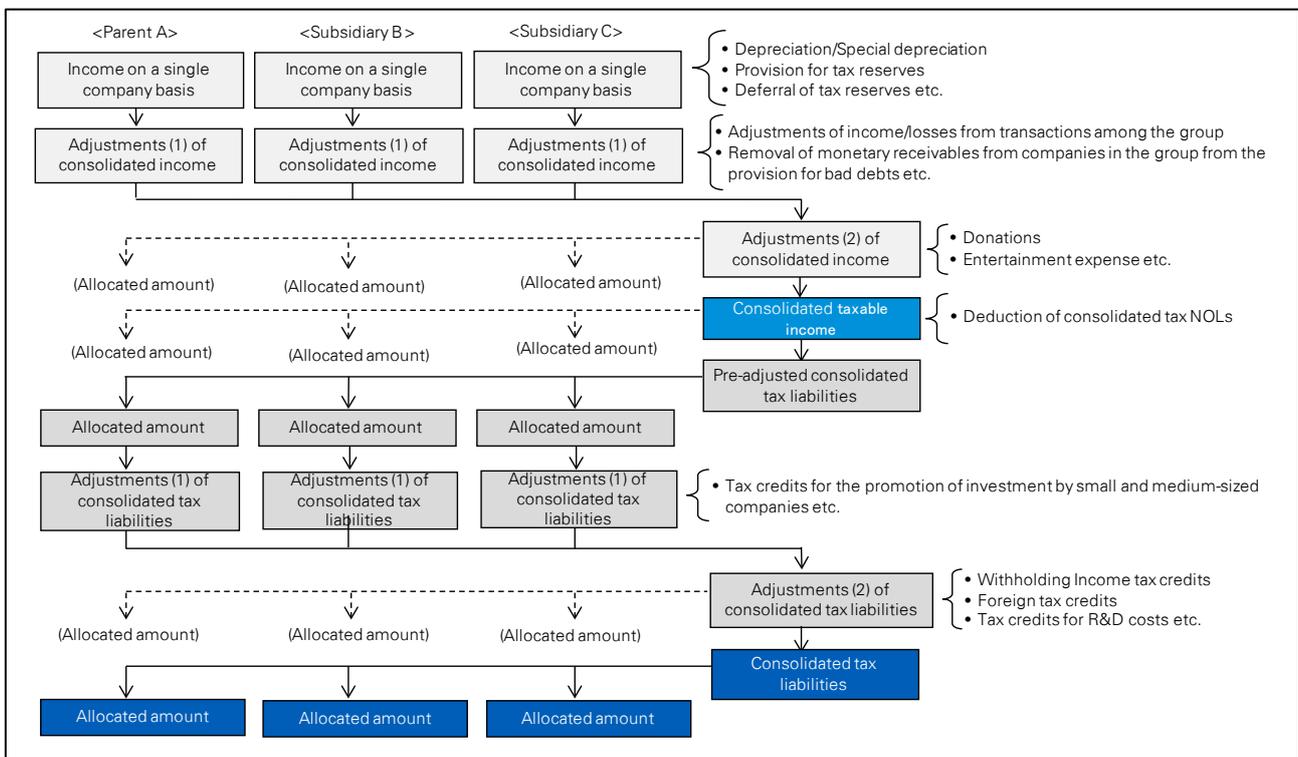
(Where a parent company shifts to the Japanese Group Relief System from the Consolidated Tax Return Filing System, tax NOLs of the parent company at the time immediately before the shift will be allowed to be aggregated with the taxable income generated by the companies in the Aggregation Group as Non-Specific Tax NOLs by using the transitional measures. (Please refer to 9.(2))

