

## Tax Controversy / Tax Reform Proposal Newsletter

November 2025

### Successful Case of a Legal Opinion Regarding the CFC Regime

#### Key Takeaways

- As a means to avoid receiving a tax assessment, we recommend preparing a detailed written statement outlining the reasons why the taxpayer's position should be accepted and submitting it to the tax examiners together with supporting evidence.
- It is also effective to submit documents that are, as much as possible, of the same quality and quantity as briefs prepared for tax litigation.
- In this newsletter, we will introduce a recent successful case of a legal opinion regarding the CFC regime.

#### A case in which the argument that interest on time deposits does not constitute passive income was accepted

##### The taxpayer's transaction

The taxpayer, a Japanese shipping company, indirectly owned all shares of its Singapore subsidiary, which operated an international shipping business. The subsidiary needed substantial cash reserves to procure vessels. Therefore, it deposited funds derived from its business revenue into time deposits with maturities of not more than one year, both to prepare the necessary cash on hand and to earn interest on these time deposits. The taxpayer filed its corporate tax return without including the interest earned on these time deposits as passive income subject to consolidation under the CFC regime.

##### The tax authorities' position

Since the subsidiary met all the economic activity requirements under the CFC regime, the taxpayer was not required to consolidate all of the subsidiary's income. However, passive income must be consolidated. The interest on the time deposits did not fall under "interest on deposits arising in the ordinary course of business" (Article 66-6(6)(ii) of the Special Taxation Measures Law) and therefore constituted passive income. Accordingly, the taxpayer should have included this interest as consolidated income and reported it in the corporate tax return.

##### Summary of the legal opinion

The reason for excluding "interest on deposits arising in the ordinary course of business" from passive income is that tax avoidance through the use of interest on deposits or savings arising in the ordinary course of business is considered unlikely. The subsidiary, in the course of its business, needed to maintain substantial cash reserves for the purchase of vessels, which were deemed as business assets. Therefore, depositing funds derived from its business revenue into a bank was a reasonable and common business practice that inevitably occurred in the course of carrying out the subsidiary's business operations.

Furthermore, as time deposits offered more favorable terms than ordinary deposits and could be cancelled before maturity, it was rational for a profit-oriented company to place funds whose usage timing was not yet determined into time deposits. The action was entirely unrelated to tax avoidance schemes that transfer investment income to a foreign subsidiary. Accordingly, the interest on these time deposits constituted "interest on deposits arising in the ordinary course of business" and did not fall under passive income.

##### Shield to protect taxpayers

In recent tax audits relating to the CFC regime, there has been an increasing number of cases where tax authorities point out that interest earned on time deposits by foreign subsidiaries should be included as passive income. Whether such interest constitutes passive income depends on whether it falls under "interest on deposits arising in the ordinary course of business." However, the meaning of this phrase is not necessarily clear, making it a frequent point of contention.

In this case, by submitting a legal opinion, the taxpayer's position was accepted at the time of tax auditing and the tax return was approved. Taxpayers generally wish to avoid receiving a tax assessment if at all possible. If this is the case, we recommend that taxpayers prepare a detailed written explanation of the reasons why their position should be accepted and submit it to the tax examiners together with supporting evidence.

It is most effective to submit documents that are, as much as possible, of the same quality and quantity as briefs prepared for tax litigation. The key is to proactively address the issues at the time of tax auditing. Such proactive measures serve as an important shield to protect taxpayers.

# Tax controversy is a means of defending taxpayers against tax assessments.

## Guide to tax controversy services

Deloitte Tohmatsu defends taxpayers against tax assessments through tax controversy.

Deloitte Tohmatsu has a proven track record of resolving tax issues by providing comprehensive services, ranging from submitting rebuttal letters and legal opinions to representing taxpayers in tax appeals and tax litigation, thereby defending taxpayers against tax assessments.



### The first step

When a taxpayer faces differences in opinion with the tax authorities during a tax audit, the first step is to submit a rebuttal letter that outlines the taxpayer's viewpoint and the reasons behind it.

### Cases where a rebuttal letter is effective

For example, submitting a rebuttal letter is effective in the cases where it is necessary to counter the tax examiner's points by considering case law, or to argue that the tax examiner's interpretation of contracts or factual findings is incorrect.

### Rebuttal letter service

We quickly submit an initial rebuttal letter under the taxpayer's name based on the facts discernible from the documents provided at the time of the order. We do this for a fixed fee, and we can handle all types of Japanese taxes. We also offer services for further consultations with tax examiners and the submission of additional rebuttal letters, billed on an hourly basis.

### The trump card

When submitting a rebuttal letter does not resolve the differences in opinion with the tax authorities, a legal opinion becomes the taxpayer's trump card.

