

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!



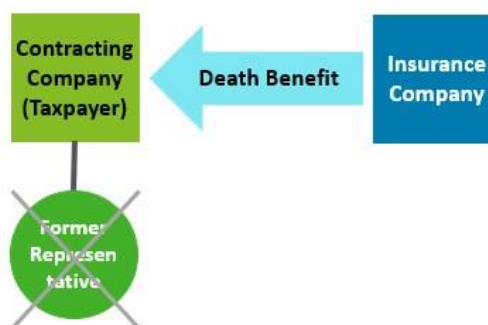
There's no guarantee we'll still get it!

Executive Summary

- Even if we ultimately resolve a certain matter in an adult manner, we should thoroughly understand the reasons why it should be treated as a timing difference.
- We will provide an explanation based on the National Tax Tribunal Decision on 26 February 2024.
- You can also watch our YouTube lecture on this episode in Japanese [here](#).

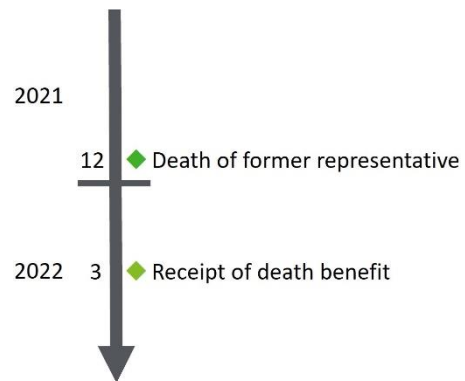
1. Transaction conducted by the Taxpayer

- The taxpayer in this case (the "Taxpayer") was a contracting company with a December fiscal year-end. Its former representative passed away in December 2021. The cause of death was diagnosed as either illness or natural causes. The Taxpayer had a life insurance contract with an insurance company, in which the Taxpayer was the policyholder, the former representative was the insured, and the Taxpayer was the beneficiary of the death benefit. In March 2022, the Taxpayer submitted the necessary documents to the insurance company to claim the death benefit.
- In the same month, the insurance company notified the Taxpayer that it would pay the death benefit and deposited the amount into the Taxpayer's bank account. Therefore, on the date of the payment notification from the insurance company, the Taxpayer recognized the amount received as revenue. The Taxpayer planned to include this in the income for the fiscal year ending December 2022.
- The issue at hand is when the Taxpayer should include the death benefit in its income. Generally, the recognition of revenue in a particular fiscal year should follow the standards of generally accepted accounting principles. According to these principles, revenue should be included in the income of the fiscal year in which it is realized, that is, when the right to receive that income is established.
- However, the timing of the recognition of the right does not have to be solely based on the legal point at which the right can be exercised. If a taxpayer chooses a specific standard for recognizing revenue that is deemed reasonable from the economic substance of the transaction, this accounting treatment should also be accepted for tax purposes. Therefore, the issue was whether the accounting treatment of the death benefit by the Taxpayer was reasonable from the economic substance of the transaction.



2. Assessment issued by the Tax Authorities

- The tax authorities in this case (the “Tax Authorities”) noticed that the Taxpayer did not include the death benefit in the income for the fiscal year ending December 2021. Since the former representative's cause of death was diagnosed as either illness or natural causes, it fell under the conditions for the payment of the death benefit and did not fall under any exemptions. Therefore, the Taxpayer was in a position to claim the death benefit based on the fact of the former representative's death and the insurance contract.
- Moreover, waiting for the payment notification from the insurance company to recognize the revenue, despite the amount to be received being determined on the date of death, did not conform to the standards of generally accepted accounting principles. The Tax Authorities issued an assessment to increase the corporate tax for the fiscal year ending December 2021.
- However, the Taxpayer thought the death benefit was not automatically paid upon filing a claim. The payment was made after the insurance company reviewed the claim, including checking for any deficiencies in the claim form. Given the status of the preparation of the necessary documents for the death benefit claim, it was not possible to recognize the realization of the claim and exercise it within the fiscal year ending December 2021. Accordingly, the Taxpayer filed a tax appeal.



