

KPMG Japan tax newsletter

Requirement to Report Assets/Liabilities



Before the 2015 tax reform, if an individual had an obligation to lodge an income tax return and their total income exceeded JPY20 million for a calendar year, the individual had to submit a 'Statement of Assets/Liabilities' together with their income tax return to declare the type, number and value of assets and amount of liabilities as of the end of the calendar year.

In order to ensure appropriate declaration of income and assets as a consequence of the introduction of the exit tax regime, some amendments to the 'Statement of Assets/Liabilities' were made under the 2015 tax reform. As the new reporting requirements for assets/liabilities start from 1 January 2016, individual income tax returns for 2015 income will be subject to the new rules.

We have set out in this newsletter the main points of the new rules for the 'Statement of Assets/Liabilities.'

1. Reporting Requirement for Assets/Liabilities

(1) Amendments to criteria for submission

The criteria for submission of the 'Statement of Assets/Liabilities' was amended as followed:

Before amendment	Total income exceeds JPY20 million for a calendar year
After amendment	When meeting the following two criteria: (i) Total income exceeds JPY20 million for a calendar year; and (ii) Total value of assets as of the end of a calendar year is JPY300 million or more or Total value of eligible assets for exit tax purposes ^(*) as of the end of a calendar year is JPY100 million or more

(*) 'Eligible assets for exit tax purposes' means securities stipulated in the Income Tax Law, contributions under a Tokumei-Kumiai agreement, unsettled derivative transactions, unsettled margin transactions, unsettled when-issued transactions (e.g. trading transactions in advance of shares being issued).

Therefore, if an individual has an obligation to lodge their income tax return and meets the above-mentioned two criteria, the individual must submit the statement to the competent tax office by 15 March of the following year.

This amendment will be applicable to 'Statements of Assets/Liabilities' to be submitted on or after 1 January 2016.

(2) Items to be declared in 'Statement of Assets/Liabilities'

Information on each asset to be declared in the 'Statement of Assets/Liabilities' will be increased similar to that to be declared in the 'Statement of Overseas Assets,' which is to be submitted by permanent residents of Japan who own overseas assets valued at over JPY50 million as of the end of a calendar year.

For instance, the location of the assets/liabilities and name/acquisition costs of eligible assets for exit tax purposes will be additionally required to be declared in the new 'Statement of Assets/Liabilities.' Note that the acquisition costs of eligible assets for exit tax purposes were also added to items to be declared in the 'Statement of Overseas Assets' under the 2015 tax reform.

Statement of Assets/Liabilities as of 31 December XXXX						
Person having assets/liabilities		Place of domicile or residence				
		Name				
Category	Type	Purpose of use	Place	Number	Value of assets/ Amount of liabilities	Notes
•	•	•	•	•	•	
•	•	•	•	•	•	
•	•	•	•	•	•	
Total value of overseas assets declared in the 'Statement of Overseas Assets' (Total value of overseas eligible assets for exit tax purposes JPY())						
Total value of assets				Total amount of liabilities		

(The acquisition costs of the eligible assets for exit tax purposes should be stated in the upper line of the column of 'Value of assets/Amount of liabilities'.)

Note that a summary sheet indicating the total amount for each category should

be attached to the 'Statement of Assets/Liabilities.'

(3) Value of assets

The value of assets to be declared in the 'Statement of Assets/Liabilities' is assessed at 'fair market value' or 'estimated value' as of the end of the calendar year. The following examples of the calculation of 'estimated value' are indicated in FAQs released by the National Tax Agency.

Types of assets	How to calculate 'estimated value'
Land, Building	<p>It is acceptable to calculate the 'estimated value' based on one of the following:</p> <ul style="list-style-type: none"> (i) The tax basis of the land/building for the year for fixed asset tax purposes (if a tax equivalent to the Japanese fixed asset tax is imposed on the land/building under tax laws of the foreign country or the foreign local governments, the tax base of the land/building for the year for such tax purposes could be used.) (ii) The amount of the acquisition cost of the land/building, reflecting fluctuations in the value after the acquisition, which are estimated using reasonable methods (iii) The sale value of the land/building, if it is sold in the period from 1 January of the following year to the due date of the 'Statement of Assets/Liabilities' (iv) The amount of the acquisition cost of a building less the depreciation costs after the acquisition for a building being used for business purposes
'Other movable assets' including household movable assets (a movable tangible asset used for non-business purposes, such as furniture and cars)	<p>The amount of the acquisition cost of the asset less the depreciation costs after the acquisition</p> <p>(The 'estimated value' for a household movable asset whose acquisition cost is less than JPY1 million can be deemed as less than JPY100,000. When the 'estimated value' of an asset falling under the 'other movable assets' category is less than JPY100,000, it is not required to declare such asset in the 'Statement of Assets/Liabilities'.)</p>
Unlisted securities	<p>It is acceptable to calculate the 'estimated value' as follows:</p> <ul style="list-style-type: none"> (i) If the securities were traded in the year, the sale price of the latest transaction can be used provided that it is appropriate. (ii) If (i) is not applicable and the securities were sold in the period from 1 January of the following year to the due date of the 'Statement of Assets/Liabilities,' the sale price of the transaction can be used. (iii) If neither (i) nor (ii) is applicable, the following can be used: <ul style="list-style-type: none"> (a) Stock The reasonably calculated value (e.g. the amount based on the net asset value of the stock issuing company in the financial statements of the latest fiscal year ending on or before 31 December of the year) (b) Stock option ['The (estimated) value at the end of the year of the stock to be acquired by the exercise of the stock option' – 'The option price per share'] x 'Number of shares to be acquired by the exercise of the stock option' (iv) If all of the above are not applicable, the acquisition cost of the securities can be used.