6. Calculation of Taxable Income and Corporation Tax Liability

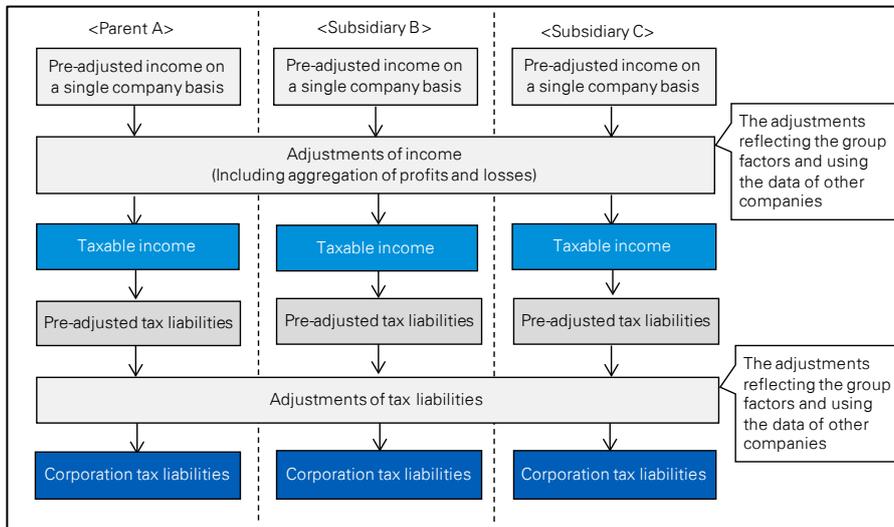
Under the Consolidated Tax Return Filing System, the consolidated taxable income is calculated by making adjustments at each consolidated company or the entire tax consolidated group. In addition, tax credits are also calculated for each consolidated company or the entire tax consolidated group. Therefore, it has been pointed out that these computational complexities impose an administrative burden (Figure 1).

Under the Japanese Group Relief System, a simplified system is proposed from the viewpoint of reducing the administrative burden provided that the mechanism of aggregating profits and losses and the deduction of tax NOLs within the Aggregation Group is maintained (Figure 2).

[Figure 1: Image of calculation under the current law (Consolidated Tax Return Filing System)]



[Figure 2: Image of calculation under the Proposal (Japanese Group Relief System)]



Source: For both Figures 1 and 2, the Tax Commission of the Japanese government (27 August 2019) 'Reference Material (Review of the Consolidated Tax Return Filing System)'

(1) Aggregation of profits and losses

If there is a loss generating company (a company with negative taxable income) and a profit generating company (a company with positive taxable income) in the Aggregation Group, aggregation of such profits and losses will be allowed as with the Consolidated Tax Return Filing System. Under the Japanese Group Relief System, the aggregation method will be on a pro-rated basis as follows, and if amendments or corrections of the corporation tax returns of a company are made under in a tax audit, other companies in the Aggregation Group will not be affected by the amendments or the corrections:

A. Aggregation method of profits and losses

- The total amount of tax losses of the loss generating companies (up to the total amount of the income of the profit generating companies) will be allocated in proportion to the income amount of the profit generating companies and the allocated amount will be deducted in the profit generating companies.
- The total of the deducted amounts will be allocated in proportion to the tax losses amount of the loss generating companies and the allocated amount will be included in the income of the tax losses generating companies.

<Example>

Company	Income/ tax losses before the aggregation	Total amount of income/ tax losses	Allocation of tax losses	Income/ tax losses after the aggregation
Parent company A	Income 500	Income 600	$<300> \times 500/600 = <250>$	$500 + <250> = 250$
Subsidiary B	Income 100		$<300> \times 100/600 = <50>$	$100 + <50> = 50$
Subsidiary C	Tax losses <50>	Tax losses <300>	-	0 (<50> will be included in profits)
Subsidiary D	Tax losses <250>		-	0 (<250> will be included in profits)

Source: Based on the information from the Tax Commission of the Japanese government (27 August 2019) 'Reference Material (Review of the Consolidated Tax Return System)'

B. In the case where amendments/corrections are made

If the actual amount of income or tax losses of one company in the Aggregation Group is different from the amount of income or tax losses in the tax returns filed by the filing due date, the aggregation of profits and losses will be calculated based on the amount of income or tax losses in the tax returns filed by the filing due date under 'A. Aggregation method of profits and losses'. As a result, any amendments or corrections made to one company in the Aggregation Group will not affect other companies in the Aggregation Group.

