17. Income Taxes

(1) Deferred Income Taxes

Amounts of deferred tax assets and deferred tax liabilities at each consolidated fiscal year end are as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	March 31, 2024	March 31, 2025	March 31, 2025
Deferred tax assets	¥ 40,863	¥ 51,020	$ 340,133
Deferred tax liabilities	1,013	10,817	72,115
Net	¥ 39,850	¥ 40,203	$ 268,017

Details and movements of deferred tax assets and deferred tax liabilities by major sources are as follows:

For the year ended March 31, 2024

	Millions of Yen			
	Balance at March 31, 2023	Recognized in profit or loss	Recognized in other comprehensive income	Balance at March 31, 2024
Deferred tax assets				
Accrued bonuses	¥ 1,832	¥ 179	¥ —	¥ 2,010
Accrued enterprise tax	2,168	(639)	—	1,529
Expenses for research and development commissions and others	36,930	2,553	—	39,483
Investment securities	41	0	(7)	35
Property, plant, and equipment	2,271	(156)	—	2,115
Intangible assets	707	4,373	—	5,079
Retirement benefit liabilities	2,992	(8)	(10)	2,973
Other accounts payable	6,359	(2,290)	—	4,068
Lease liabilities	2,259	(114)	—	2,145
Others	9,677	266	177	10,120
Total	¥ 65,235	¥ 4,163	¥ 160	¥ 69,557
Deferred tax liabilities				
Property, plant, and equipment	¥ (4,171)	¥ (95)	¥ —	¥ (4,266)
Intangible assets	(739)	735	—	(4)
Investment securities	(23,498)	14	98	(23,386)
Right-of-use assets	(2,204)	153	—	(2,052)
Others	(1)	1	—	—
Total	¥ (30,613)	¥ 808	¥ 98	¥ (29,708)
Net	¥ 34,622	¥ 4,971	¥ 257	¥ 39,850

For the year ended March 31, 2025

	Millions of Yen				
	Balance at April 1, 2024	Recognized in profit or loss	Recognized in other comprehensive income	Business combinations	Balance at March 31, 2025
Deferred tax assets					
Accrued bonuses	¥ 2,010	¥ (101)	¥ —	¥ 329	¥ 2,238
Accrued enterprise tax	1,529	(1,032)	—	—	498
Expenses for research and development commissions and others	39,483	(1,162)	—	16,501	54,822
Investment securities	35	(6)	(2)	—	27
Property, plant, and equipment	2,115	65	—	—	2,181
Intangible assets	5,079	6,322	—	127	11,528
Retirement benefit liabilities	2,973	3	(119)	0	2,857
Other accounts payable	4,068	(687)	—	771	4,152
Lease liabilities	2,145	(163)	—	949	2,931
Unused tax losses and unused tax credits	—	(2,507)	—	48,601	46,093
Others	10,120	1,014	(79)	301	11,356
Total	¥ 69,557	¥1,746	¥ (200)	67,579	¥ 138,682
Deferred tax liabilities					
Property, plant, and equipment	¥(4,266)	¥ (51)	¥ —	¥ (15)	¥ (4,332)
Intangible assets	(4)	6,971	—	(76,851)	(69,883)
Investment securities	(23,386)	434	6,796	—	(16,157)
Right-of-use assets	(2,052)	533	—	(1,170)	(2,689)
Others	—	3,690	—	(9,109)	(5,419)
Total	¥(29,708)	¥ 11,577	¥ 6,796	(87,144)	¥ (98,479)
Net	¥ 39,850	¥ 13,323	¥ 6,596	¥ (19,566)	¥ 40,203

	Thousands of U.S. Dollars				
	Balance at April 1, 2024	Recognized in profit or loss	Recognized in other comprehensive income	Business Combinations	Balance at March 31, 2025
Deferred tax assets					
Accrued bonuses	$ 13,401	$ (676)	$ –	$ 2,195	$ 14,920
Accrued enterprise tax	10,196	(6,877)	–	–	3,319
Expenses for research and development commissions and others	263,218	(7,744)	–	110,005	365,479
Investment securities	231	(41)	(10)	–	179
Property, plant, and equipment	14,102	436	–	–	14,537
Intangible assets	33,863	42,144	–	844	76,851
Retirement benefit liabilities	19,822	18	(794)	2	19,048
Other accounts payable	27,122	(4,582)	–	5,141	27,681
Lease liabilities	14,298	(1,086)	–	6,327	19,539
Unused tax losses and unused tax credits	—	(16,715)	–	324,004	307,289
Others	67,464	6,762	(528)	2,006	75,705
Total	$ 463,716	$ 11,638	$ (1,332)	$ 450,524	$ 924,547
Deferred tax liabilities					
Property, plant, and equipment	$ (28,441)	$ (337)	$ –	$ (100)	$ (28,878)
Intangible assets	(24)	46,476	–	(512,342)	(465,890)
Investment securities	(155,910)	2,893	45,304	–	(107,713)
Right-of-use assets	(13,677)	3,550	–	(7,797)	(17,924)
Others	—	24,598	–	(60,724)	(36,125)
Total	$(198,053)	$ 77,181	$ 45,304	$(580,962)	$(656,530)
Net	$ 265,663	$ 88,820	$ 43,972	$(130,438)	$ 268,017

Notes: 1. The differences between deferred tax expense and the amount recognized in profit or loss in the table above are exchange differences on translation of foreign operations and others.