### Cases where a legal opinion is effective

In the case where the issue at hand is critical due to the amount of additional tax, it is necessary to submit a legal opinion, negotiate with the tax examiner and, if needed, submit additional legal opinions to ensure the taxpayer's viewpoint is accepted.

### Legal opinion service

We offer comprehensive representation, not only in submitting a legal opinion under the name of a lawyer but also in negotiations with tax examiners and the submission of additional legal opinions, based on a success fee or hourly fee. Before providing these services, we will review the relevant materials in advance to assess the likelihood of the taxpayer's viewpoint being accepted.

### Speaking up in tax matters

When the tax authorities issue a tax assessment, taxpayers can file an appeal with the tribunal to seek a final administrative decision. Filing an appeal can be considered a means of speaking up in tax matters. The tribunal listens to the viewpoints of both the taxpayer and the tax authorities and makes a decision based on the evidence presented.

### Tax appeal process

An appeal must be filed with the tribunal within three months of receiving the notice of assessment. Typically, there are about three to four exchanges of briefs during the appeal process. The entire process usually takes about one year until a decision is reached.

### Tax appeal service

We provide comprehensive representation for taxpayers' appeals, based on a success fee or hourly fee. We handle all aspects of the appeal process, including the preparation of documents and negotiations with the tribunal judges.

### Further means of speaking up

If the tribunal issues a decision that denies the taxpayer's viewpoint, the taxpayer can file a tax litigation in court to seek a judicial decision. A tax litigation represents a further means of speaking up in tax matters. While it may be difficult to correct erroneous interpretations of tax law at the tribunal level, it is possible to do so in court.

### Tax litigation process

A tax lawsuit must be filed within six months of becoming aware of the tribunal's decision. First Instance: The period until a judgment is usually around one and a half years. Appeal: The period until a judgment is usually within one year. Final Appeal: It may take more than a year to reach a judgment.

### Tax litigation service

We provide comprehensive representation for taxpayers in tax litigation, from the first instance to the appeal and final appeal, based on a success fee or hourly fee. We handle all aspects of the process, including the preparation of documents and attendance at oral arguments.

# Tax reform proposal is a means of changing the tax rules themselves.

## Guide to tax reform proposal service

Deloitte Tohmatsu supports efforts to change the tax rules themselves through tax reform proposals.

Deloitte Tohmatsu has a proven track record of resolving tax issues by advising taxpayers on tax reform proposals and changing the tax rules themselves.

### Cases where a tax reform proposal is effective

Even if there are issues with the current tax rules, once the tax authorities issue a tax assessment based on those rules, judicial resolution of tax issues becomes difficult. However, by amending laws, regulations, or administrative circulars, it is possible to change the problematic tax rules themselves, thereby resolving tax issues legislatively or administratively. In cases where it is necessary to change the tax rules themselves, a tax reform proposal proves to be effective.

### Tax reform proposal service

We provide advice to taxpayers on tax reform proposals based on a success fee or hourly fee, supporting efforts to change the tax rules themselves. We carefully examine the issues with the current tax rules, propose feasible amendments to laws, regulations, or administrative circulars, prepare the rationale for why such amendments should be implemented, and strongly back up the realization of tax reform proposals.



## Our strong credentials in resolving tax issues make us a top choice.

## Track record of tax controversy / tax reform proposal services

Deloitte Tohmatsu has a proven track record of resolving tax issues through tax controversy / tax reform proposal.

We strive to resolve tax issues as swiftly as possible. In numerous cases that we have undertaken and been involved in, we have resolved tax issues through tax controversy / tax reform proposal. Some recent examples where tax issues were resolved are as follows.

2025	Rebuttal letter	Director's remuneration		
	Tax reform proposal	Earnings stripping rules	Rebuttal letter	Stamp tax
	Legal opinion	Accrual basis principle	Rebuttal letter	Inheritance tax
	Rebuttal letter	Requirements for re-examination	Rebuttal letter	Taxable sales ratio
	Tax appeal	Entertainment expenses	Legal opinion	CFC regime
2024	Rebuttal letter	Donations	Legal opinion	Heavy penalty tax
	Tax litigation	Article 132-2 of Corporation Tax Act	Tax appeal	Revocation of blue form tax return approval
	Legal opinion	CFC regime	Tax appeal	Property tax
2023	Legal opinion	Bad debt losses and losses on sale of receivables	Legal opinion	Entertainment expenses
	Legal opinion	Article 132-2 of Corporation Tax Act	Legal opinion	Advantageous placement of shares
	Tax litigation	CFC regime		
2022	Legal opinion	Property tax	Tax appeal	Deemed capital gains
	Tax appeal	Corporate gains on donations	Legal opinion	Deemed capital gains
2021	Tax appeal	Reorganization tax regime		
2020	Legal opinion	Stamp tax		

# What to do if there's a dispute over tax?

Let's learn from the latest tribunal case where a taxpayer won and think together!



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