



May 25, 2023

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**Notice Regarding Ruling on Lawsuit Filed by the Company for Revocation of Consumption Tax
Reassessment Penalty, etc.**

KATITAS Co., Ltd. (the “Company”) has filed a lawsuit against the Kantoshinetsu Regional Taxation Bureau (the “Regional Taxation Bureau”) seeking the revocation of a Written Notice of Reassessment of Consumption Tax and Local Consumption Tax and a Written Notice of Assessment and Determination Regarding Additional Tax (the “Reassessment Penalty, etc.”) the Company received from the Regional Taxation Bureau on April 28, 2020 (the “Lawsuit”). The Company hereby provides notice that today the Tokyo District Court rendered a judgment dismissing the Company’s claim for revocation of the Reassessment Penalty, etc.

1. Details of the Reassessment Penalty, etc. and circumstances leading to the judgment

(1) Details of the Reassessment Penalty, etc.

The Company concluded sales agreements with buyers that covered the land and buildings together. The Company calculated the amount of consumption tax applicable to the buildings by multiplying the total amount of the sale payment by a past-data-based ratio calculated by multiplying the consumption tax rate by the average value of the proportion of the assessed value of fixed assets tax for the building within the total amount of the assessed value of fixed assets tax for the land and buildings of properties traded in the past (the “Company’s Proportional Division Method”).

The Regional Taxation Bureau claimed that in the Company’s Proportional Division Method, the separation of the amount of consideration for transfer of the taxable asset and the amount of consideration for transfer of the non-taxable asset corresponds to a “case where the value is not rationally separated” under Article 45, paragraph 3 of the Order for Enforcement of the Consumption Tax Act, and imposed the Reassessment Penalty, etc.

(For details, please refer to the “Notice Regarding Reassessment Receipt of Written Notice from the Kantoshinetsu Regional Taxation Bureau and Revision of Earnings Forecasts,” released on April 28, 2020.)

(2) Circumstances

April 28, 2020	The Company received a notice of Reassessment Penalty, etc., from the Regional Taxation Bureau, requiring additional consumption tax payment, etc., for the four-year period from the fiscal year ended March 31, 2016, to that ended March 2019.
July 9, 2020	The Company filed a request for administrative review to the National Tax Tribunal for the revocation of the Reassessment Penalty, etc.
March 29, 2021	The Company filed a lawsuit seeking revocation of the Reassessment Penalty, etc., with the Tokyo District Court.
July 11, 2022	The Company received a notice requiring additional consumption tax payments, etc., for the two-year period from the fiscal year ended March 31, 2020, to the fiscal year ended March 31, 2021 (the “Reassessment Penalty, etc., in Subsequent Fiscal Years”) from Regional Taxation Bureau.
October 5, 2022	The Company filed a request for administrative review to the National Tax Tribunal for the revocation of the Reassessment Penalty, etc., in Subsequent Fiscal Years.
May 25, 2023	Tokyo District Court rendered the judgment on the Reassessment Penalty, etc.

2. Details of the judgment

The Company’s claim for revocation of the Reassessment Penalty, etc., is dismissed in favor of the Government (Regional Taxation Bureau).

3. Response to the ruling

With regard to the Lawsuit filed by the Company, it will scrutinize the first court’s decision and consider future actions, and will promptly make an announcement as soon as a decision is made.

4. Impact on the Group’s earnings

As stated in the “Notice Concerning Receipt of Written Notice of Reassessment Order from Nagoya-Naka Tax Office Directed at Subsidiary and Revisions to Earnings Forecasts” released on April 27, 2023 (partial corrections released on May 9, 2023), as the Company is continuing its existing accounting treatment even after receiving the Reassessment Penalty, etc., a discrepancy with the calculation method advocated by the Regional Taxation Bureau has arisen for the fiscal year ended March 31, 2022, and the fiscal year ended March 31, 2023. Moreover, for the Company’s subsidiary REPRICE Co., Ltd. (“REPRICE”), as the fiscal year ended March 31, 2023, was outside the target period of the tax examination, a discrepancy with the calculation method advocated by the Regional Taxation Bureau has arisen for the fiscal year ended March 31, 2023.

Because of the above, the KATITAS Group records the difference arising from the discrepancies between the calculation method advocated by the Regional Taxation Bureau and the accounting treatment of the Company and REPRICE as extraordinary losses for the fiscal year ended March 31, 2023.

