



J-GAAP and IFRS

In an effort to accelerate convergence in accordance with the Tokyo Agreement of August 2007, the European Commission made its decision in December 2008 that Japanese GAAP is International Financial Reporting Standards (IFRS) equivalent and will be accepted in the European Union effective January 1, 2009 with the provision that the Accounting Standards Board of Japan (ASBJ) continues its convergence activities. Differences and related Accounting Standards/Exposure Drafts recently released by ASBJ are as follows:

Topic	ASBJ release date	Effective date (fiscal year)	Remarks
Retirement benefits	July 31, 2008	April 1, 2009*	Accounting standard (partially revised) released
Inventories	September 26, 2008	April 1, 2010*	Accounting standard (revised) released
Investment property	November 28, 2008	March 31, 2010*	Accounting standard and its implementation guidance released
Business combinations	December 26, 2008	April 1, 2010*	Accounting standard (revised) and its implementation guidance (revised) released
R&D costs	December 26, 2008	April 1, 2010*	Accounting standard (partially revised) released
Segment information	March 27, 2009	April 1, 2010	Accounting standard (revised) released
Accounting changes	April 10, 2009	April 1, 2011**	Exposure draft of Accounting standard and its implementation guidance for accounting changes and error corrections

* - early application is permitted
** - early application is partially permitted

Also on February 4, 2009, the Business Accounting Council of the Financial Services Agency (FSA) released a draft interim report titled, "Application of IFRS in Japan." In the report, FSA states that certain listed companies with fiscal years ending on and after March 31, 2010 will be permitted to adopt IFRS on a

voluntary basis. Companies will be issuing consolidated financial statements based on IFRS. The report also states that the decision on mandatory application of IFRS will made in 2012. However, the timing could change depending upon various factors and status of voluntary application of IFRS. This report will be finalized and released this summer.

IFRS Roadmap for U.S. Issuers

The SEC issued its proposed "roadmap" regarding transitioning to IFRS on November 14, 2008. This roadmap sets forth seven conditions, if achieved, which could lead to a mandatory IFRS transition.

1. Improvements in accounting standards
2. Accountability and funding of the International Accounting Standards Committee (IASC) Foundation
3. Improvement in the ability to use XBRL for IFRS reporting
4. Education and training
5. Limited early use of IFRS where this would enhance comparability for U.S. investors
6. Anticipated timing of future rulemaking by the Commission
7. Implementation of the mandatory use of IFRS
 - a. Large accelerated filers – Fiscal years ending on or after December 15, 2014
 - b. Accelerated filers – Fiscal years ending on or after December 15, 2015
 - c. Non-accelerated filers – Fiscal years ending on or after December 15, 2016

However, at a US Senate Committee hearing on the nomination of Mary Schapiro as the new Chairman of the SEC, she indicated that she would not necessarily feel bound by the Roadmap.

Japanese Taxes

Corporate Tax Rates

The corporate tax rate for the first JPY 8 million in taxable income will be reduced from 22 percent to 18 percent for companies with a paid-in capital of JPY100 million or less. This is a temporary measure effective for companies with fiscal years ending between April 1, 2009 and March 31, 2011.

Tax Loss Carryback Reinstatement

Effective for companies with fiscal years ending on or after February 1, 2009, the tax loss (i.e. net operating loss) carryback provision has been reinstated for companies meeting the following conditions: (1) filing under the blue tax return status and (2) with paid-in capital of JPY100 million or less. Qualifying small and medium sized companies can now carryback tax losses one year based on the following formula:

$$\text{Refund}^1 = [\text{Prior Yr. Taxes}^2] \times \left[\frac{\text{Current Yr. Losses}^3}{\text{Prior Yr. Income}} \right]$$

¹ Excludes enterprise and inhabitance taxes

² Current regulation only allows tax losses to be carried back one year.

³ Up to the amount of denominator

Tax Incentive Extensions

The provision in the Tax Reform that permitted small and medium sized companies⁴ engaged in the wholesale, retail

and service businesses to claim additional first year depreciation of 30% or an investment tax credit equivalent to 7% of the acquisition cost for qualified machinery, equipment or furniture has been extended for another 2 years. This measure is applicable for acquisitions made through March 31, 2011. In addition, the Employee Training Tax Credits has also been extended for another 2 years.

