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Foreign Asset Reporting Requirement
Japan's new information return

Over the past few years we have seen tax authorities around the world increasing the amount of information being requested from tax residents to help them verify the income reported to them. The US introduced a reporting requirement relating to foreign (non-US) financial assets from 2011. From January 1, 2013, Japan has introduced an extensive asset reporting requirement, not just limited to financial assets held by individuals who are permanent resident for tax purposes in Japan if the aggregate value of assets held outside of Japan exceeds JPY50 million (approx. USD500,000) at year-end.

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Who is required to file this report?

Individuals who are permanent resident for tax purposes in Japan (foreign nationals who are resident in and have had a domicile in Japan for more than 5 years in the preceding ten years or Japanese nationals who are tax resident) are required to file the report when the total value of their foreign assets (assets located outside of Japan) exceeds JPY50 million as of December 31 of that year.

This is a separate form from the income tax return and individuals are required to submit it even if they do not have a Japan individual income tax return filing requirement or any taxable income in Japan.

If the individual is deceased or permanently left Japan before the filing due date, and did not elect a tax representative, the report is not required to be filed.

What is the due date?

Generally the due date is March 15 following the December 31 on which the assets have been valued.

This reporting requirement was introduced as of January 1, 2013 and therefore the first reports are due March 17, 2014 (March 15, 2014 falls on a Saturday) for reports on assets held at December 31, 2013.

Scope of reporting

The tax authorities take the view that foreign assets include any assets located outside Japan that have an economic value.

The Foreign Assets Report is a two page form consisting of a report and a summary table. The details requested are the type of asset, purpose of use, quantity, value and location of the asset. All assets held overseas are required to be disclosed and the value of each type of asset should be aggregated. The value of assets to be reported should either be the fair value or appraisal estimated value as of December 31 of that year. As the reporting should be done in Japanese yen, assets of foreign currencies should be converted to Japanese yen using the Telegraphic Transfer Buying (TTB) rate as of December 31 of that year.

The table below provides guidelines on how the value of certain common classes of assets should be determined but should not be considered an exhaustive list of the assets covered by this reporting requirement.

Type of Asset	Valuation method
Land	1. Taxable value for the property tax assessment 2. Acquisition price reasonably adjusted by price fluctuations after the purchase 3. Selling price if the property was sold between January 1 of the following year and the filing due date of the Foreign Assets Report
Building	1. Method used for determining the value of land 2. Acquisition price less depreciation through December 31 (for a partial year, 1 year is used for the depreciation calculation)
Deposits, savings	Aggregated balance in the account(s) as of December 31
Securities (unlisted)	Selling price of the same type of securities as of December 31
Stock options*	Price as of December 31 less exercise price
Partnership interest	Net asset value as of December 31 multiplied by percentage of ownership. If the net asset value data is not available, the initial capital contribution can be used
Insurance money	Amount of mid-term (cancellation) refund as of December 31

* Only vested stock options as of December 31 are required to be reported.

The tax authorities have not disclosed a minimum value for assets which can be excluded from this reporting requirement.

Penalties for non-compliance

In cases of fraudulent reporting or non-filing, an individual may face a prison sentence of not more than one year and a fine of not more than JPY 500,000. This is applicable from the second reporting year onwards, i.e. January 1, 2015. For reports due for 2013 that are voluntarily submitted after the due date, these will be deemed to have been filed before the due date.

Where penalty taxes arise due to underreported income in the tax return, the authorities have introduced mitigating measures associated with the foreign assets report. If the underreported income is declared on the foreign assets report, penalties are reduced by 5%. Conversely, if the underreported income is not declared on the foreign assets report, penalties are increased by 5%. These measures will be implemented for reports submitted on or after January 1, 2014.

Statements of Assets and Liabilities

Currently, all resident (permanent and non-permanent) taxpayers in receipt of earned income over JPY20 million (approx. USD200,000)are required to file a Statement of Assets and Liabilities, reporting on a worldwide basis.

This new asset reporting requirement in addition to and not a replacement for the Statement of Assets and Liabilities, however, if the asset has been reported on the Foreign Assets Report, it is not necessary to duplicate the reporting on the Statement of Assets and Liabilities.

Deloitte's View

With the introduction of this new foreign assets reporting requirement, the National Tax Agency is clearly tightening its control over and ability to collect the correct income tax and inheritance tax in respect of foreign assets that may have previously gone unreported.

As this reporting requirement falls upon an individual who is a permanent resident for tax purposes, even if they do not have reportable income in Japan or a tax return filing requirement, there are many individuals who may not even realize this reporting requirement applies. An example might be a non-working trailing spouse who has been living in Japan for over five years with his or her spouse who is on assignment. Even if the trailing spouse has no income him or herself, there may be a requirement upon them to file the report depending on overseas asset holdings.

The inclusion of vested but unexercised stock options is perhaps a surprising inclusion as "assets" for this purpose and could be easily overlooked by those who hold such stock options from foreign entities.

The valuation of assets is likely to be one of the biggest challenges facing permanent residents who will need to determine if they meet the threshold for filing. Therefore, we recommend that individuals start collating the information and completing valuations as soon as possible in order to be able to file the report on a timely basis.

Notwithstanding the cumbersome process, permanent resident individuals should ensure that they are compliant with the new legislation to avoid the penalties that might otherwise be imposed, especially in relation to income-generating assets.

If you have any questions regarding your specific situation, please contact one of the Global Employer Services professionals at our Deloitte office in Tokyo as follows:

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