

Japan Tax & Legal Inbound Newsletter

December 2023, No. 86



Introduction

On 14 December 2023, the ruling parties announced proposals for the 2024 tax reform, which were posted on the LDP's [website](#) (available in Japanese/PDF format).

Amidst rising global tensions and shifts in the industrial landscape accelerated by the three-year-long Covid-19 pandemic, the proposals prioritize increasing wages over price hikes to address the persistent deflation endured by Japan for a quarter of a century by implementing personal income and inhabitant tax credits, along with amendments to tax incentives for wage increases. Additionally, the proposals include tax incentives to stimulate domestic production of strategic resources and introduce an innovation box.

Within the realm of international tax, revisions to international taxation addressing social and economic changes in Japan and worldwide will be implemented. While the proposals do not include specific measures for the re-allocation of taxing rights (such as the OECD Pillar One initiative), this area should remain under continued scrutiny. The implementation of a global minimum tax, i.e., the OECD Pillar Two initiative, will continue to be incorporated into domestic law in accordance with the international agreement following the revisions made in the 2023 tax reform.

Furthermore, given the increasing number of foreign businesses offering digital services through digital platforms, platform taxation will be introduced, taxing platform operators rather than foreign suppliers.

The details of these measures will be further discussed in 2024 and phased in starting from the fiscal year 2025.

Below, you will find key points that may impact foreign-headquartered companies conducting business in Japan as well as individuals residing in Japan. It should be emphasized that these proposals have not been enacted yet and could change before becoming law.

Corporate Tax

1. Revisions to tax incentives for wage increases

The tax incentives for wage increases will be revised as follows:

(1) Tax credits for all companies

1) Overview

The tax credit rates will be revised as shown in the table below with an extension of the applicable period for 3 years.

Items		Proposed	
Tax credit rates	General	The tax credit rate will be reduced from the current 15% to 10%.	
	Additional tax credit	Additional tax credits for an increase in % of wage payments to continuously employed employees from previous FY	
		% of increased wages \geq 4%	Addition of 5%
		% of increased wages \geq 5%	Addition of 10%
		% of increased wages \geq 7%	Addition of 15%
Additional tax credit for an increase in training costs if:		Addition of 5%	
<ul style="list-style-type: none"> ■ % of increased training costs from previous FY \geq 10%; and ■ Training costs \geq Wage payments to all employees x 0.05% 			
Additional tax credit for a company certified to support parenting and women's empowerment		Addition of 5%	
Applicable period		Extended by 3 years	

2) Revisions to the multi stakeholder requirement

The multi stakeholder requirement, i.e., the requirement for a disclosure on the internet of policies to increase wages and develop good relationship with business relations, will be revised as shown in the table below.

Item	Current	Proposed
Persons subject to the requirement	Companies with Stated Capital of JPY 1 billion or greater and 1,000 or more regular employees.	<ul style="list-style-type: none"> ■ Companies with more than 2,000 regular employees will be added to the scope of the persons subject to the requirement. ■ It will be clarified that the business relations for the purposes of the requirement will include exempt enterprises from Japanese consumption tax.

(2) Tax credits for companies filing blue form tax returns with 2,000 employees or less

If a company has stated capital of JPY 1 billion or greater and 1,000 or more regular employees, the company must meet the multi stakeholder requirement and requirement and report to the Ministry of Economy, Trade and Industry.

Items	Proposed
Applicable entities	<ul style="list-style-type: none"> ■ Companies filing blue form tax returns with 2,000 regular employees or less ■ However, a company will not be eligible for the tax credits if the sum of the number of its regular employees and that of another company more-than-50% of which is owned by the former company is greater than 10,000.
Applicable period	Fiscal years beginning from 1 April 2024 to 31 March 2027

Requirements	<ul style="list-style-type: none"> ■ % of an increase in wage payments to continuously employed employees from previous FY $\geq 3\%$ ■ If a company has stated capital of JPY 1 billion or greater and 1,000 or more regular employees, the company must meet the multi stakeholder requirement and report to the Ministry of Economy, Trade and Industry. 	
General tax credit	<ul style="list-style-type: none"> ■ Tax credit calculated as 10% of increased wage payments to all employees from previous FY ■ The tax credit will be limited to 20% of corporate income tax for the current fiscal year. 	
Additional tax credits	If % of an increase in wage payments to continuously employed employees from previous FY $\geq 4\%$	Addition of 15%
	Additional tax credit for an increase in training costs if: <ul style="list-style-type: none"> ➢ % of increased training costs from previous FY $\geq 10\%$; and ➢ Training costs \geq Wage payments to all employees x 0.05% 	Addition of 5%
	Additional tax credit for a company certified in the fiscal year to significantly support parenting and women's empowerment	Addition of 5%

(3) Tax credit for SMEs¹

The tax credit for SMEs will be revised as shown in the table below with an extension of the applicable period for 3 years.