Because of such treatment, the following measures will be provided to prevent abuse of the Japanese Group Relief System:

- If the Tax Office finds that it will unreasonably reduce the company's corporation tax burden by initially filing an incorrect tax return intentionally to escape the restriction on the carry forward period of tax losses or to attribute tax losses to a company withdrawing from the Aggregation Group, the district director of the Tax Office will be able to restrict application of the above provision.
- If the amount of income in the tax returns filed by the filing due date of all companies in the Aggregation Group is zero or all companies in the Aggregation Group have tax losses etc., the above provision will not be applied.

(2) Aggregation of current taxable income and tax NOLs

A. Aggregation method of current taxable income and tax NOLs

The aggregation method of current taxable income and tax NOLs under the Japanese Group Relief System compared with the Consolidated Tax Return Filing System is as follows:

■ Consolidated Tax Return Filing System

Under the Consolidated Tax Return Filing System, the deductible amount of tax NOLs is calculated as follows depending on whether the losses are Specific Consolidated Tax NOLs (tax NOLs of a subsidiary that is not subject to the crystallization of built-in gains/losses at the time immediately before the start of or participation in the system (Specific Consolidated Subsidiary), which are deductible to the extent of the amount of taxable income of the Specific Consolidated Subsidiary) or Consolidated Tax NOLs (tax NOLs of the parent company at the time immediately before the start of the system and tax losses generated in the tax consolidated group after the start of the system, which are deductible from the taxable income of the entire tax consolidated group):

[Where there are no Specific Consolidated Tax NOLs]

The smaller amount of the following is deducted from the consolidated taxable income:

(a)	Consolidated taxable income before deduction of tax NOLs x 50% (100% if the consolidated parent company is a small and medium-sized company etc. ^(*))
(b)	Consolidated Tax NOLs

[Where there are Specific Consolidated Tax NOLs]

The total of the following amounts is deducted from the consolidated taxable income:

(a)	Total amount of the smaller of the following: (i) Specific Consolidated Tax NOLs attributable to the consolidated subsidiaries (ii) Taxable income generated by the consolidated subsidiaries having Specific Consolidated Tax NOLs
(b)	The smaller of the following: (i) Consolidated Tax NOLs other than Specific Consolidated Tax NOLs (ii) Consolidated taxable income before deduction of tax NOLs x 50% (100% if the consolidated parent company is a small and medium-sized company etc. ^(*)) – Amount of (a)

(If the total of (a) and (b) exceeds (c)'Consolidated taxable income before deduction of tax NOLs x 50 percent (100 percent if the consolidated parent company is a small and medium-sized company)', the amount of (c) is deducted.)

^(*) Small and medium-sized company, cooperatives, rehabilitation company or newly established company etc.

■ **Japanese Group Relief System**

(A) Deductible Limit

The method of deducting tax NOLs under the Japanese Group Relief System will be basically the same as under the Consolidated Tax Return Filing System. However, the deductible limit for tax NOLs will be amended as follows:

The amount of taxable income before deduction of tax NOLs of each company in the Aggregation Group x 50% (100% for small and medium-sized company etc. ^(*))
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^(*) Small and medium-sized company, cooperatives, rehabilitation company or newly established company etc.

The determination as to whether the companies in the tax consolidated group are treated as a small and medium-sized company etc. is made by the status of a consolidated parent company only under the Consolidated Tax Return Filing System. However, the determination method will be amended under the Japanese Group Relief System as follows:

Small and medium-sized company	If any of the companies in the Aggregation Group is not a small and medium-sized company, all companies in the Aggregation Group will not be treated as small and medium-sized companies.
Rehabilitation company etc.	The determination as to whether a company is a rehabilitation company etc. will be made based on the status of each company in the Aggregation Group.
Newly established company	If any of the companies in the Aggregation Group is not a newly established company, all companies in the Aggregation Group will not be treated as the newly established companies.

(B) Specific Tax NOLs

Under the Japanese Group Relief System, similar to Specific Consolidated Tax NOLs under the Consolidated Tax Return Filing System, Specific Tax NOLs will be treated as tax NOLs that are deductible to the extent of the amount of taxable income of each company having Specific Tax NOLs and will be segregated from other tax NOLs.