3. Decision made by the National Tax Tribunal

- The payment of the death benefit was made after the claim was submitted and involved not only checking for formal issues such as deficiencies in the documents but also considering the necessity of investigating any exemption clauses. Therefore, even if the cause of death listed on the former representative's death certificate was solely illness or natural causes, and there was no immediate indication of any exemption clauses, it was still possible that the insurance company might not have paid the benefit based on the results of its review.
- Furthermore, when claiming the death benefit, it was necessary to submit a physician's death certificate in the format specified by the insurance company, which took a certain amount of time. Considering that after the former representative's death, the Taxpayer had to continue business operations while also handling the funeral arrangements and the procedures for changing the representative within the period prescribed by the Companies Act, the Taxpayer's process of claiming the death benefit could not be considered unduly delayed.
- Therefore, the Taxpayer's accounting treatment of recognizing the death benefit as revenue in the fiscal year ending December 2022 was reasonable from the economic substance of the transaction, and it should be accepted for tax purposes as well. Consequently, the death benefit should not be included in the income for the fiscal year ending December 2021. The National Tax Tribunal cancelled the entire assessment.

4. Tips for resolving differences of opinion

- The timing of revenue recognition is one of the most frequently pointed out issues during tax audits. The criteria for determining the timing are not necessarily clear-cut, as they depend on whether the taxpayer's accounting treatment is deemed reasonable from the economic substance of the transaction. Additionally, the perception of the economic substance can differ between the taxpayer and the tax authorities. Moreover, the timing of revenue recognition, often referred to as a timing difference, is not usually a major concern for taxpayers, making it an easy target for the tax authorities to achieve results in tax audits.
- From the taxpayer's perspective, since the principal tax amount will ultimately be paid regardless, it is often not a significant concern. However, if the taxpayer readily accepts the timing difference during the tax audit, it may lead to further issues. Depending on the reasons for the timing difference, it could be construed as concealment or manipulation by the taxpayer, potentially resulting in a heavy penalty tax.
- Therefore, even if the matter is ultimately resolved amicably, it is crucial to thoroughly understand the reasons why it should be treated as a timing difference. If the taxpayer is not convinced, it should engage in proper discussions. A timing difference may seem trivial, but it can have significant implications.

We provide a way to resolve differences in opinion with the tax authorities

Guide to tax controversy services

Deloitte Tohmatsu comprehensively provides tax controversy services.

We examine the causes of differences in opinion and consult with clients regarding the likelihood, procedures, and costs of having the taxpayer's view accepted. We provide comprehensive services, including the preparation of rebuttal letters and legal opinions, consultations with tax examiners, and representation in tax appeals and tax litigation.



Our strong credentials make us a top choice

Track record of tax controversy services

Deloitte Tohmatsu has a proven track record of resolving differences of opinion with the tax authorities.

In numerous cases that we have undertaken and been involved in, the taxpayers' views have been accepted. Some recent examples where the taxpayers' views were accepted are as follows.

2025	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		

Introduction to the tax controversy team

At Deloitte Tohmatsu, there is a team dedicated to resolving differences in opinion with the tax authorities.

This team is composed of lawyers, CPTA, CPA, ex-tribunal judges, and ex-tax officials. We work together as a unified group to address and resolve these differences in opinion with the tax authorities.

 Yutaka Kitamura Lawyer / CPTA Lawyer (NY)	 Tsutomu Yamatoya Lawyer Lawyer (NY)	 Ichiro Tsumimori Lawyer Lawyer (NY)	 Yoichi Noda Lawyer Ex-tribunal judge	 Masataka Miyaji Lawyer Ex-tribunal judge	 Yasuyuki Miyai Lawyer / CPA Ex-tribunal judge	 Takuma Sasaki Lawyer Ex-tax official
 Junko Takahashi Lawyer	 Yusuke Fukase Lawyer	 Takahiro Suwa Lawyer	 Yuta Shimada Lawyer	 Yuki Kotani Lawyer	 Ryo Hasegawa Lawyer	 Masaya Yamamura Lawyer

Introduction to YouTube lectures and publications

Deloitte Tohmatsu provides tips for resolving differences in opinion through various channels.

The YouTube lectures, "What to do if there's a dispute over tax," are released once a month, with each session lasting about 10 minutes. We also publish English newsletters, "What to do if there's a dispute over tax," once a month based on the YouTube lectures.



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