Items		Proposed	
Tax credit rate	General	15% (no change)	
	Additional tax credit	Additional tax credit for an increase in training costs if: <ul style="list-style-type: none"> ➢ % of increased training costs $\geq 5\%$; and ➢ Training costs \geq Wage payments to all employees x 0.05% 	Addition of 10%
		Additional tax credit for a company in the fiscal year certified to significantly support parenting and women's empowerment	Addition of 5%
Carry-forward of tax credits		<ul style="list-style-type: none"> ■ The carry-forward of excess tax credits for 5 years will be allowed. ■ However, such carry-forward of tax credit will be allowed for a credit in a FY only if wage payments to all employees increased from previous FY. 	
Applicable period		Extended by 3 years	

(4) Deduction of wage payment increases from tax base for added value levy of enterprise tax

If a company pays wages to employees during the fiscal years beginning from 1 April 2024 to 31 March 2027 and fulfils certain conditions, such as ensuring that the percentage increase in wage payments to continuously employed employees from the previous fiscal year is 3% or more, the wage payment increases will be eligible for deduction from the tax base for purposes of the added value levy of enterprise tax.

In line with the revision to the scope of companies subject to factor-based enterprise tax, if an SME pays wages to employees during the fiscal years beginning from 1 April 2024 to 31 March 2027 and other conditions are met, such as the percentage increase in wage payments to continuously employed employees from the previous fiscal year being

¹ Small, Medium sized enterprises.

1.5% or more, the wage payment increases will be allowed as a deduction from the tax base for purposes of the added value levy of enterprise tax.



POINT:

The tax incentives for wage increases will be extended to further promote structural and sustainable wage growth. Companies will be categorized into large, medium, and small-sized entities, and the required percentage of wage increases for tax credits will be determined based on the company's size. Higher tax credit rates will be granted for more significant wage increases to further encourage such initiatives.

Additional tax credits will be also given to companies certified by the Ministry of Health, Labour and Welfare for actively supporting parenting and women's empowerment. The maximum tax credit rate available will therefore be raised from 30% to 35% for large companies and from 40% to 45% for SMEs.

Considering that many SMEs operate at a loss and, as a result, cannot fully utilize tax incentives, a new measure allowing SMEs to carry-forward tax credits will be implemented.

2. Revisions to and extension for disallowance of R&D and certain other tax incentives for large companies

The scope of the measure for the disallowance of the specific tax incentive provisions (provisions for R&D tax and other tax incentives related to productivity improvement) for large companies will be reviewed, and the applicable period will be extended by 3 years.

Items	Proposed
<p>Related to the stricter requirements that apply to a company which has:</p> <ul style="list-style-type: none"> - stated capital etc. of JPY 1 billion or more, - regular employees of 1,000 or more, and - income that exceeds zero in the previous fiscal year 	<ul style="list-style-type: none"> ■ Companies which have regular employees exceeding 2,000, and income that exceeds zero in the previous fiscal year will also be subject to the stricter requirements. ■ The requirement for the domestic capital investment will be revised as below: <Proposed> Domestic capital investment > Total depreciation x 40% <Current> Domestic capital investment > Total depreciation x 30%
<p>Applicable period</p>	<p>Extended by 3 years</p>



POINT:

In order to increase the effectiveness of tax incentives, more large companies will be subject to the heightened requirements, which are expected to impact companies that are reluctant to raise wages or expand investment in Japan despite their increasing profits.

3. Establishment of tax incentives for promoting domestic production of strategic resources

The following tax credit will be established, subject to the amendment of the Industrial Competitiveness Enhancement Act (the "ICE Act").

