



## ***Accounting for Small and Medium-Sized Entities***

On July 09, 2009, the International Accounting Standards Board (IASB) completed and issued an International Financial Reporting Standard (IFRS) for small and medium-sized entities (SMEs). This is a self-contained standard of about 230 pages tailored for the needs and capabilities of smaller businesses. Many of the principles in full IFRSs for recognizing and measuring assets, liabilities, income and expenses have been simplified, topics not relevant to SMEs have been omitted, and the number of required disclosures has been significantly reduced. Revisions to this IFRS will be limited to once every three years. The IFRS for SMEs which is much simpler than full IFRS, responds to a strong demand from both developed and emerging economies for a rigorous and common set of accounting standards for smaller and medium-sized businesses, which are estimated to represent more than 95% of all companies. This standard is effective immediately.

In Japan, guidance for small and medium-sized entities accounting (the Japanese SME guidelines) was issued in August 2005 and has been updated annually. Some of the major differences between the IFRS for SMEs and the Japanese SME guidelines are as follows:

- (1) Inventory valuations - The IFRS for SMEs guidelines requires the use of lower of cost or net realizable value for valuing inventory while Japanese SME guidelines
- (2) Impairments and write-downs - IFRS for SMEs permits reversal of impairments and write-downs while Japanese
- (3) Asset Retirement Obligations - IFRS for SMEs requires companies to provide for the future disposal cost of assets generally at the time of acquisition while Japanese SME guidelines do not.

The treatment for pension obligations is essentially the same in that both allow for simplified methods to compute the pension liability.

Although the Private Company Financial Reporting Committee ("PCFRC") was established in June 2006 for non-public businesses in the U.S., it is unclear when modifications to the FASB standards or a new set of standards will be finalized and issued.

## ***Japanese Taxes***

Under the three principles of "Fairness, Transparency and Acceptability" the 2010 Tax Reform was introduced. In general, there was a shift from deductions to the establishment of allowances. Among the 310 special tax codes which were adopted, 82 of them were either abolished or modified. With the establishment of a children's allowance and the elimination of high school tuitions, special treatments on minor dependency allowances have been abolished. Other reforms at the individual level include the tax deduction changes for life insurance premiums and the abolishment of tax reliefs on employer provided housing loans. 😊

The employment deduction for the officers of family owned companies was reinstated arising from claims from the owners of closed held corporations. However, a fundamental restructuring of the employment deduction is expected in the 2011 Tax Reform. This change may have a large impact on individuals who enjoy tax benefits arising from "double deduction."

In conjunction with the Company Law changes which have been taking effect since 1997, the impact of such has been seen in an entity's accounting principles as well as taxation for entities with a common shareholder. With the division of responsibilities between directors and officers, and the growing number of holding companies, there was a need to overhaul the system. Under the new tax law, any recording gains or losses from asset transfers within wholly-owned group companies will be disallowed. Also, special tax measures for small and medium-sized entities would not apply if the parent company is considered a large corporation. We can foresee an increased number of companies filing consolidated tax returns in the coming years. Other corporate tax changes include the abolishment of special taxation during liquidations and information infrastructure improvement tax credits and the reform on taxation for tax havens.

## Payroll

This is an update on changes which may affect your company.

The health insurance rate increased from 8.18% to 9.32% (based on the Health Insurance Association - Tokyo). The premiums for pensions may change in September 2010. ☹️

Elderly Care Insurance (effective March 2010) ☹️

Employer contribution - from 0.595 % to 0.75%

Employee contribution - from 0.595 % to 0.75%

Major revisions to Employment Insurance are as follows (effective April 1, 2010)

1. Eligibility for enrollment in the employment insurance in the past required a part-time or leased employee to work at least 20 hours per week with an expected employment term of at least six months while under the revision the employment term requirement has been shortened to as little as 31 days.

2. Increases in employment insurance rates in the general business sector ☹️

Employer contribution - from 0.7% to 0.95%

Employee contribution - from 0.4% to 0.6%

There are no changes to the workers compensation insurance rates.

### Labor Standards

A new set of standards to promote the moderation of long working hours, health of the workers and the balance between work and the home was implemented as of April 1, 2010. These standards should be incorporated in the labor-management agreement.

Some of the key standards affecting companies are:

1. Overtime premium rates for Larger Companies ☹️  
For larger companies with over 50 full-time employees, the employer may be required to pay 150% of the standard wages for overtime worked in excess of 60 hours per month or grant the employees paid leave.

2. Overtime premium rates in general ☹️  
The government discourages employees to not exceed 45 hours of overtime per month. For those who do, the government is recommending documentation in the labor-management agreement including a clause granting employees to receive a

minimum of 125% of their standard wages for such hours.

### 3. Vacation

Employers can grant employees paid leave by the hour up to a maximum of five days per year.

## Banking

SWIFT MT 940 Message Transmission Banking Service The Bank of Tokyo-Mitsubishi UFJ offers a service called MT940 (Statement of SWIFT MT940 Message Transmission Service) which transmits banking information of your Japanese bank account to an overseas portal/site whenever there is movement in the account. Please be aware that information which is already in Japanese (e.g. customer names) will not be translated into English for the overseas readers/users. Monthly bank charges start from 12,600 yen/month. If you are interested, please inform your contact at Okamoto & Company.

## Kreston International

Hongo Tsuji Tax and Accounting and Okamoto & Company will jointly host the 2010 Kreston Asia Pacific Regional Conference in Tokyo on July 8, 2010 through July 11, 2011. Numerous firms from Asia, especially China, are expected to participate in this event.

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