Following tax NOLs will be treated as Specific Tax NOLs:

- Tax NOLs of companies (a parent company and its subsidiaries) which are not subject to the write-off of tax NOLs and the restriction on usage of tax NOLs and unrealized losses on certain assets among ‘companies NOT subject to the crystallization of built-in gains/losses’ (Refer to 5.(2)A.)
- The part of tax NOLs of companies which are subject to the write-off of tax NOLs and the restriction on usage of tax NOLs and/or unrealized losses on certain assets among ‘companies NOT subject to the crystallization of built-in gains/losses’ (Refer to 5.(2)B.)
- Specific Consolidated Tax NOLs attributable to a consolidated subsidiary under the Consolidated Tax Return Filing System at the time of the shift to the Japanese Group Relief System (Refer to 9.(2))

B. In the case where amendments/corrections are made

■ In the case where amendments/corrections are made to other companies in the Aggregation Group

If the actual amount of current taxable income or tax NOLs in the past fiscal years of other companies in the Aggregation Group is different from the amounts of current taxable income or tax NOLs in the past fiscal years in the original tax returns filed by the filing due date, the amount of current taxable income or tax NOLs in the past fiscal years in the tax returns filed by the filing due date of the company will be treated as if these amounts have not changed.

As a result, any amendments or corrections made to one company in the Aggregation Group will not affect other companies in the Aggregation Group.

■ In the case where amendments/corrections are made to company in the Aggregation Group

If the actual amount of current taxable income or tax NOLs in the past fiscal years of a company in the Aggregation Group is different from the amounts of current taxable income or tax NOLs in the past fiscal years in the original tax returns filed by the filing due date, the company will be required to recalculate tax NOLs by itself without changing the amount which is transferred between the company and other companies in the Aggregation Group in the tax returns filed by the filing due date in order to settle tax NOLs and the deductible limit other than a small and medium-sized companies etc. (equivalent to 50 percent of the amount of taxable income before deduction of tax NOLs).

As a result, any amendments or corrections made to a company will not affect other companies in the Aggregation Group.

Based on the above treatment, similar measures to prevent abuse of the Japanese Group Relief System to those in 6.(1)'B. In the case where amendments/corrections are made' will be provided.

(3) Calculation of taxable income

A. Treatment of specific tax adjustments

In consideration of the factual status of corporate management, administrative burden, intention and purpose of the rules and the possibility of abuse, etc., the following tax adjustments will be calculated by each company as follows in principle in the light of adopting the separate filing method:

The rules other than those below will also be amended in an appropriate manner based on the same concept.

		Current tax law (Consolidated Tax Return Filing System)	Proposal (Japanese Group Relief System)
Domestic dividend exclusion	Determination of share category	<ul style="list-style-type: none"> 'Shares in related companies' or 'Non-controlling shares' are determined based on the total number of shares held by the dividend recipient companies in the tax consolidated group. 	<ul style="list-style-type: none"> 'Shares in related companies' or 'Non-controlling shares' will be determined based on the total number of shares held by the dividend recipient companies <u>in the same 100% group</u>. ★
	Interest deduction on debts	<ul style="list-style-type: none"> The amount of the interest deduction on debts with regard to 'Shares in related companies' is calculated on a tax consolidated group basis. 	<ul style="list-style-type: none"> The amount of the interest deduction on debts with regard to 'Shares in related companies' will be calculated as follows: ★ <u>Amount of dividends from related companies x 4%</u> (Upper limit: Amount of interest on debts in the fiscal year x 10%)
	Determination of short-term holding shares, etc.	<ul style="list-style-type: none"> Determination of short-term holding shares, etc. is made on a tax consolidated group basis. 	<ul style="list-style-type: none"> Determination of short-term holding shares, etc. will be made <u>by each company</u>.
Foreign dividends exclusion		<ul style="list-style-type: none"> The holding threshold (25% or more) for the determination of a foreign subsidiary is calculated based on the total number of shares held by the dividend recipient companies in the tax consolidated group. 	<ul style="list-style-type: none"> The same as the Consolidated Tax Return Filing System (The holding threshold (25% or more) for the determination of a foreign subsidiary will be calculated based on the total number of shares held by the dividend recipient companies in the Aggregation Group.)
Donations		<ul style="list-style-type: none"> One of the elements of the calculation of the deductible limit for ordinary donations is calculated on a tax consolidated group basis based on the total amount of stated capital and capital surplus of the parent company. 	<ul style="list-style-type: none"> One of the elements of the calculation of the deductible limit for ordinary donations will be calculated <u>by each company</u> based on the total amount of <u>stated capital and capital reserve</u> of the donating company. ★
Provision for bad debts		<ul style="list-style-type: none"> Account receivables from companies in the tax consolidated group are excluded from the debts subject to the provision for bad debts. The calculation of the deductible limit is made by each company in the tax consolidated group. 	<ul style="list-style-type: none"> Account receivables from companies <u>in the same 100% group</u> will be excluded from the debts subject to the provision for bad debts. The calculation of the deductible limit will be made by each company in the Aggregation Group. ★
Earnings stripping rules		<ul style="list-style-type: none"> Disallowed amount is calculated on a tax consolidated group basis. Determination of the exempted thresholds (Net interest payments ≤ JPY20 million (after 2019 tax reform)) is made on a tax consolidated group basis. 	<ul style="list-style-type: none"> Disallowed amount will be calculated <u>by each company</u>. Determination of the exempted thresholds (Net interest payments ≤ JPY20 million (after 2019 tax reform)) will be same as in the Consolidated Tax Return Filing System. (Determination will be made on an Aggregation Group basis.)