Items	Proposed
Applicable entities	<ul style="list-style-type: none"> ■ Corporations with blue-form tax return filing status that have been approved for a business adaptation plan under the ICE Act during the period between the effective date of the ICE Act to 31 March 2027. ■ Eligible corporations are limited to those whose business adaptation plan includes a statement that states they will produce and sell Industrial Competitiveness Base Enhancement Product(s) ("ICBEP") (name tentative) as a measure for adapting to the energy-use environmental load reduction project in accordance with the ICE Act.
Requirements	<p>In the case of newly installing or expanding facilities to produce ICBEP (*) as stated in the business adaptation plan, this incentive may be applied when the company acquires machinery or other depreciable assets ("ICBEP Assets") and uses them for its business in Japan.</p> <p>(*) ICBEP: Certain goods categorized for semiconductors, electric vehicles, iron and steel, basic chemicals, and aircraft fuel</p>
Applicable fiscal years	Each fiscal year within 10 years beginning on or after the first fiscal year in which the business adaptation plan was approved
Tax credit	<ul style="list-style-type: none"> ■ Tax credit is granted for the lesser of the following: <ul style="list-style-type: none"> ➢ The amount corresponding to the quantity, etc. of the ICBEP that have been sold during the period of the plan within the applicable fiscal years and produced by ICBEP Assets, or ➢ The acquisition cost of ICBEP Assets. ■ However, the credit is limited to 40% of the total corporate tax amount for the current fiscal year (20% for semiconductor production assets) when the tax credit is combined with the tax incentives for promoting Digital Transformation ("DX") investment and carbon neutral tax incentives.
Carry-forward of excess tax credits	Excess tax credits can be carried forward four taxable years (3 years for semiconductor production assets).
Suspension of application	<p>This tax credit (excluding carry-forward of excess tax credits) does not apply to certain fiscal years in which the amount of income exceeds the amount of income in the previous fiscal year and none of the following apply:</p> <ul style="list-style-type: none"> ■ Percentage increase in the amount of wage payments to continuously employed employees over the wage payments to continuously employed employees in the previous fiscal year $\geq 1\%$ ■ Domestic capital investment $>$ Total depreciation cost for the current period $\times 40\%$
Local corporate income tax	Except for the tax credit for semiconductor production assets, the tax credit is not deductible from the local corporate income tax base.



POINT:

To raise the potential growth rate through productivity improvement and supply capacity enhancement, investments in the strategic sectors of GX, DX, and economic security (which are difficult for the private sector to make profitable, but essential for the government to make strategic long-term investments) will be eligible for corporate income tax credits in proportion to production and sales volumes yielded through the investments. Specifically, the tax credit will be applied to electric vehicles, etc. (storage batteries), green steel, green chemicals, SAF (sustainable aviation fuel), and semiconductors; a credit amount per unit will be set for each respective item. In addition, from the viewpoint of enhancing the medium to long-term predictability of corporate investment, the measure will be implemented for a considerably long period of 10 years from the approval date of the business adaptation plan, and a carry-forward period of 4 years (3 years for semiconductors) for the tax credit will be established.

4. Establishment of Innovation Box

Innovation Box will be established to provide preferential treatment for income derived from intellectual property created through research and development conducted in Japan.

Items	Proposed
Qualifying transactions	A corporation with blue-form tax return filing status that has transferred specified patent rights (*) to a Japanese resident or domestic corporation (excluding a related party) or licensed specified patent rights to another entity (excluding a related party) ("Specified Patent Right Transactions") at any time during fiscal years beginning on 1 April 2025 and ending on 31 March 2032. (*) Specified patent rights: patent rights obtained or created on or after 1 April 2024, and copyrights of programs utilizing artificial intelligence-related technologies.
Details of Innovation Box	An amount equal to 30% of the lesser of the following amounts is deductible from income in the same fiscal year: <ul style="list-style-type: none"> ■ The total of the following amounts for each Specific Patent Right Transaction conducted during the same fiscal year: <div style="text-align: center;">$A \times (B/C)$</div> A): The amount of income derived from the Specific Patent Right Transaction B): Total amount of qualified R&D expenses (*) included in the denominator "C" C): Out of the total amount of R&D expenses incurred in the same fiscal year and the previous fiscal years (limited to fiscal years beginning on or after 1 April 2025), the total amount of R&D expenses directly related to the specified patent rights involved in the Specified Patent Right Transactions, or <ul style="list-style-type: none"> ■ Taxpayer's income for the same fiscal year (*) Amount of qualified R&D expenses: Out of the amount of R&D expenses, those other than acquisition costs of specified patent rights, license fees paid, expenditures for outsourcing to overseas related parties, and R&D expenses for business conducted through overseas business offices, etc.
Incentive period	<ul style="list-style-type: none"> ■ Fiscal years beginning on or after 1 April 2025 and ending on or before 31 March 2032 ■ Transitional measures will be provided for fiscal years beginning before 1 April 2027 in cases where there are qualified R&D expenses directly related to R&D activities initiated prior to the start of the first fiscal year following 1 April 2025.



POINT:

While the R&D tax incentives focus on the "input" of R&D investment, the Innovation Box focuses on the "output" and strengthens incentives for social implementation and monetization of R&D outcomes. Internationally, the establishment of the Innovation Box is the third of its kind in the G7, following France and the United Kingdom, and is intended in its design to be comparable to those overseas and to encourage investment in intangible assets.

This will provide a tax benefit equivalent to a corporate tax rate of approximately 7% for eligible income (in terms of effective corporate tax rate, the current 29.74% will be reduced to approximately 20%).