The amount of the effect is as follows.

[Impact on the consolidated earnings for the fiscal year ended March 31, 2023]

	(Millions of yen)
Impact on net sales	-
Impact on operating profit	-
Impact on ordinary profit	-
Differences in consumption taxes, etc. (extraordinary losses)	3,445
Income taxes - current	(700)
Income taxes - refund	(368)
Income taxes - deferred	72
Decrease in profit attributable to owners of parent	2,447

It will also affect the consolidated earnings forecast for the fiscal year ending March 31, 2024, which was announced on May 9, 2023.

The amount of the effect is as follows.

[Impact on the consolidated earnings forecast for the fiscal year ending March 31, 2024]

	(Millions of yen)
Impact on net sales	-
Differences in consumption taxes, etc. (Selling, general and administrative expenses)	2,250
Decrease in operating profit	2,250
Decrease in ordinary profit	2,250
Income taxes - current	(700)
Decrease in profit attributable to owners of parent	1,550

For the official revision of the consolidated earnings for the fiscal year ended March 31, 2023, and the consolidated earnings forecast for the fiscal year ending March 31, 2024, the Company will revise and announce the result promptly after a close examination of the court decision.

5. Historical consolidated financial statements

The impact on the Company's earnings was attributed to handling the difference in views on the accounting and tax treatment between the Company and the Regional Taxation Bureau.

The amounts in the consolidated financial statements, assuming that the discrepancy between the calculation method applied by the Group and the calculation method advocated by the Regional Taxation Bureau had been accounted for as selling, general and administrative expenses by the Group from the beginning in the last five years, are as follows.

[The amounts in the consolidated financial statements, assuming that the Group had applied the accounting and tax treatment claimed by the Regional Taxation Bureau from the beginning]

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent	Basic earnings per share
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	yen
Fiscal year ended March 31, 2023	121,341	12,016	11,786	7,985	103.11
Fiscal year ended March 31, 2022	101,269	11,632	11,201	7,323	94.91
Fiscal year ended March 31, 2021	97,735	9,850	9,633	6,229	81.09
Fiscal year ended March 31, 2020	89,978	9,033	8,807	5,725	74.98
Fiscal year ended March 31, 2019	81,356	8,538	8,174	5,448	72.46

*The said amounts are reference figures estimated by the Group and are not subject to audit by the auditors.

*The said amounts are calculated based on the assumption that the discrepancy between the calculation method applied by the Group and the calculation method advocated by the Regional Taxation Bureau had been recorded as selling, general and administrative expenses. In addition, the calculation is based on the assumption that the additional tax for underpayment and delinquent tax related to the Reassessment Penalty, etc., was recorded as an extraordinary loss for the subject fiscal year.

*The said amounts are assumed amounts, and “Accounting Standard for Accounting Changes and Error Corrections” and “Guidance on Accounting Standard for Accounting Changes and Error Corrections” (accounting standard for retrospective adjustments in previous fiscal years) have not been applied.

Looking at the business environment surrounding the Group, the main purchase target is vacant houses, of which there are approximately 8.5 million throughout Japan. The number of vacant houses is increasing every year, making the enormous number of properties the target of purchase. The buyers of pre-owned homes that the Group renovates are in the annual income bracket of 2 to 5 million yen, the largest income bracket among Japanese households, and the demand for these properties is robust. As such, the business environment surrounding the Group has stayed the same, and the Company believes that its growth strategy of achieving stable growth in the vast market with significant social challenges will not be affected at all.

(Reference information) Timely disclosure in the past related to the Reassessment Penalty, etc.

April 28, 2020	Notice Regarding Reassessment Receipt of Written Notice from the Kantoshinetsu Regional Taxation Bureau and Revision of Earnings Forecasts
March 23, 2021	Update Regarding Measures in Response to Reassessment Receipt of Written Notice from the Kantoshinetsu Regional Taxation Bureau (April 28, 2020)
April 28, 2022	Recording of Extraordinary Losses in Regard to a Tax Audit by Kantoshinetsu Regional Taxation Bureau
July 11, 2022	Notice Regarding Reassessment Receipt of Written Notice from the Kantoshinetsu Regional Taxation Bureau
April 27, 2023	Notice Concerning Receipt of Written Notice of Reassessment Order from Nagoya-Naka Tax Office Directed at Subsidiary and Revisions to Earnings Forecasts