



Building a better working world

Recognizing and mitigating the risk of cross-border donation taxation

Ernst & Young Tax Co.

Taxation on donations brings about double-taxation, and is a high-cost tax which can cause effective tax rates to increase even on a consolidated basis (and it is difficult to eliminate such double taxation through mutual agreement procedures), although EY has won numerous such victories during the audits it has handled in the past.

✓ **Consistency with transfer pricing rules and policies**

Insufficient clarification of "price adjustment for the purpose of transfer pricing" leads to the risk of costly taxation of donations.

✓ **Consistency with the content of agreements**

Insufficient clarification of the "relationship between the agreement and actual transactions" leads to the risk of costly taxation of donations.

✓ **Establishment of rules for the processing of expenses**

Processing structures not matching the laws and circulars are thought to be responsible for a sizable ratio of the cases in which "large amounts of costs related to the same type of items are denied during every audit."

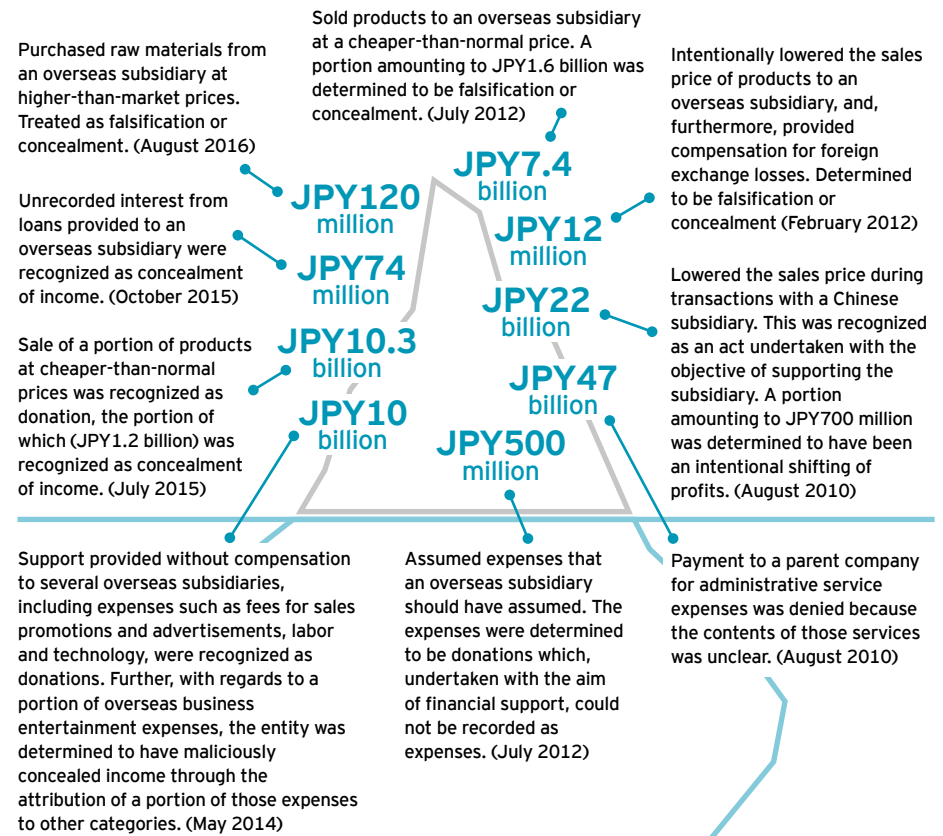
✓ **Creation and storage of evidence**

With regards to factual findings relating to donations, the retention of objective documents (evidence) showing that activities from several years prior did not constitute "a provision of benefits" becomes extremely important during tax audits.

✓ **Tenacious clarification performed during tax audits**

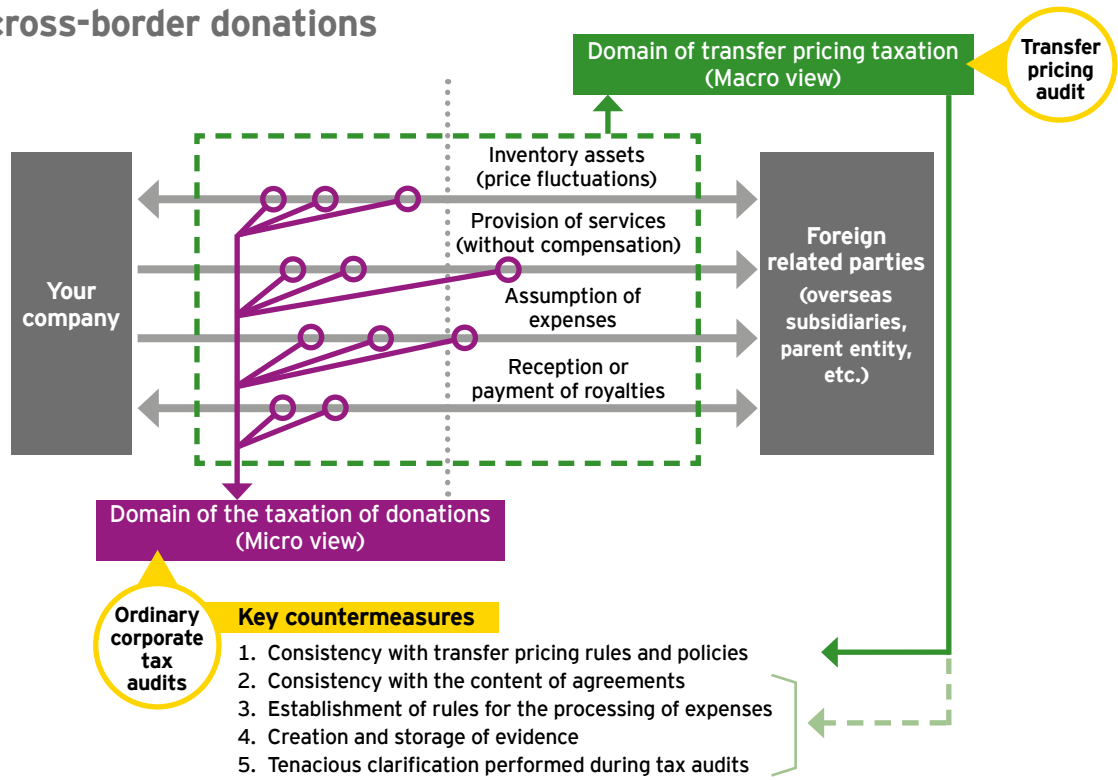
In EY's experience, because cross-border donations and transfer pricing regulations have an extremely close relationship, preparing for and responding to tax audits in consideration of the relationship to transfer pricing policy is an important key factor.