2. The effective statutory tax rate used to calculate deferred tax assets and deferred tax liabilities as of March 31, 2024 in Japan is 30.6%. Additionally, the effective statutory tax rates used to calculate deferred tax assets and liabilities in Japan for the current consolidated fiscal year are 30.6% for those expected to be settled by March 31, 2026, and 31.5% for those expected to be settled on or after April 1, 2026.

3. Taxable temporary differences associated with investments in subsidiaries, for which deferred tax liabilities were not recognized, amounted to ¥11,099 million and ¥17,414 million ($116,095 thousand) as of March 31, 2024 and 2025, respectively. This is because the Group is able to control the timing of the reversal of the temporary differences, and it is certain that the temporary differences will not reverse in the foreseeable future.

The amount of deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax assets is recognized in the statement of financial position is as follows. Deductible temporary differences, unused tax losses and unused tax credits are on a tax basis.

	Millions of Yen		*Thousands of U.S. Dollars*
	For the year ended March 31, 2024	For the year ended March 31, 2025	For the year ended March 31, 2025
Deductible temporary differences	¥ 18	¥ 1,226	$ 8,172
Unused tax losses *1	412	2,798	18,652
Unused tax credits *2	—	752	5,015
Total	¥ 430	¥ 4,776	$ 31,840

*Note 1: The scheduled expiration of unused tax losses for which no deferred tax assets is recognized is as follows;

	Millions of Yen		*Thousands of U.S. Dollars*
	For the year ended March 31, 2024	For the year ended March 31, 2025	For the year ended March 31, 2025
First year	¥ —	¥ —	$ —
Second year	—	—	—
Third year	—	—	—
Fourth year	—	60	401
Fifth year and beyond	412	2,738	18,251
No expiration date	—	—	—
Total	¥ 412	¥ 2,798	$ 18,652

*Note 2: The scheduled expiration of unused tax credits for which no deferred tax assets is recognized is as follows;

	Millions of Yen		Thousands of U.S. Dollars
	For the year ended March 31, 2024	For the year ended March 31, 2025	For the year ended March 31, 2025
First year	¥ —	¥ —	$ —
Second year	—	—	—
Third year	—	—	—
Fourth year	—	—	—
Fifth year and beyond	—	752	5,015
No expiration date	—	—	—
Total	¥ —	¥ 752	$ 5,015

(2) Income Tax Expense

Details of income tax expense are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	For the year ended March 31, 2024	For the year ended March 31, 2025	For the year ended March 31, 2025
Current tax expense	¥ 40,447	¥ 21,077	$ 140,515
Deferred tax expense	(4,753)	(11,915)	(79,431)
Total	¥ 35,694	¥ 9,163	$ 61,084

Notes: 1. The Group is subject to corporate tax, inhabitant tax, and enterprise tax in Japan, which in the aggregate resulted in an applicable tax rate for current tax expense of 30.6% for the years ended March 31, 2024 and 2025. Overseas subsidiaries use the income tax rates of the countries in which they are located.

2. The "Act to Partially Amend the Income Tax Act, etc." (Act No. 13 of 2025) was enacted by the National Diet on March 31, 2025, and starting from the consolidated fiscal year beginning on or after April 1, 2026, the "Defense Special Corporation Tax" will be imposed. Consequently, for deferred tax assets and liabilities related to temporary differences expected to be settled in the consolidated fiscal years beginning on or after April 1, 2026, the statutory effective tax rate has been changed from 30.6% to 31.5%. As a result of this change, the deferred tax assets (net of deferred tax liabilities) for the current consolidated fiscal year increased by ¥428 million ($2,854 thousand), corporate income tax recorded for the current consolidated fiscal year decreased by ¥903 million ($6,018 thousand), and other components of equity decreased by ¥475 million ($3,164 thousand).

3. The Group is assessing exposure to corporate income taxes arising from enacted or substantively enacted tax systems in order to implement the Pillar Two Model Rules published by the Organization for Economic Co-operation and Development (OECD). The exposure to Pillar Two income taxes is immaterial.

4. The Group reflects uncertainty in determining taxable income and related amounts when there is uncertainty about whether tax authorities will accept the tax treatment. There were no significant uncertainties regarding tax treatment in the previous or current consolidated fiscal years.

(3) Reconciliation of Applicable Tax Rates and Average Actual Tax Rates

Details of the differences between the applicable tax rates and average actual tax rates are as follows:

	For the year ended March 31, 2024	For the year ended March 31, 2025
Applicable tax rates	30.6%	30.6%
Permanent non-deductible items	0.1	0.6
Non-taxable dividends	(0.1)	(0.2)
Tax credit for research and development, etc.	(10.0)	(22.5)
Effect of assessment of recoverability of deferred tax assets	0.3	0.6
Effect of tax rate change	－	(1.7)
Difference in applicable tax rates for foreign subsidiaries	－	6.3
Tax effects related to investment in subsidiaries	－	1.5
Others	0.9	0.2
Average actual tax rates	21.8%	15.4%

Note: The applicable tax rates used to reconcile the applicable tax rates and average actual tax rates are the Company’s effective statutory tax rates.