⁴ *Small and medium sized companies are defined as companies with paid-in capital of JPY 100 million or less but excludes subsidiaries of large sized companies (entities with paid-in capital of more than JPY100 million) companies*

Individual Contributions to Defined Contribution Pension Plans

The rules related to contributions to defined contribution pension plans for corporations have changed permitting individual employees to make matching contributions equivalent to those made by their corporate sponsors. The matching contributions made by the employees are also deductible as small-scale enterprise mutual aid payments on their individual income tax returns.

Inventory Valuation Methods

To achieve convergence with IFRS, the Accounting Standards Board of Japan (ASBJ) issued the "Accounting Standard for Measurement of Inventories" (Accounting Standards Board of Japan Statement No.9 (revised 2008)) on September 26, 2008. The revised standard removes the LIFO (last in, first out) method from the allowable inventory valuation methods under Japanese GAAP. To keep in line with the accounting standards changes, the 2009 Tax Reform includes revisions that eliminates LIFO and simple average method from the acceptable inventory valuation methods for income tax purposes. The effective date and details will be released at a later date.

J—GAAP		CORPORATE TAXES	
Accounting principles	Revised ASBJ Stmt. No.9	Before amendment	After amendment
LIFO	[Abolished]	LIFO	[Abolished]
N/A	N/A	Simple average method	[Abolished]

Pre-filing Notifications for Directors' Bonuses

Certain information formally included in the notification form, specifically "the compensation (salary and bonus) paid to the director for the previous year" and "the compensation (salary and bonus) paid to other directors," will no longer be required in the new form. This should ease some of the administrative burden on taxpayers.

Payroll Update

Major revisions to Employment Insurance
(Effective March 31, 2009)

1. Eligibility criteria for employment insurance for non-permanent employees, such as part-time and leased employees, working over 20 but under 30 hours per week has changed. Previously, only employees with expected employment term of at least one year were eligible for the employment insurance but with the revision, employees with expected employment term of at least six months are now eligible.



2. Reductions in employment insurance rates
(Only for 2009)
Employer contribution rate reduced from 0.9% to 0.7%
Employee contribution rate reduced from 0.6% to 0.4%

Reductions in Workmen's Accident Compensation Insurance Rates (Effective Workers' April 1, 2009)

- Wholesale sector rate changed from 0.5% to 0.4%
- Financial sector rate changed from 0.45% to 0.3%
- Other business sector rate changed from 0.45% to 0.3%

Change in Annual Labor Insurance Return Filing dates

New filing acceptance period June 1 to July 10

New payment due dates:

First installment: July 10

Second installment: October 31

Third installment: January 31 of the following year

Applicable year remains unchanged

(i.e. April to March - following year)

Changes in Health Insurance Rate and Pension Premium Rate (effective September 2009)

Health Insurance premium rate changed from 08.2% to 08.18% (Tokyo)

Pension premium rate changed from

15.35% to 15.704%



Premiums for union sponsored health insurances will continue to be set by each union.

Miscellaneous

Work-sharing and government subsidies

To retain employees on payroll and avoid layoffs in this serious economic slump, the idea of work-sharing is getting a lot of renewed attention. With a slowdown in businesses, many companies are limiting overtime and reducing work hours to cut down on operational expenses. Work sharing helps such companies avoid layoffs and retain experienced employees on the job by reducing individual employee's work hours. Employees, in turn, get to keep their jobs albeit at a reduced pay. For work-sharing programs to function smoothly, mutual understanding and a spirit of concession by both employers and employees are essential. The government is also getting into the act by providing subsidies to those companies avoiding layoffs by implementing temporary shut down of operations or temporary transfers of employees and meeting certain other conditions. If you would like to know more, please contact your in-charge for detailed information.

Payroll Services

For our clients with in-house HR managers and have their employee workrules submitted with the labor office, we may be able to reduce our payroll fees by changing the way we exchange/communicate information. Please approach your engagement manager/partner for details.

Kyoto Office Opens

On April 1, 2009, Okamoto & Company opened its first satellite office in Kyoto. This office is located near Karusuma Oike subway station and was opened to serve as a contact for clients in the region. Detailed contact information and a map are located at

<http://www.okamoto-co.jp/mapkyoto.html>.

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