5. Revisions to R&D tax incentives

The R&D tax incentives will be revised as shown in the table below.

Items	Proposed
Scope of R&D costs eligible for tax incentives	The costs for R&D performed by Japanese companies in their foreign offices will no longer be eligible for the tax incentives.
General R&D tax credit	The tax credit rates for fiscal years beginning on or after 1 April 2026 where R&D costs decreased from the previous fiscal year will be revised as follows: <ul style="list-style-type: none"> ■ Fiscal years beginning from 1 April 2026 to 31 March 2029: 8.5% - (% of decrease x 8.5/30)

	<ul style="list-style-type: none"> ■ Fiscal years beginning from 1 April 2029 to 31 March 2031: 8.5% - (% of decrease x 8.5/27.5) ■ Fiscal years beginning on or after 1 April 2031: 8.5% - (% of decrease x 8.5/25) ■ The floor tax credit rate of 1% will be abolished.
--	------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------



POINT:

The tax credit rates will be reduced for cases where R&D costs have decreased to provide greater incentives for R&D investment.

6. Revisions to and extension of non-deduction of entertainment expenses

The non-deductible portion of entertainment expenses will be revised as follows, and this measure will be extended by 3 years:

Items	Proposed
Deductible meal expenses	JPY 10,000 or less per person (Current: JPY 5,000 or less per person)
Applicable period	The special deduction for entertainment meal expenses and the special deduction for SMEs will be extended by 3 years.
Effective date	Applicable to meal expenses incurred on or after 1 April 2024.



POINT:

This review of taxation of entertainment expenses is expected to revitalize the economic activities of SMEs, which play a central role in regional revitalization. Also, the revision hopes to dispel the deflationary mindset that Japan is overly conservative in regard to meal expenses.

7. Factor-based enterprise taxation

The following revisions will be made to the factor-based enterprise tax.

Items		Proposed
Target companies	Contents of revision	<ul style="list-style-type: none"> ■ Current standard (stated capital of over JPY 100 million) will be maintained. ■ For the time being, companies meeting the following conditions will be subject to the factor-based taxation: <ul style="list-style-type: none"> ➢ Stated capital is JPY 100 million or less in the relevant fiscal year; ➢ The company was subject to factor-based taxation in the fiscal year preceding the relevant fiscal year; and ➢ The total of stated capital and capital surplus exceeds JPY 1 billion in the relevant fiscal year.
	Transitional measure	<ul style="list-style-type: none"> ■ For the first fiscal year beginning after the enforcement date, notwithstanding the above, companies meeting the following conditions will be subject to the factor-based taxation: <ul style="list-style-type: none"> ➢ The company is subject to the factor-based taxation in the fiscal year preceding the fiscal year including the promulgation date (*); ➢ The stated capital is JPY 100 million or less in the first fiscal year commencing on or after the enforcement date; and ➢ The total of stated capital and capital surplus exceeds JPY 1 billion in the first fiscal year commencing on or after the enforcement date.

		(*) If the stated capital is JPY 100 million or less on the day before the date of promulgation, the first fiscal year ending after the date of promulgation.
	Effective date	From the fiscal year starting on or after the enforcement date of 1 April 2025.
Revisions related to 100% owned subsidiaries	Contents of revision	Subsidiaries which are wholly owned by a company, whose total amount of stated capital and capital surplus exceeds JPY 5 billion, and meet the following conditions will be subject to the factor-based taxation: <ul style="list-style-type: none"> ➤ The stated capital at the end of the fiscal year is JPY 100 million or less; and ➤ The total of stated capital and capital surplus (*) exceeds JPY 200 million. (*) If the 100% owned subsidiary pays dividends from its capital surplus to its 100% parent company after the date of promulgation, the amount equivalent to the dividend will be added back to the subsidiary's total stated capital and capital surplus.
	Special measure	Based on the revision of the ICE Act, when a Certified Special Reorganization Enterprise ("Certified Enterprise" (name tentative)) has a special business restructuring plan approved ("Certified Plan" (name tentative)) and acquires another company, there will be a special measure to exempt the other company from the factor-based taxation for a certain period under the following conditions: <ul style="list-style-type: none"> ➤ The Certified Enterprise has a Certified Plan (under the ICE Act by 31 March 2027). ➤ The Certified Enterprise acquires the other company through a share acquisition, a share grant, or a share exchange as a Special Reorganization (name tentative) pursuant to the Certified Plan. ➤ The Certified Enterprise continues to hold the shares of the other company after the date of acquisition.
	Transitional measure	For companies that are newly subject to factor-based taxation as a result of this amendment, a certain amount exceeding the tax amount calculated by the current taxation method will be deducted from the enterprise tax for the fiscal year.
	Effective date	From the fiscal year starting on or after the enforcement date of 1 April 2026.