The value of assets in foreign currencies should be translated into Japanese yen using the TTB exchange rate as of the end of the year released by a financial institution with which the submitter of the 'Statement of Assets/Liabilities' has dealings (for an asset such as a bank account, the TTB rate released by the financial institution managing the bank account should be used.).

(4) Amount of liabilities

The amount of liabilities to be declared in the 'Statement of Assets/Liabilities' should be the amount that is certain based on the situation of the liabilities as of 31 December of the year. For example, in the case of borrowings, the amount of the principal as of 31 December should be declared.

The amount of liabilities in foreign currencies should be translated into Japanese yen using the TTS exchange rate as of the end of the year released by a financial institution with which the submitter of the 'Statement of Assets/Liabilities' has dealings (for a liability such as borrowings, the TTS rate released by the financial institution managing the borrowings should be used.).

(5) Relation to 'Statement of Overseas Assets'

A permanent resident of Japan who owns overseas assets valued at over JPY50 million as of the end of a calendar year must submit a 'Statement of Overseas Assets' to the competent tax office by 15 March of the following year.

When an individual is required to submit both the 'Statement of Overseas Assets' and the 'Statement of Assets/Liabilities,' the individual can complete the 'Statement of Assets/Liabilities' without filling in details of their overseas assets reported in the 'Statement of Overseas Assets.' However, the total value of overseas assets declared in the 'Statement of Overseas Assets' and the total value of overseas eligible assets for exit tax purposes declared in the 'Statement of Overseas Assets' should be indicated in the 'Statement of Assets/Liabilities' and its summary sheet.

Note that details of overseas liabilities should be declared in the 'Statement of Assets/Liabilities' even when both statements are submitted, since no information on liabilities is declared in the 'Statement of Overseas Assets.'

2. Special Measures for Additional Taxes

When a taxpayer understates the tax liability in a tax return or fails to lodge tax returns by the due date, if a Correction (the taxpayer lodging an amended tax return or a tax return after the due date, or the tax office taking action for reassessment/determination) is made, additional tax for the understatement or additional tax for failure to lodge will generally be imposed on the tax amount to be paid based on the Correction at the following rates:

Additional tax	Tax amount to be paid based on the Correction	Rate
Additional tax for understatement	Tax amount exceeding JPY500,000 or the tax amount declared in the original tax return, whichever is larger	15%
	Tax amount other than the above	10%
Additional tax for failure to lodge	Tax amount exceeding JPY500,000	20%
	Tax amount other than the above	15%

With respect to such additional taxes, the following special measures which are the same as those for 'Statement of Overseas Assets' were introduced to encourage people to accurately declare their assets/liabilities:

	Measure to <u>reduce</u> additional tax	Measure to <u>increase</u> additional tax
Cases where the special measures are applied	<ul style="list-style-type: none"> Where the Correction was derived from assets/liabilities declared in a 'Statement of Assets/Liabilities' submitted by the due date 	<ul style="list-style-type: none"> Where 'Statement of Assets/Liabilities' was not submitted by the due date, or Where the Correction was derived from assets/liabilities not declared in a 'Statement of Assets/Liabilities' submitted by the due date (including a case where the declaration was not sufficient)
Taxes subject to the special measures	<ul style="list-style-type: none"> Income tax on income derived from assets/liabilities Inheritance tax on assets 	<ul style="list-style-type: none"> Income tax on income derived from assets/liabilities
Measures	Rate of additional tax for understatement/additional tax for failure to lodge is reduced by 5%.	Rate of additional tax for understatement/additional tax for failure to lodge is increased by 5%.

Even when the 'Statement of Assets/Liabilities' is submitted after the due date, if it is made voluntarily (i.e. not because of anticipating that a reassessment or determination will be made due to a tax examination of assets/liabilities), such statement will be treated as being submitted by the due date for the purpose of the special measures.

Note that there is no punitive clause (a maximum of 1 year penal servitude or a fine of up to JPY500,000) for failure to submit the 'Statement of Assets/Liabilities,' whereas this applies to the 'Statement of Overseas Assets.'

The above special measures will be applied to income/inheritance taxes with respect to assets/liabilities to be declared in 'Statement of Assets/Liabilities' submitted on or after 1 January 2016.

[Related information]

KPMG Japan tax newsletter

- [Introduction of Exit Tax](#) (released on 20 April 2015)

<http://www.kpmg.com/jp/en/knowledge/article/japan-tax-newsletter/pages/exit-tax-20150420.aspx>

- [New Reporting Requirement for Overseas Assets](#) (released on 26 November 2013)

<http://www.kpmg.com/jp/en/knowledge/article/japan-tax-newsletter/pages/overseas-assets-report-20131126e.aspx>

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