(The tax treatments marked ★ will be consistent with those under the Single Tax Return Filing System, i.e. where the Japanese Group Relief System is not applied.)

B. Transfer of the tax-effect equivalent amount

Where a Japanese company transfers the tax-effect equivalent amount between the two Japanese companies, the tax-effect equivalent amount will not be deducted or included in profits.

Note that the tax-effect equivalent amount is the amount equivalent to the reduction in corporation tax and local corporation tax as a result of application of the Japanese Group Relief System.

C. Points to be considered

■ **Determination of a small and medium-sized company**

Regarding the determination of a small and medium-sized company in the following rules related to the calculation of taxable income, if any of the companies in the Aggregation Group is not a small and medium-sized company, all companies in the Aggregation Group will not be treated as small and medium-sized companies:

(This is the same as the treatment indicated in the ‘Japanese Group Relief System’ in 6.(2)A.)

- Provision for bad debts
- Special tax measures for a small and medium-sized company

■ **Excluded company under the special tax measures**

Under the Consolidated Tax Return Filing System, if a consolidated parent company falls under the following definition of an excluded company (large income earners) for the fiscal years beginning on or after 1 April 2019, all companies in the tax consolidated group are not allowed to apply certain special tax measures for a small and medium-sized company.

[Definition of excluded company (large income earners)]

$\frac{\text{Total amount of consolidated income for consolidated fiscal years ended within 3-year period prior to the commencement date of the consolidated fiscal year (base years)}}{\text{Total months of base years}} \times 12 > \text{JPY1.5 billion}$

Under the Japanese Group Relief System, if any of the companies in the Aggregation Group meets the above definition, all companies in the Aggregation Group will be treated as excluded companies (large income earners) and will not be allowed to apply certain special tax measures for a small and medium-sized company.

(4) Calculation of tax liability

A. Treatment of specific tax credits

Similar to '(3) Calculation of taxable income', the tax treatment of the following tax credits will be amended:

The rules other than those below will also be amended in an appropriate manner based on the same concept.