POINT:

As a measure to prevent companies from artificially reducing stated capital to avoid the factor-based taxation, the current standard (stated capital of over JPY 100 million) will be maintained, while a supplementary standard for large companies (total of stated capital and capital surplus of over JPY 1 billion) will be added.

Additionally, companies which have a total of stated capital and capital surplus exceeding JPY 200 million and are wholly owned by companies with a total of stated capital and capital surplus exceeding JPY 5 billion will be also subject to factor-based taxation.

Attention should be paid to the scope and criteria of capital surplus and the details of transitional measures for each revision.

8. Revision to contribution-in-kind

The revision relates to contribution-in-kind from a domestic company to headquarters of a foreign company as shown in the table below.

Items	Proposed
Exclusion from tax-qualified contribution-in-kind	The following contribution-in-kind is excluded from tax-qualified contribution-in-kind: <ul style="list-style-type: none"> ■ The contribution-in-kind of intangible assets (*) from a domestic company to headquarters of a foreign company.

	(*) Industrial property rights, copyrights, etc. for which considerations should be paid if transferred or leased between independent third parties in accordance with ordinary transaction terms.
Categorization of domestic/foreign assets (other than domestic real property) transferred by way of contribution-in-kind	<p>Categorization of domestic/foreign assets (other than domestic real property) transferred by way of in-kind contribution is made based on the following criteria:</p> <ul style="list-style-type: none"> ■ Domestic assets - The assets related to a business conducted through headquarters of a domestic company or a permanent establishment (“PE”) of a foreign company. ■ Foreign assets - The assets related to a business conducted through foreign business premises, etc (*) of a domestic company or headquarters of a foreign company. <p>(*) foreign business premises, etc: equivalent to a PE in foreign jurisdictions</p>
Applicable period	Effective for contribution-in-kind implemented on and after 1 October 2024



POINT:

The revisions will tighten the anti-tax avoidance aspects on contribution-in-kind of intangible assets which are relatively easy to transfer. A grace period is set since this is unfavourable revisions for taxpayers.

9. Revision of tax incentives for investments in becoming for carbon neutral

The tax incentives for investments in becoming carbon neutral will be revised as follows with an extension of 2 years.

Items	Proposed
Applicable entities and Applicable assets	<ul style="list-style-type: none"> ■ Applicable to companies that will have had their business adaptation plans approved by 31 March 2026. ■ Applicable assets must be acquired and used for business purposes within 3 years of the date of approval: ➤ The tax incentives do not apply to assets acquired under a business adaptation plan for which an application for approval was filed prior to 1 April 2024. ➤ Certain types of railcars are included in the scope of “certain assets for productivity improvement”. ➤ Among “certain demand-creating production facilities” and “certain assets for productivity improvement,” assets which are available in the consumer market, such as lighting equipment and air-conditioning equipment for human-use, are excluded.
Special depreciation and Tax credit	<ul style="list-style-type: none"> ■ The special depreciation rate and tax credit rate for SMEs (excluding those falling under the category of exempted business operators) will be the following rates according to the following carbon productivity improvement rate categories stated in the certified energy-use environmental-load reduction project adaptation plan: ➤ Special depreciation of 50%, or tax credit of 14% for carbon productivity improvement of 17% or more ➤ Special depreciation of 50%, or tax credit of 10% for carbon productivity improvement of 10% or more but less than 17%
Requirements for Business Adaptation Plan	<ul style="list-style-type: none"> ■ Among the requirements for certification of business adaptation plans, requirements related to the carbon productivity improvement rate of business sites and requirements for determining a tax credit rate increase will be revised to exclude the effects of the emission factor of electricity consumption when calculating the carbon productivity improvement rate of business sites, in addition to the following two points: ➤ Regarding the requirements for approval of business adaptation plans (limited to those related to business adaptation for energy-use environmental-load reduction projects involving the introduction of “certain assets for productivity improvement”), the carbon productivity improvement rate of business sites, etc. will be increased by 15% or more (currently 7% or more; 10% or more for SMEs after the reform). ➤ Regarding the eligibility requirements for determining a tax credit rate increase for the acquisition of “certain assets for productivity improvement” by corporations other than SMEs, the carbon productivity improvement rate of business sites, etc. will be increased to 20% or more (current rate: 10% or more).

10. Extension of disallowance of refunds through NOL carry back for 2 years

The applicable period for disallowance of refunds through NOL (other than NOLs of SMEs) carry back will be extended by 2 years.

International tax

1. Global minimum taxation

Certain regulations of Global minimum taxation introduced in the 2023 tax reform will be revised and other topics related to Global minimum taxation including Qualified Domestic Minimum Top-up Tax (“QDMTT”) would be legislated in the tax reform of 2025 or afterward.

