

**The EU-Japan Business Dialogue Round Table**

**Working Party 2**

On:

**“ACCOUNTING &  
TAX ISSUES”**

(Full text of Recommendations)

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<b>EU-JAPAN BUSINESS DIALOGUE ROUND TABLE WORKING PARTY 2: ACCOUNTING AND TAX ISSUES</b>
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[Recommendations to GOJ and EC EJJ]

## 2-EJ-1 ADOPTION OF INTERNATIONAL ACCOUNTING STANDARDS

### [Joint Recommendation]

*<Gist of Recommendations>*

(1) Involvement in the formation of IAS

- We hope that the GOJ and the EC will closely observe the progress of IASB projects, encourage extensive discussion among all stakeholders, seek to integrate their opinions, and be involved actively in the formation of IFRS through activities of IOSCO and the Standard Advisory Commission (SAC) with the IASB.
- Furthermore, to address our particular concerns about performance reporting, we ask the GOJ and the EC to convey our opinions on this subject to the professional bodies advising them, and to the IASB.

*Explanation*

We have concerns that discussions within IASB have not progressed in accordance with opinions of the majority of stakeholders, including investors and managers. Especially within the performance reporting project, IASB might select comprehensive income, which reflects all profits/losses incurred by revaluation of assets/liabilities, rather than net income as the main performance indicator. Many people do not support the use of comprehensive income as an effective performance indicator in this context since they believe it might distort managerial attitudes and encourage investors to be shortsighted. There is a considerable weight of opinion supporting the view that comprehensive income should be presented on a form separate from other income statements. We take the view that deliberate and full discussion of this point should be encouraged.

*Relationship with previous progress report*

We appreciate the close observation of IASB by both the GOJ and the EC but, concerning the formation of IAS as described above, we expect further effort to reflect the opinions of stakeholders in the formation of IFRS.

## 2-EJ-2 TRANSFER PRICING

### [Joint Recommendation]

*Gist of Recommendation*

- (1) Implementation of rules consistent with OECD's Transfer Pricing Guidelines
- (2) Support for discussion in OECD on the standardization of Advance Pricing Agreements (APA).

*Explanation*

We request further development of international common rules to prevent double taxation and to decrease compliance costs.

*Relationship with previous progress report*

We appreciate progress towards the implementation of rules consistent with OECD's Transfer Pricing Guidelines, and will keep this matter under review.

## [Recommendations to EC E]

### 2-E-1 ADOPTION OF INTERNATIONAL ACCOUNTING STANDARDS

#### [Joint Recommendation]

##### <Gist of Recommendations>

- (1) Progress in implementing IAS
  - We are pleased that the EU continues to make steady progress towards implementation of IAS in 2005 for listed companies.

##### *Explanation*

We welcome progress towards the implementation of IAS in the light of standardization of international rules.

##### *Relationship with previous progress report*

We appreciate work towards the implementation of IAS and note further progress.

### 2-E-2 CONSOLIDATED TAX

#### [Joint Recommendation]

##### *Gist of Recommendation*

- (1) Single consolidated corporate taxation in the EU's internal market
  - We hope that the EC will bring forward further initiatives this year and that the Communication expected in October 2003 will be issued then.

##### *Explanation*

We seek further efforts to remove obstacles to completion of the EU's internal market in the area of indirect taxation.

We look forward to the European Commission's Communication later this year on the creation of a consolidated tax base. We welcome the Commission's idea of a pilot project on Home State Taxation and look forward to further elaboration of the project.

##### *Relationship with previous progress report*

We appreciate that work towards the development of single consolidated corporate taxation in the EU's internal market is being undertaken.

### 2-E-3 ELECTRONIC COMMERCE TAXATION

#### [Joint Recommendation]

##### *Gist of Recommendation*

- (1) Support transposition by the Member States of Directive 2002/38/EC by 1 July 2003.

##### *Explanation*

We recognize the international applicability of the OECD's principle that taxation should occur in the jurisdiction in which consumption takes place.

##### *Relationship with previous progress report*

We note transposition of Directive 2002/38/EC consistent with OECD's principle.

## **[Recommendations to GOJ J]**

### **2-J-1 ADOPTION OF INTERNATIONAL ACCOUNTING STANDARDS**

#### **[Joint Recommendation]**

##### *<Gist of Recommendations>*

- (1) Progress in implementing IAS
  - We recommend that the GOJ commits itself soon to IAS and establishes a timetable for adoption of these standards by listed companies in Japan

##### *Explanation*

We welcome progress towards the implementation of IAS in the light of standardization of international rules.

##### *Relationship with previous progress report*

We appreciate work towards the implementation of IAS and note further progress.

### **2-J-2 CONSOLIDATED TAX**

#### **[Joint Recommendation]**

##### *Gist of Recommendation*

- (1) Improvement of the consolidated tax system
  - We hope that the GOJ will reform the system, abolishing the 2% surtax and allowing the carrying forward of tax losses in subsidiaries incurred before the system came into effect.

##### *Explanation*

In accordance with the principle of tax neutrality, discriminatory treatments of consolidated taxation should be abolished.

##### *Relationship with previous progress report*

It is regrettable that the GOJ has not committed itself to reform the system and we repeat our request that it should do so.

### **2-J-3 ELECTRONIC COMMERCE TAXATION**

#### **[Joint Recommendation]**

##### *Gist of Recommendation*

- (1) Invite the GOJ to intensify its study of OECD's principles on e-commerce taxation.

##### *Explanation*

We recognize the international applicability of the OECD's principle that taxation should occur in the jurisdiction in which consumption takes place.

##### *Relationship with previous progress report*

We note progress in the study of taxation issues from specialized and technological viewpoints.