

**EU-JAPAN BUSINESS DIALOGUE ROUND TABLE
WORKING PARTY 2: ACCOUNTING AND TAX ISSUES**

1. ACCOUNTING ISSUES

[Adoption of the International Accounting Standards]

1.1 Tokyo Recommendation

Accounting standards agreed world-wide are indispensable, but it is essential that they also reflect the actual management situation based on the variety of social and economic experience of the countries to which they apply. One way of achieving this would be to adopt world-wide core standards with local applications drawn from an agreed range. IOSCO has approved International Accounting Standards that have been established at International Accounting Standards Committee. Accordingly, IAS should be accepted soon for cross-border listings in capital markets.

We warmly welcome the work of the IASC in this context, and we believe that it would be strengthened by the inclusion of representatives from Japan and the EU at senior level in the Committee alongside those from the US, allowing them together to support the IASC's activities.

1.2 Assessment

[To Government of Japan]

The report says that Japan is studying the application of IAS. We regret that no timetable is given for this period of study nor is mention made of the publication of a report on the conclusion of the study. We reiterate our recommendation that the Government of Japan should take an early opportunity to commit itself to IAS and to establish a timetable for the adoption of IAS by listed companies in Japan.

[To European Commission]

We welcome the recent initiative taken by the European Commission through the proposal for a Regulation on the application of international accounting standards¹.

1.3 Recommendation

[To GoJ and EC]

The Government of Japan and the European Commission are further expected to promote to adopt IAS to their own standards.

Implementation of market valuation accounting in full scale without taking into

¹ COM(2001) 80 final of 13 February 2001.

account each country's situation should be carefully discussed at the new IASB and necessary changes should be undertaken.

More adequate IAS should be established after open discussion where opinions are actively exchanged partly among Trustees, Board Members, Council Members of IASB and business people from Japan and EU at the EJBDRT.

2. TAX ISSUES

2.1 CONSOLIDATED TAX

2.1.1 Tokyo Recommendation

We call on the Government of Japan to introduce a consolidated tax system at a very early date. We call on the European Commission to make further efforts in the direction of fiscal harmonization.

2.1.2 Assessment

[To GoJ]

In its report in February, the GoJ identified some of the problems to be overcome before consolidated taxation can be introduced and commented that "substantial study" was going on within the Government. The report's conclusion on this subject is that "a considerably long time is needed to hold in-depth discussions", and it would be helpful to be given a detailed progress report of this important work being undertaken by the GoJ.

[To EC]

A comprehensive study of company taxation in the European Community, as one step to attain fiscal approximation in the future, is being undertaken and is expected to be published no later than September. We should appreciate a presentation on the likely results of the study.

2.1.3 Recommendation

[To GoJ]

Details of the system to be introduced in Japan are expected to be discussed by the government and business world intensively from summer to autumn. The government should begin study of the system now in cooperation with the business world and take sure actions to introduce an appropriate Japanese consolidated tax system fully in April 2002.

[To EC]

We keenly look forward to reading the comprehensive study of company taxation in

the European Community mentioned above. Fiscal approximation in the European Community should be promoted, and the timing of the necessary steps towards implementation should be made clear.

2.2 TRANSFER PRICING

2.2.1 Tokyo Recommendation

It seems to us that the current transfer pricing taxation rule has been devised mainly with the tax authority in mind. It does not help a company wishing to use one method for setting transaction prices in all the tax regimes in which it operates. Furthermore, the current rule often forms the background to international disputes on unilateral taxation.

As any transfer pricing taxation system is of considerable significance to a company, it is particularly important that the tax authority adopts a procedure that maximizes foreseeability and legal safety from the company's perspective. We support the introduction of standard rules based on the fundamentals of transfer pricing practice common to international transactions.

We conclude that the wider introduction of an effective APA system should be encouraged. This system has been introduced in Japan, the US and Canada, and then last year in the UK and France. However, the substance of the system and the way of approving price-setting mechanisms vary from country to country, and this requires the expenditure of more time and money for advanced approvals

We therefore propose that the EU and Japan agree uniform rules between themselves first with a view to promoting a world-wide model in the future. In standardizing the Advanced Pricing Agreement system, it will be important to determine a method of calculating transfer pricing based on information available to a taxpayer and to make clear that APA has priority over tax audit.

2.2.2 Assessment

[To GoJ]

The GoJ's report records progress in studying the issues raised and notes the responsibility and participation of the OECD in this connection. The GoJ stresses the point that it wishes to devise common rules through consultations bilaterally and with the OECD. The report also mentions that notices on the interpretation of the laws and regulations relating to transfer pricing were revised in September 2000.

We welcome the initiatives in this area and we should like to have details of the regulatory revisions made. We would also welcome identification of the particular problems confronting the GoJ or anticipated by it in the hope that this might help to solve them and thus to accelerate progress towards the introduction of international standard rules.

[To EC]

We appreciate the fact that, in the context of the comprehensive study of company taxation in the EU, general transfer pricing issues within the EU, and notably the functioning of the Arbitration Convention, have been closely examined, that tax obstacles to cross-border economic activity in the EU have been highlighted, and that company taxation including policy issues involved in the EU has been studied. We keenly look forward to the conclusion of this study and to full publication of its findings.

2.2.3 Recommendation

[To GoJ and EC]

OECD should establish guidelines for APA to enable easy calculations with objective information such as the CPM method, so that it could help countries to implement it uniformly.

The Government of Japan and European Commission should be engaged in the above-mentioned activities at OECD and should take positive actions to promote an APA agreement between Japan and the EU.

2.3 ELECTRONIC COMMERCE TAXATION

2.3.1 Tokyo Recommendation

We are strongly of the view that taxation rules for e-commerce should arise out of an international consensus at OECD as to the best means of protecting the growth of e-commerce and in particular ensuring maintenance of the principles of neutrality, simplicity, fairness, effectiveness, international harmonization, and consistency.

2.3.2 Assessment

[To GoJ]

The report notes that the GoJ has been actively participating in OECD discussions and is studying international trends. This is fully consistent with our recommendations.

[To EC]

We welcome the fact that internationally fair and feasible frameworks have been studied at OECD. It is also warmly appreciated that the European Commission has been engaged in establishing uniform rules in the EU based on the agreement at OECD.

2.3.3 Recommendation

[To GoJ and EC]

Discussion at OECD should be further advanced and fair taxation introduced internationally, including in Japan, the EU and the US.