2. Improvement of reporting for automatic exchange of information on crypto assets transactions by non-Japanese residents

Certain information regarding transactions of crypto currencies will be exchanged automatically under the CARF Crypto-asset Reporting Framework, and other necessary measures for CRS, Common Reporting Standard, will be taken.

The above reform will take effect as of 1 January 2026.

3. Japanese earnings stripping rules

The carry-forward period for disallowed interest expenses under the earnings stripping rules will be extended from 7 years to 10 years as a transitional measure for interest expenses disallowed in the fiscal years commencing between 1 April 2022 and 31 March 2025.

	Current	Proposed
Carry-forward period for disallowed interest expenses	7 years	10 years (*) (In principle: 7 years)

(*) Interest expenses disallowed in the fiscal years commencing between 1 April 2022 and 31 March 2025



POINT:

This transitional measure is expected to reduce the impact of higher borrowing costs due to higher interest rates overseas.

Japanese Consumption Tax (“JCT”)

1. Platform taxation

When foreign enterprises provide digital services, such as e-books, e-music, online advertising, and cloud services (excluding certain digital services provided solely to businesses) through a digital platform and receive consideration through a specified platform operator, as defined below, the provision of these services will be considered to have been made by the specified platform operator, and if the operator is a JCT taxpayer, it will be required to submit a JCT return to the Japan Tax Authorities and remit the applicable tax on facilitated digital services subject to JCT.

Items	Proposed
Specified platform operators	<ul style="list-style-type: none"> ■ The Commissioner of the National Tax Agency will designate a platform business operator as a specified platform operator if the total consideration for the aforementioned facilitated digital services exceeds JPY 5 billion within a tax period. When the Commissioner designates any specified platform operator, the Commissioner will notify the operator to that effect and publish the details of the operator. ■ Operators whose facilitated turnover exceeds the specified threshold must notify the Commissioner of the National Tax Agency by the deadline for filing a JCT return for the tax period in which the transactions occurred.
Effective date	Effective for the provision of digital services on or after 1 April 2025.



Point:

The Japanese app market is projected to surpass JPY 5 trillion by 2024, and an increasing number of foreign entities are expected to join online platforms to expand their business online. Concerns have been raised about the perceived inequity in the current system, as many foreign entities fail to pay JCT, and Japanese tax authorities face challenges investigating such cases. Given the widespread adoption of similar taxation systems in various countries, the implementation of platform taxation is a long-awaited change, aiming to hold platform business operators accountable for JCT payments.

To ensure compliance, all platform operators are now required to assess whether they are likely to fall under the specified platform operator and, if so, gather the necessary information for JCT returns and make essential system modifications.

2. Revisions to JCT exemption for SMEs and restrictions on JCT deductions on taxable purchases from JCT-exempt enterprises

The following revisions will be applied to the JCT exemption for enterprises and JCT deduction limitations for taxable purchases from JCT-exempt enterprises.

Items	Proposed
Exceptional rules for JCT exemption for enterprises with small taxable sales in Specified Period	<p>When applying the Specified Period test to determine whether a foreign enterprise is a taxable enterprise, total salary payments will not be considered as an alternative measure of business size. Under the current regime the Specified Period test designates enterprises with total JCT taxable sales not exceeding JPY 10 million during the Base Period (generally, the 2 fiscal years prior to the current one) as JCT exempt, unless during the first 6 months of the prior fiscal year (“Specified Period”), the total JCT taxable sales exceed JPY 10 million. Instead of the total JCT taxable sales, the amount of salaries paid to resident employees in Japan in the Specified Period can be used. Therefore, even if JCT taxable sales exceed JPY 10 million in the Specified Period, provided the amount of salaries paid to resident employees in Japan in the same period does not exceed JPY 10 million, the enterprise would be JCT exempt.</p> <p>Currently, foreign enterprises that do not employ Japanese residents are JCT-exempt for the fiscal year if their taxable sales during the Base Period are JPY 10 million or less, regardless of whether their taxable sales in a prior year exceed the threshold. Under this revision, taxable sales in the first half of the fiscal year preceding the current fiscal year will be the only consideration for foreign enterprises in the Specified Period test to determine whether enterprises are required to pay JCT in the current fiscal year.</p>
Exceptional rules for JCT exemption for newly established entities with capital of JPY 10 million or more	For foreign entities, the eligibility for this exemption must be assessed at the commencement of their business operations in Japan, even if they have a Base Period indicating that they are more than 2 fiscal years old. As a result of this revision, the determination of whether foreign entities are JCT taxpayers or exempt enterprises requires an examination of the capital amount at the commencement of their operations in Japan in addition to the total taxable sales during the Base Period.
Exceptional rules for JCT exemption for newly established entities with capital of less than JPY 10 million	Specified newly established entities will include those directly or indirectly controlled by an entity with global income exceeding JPY 5 billion. Moreover, for foreign entities, JCT exemption eligibility will be subject to these exceptional rules at the inception of their operations in Japan, even if they have a Base Period.
Restrictions on JCT deductions for taxable purchases from JCT-exempt enterprises	Throughout the transitional period from October 2023 (launch of the Qualified Invoice System) to September 2029, taxable purchases from exempt enterprises can be credited by considering a certain percentage of the purchase amount to be equivalent to JCT. Under the revision, if the total amount of taxable purchases from a JCT exempt enterprise exceeds JPY 1 billion per enterprise within the year or fiscal year, the deduction of input JCT on the exceeding amount will be disallowed.
Effective date	Effective from the taxable period beginning on or after 1 October 2024.