	Current tax law (Consolidated Tax Return Filing System)	Proposal (Japanese Group Relief System)
Withholding income tax credits	<ul style="list-style-type: none"> Withholding income tax credits are calculated on a tax consolidated group basis. 	<ul style="list-style-type: none"> Withholding income tax credits will be calculated for <u>each company</u>.
Foreign tax credits	<ul style="list-style-type: none"> Creditable limit is calculated based on the amounts of corporation tax, taxable income and foreign source income for the entire tax consolidated group. 	<ul style="list-style-type: none"> The calculation of the creditable limit for each company in the Aggregation Group will be basically the same as under the Consolidated Tax Return Filing System. However, the following measures will be provided: <ol style="list-style-type: none"> If the actual amount of current foreign tax credits of each company in the Aggregation Group is different from the amount of foreign tax credits in the tax returns filed by the filing due date, the amount of foreign tax credits in the tax returns filed by the filing due date will be treated as if these amounts have not changed. Any excess or shortage between the amount of current foreign tax credits and the foreign tax credits in the tax returns filed by the filing due date will be adjusted in the amounts of foreign tax credits or corporation tax liability of the ongoing fiscal year. Where each company in the Aggregation Group intends to reduce its corporation tax liability by increasing the creditable amount by concealing or disguising the facts that are the basis of the calculation, (i) and (ii) above will not be applied.
Tax credits for R&D costs	<ul style="list-style-type: none"> The creditable amount (smaller of the creditable limit or upper limit of the deduction) is calculated on a tax consolidated group basis. The creditable amount is allocated in proportion to the amount of R&D costs etc. of each company in the tax consolidated group. 	<ul style="list-style-type: none"> The creditable amount will be calculated by the Aggregation Group. The creditable amount will be allocated in proportion to the pre-adjusted corporation tax liability of each company in the Aggregation Group. If the actual amount of R&D costs in each fiscal year or the actual amount of current pre-adjusted corporation tax liability of other companies in the Aggregation Group is different from the amount of R&D costs in each fiscal year or the amount of current pre-adjusted corporation tax liability in the tax returns, the amount of R&D costs in each fiscal year or the amount of current pre-adjusted corporation tax liability in the tax returns of the company will be treated as if these amounts have not changed. (In this case, if the actual creditable amount is less than the creditable amount in the tax returns, the corporation tax liability will be adjusted.)

B. Tax Rate

The tax rate under the Japanese Group Relief System compared with the Consolidated Tax Return Filing System will be as follows:

Current tax law (Consolidated Tax Return Filing System)	Proposal (Japanese Group Relief System)
The tax rate is determined by the amount of the stated capital of a consolidated parent company.	The tax rate will be determined by the amount of the stated capital of <u>each company</u> in the Aggregation group.

If the reduced tax rate for a small and medium-sized company is applied to companies in the Aggregation Group under the Japanese Group Relief System, the amount of taxable income up to JPY8 million per year, to which the reduced tax rate is applied, will be allocated in proportion to taxable income of each company.

Where the amount of taxable income of a profit generating company is different from the amount of its taxable income in the tax returns filed by the filing due date, the above allocation will be based on the amount of its taxable income in the tax returns filed by the filing due date in principle.

[Reference information – Reduced tax rate where a consolidated parent company is a small and medium-sized company under the Consolidated Tax Return Filing System (current tax law)]

If the amount of stated capital of a consolidated parent company which is an ordinary company is JPY100 million or less, the following reduced tax rate for a small and medium-sized company is applied^(*):

Consolidated taxable income	Tax rate
JPY8 million or less	19% ^(*)
In excess of JPY8 million	23.2%

^(*) A tax consolidated parent company fully held by a large company (company with stated capital of JPY500 million or more) is excluded from the definition of a small and medium-sized company.

^(*) 15 percent is applied to fiscal years beginning prior to 31 March 2021.

C. Points to be considered (Determination of a small and medium-sized company)

Regarding the determination of a small and medium-sized company in the following rules related to the calculation of the tax liability, if any of the companies in the Aggregation Group is not a small and medium-sized company, all companies in the Aggregation Group will not be treated as small and medium-sized companies:

(The is the same as the treatment indicated in the ‘Japanese Group Relief System’ in 6.(2)A. and the ‘Determination of a small and medium-sized company’ in 6.(3)C.)

- Reduced tax rate
- Exemption from special tax rate applied to a Specified Family Company
- Special tax measures for a small and medium-sized company

7. Withdrawal from the Aggregation Group

(1) Restriction on re-entry

Similar to the Consolidated Tax Return Filing System, a company which withdraws from the Aggregation Group will not be allowed to re-enter the Aggregation Group for five years from the date of withdrawal.

