

The following explains the adjustment method using the "tax included" or "tax excluded" accounting method.

The income tax adjustment method after calculating the amount of consumption and local consumption taxes (herein, "consumption tax, etc.") payable or refundable varies depending on the accounting method.

## If applying the "tax included accounting method"

As a rule, the amount of consumption tax, etc. payable or refundable is added to necessary expenses or total revenue after calculating the income derived from business, real estate, timber, etc. (herein, "income from business") is the accounting year under which the date of filing the consumption and local consumption tax return forms.

In the event an amount of consumption tax, etc. payable or refundable is treated as an entry in accounts payable or receivable, Sole proprietors now have the option to include that amount in business expenses or total revenue after calculating the income from business generated in the accounting year relating to that account payable or receivable.

## If applying the "tax excluded accounting method"

If applying the "tax excluded accounting method", the amount representing the difference between the consumption tax, etc. determined using the simplified tax system and the amount resulting from subtracting the temporary consumption tax payable from the temporary consumption tax receivable at the end of the taxable period should be added to the total revenue or the necessary expenses in the amount of business income, etc. for that taxable period.

Please contact any Tax office access the National Tax Agency website (<https://www.nta.go.jp>) for inquires pertaining to income tax adjustments by Sole proprietors who operate a business that generates 2 or more types of income.

### What a "tax included" and "tax excluded" accounting methods?

The tax included accounting method treats the value of a transaction relating to consumption tax, etc. as including the amount of consumption tax, etc. The method treats the amount of tax consumption tax, etc. relating to the taxable sales, taxable purchases, etc. including it in the sales amount or purchases amount.

The tax excluded accounting method treats the value of a transaction relating to consumption tax, etc. by first separating it from the amount of consumption tax, etc. The method treats the amount of consumption tax, etc. by establishing an account of temporary receipts of consumption tax, etc. or of temporary payments of consumption tax, etc., excluding it from the sales amount or purchase amount.

Basic knowledge

Preparation

Procedures

Completing your return

Calculation

Local consumption tax calculation

Enter the value in the return form (Page 1 and Page 2)

Other items

Filing and paying

Income tax adjustment

Rough draft return form