Point:

These revisions aim to address manipulative structuring by foreign enterprises that exploit the JCT exemption in a manner contrary to the intended purpose of the tax law, where sellers do not pay while buyers claim deductions, resulting in "no tax payment deduction."

3. A revision to the Japanese flat rate scheme (simplified JCT calculation)

The following revision will be made to the simplified JCT calculation system and the reduction of JCT liabilities by 80%.

Items	Proposed
Application of the simplified JCT calculation system and the 20% exception for foreign enterprises	Foreign enterprises lacking a permanent establishment (as defined by the Income Tax Law or the Corporation Tax Law) on the first day of the tax period will not be allowed to employ the simplified JCT calculation method, akin to the flat rate scheme in the EU. An 80% reduction in JCT liabilities, pertaining to input tax credits for enterprises that would otherwise be exempt from JCT, but become Qualified Invoice Issuers under the Qualified Invoice System, will not be applicable for aforementioned foreign enterprises.
Effective date	Effective from the taxable period beginning on 1 October 2024.



POINT:

This revision is designed to prevent foreign enterprises lacking a permanent establishment from utilizing the simplified JCT calculation. The rationale behind this restriction lies in the tendency of such enterprises to have minimal or no taxable purchases in Japan, rendering the deduction based on the industry's flat rate unreflective of the actual circumstances.

4. Revision to the invoice system

The following revisions will be implemented.

Items	Proposed
Accounting obligation for taxable purchases through vending machines and admission tickets	Businesses will be exempt from the obligation to record addresses, etc., for the purpose of claiming input JCT on the following taxable purchases, provided that each transaction does not exceed JPY 30,000: <ul style="list-style-type: none"> ➤ Taxable purchases made through vending machines and automated service machines, such as ATMs and coin-operated lockers, ➤ Taxable purchases involving the collection of tickets and vouchers at the time of their utilization.
Effective date	Effective for purchases made on or after 1 October 2023.

Income Tax

1. Personal Income Tax Reduction

(1) Overview

A special fixed-rate deduction will be deducted from the income tax amount for residents. However, this deduction will only be applicable to individuals whose total income amount for 2024 is JPY 18.05 million or less.

Special deduction amount = Total of the following amounts (Limit is set at individual's income amount)

- Individual: JPY 30,000 (National Income Tax) + JPY 10,000 (Local Inhabitants' Tax)
- Spouse living in the same household or dependents*: JPY 30,000 (National Income tax) + JPY 10,000 (Local Inhabitants' tax), per individual
(For spouses living in the same household who are not applicable for Spouse Deduction, JPY 10,000 will be deducted from the 2025 Local Inhabitants' Tax)

* "Spouse living in the same household or dependents" is limited to residents.

(2) Implementation of the Special Deduction

For individuals earning Employment Income or receiving Public Pension etc., the National Income Tax deduction will apply on the 2024 National Income Tax. For Business Income earners etc., the deduction will be deducted on the 1st Provisional Tax (July) in 2024 an after.

The Local Inhabitants' Tax deduction will apply on the 2024 Local Inhabitants' Tax (for spouses who are not applicable for Spouse Deductions, the deduction will be applied on the 2025 Local Inhabitants' Tax).



POINT:

This fixed- rate tax reduction will not be applicable to individuals whose total income amount exceeds JPY 18.05 million. If Employment Income is the only source of income, this amount is equivalent to a total salary amount of JPY 20 million.



Japan Tax Reform

Click this banner to jump to the website summarizes the newsletters, alerts, and other content produced by the Deloitte Tax & Legal Inbound Client Services Team related to current and past Japan tax reform proposals.

Newsletter Archives

To see past newsletters, please visit our website. www.deloitte.com/jp/tax-legal-inbound-newsletter

Podcast

To see our podcasts, please visit the website.

