

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!



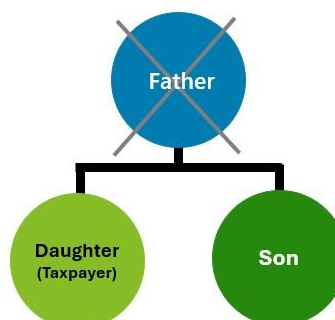
Don't assume it's compensation money

Executive Summary

- The tax treatment may vary depending on the purpose of the payment. If the purpose is left ambiguous, you may face unexpected tax risks.
- We will provide an explanation based on the National Tax Tribunal Decision on 3 July 2024.
- You can also watch our YouTube lecture on this episode in Japanese [here](#).

1. Assets received by the Taxpayer

- A father passed away in June 2016. The heirs were his son and daughter, who is the taxpayer in this case (the "Taxpayer"). Initially, The Taxpayer's father had made a will stating that his entire estate would be divided equally between the Taxpayer and her brother. However, later, a notarized will was discovered in which he revoked all previous wills, declaring them null and void, and stated that his entire estate would be inherited by her brother.
- In December 2019, the Taxpayer filed a lawsuit against her brother, claiming that the notarized will was invalid and that she was entitled to inherit half of her father's estate. Additionally, as a secondary claim, the Taxpayer demanded the payment of compensation money for the value of real estate based on a claim for the infringement of her reserved portion of inheritance, as well as damages. Ultimately, in March 2022, her brother and the Taxpayer reached a court settlement, and the Taxpayer received a settlement payment from him.
- The issue at hand is whether the entire settlement amount received by the Taxpayer constitutes compensation money for the value of the property based on a claim for the infringement of her reserved portion. In August 2022, the tax authorities in this case (the "Tax Authorities") initiated a tax audit regarding the inheritance tax for this case. However, by that time, the five-year period during which an increase in the inheritance tax could be assessed had already expired.
- Despite this, the Tax Authorities accepted the brother's claim that the entire settlement amount was paid to the Taxpayer as compensation money for the value of the property based on a claim for the infringement of her reserved portion. As a result, they reduced the brother's inheritance tax. In such cases, it is permitted to increase the corresponding inheritance tax for the Taxpayer, even if the five-year period has elapsed.



Ultimately, whether this adjustment was valid depends on whether the entire settlement amount received by the Taxpayer constitutes compensation money for the value of the property based on that claim.

2. Assessment issued by the Tax Authorities

- In general, inheritance tax is allocated among heirs in proportion to the share of the estate each heir inherits. If the brother paid the sister compensation money for the value of the property based on that claim, the brother's inheritance tax would decrease, but the sister's inheritance tax should increase by the corresponding amount.
- The Tax Authorities were aware that the court settlement between the brother and sister only established the obligation to pay the settlement amount. However, if the brother claimed that the entire settlement amount was paid as compensation money for the value of the property, the sister should likewise recognize it as such. Therefore, the Tax Authorities both reduced the brother's inheritance tax and increased the sister's inheritance tax by the corresponding amount.
- The Taxpayer recognized that part of the settlement amount was received as compensation money for the value of the property based on that claim. Therefore, the Taxpayer filed an amended tax return to increase her inheritance tax for that portion. However, the Taxpayer originally believed that the notarized will was invalid. Thus, the Taxpayer could not accept the assumption that the entire settlement amount constituted compensation money for the value of the property based on that claim. The Taxpayer filed a tax appeal.



3. Decision made by the National Tax Tribunal

- The settlement record for the court settlement stated that there was an obligation to pay the settlement amount. However, there was no mention indicating that this settlement amount constituted compensation money for the value of the property based on that claim. The Taxpayer had asserted that claim as a secondary claim. However, as the primary claim, the Taxpayer argued that the notarized will was invalid and that the Taxpayer inherited their father's estate according to the statutory inheritance share.
- The Taxpayer's attorney understood that the settlement amount ultimately proposed by the court was calculated as an amount exceeding the compensation money, taking into account the taxpayer's claim for damages. On the other hand, the brother's attorney understood that the Taxpayer's claim for damages was not considered, but that the settlement amount included an amount equivalent to delayed interest related to the compensation money. From the understanding of both attorneys, it was clear that the settlement amount included compensation money based on that claim. However, since the attorneys' understandings differed, it was unclear which portion of the settlement amount the judge considered to be compensation money based on that claim.
- Therefore, at the very least, it could not be said that the entire settlement amount constituted compensation money based on that claim. As such, the premise for increasing the inheritance tax had collapsed. Thus, the assessment to increase the inheritance tax was entirely revoked.

4. Tips for resolving differences of opinion

- When reaching a settlement, it may often be the case, as in this matter, that the payment is simply referred to as a "settlement amount" without explicitly specifying the purpose of the payment. However, the tax treatment may vary depending on the purpose of the payment. Leaving the purpose ambiguous could result in unforeseen tax risks.
- After the settlement, the other party might unilaterally determine the purpose of the payment, and the tax authorities might even side with the other party's interpretation. To avoid disputes related to taxes, it is prudent to clearly specify the purpose of the payment at the time of settlement.

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.



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

Guide to tax reform proposal service

Deloitte Tohmatsu aims 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, aiming 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.

ted are as follows.

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.

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	Tax reform proposal	Earnings stripping rules		
	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		

Introduction to YouTube lectures and publications

Deloitte Tohmatsu distributes and publishes insights to help taxpayers defend themselves against tax assessments.

The YouTube lectures "What to do if there's a dispute over tax?" are released monthly in 10-minute episodes in Japanese. We also publish English newsletters, once a month based on the YouTube lectures.



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