(2) The crystallization of built-in gains/losses

According to the report 'The revision of the Consolidated Tax Return Filing System' released by the Tax Commission of the Japanese government on 27 August 2019, crystallization of built-in gains/losses on certain assets of subsidiaries that withdraw from the Aggregation Group was proposed from the viewpoint of preventing the double deduction of losses^(*) using shares or assets, while maintaining consistency with the corporate reorganization taxation rules.

^(*) For example, where a company which holds the assets with unrealized losses withdraws from a company group, (i) a company remaining in the company group recognizes losses by selling the shares of the withdrawing company, and (ii) the withdrawing company realizes unrealized losses of its assets and deducts the losses from its own taxable income after the withdrawal.

Based on the above proposal, if a company which withdraws from the Aggregation Group falls under any of the cases listed in (A) below, the withdrawing company will be subject to the crystallization of built-in gains/losses on the assets in (B) and realize unrealized gains or losses in the fiscal year immediately before the withdrawal.

	(A) When the crystallization of built-in gains/losses should be made	(B) Assets subject to the crystallization of built-in gains/losses
(a)	When the major business of the withdrawing company will not be expected to be continued (except for the case where the amount of unrealized gains is greater than or equivalent to the amount of unrealized losses at the time immediately before the withdrawal)	<ul style="list-style-type: none"> • Fixed assets, land etc., securities (excluding trading securities), monetary receivables and deferred charges • Among the above assets, the following will not be subject to the crystallization of built-in gains/losses <ul style="list-style-type: none"> ✓ Assets whose book value is less than JPY10 million ✓ Assets whose unrealized gain or loss is less than the smaller amount of (i) 1/2 of the amount of stated capital of the withdrawing company or (ii) JPY10 million
(b)	When it is expected that a loss on sales of assets whose book value exceeds JPY1 billion, and a loss on the sales of the shares of the withdrawing company will be recognized	Assets shown on the left

8. Other

(1) Tax book value adjustments

The tax book value adjustments under the Consolidated Tax Return Filing System is the method to adjust the tax book value in the shareholders of the shares of a consolidated subsidiary when they transfer the shares of the consolidated subsidiary etc. in order to prevent double taxation of profits earned by the consolidated subsidiary in the tax consolidated group and double deduction of losses arising in the tax consolidated group.

According to the report 'The revision of the Consolidated Tax Return Filing System' released by the Tax Commission of the Japanese government on 27 August 2019, it was suggested that realized gains based on the intentional realization of unrealized gains to control tax costs^(*) should be excluded from the scope of tax book value adjustments.

^(*) For example, where the consolidated company [A] as a shareholder of another consolidated subsidiary [B] transfers the shares of [B] after realizing gains of the assets of [B] by transfer and makes tax book value adjustments for the shares of [B], the realized gains of the assets are available to offset a loss on sales of the shares of [B] although the tax book value of the assets has increased. These transactions are viewed as tax avoidance.

Based on such thinking, the tax book value adjustments rule will be amended upon the shift to the Japanese Group Relief System as follows:

- Evaluation gains or losses on the shares of a subsidiary in the Aggregation Group and gains or losses on sales of shares of a subsidiary in the Aggregation Group transferred to other companies in the Aggregation Group will not be recognized.
- The tax book value of the shares of a company withdrawing from the Aggregation Group at the time immediately before the withdrawal will be adjusted to the amount equivalent to the tax book value of the net assets of the withdrawing company.
- Evaluation gains or losses will be recognized by the shareholder on the shares of a subsidiary which starts or participates in the Japanese Group Relief System and which is not expected to continue the 100% control relationship with its parent company.

The above new rules will not be applied to the shares of a subsidiary which starts or participates in the Japanese Group Relief System and withdraws from the Aggregation Group within 2 months without any aggregation of profits and losses.

(2) Deferral of capital gains or losses on the transfer of certain assets

If a Japanese company transfers certain assets^(*) to another company having a 100 percent control relationship with the first mentioned company, capital gains or losses arising from the transfer should be deferred until certain events occur.

