

Ready to go paperless?

Applying electronic document preservation in Japan

Electronic storage of business records has become easier but many businesses continue to retain records in paper format. As business operations become increasingly digital, now is an ideal time to evaluate the merits and feasibility of replacing paper storage with electronic storage

Long paper trail

We are entering a digital era yet many businesses store accounting and tax records in paper format for audit purposes. These records include invoices, receipts, fixed asset records and financial statements among others. The volume of documentation and practical implications mean that storage can be expensive, especially given that records must be held for a number of years.

Why change now?

The National Tax Agency Japan (NTA) is going digital and is encouraging taxpayers to do the same. Electronic storage can reduce costs and risks. Many businesses are upgrading to next the generation of ERP systems such as SAP S/4 HANA and Oracle Cloud. This is a compelling opportunity for businesses to re-evaluate their record retention approach and supporting processes. Electronic storage may be easier, more cost effective for the business and more convenient for employees.

Benefits of electronic storage

Reduce cost and increase efficiency	Reduce tax risks
<ul style="list-style-type: none"> ■ Increase operational efficiency ■ Reduction transportation and storage costs ■ Ability to search records faster ■ Ability to access records from a computer 	<ul style="list-style-type: none"> ■ Prevent fraud and error ■ Detection of risks through analysis ■ Enhancement of security and business continuity ■ Gain increased trust from the NTA

Regulations

Under Japanese tax law, many businesses enjoy “blue form” tax return filing status which provides various tax benefits. Blue form status requires businesses to maintain their accounting books, records and supporting documentation appropriately. This includes the requirement to retain records for up to 7 years or 10 years, in the case of loss-making years. Strictly speaking, these records must be stored in paper format in Japan. A failure to meet these requirements can lead to revocation of blue form tax status by the NTA.

e-Document preservation law

Storing and indexing large volumes of paper records in an environment which is protected from fire and other hazards is costly. In 2005, an Electronic Book and Record Retention law was introduced. The law permits electronic storage of various types of records subject to meeting certain requirements.

Category	National tax related books & ledgers		National tax related documents	
	4(1)	4(2)	4(3)	10
Source	Your accounting books	Electronic documents created	Physical documents sent/received	Electronic transactions
Examples	<ul style="list-style-type: none"> ■ General ledger ■ Accounts receivable ■ Accounts payable 	<ul style="list-style-type: none"> ■ Profit & loss ■ Balance sheet ■ Invoices issued 	<ul style="list-style-type: none"> ■ Invoices ■ Expense receipts 	<ul style="list-style-type: none"> ■ EDI

Adopting e-Document preservation

The number of businesses moving to electronic storage has been steadily increasing in recent years. In order to utilize e-Document preservation, an application must be submitted to NTA which certifies that the electronic record system and supporting processes meet the necessary requirements. These include:

■ Ability to track corrections and deletions	■ Ability to search records
■ Cross-referencing between related records	■ Timestamping of records
■ Ensuring readability of records	■ Presence of internal controls

The application requires an understanding of the IT requirements and organizations' business processes. Accordingly, a number of businesses have sought external support during the application procedure.

Our services

Deloitte has helped a number of businesses during various stages of the e-Document application process and can leverage its experience in supporting your organization in a smooth and cost effective manner.



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