Examples of donation-taxation reported in the news media (the tip of the iceberg)

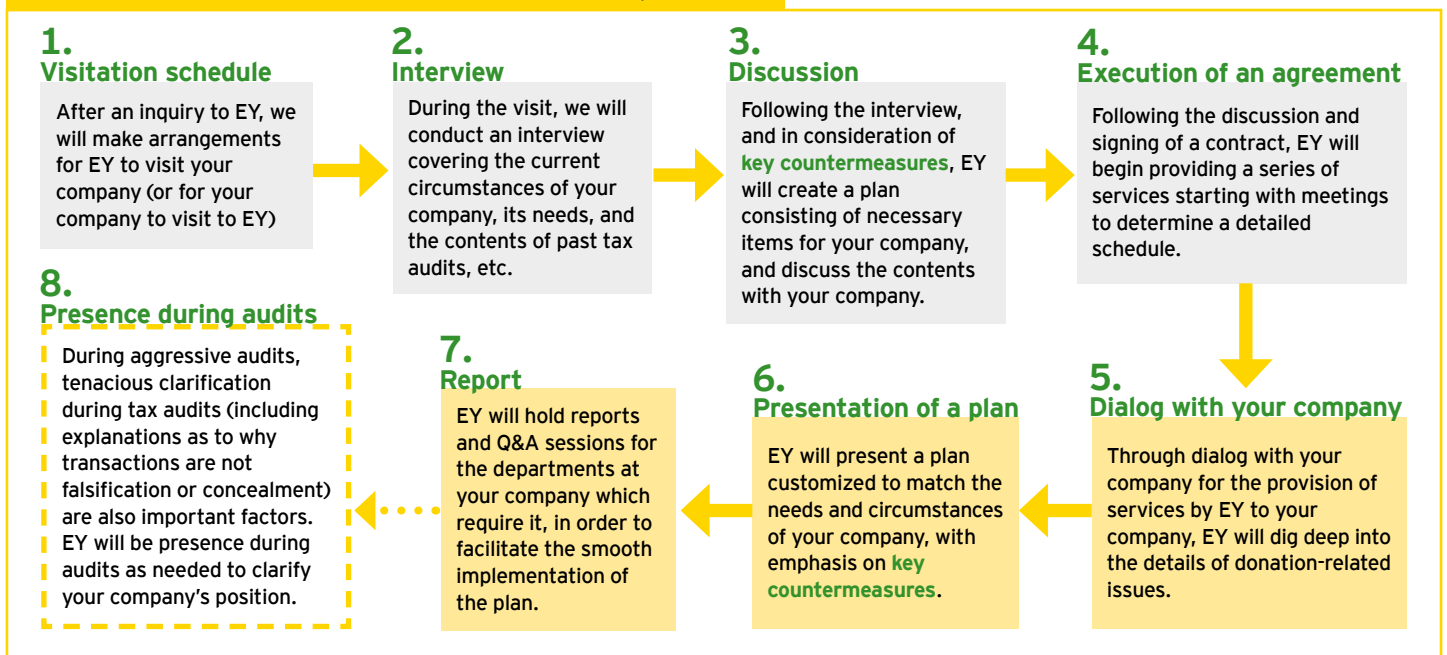


(USD1=JPY112, as of 28 September 2017)

Domain of cross-border donations



EY's cross-border donation services process



EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities. EY refers to the global organization and/or one or more of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

About EY's Tax services

EY's tax professionals in Japan provide you with deep technical knowledge, both global and local, combined with practical, commercial and industry experience. Our highly regarded tax professionals operate in four major cities in Japan. Our talented people, consistent methodologies and unwavering commitment to quality service help you to build the strong compliance and reporting foundations and sustainable tax strategies that help your business succeed.

© 2017 Ernst & Young Tax Co. All Rights Reserved.

Japan Tax SCORE 20171012. ED None.

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

www.eytax.jp

Contact

Comments or inquiries regarding this service may be directed to Brand, Marketing and Communications. tax.knowledge@jp.ey.com