- (*) Fixed assets, land (including rights on land, excluding those that fall under fixed assets), securities (excluding trading securities), monetary receivables and deferred charges, excluding those whose tax book value immediately before the transfer is less than JPY10 million

If a company subject to this rule starts or participates in the Japanese Group Relief System or withdraws from the Aggregation Group, the tax treatment will be amended as follows:

(a)	Capital gains or losses on the transfer of certain assets under this rule before the start of or participation in the Japanese Group Relief System	Similar to the Consolidated Tax Return Filing System, the deferred capital gains or losses on the transfer of certain assets under this rule will be realized in the hands of the company except for a company which will not be subject to the crystallization of built-in gains/losses. (Please refer to '4. Crystallization of Built-in Gains/Losses at the Start of or at the Time of Participation in the Japanese Group Relief System')	
(b)	Capital gains or losses on the transfer of certain assets under this rule before the withdrawal from the Aggregation Group	The capital gains or losses will be treated as follows depending on the following categories:	
		(i)	When the withdrawing company is not expected to continue its main business (except for the case where the amount of unrealized gains is greater than or equivalent to the amount of unrealized losses at the time immediately before the withdrawal): The deferred gains or losses (more than JPY10 million) will be recognized in hands of the withdrawing company.
		(ii)	When the reversal of the deferred losses (more than JPY1 billion) on the transfer of certain assets under this rule will be expected and the recognition of the losses on the transfer of the shares of the withdrawing company will also be expected: The deferred losses will be recognized in hands of the withdrawing company.

Measures similar to (a) and (b)(i) above will be provided for the deferred gains or losses (JPY10 million or more) under lease transactions etc.

(3) Measures to prevent tax avoidance

From the viewpoint that tax avoidance could be achieved by using the Japanese Group Relief System, measures to prevent tax avoidance will be provided similar to those in the Consolidated Tax Return Filing System, in addition to the measures to prevent tax avoidance which will be provided under each rule above.

(4) Local taxation

Local taxation will maintain the current basic framework and take necessary measures in line with the amendments of the national tax.

(5) Other

For the right to inspect questions, penalties and the collecting authority etc., similar measures to those in the Consolidated Tax Return Filing System will be provided.

9. Timing of Application

(1) Timing of application

The Japanese Group Relief System will be applied for fiscal years beginning on or after 1 April 2022.

(2) Transitional measures

The following transitional measures will be provided for shifting from the Consolidated Tax Return Filing System to the Japanese Group Relief System:

In addition to these transitional measures, necessary transitional measures for each rule will also be provided.

[Shift to the Japanese Group Relief System]

Treatment of the approval for the Consolidated Tax Return Filing System	The approval for the Consolidated Tax Return Filing System will be treated as approval for the Japanese Group Relief System for fiscal years beginning on or after 1 April 2022.
Shift from the consolidated company to a company under the Single Tax Return Filing System	A consolidated company will be able to shift to being a company under the Single Tax Return Filing System provided that the consolidated parent company submits the application form to the director of the Tax Office by the date before the beginning date of the first fiscal year beginning on or after 1 April 2022.

Based on the transitional measures above, although a company group applying the Consolidated Tax Return Filing System will automatically shift to the Japanese Group Relief System unless prescribed procedures are taken, a company group will be able to return to the Single Tax Return Filing System if it wishes after examining the administrative burden or the tax burden under the Japanese Group System.

[Treatment of Consolidated Tax NOLs]

Treatment of the Specific Consolidated Tax NOLs attributable to a consolidated subsidiary	Specific Consolidated Tax NOLs attributable to a consolidated subsidiary under the Consolidated Tax Return Filing System will be treated as Specific Tax NOLs under the Japanese Group Relief System.
Rehabilitation company etc. under the provisions of Consolidated Tax NOLs	A subsidiary in the tax consolidated group treated as a rehabilitation company etc., whose deductible limit of Consolidated Tax NOLs is 100% of the consolidated taxable income before the deduction of Consolidated Tax NOLs, will also be treated as rehabilitation company etc., in 'the Japanese Group Relief System' in 6.(2)A.

Based on the transitional measures above, tax NOLs of a consolidated parent company which are not treated as Specific Consolidated Tax NOLs attributable to the consolidated subsidiary under the Consolidated Tax Return Filing System can be aggregated in the Aggregation Group because such tax NOLs will not be treated as Specific Tax NOLs under the Japanese Group Relief System.

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