

## Japan Tax & Legal Inbound Newsletter

### Digitizing the employee expense and vendor invoice process to enable effective telework

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#### In Brief

Teleworking has recently become the new normal in Japan, leaving offices empty and employees at all levels seeking new ways to connect and collaborate. Because of the speed at which most organizations were forced to respond to state and local government telework mandates, very few have had a chance to fully address the impacts of teleworking on their current working-style policies.

New or expanded teleworking expenditure categories have introduced new challenges for Japanese companies in managing employee expenses and vendor invoices. As a result, many companies are looking to leverage Japan's Electronic Book Preservation Act (EBPA) to help deal with new demands and provide deeper visibility into spending.

#### 1. Overview of the EBPA

The EBPA is a law that allows companies to store accounting books and records as electronic data (electromagnetic records) rather than hard copies, and covers the requirements for electronic preservation of various types of books and documents, the specific requirements of which vary depending on the type of business record. While it may take time and effort for companies to implement the EBPA, implementation can result in a variety of benefits (e.g., storage cost reduction and reduced tax risk).

Companies looking to implement the EBPA must comply with certain requirements. Under one such requirement, taxpayers that are obligated to preserve national tax-related books must use their software applications consistently from the first record digitalized to ensure the authenticity and visibility of the records, and in principle, correction and deletion of data is prohibited.

In addition, blue form taxpayers (a status that allows certain tax benefits) are required to retain records for up to seven years (or 10 years for years in which a loss was incurred). Strictly speaking, these records must be stored in paper format, in Japan, and failure to store in paper format can lead to revocation of the taxpayer's blue form tax status. However, upon application to the tax office, taxpayers satisfying the requirements of the EBPA can opt to retain records electronically.

#### 2. Article 4(3): Employee expenses and vendor invoices

Article 4(3) of the EBPA specifically deals with physical documents received (e.g., employee expense receipts and vendor invoices), and stipulates the timeframe within which the physical documents must be digitized (scanned and timestamped). Japan's National Tax Agency (NTA) published the following clarifications regarding this timeframe, which varies depending on whether the digitization process is performed by the original recipient of the document or a separate team/individual.

Who performs digitization?	Before clarification	After clarification
Original recipient of document	Within 3 days after receiving expense receipt	Within approximately three business days after receiving expense receipt

Individual or team other than original recipient of document	Within one week after normal business processing cycle, which is assumed to take place at least monthly	Within approximately seven business days after normal business processing cycle, which is assumed to take place at least every two months
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It is important that companies comply with the digitization timeframe requirements set forth by the NTA, as taxpayers that fail to follow the necessary procedures and pre-approvals must keep paper receipts. To help meet the stipulated technical requirements (e.g., timestamping), companies may choose a software provider from the software provider lists published by the Japan Image and Information Management Association (JIIMA)<sup>1</sup>, which are considered to be approved software providers. In addition, some of these software providers can support integration with home grown or other generic expense/invoice management software for ease of adoption.

 **Deloitte's View**

The fallout from COVID-19 is even more sobering when considering that companies are likely only starting to feel the pandemic's impact on business operations. Telework mandates, quarantines, and illness increase the possibility that businesses will experience further disruptions. Businesses digitizing their operations and adopting the use of multi-model integrated clouds likely will become the new norm in a matter of time.

With most employees working from home, submitting physical receipts and retrieving hard copy vendor invoices may be difficult and time consuming. While travel expenses have been reduced, new employee expenses have emerged in their place (e.g., purchases of monitors and basic office supplies, cell phone and internet costs, online fitness class reimbursements, etc.).

Companies that do not digitize the process of handling employee expense receipts and vendor invoices may find it difficult to comply with Japan's record retention rules and run the risk of losing their blue form taxpayer status. Even companies that digitize (or already have digitized) the process could face similar risk if they fail to meet the specific conditions of the EBPA (including Article 4(3)) or do not properly apply to retain physical documents electronically.

Therefore, companies may want to seek advice from their tax service provider to understand the specific requirements of the EBPA, and may want to consult with the NTA to confirm satisfaction of certain requirements prior to applying to retain records electronically.

\* This newsletter is an update of a previously published, related article dated September 2019.

\* This Article is based on the relevant Japanese tax law and other authorities in effect as of the date of this Article. This Article is not be guaranteed to be updated in the event of future changes in Japanese tax law, any other law, or interpretations by the courts or tax authorities thereof after the date of this Article.

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<sup>1</sup> JIIMA - list of certified electronic books software: [https://www.jiima.or.jp/activity/certification/denshichoubo\\_soft/list/](https://www.jiima.or.jp/activity/certification/denshichoubo_soft/list/) (Japanese only)

JIIMA - list of certified scanned software: [https://www.jiima.or.jp/activity/certification/denchouhou/software\\_list/](https://www.jiima.or.jp/activity/certification/denchouhou/software_list/) (Japanese only)

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