<https://www2.deloitte.com/jp/en/pages/tax/articles/inbound/podcast.html>

Subscribe to Japan Tax & Legal Inbound Newsletter and tax@hand

To automatically receive future newsletters, please email japan_taxlegal_inbound@tohatsu.co.jp and register by providing your name, company, position, and email address.

Click [here](#) to download our tax@hand app to view newsletters and other content on your mobile device.

Contacts

Jun Tamura, Takuma McNie, Inbound Client Services Leader		
Business Tax Services	Jun Tamura, Partner	David Bickle, Partner
Indirect Tax Services	Fumiko Mizoguchi, Partner	
Global Employer Services	Russell Bird, Partner	Taiki Matsueda, Partner
Transfer Pricing	Samuel Gordon, Partner	Takuma McNie, Director
Tax Technology Consulting	Sreeni Menon, Partner	
International Tax and M&A	Masato Iwajima, Partner	Rajat Ranjan, Director
Financial Service Industry	Kazunori Iwamoto, Partner	
Tax Controversy	Yutaka Kitamura, Partner	
Legal	Toru Yamada, Partner	
Immigration	Jeffrey Jackson, Partner	Takeshi Hayashi, Director
Business Process Solutions	Hiroshi Ueda, Partner	
Payroll and Social Benefits Processing	John Dorff, Partner	
Family Consulting	Ryosuke Higuchi, Partner	Emi, Kono, Partner
email to japan_taxlegal_inbound@tohatsu.co.jp		

Issued by

Deloitte Tohmatsu Tax Co.

Marunouchi-Nijubashi Building, 3-2-3 Marunouchi, Chiyoda-ku, Tokyo 100-8362, Japan

Tel: +81 3 6213 3800

email: tax.cs@tohatsu.co.jp

Corporate Info: www.deloitte.com/jp/en/tax

Deloitte Tohmatsu Group (Deloitte Japan) is a collective term that refers to Deloitte Tohmatsu LLC, which is the Member of Deloitte Asia Pacific Limited and of the Deloitte Network in Japan, and firms affiliated with Deloitte Tohmatsu LLC that include Deloitte Touche Tohmatsu LLC, Deloitte Tohmatsu Risk Advisory LLC, Deloitte Tohmatsu Consulting LLC, Deloitte Tohmatsu Financial Advisory LLC, Deloitte Tohmatsu Tax Co., DT Legal Japan, and Deloitte Tohmatsu Corporate Solutions LLC. Deloitte Tohmatsu Group is known as one of the largest professional services groups in Japan. Through the firms in the Group, Deloitte Tohmatsu Group provides audit & assurance, risk advisory, consulting, financial advisory, tax, legal and related services in accordance with applicable laws and regulations. With approximately 20,000 people in about 30 cities throughout Japan, Deloitte Tohmatsu Group serves a number of clients including multinational enterprises and major Japanese businesses. For more information, please visit the Group's website at www.deloitte.com/jp/en.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms, and their related entities (collectively, the "Deloitte organization"). DTTL (also referred to as "Deloitte Global") and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

Deloitte Asia Pacific Limited is a company limited by guarantee and a member firm of DTTL. Members of Deloitte Asia Pacific Limited and their related entities, each of which are separate and independent legal entities, provide services from more than 100 cities across the region, including Auckland, Bangkok, Beijing, Hanoi, Hong Kong, Jakarta, Kuala Lumpur, Manila, Melbourne, Osaka, Seoul, Shanghai, Singapore, Sydney, Taipei and Tokyo.

Deloitte provides industry-leading audit and assurance, tax and legal, consulting, financial advisory, and risk advisory services to nearly 90% of the Fortune Global 500® and thousands of private companies. Our people deliver measurable and lasting results that help reinforce public trust in capital markets, enable clients to transform and thrive, and lead the way toward a stronger economy, a more equitable society, and a sustainable world. Building on its 175-plus year history, Deloitte spans more than 150 countries and territories. Learn how Deloitte's more than 450,000 people worldwide make an impact that matters at www.deloitte.com.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms, or their related entities (collectively, the "Deloitte organization") is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No representations, warranties or undertakings (express or implied) are given as to the accuracy or completeness of the information in this communication, and none of DTTL, its member firms, related entities, employees or agents shall be liable or responsible for any loss or damage whatsoever arising directly or indirectly in connection with any person relying on this communication. DTTL and each of its member firms, and their related entities, are legally separate and independent entities.

Member of

Deloitte Touche Tohmatsu Limited

© 2023. For information, contact Deloitte Tohmatsu Group.



IS 669126 / ISO 27001



BCMS 764479 / ISO 22301