

Director Rent Deductions

*A Guide to Using Director Rent
Deductions for Tax Purposes*

September 2006



Introduction

Having the ability as a business owner to deduct rent from your salary is an important benefit. However, this deduction applies only in certain circumstances. This report is designed as a basic overview to assist you as the company owner or director in minimizing your taxation using this important strategy.

While we certainly wish to share with you this valuable information, it is by no means a substitute for qualified professional guidance. Any questions regarding rent deduction policies should be directed to a licensed accountant or tax advisor. Using this deduction improperly, or failing to keep thorough and complete records of its application, could lead to infractions of tax law.

It is also important to note that this tax deduction, when it applies, can only be used to deduct rent for the portion of your home that is actually used as a home office. Again, we urge you to read and understand the tax laws and regulations as they apply to this deduction and to work with your accountant or professional tax advisor should you wish to take advantage of this important benefit.

Overview

Tax deductions when applied properly work to reduce your taxable income by reflecting expenses that you pay into your business. The Company may deduct some rent from the Director's salary if the property is either owned or rented by the Company. However, the rules regarding this benefit have been amended from time to time. There are almost no effective changes. The only change that may need to be addressed is the size of the property.

If the property has a total floor dimension of more than 240 square metres, it is generally not accepted for rent deduction from the tax office's point of view. Therefore, the company cannot deduct the prescribed amount but must use the actual value. **(for prescribed amount, see below case-A)**

A tax advisor can help you determine if your property is acceptable as and qualifies for this deduction.

Rent Deduction or House Allowance

Use the following formulas and examples to determine what, if anything, the Company can contribute or deduct as housing/rent expenses. While it does not matter if the Company is run by family, it is important to understand that the identity of the property owner could affect your ability to use the deduction.

If the property is owned/rented by the Company, let to Director (**referred to as case A**)...

→ The Company can deduct the rent from Director.

If the property is owned/rented by Director (**referred to as case B**)...

→ The Company can pay a housing allowance.

(A)

This formula calculates the monthly rent that may be deducted by the Director:

$$\left(\begin{array}{l} \text{Standard taxable value} \\ \text{(property tax) for the} \\ \text{house for the year} \end{array} \times 12\%^* + \begin{array}{l} \text{Standard taxable value} \\ \text{(property tax) for the} \\ \text{land for the year} \end{array} \times 6\% \right) \div 12$$

* if the period of depreciation is longer than thirty years, 10% instead of 12%.

*** If the property is not owned, but rented, by the Company, the Director must pay (or have deducted from his salary) the higher amount of either **fifty percent of the actual rent or the amount calculated by above (A) calculating formula.**

(B)

If the property is not provided by the Company, the allowance will simply be calculated as **'the additional income'** and will be taxed.

*There is no calculation method for this case and it seems that there is no limit as to how much the Company will pay. The entire amount will be taxed.

When the Company Uses the Director's Private House Space Regularly

There are also great differences between Company owned/rented property and Director's privately owned/rented property in regards to taxation and deductions.

If the property is owned/rented by the *Company* and the Company uses the Director's private house regularly (**referred to as case C**)...

→ The Company can deduct rent* from the Director.

***The rent the Company deducts could be **70% of the amount calculated as case A**, if the company uses 30% of the property in total and the Director can provide a record or proof of the business usage of his house. *(If the frequency of usage is too little etc., and it seems unfair for the Company to pay an additional 30% from a tax officer's point of view, the amount needs to be adjusted).*

If the property is owned/rented by the *Director* and the Company uses the Director's private house regularly (**referred to as case D**)

→ The Company can pay for the space they are using, by paying a part of rent as a house allowance to the Director. It will be calculated as 'additional income' and will be taxed.***

***Conclude a lease agreement between the Director and the Company. The Company will pay a regular amount to the Director as "rent". It will be calculated as "real estate income" and will be taxed.

In the case of either **C** or **D**, the tax office is suggested to provide the following information and the amount needed to be decided based on...

- Frequency of usage
- Floor space measurement - both whole house and the room(s) the Company uses
- Rent

A merit of **D** is that it is possible for a Director to qualify for \$100,000 in deductions by filing a 'Blue Form'. (see Tax answer web <http://www.taxanser.nta.go.jp/2072.html>)

Note: If the amount seems to be unreasonable or suspicious, a tax officer may open an audit or investigation process requiring your Company to provide all supporting documentation to prove that the deduction was used properly. Contact our office or a professional tax advisor before applying this deduction to ensure that your use of this important tax strategy is within the rules and that all supporting documentation is in place.

Information Sources

Mr Ookoshi of Shibuya Tax Office

Address: Shibuya-Chihou-Godochousha, 1-10 Udagawacho, Shibuya-ku, Tokyo

Tel: 03-3464-7121

Telephone

Kyokushitsu Tax Advice Counter

Address: 1-3-3 Ootemachi, Chiyoda-ku, Tokyo

Tel: 03-3821-9080

Shiba Tax Advice Counter

Address: 5-8-1 Shiba, Minato-ku, Tokyo

Tel: 03-3454-8995

Shibuya Tax Advice Counter

Address: Shibuya-Chihou-Godochousha, 1-10 Udagawacho, Shibuya-ku, Tokyo

Tel: 03-3464-7121

Toshima Tax Advice Counter

Address: 3-33-22 Nishi-Ikebukuro, Toshima-ku, Tokyo

Tel: 03-3988-4878

Written Material

Gensenchoshu no Aramashi (Outline of Withholding Tax)

Kokuzei-cho (National Tax Agency) June 2006

Web

Corporation Tax Law

(http://www.nta.go.jp/category/tutatu/kihon/houjin/09/09_02_03.htm)

House allowance for Director] (<http://www.bird-net.co.jp/rp/BR000724.html>)

House Allowance for Using Director's Private House Space

(http://www.otasuke.ne.jp/modules/newbb/viewtopic.php?viewmode=flat&topic_id=1480&forum=1)

Income Tax Law (<http://www.nta.go.jp/category/tutatu/kihon/syotok/01.htm>)

Income Tax Law Basic Notice

(<http://www.nta.go.jp/category/tutatu/kobetu/syotoku/gensen/803/01.htm>)

National Tax Office, Tax Answer (<http://www.taxanser.nta.go.jp/>)

Rent. Receive from the Director and his Income Tax

(<http://bizplus.nikkei.co.jp/genre/zaimu/rensai/point.cfm?i=20051215int08z1>)