2023 Japan Tax Reform Proposals: Financial Services Industry & Real Estate Market

December 2022

In brief

On December 16, 2022, the ruling parties in Japan released their 2023 Tax Reform Proposals ("2023 Tax Reform Proposals"), commonly known as *Taiko*. Draft legislation implementing these proposals will subsequently be submitted to the Japanese parliament (*Diet*) in early 2023.

This Newsletter provides a brief and immediate summary highlighting significant developments of interest to Japan's financial services industry and real estate market.

For the text of the *Taiko* (in Japanese), please refer to the following link:

https://storage.jimin.jp/pdf/news/information/204848_1.pdf

A Japanese language version of this Financial Services Tax News was separately released and may be accessed through the following link:

https://www.pwc.com/jp/ja/taxnews-financial-services/assets/fs-20221216-jp.pdf

A broader summary of the 2023 Tax Reform Proposals is published separately in our Japan Tax Update. A Japanese language version of this news item is also released separately. These may be accessed through the following links:

https://www.pwc.com/jp/en/knowledge/news/tax-jtu.html
https://www.pwc.com/jp/ja/taxnews/pdf/jtu/jtu-20221219-jp.pdf

In detail

1. Japan's initial response to the introduction of a global minimum tax

The 2023 Tax Reform Proposals include legislation enabling the Income Inclusion Rule to be enacted based on the OECD discussions and global trends reflecting the introduction of a global minimum tax.

For fiscal years beginning on or after April 1, 2024, the new "Global Minimum Corporate Tax" on the minimum taxable amount and the new "Global Minimum Local Corporate Tax", technically a national tax) on the resulting Global Minimum Corporate Tax amount for each applicable fiscal year will be imposed on a domestic corporation that forms part of a specified multinational corporate group with total revenue of EUR 750 million or more in two (2) or more of the four (4) fiscal years immediately preceding the fiscal year of inclusion.

In respect of other international tax developments to be further discussed within the OECD over the next few years, including the Undertaxed Profits Rule and the Qualified Domestic Minimum Top-up Tax, legislative changes will be considered after the 2024 tax reforms have been implemented and based on ongoing international discussions and developments by the OECD and its members.

2. Revisions to the CFC rules

The following modifications will be made to the special provisions for the taxation of income relating to foreign affiliates of domestic corporations under the Japanese anti-tax haven rules, commonly also referred to as controlled foreign corporation ("CFC") rules:

(1) If the effective tax rate of a specified foreign affiliate in each fiscal year is 27% or more (currently 30% or more), the domestic corporation will be exempt from income inclusion under the CFC rules.

(2) The tax return filing requirements for Japanese parent companies will be simplified.

(3) Other necessary changes in light of the new Global Minimum Corporate Tax will be made to the CFC rules.

The amendments above are effective for domestic corporations for fiscal years beginning on or after April 1, 2024.

3. Accompanying changes due to the revision of the Act on Settlement of Funds

Following the impending amendment of the Act on Settlement of Funds, the following measures will apply:

(1) Where a person transfers digital money-type stablecoins (issued as trust beneficiary rights where trust beneficial interests may be transferred as a means of payment) and receives consideration other than cash, such person (the transferor) will no longer be required to submit a notification of receipt of consideration to the transferee of the trust beneficial interest.

(2) Where a person receives a trust beneficial interest in relation to digital money-type stablecoins for consideration other than cash, such person (the transferee) will no longer be required to submit payment records to the tax authorities.

4. Revision of valuation methods for crypto assets

Crypto assets are required to be recorded at their fair value at the end of each fiscal year and any unrealised gains or losses must be recognised for tax purposes.

The 2023 Tax Reform Proposals contain certain revisions to the valuation methods for crypto assets:

(1) Crypto assets that meet the following criteria are excluded from the scope of crypto assets held by corporations at the end of the fiscal year that must be recorded at their fair value:

a) The crypto asset was issued by the corporation itself and continuously held since issuance.
b) The transfer of the crypto asset is restricted by one of the following methods on an ongoing basis since its issuance:

i. Technical measures (not specified in the *Taiko*) are taken to prevent the transfer of the asset to other persons.
ii. The asset is entrusted and the trust holding the asset satisfies certain requirements.

(2) The acquisition cost of crypto assets issued by a corporation shall be the amount of expenses required for its issuance.

(3) Where a corporation transfers crypto assets borrowed from a person other than a crypto asset exchange service provider and has not repurchased crypto assets of the same type by the end of the fiscal year of transfer, it should recognise the amount equivalent to the profit or loss calculated on the assumption that the crypto assets were repurchased at the end of the fiscal year of transfer.

5. Establishment of a tax system to support start-ups and review of the “angel taxation” system

In order to further support entrepreneurial start-up investments, capital gains from the transfer of shares will not be taxed where the proceeds from such share sales are reinvested by the (selling) founders or “angel investors” in a start-up in the early development stage. The maximum amount of tax exemption is JPY 2 billion.

(1) If residents (who qualify as founders of a stock company) acquire shares issued by a small and medium-sized enterprise (“SME”) within a period of less than one (1) year after its establishment that meets certain requirements ("Specified Shares”) by way of reinvesting the cash proceeds from the sale of shares in the stock company they founded, the amount of capital gains from the sale of shares by the founder for the year in which the Specified Shares are acquired will be reduced by the amount reinvested.

This adjustment will not affect the founder’s cost basis in the Specified Shares acquired if within the JPY 2 billion limit. If exceeding the limit, the cost basis in the Specified Shares shall be reduced by any excess amount of funds reinvested to acquire the Specified Shares (i.e., the recognition of such portion of the gain from the share sales reinvested in the Specified Shares can be deferred).

(2) If residents acquire shares issued by an SME within a period of less than ten (10) years after its establishment that meets certain requirements ("Specified Shares"), including shares that are acquired pursuant to an investment business limited partnership agreement, by way of reinvesting the cash proceeds from the sale of shares, the amount of capital gains from such share sales for the year in which the Specified Shares are acquired will be reduced by the amount reinvested.

This adjustment will not affect the cost basis taken by the “angel investor” in the Specified Shares acquired if within the JPY 2 billion limit, thereby replacing the deferral applicable under the current system with a tax exemption. If exceeding the limit, the cost basis in the Specified Shares shall be reduced by any excess amount of funds reinvested to acquire the Specified Shares (i.e., the recognition of such portion of the gain from the share sales reinvested in the Specified Shares can be deferred).

6. Revisions to restrictions on the exercise period of stock options

In order to further support the development of start-ups, the specific tax exemption related to the acquisition of shares by the exercise of stock options by certain directors (stock option tax system) is revised. Specifically, among the requirements for the applicable stock options, the requirement for the exercise of the relevant stock options to be within ten (10) years from the date of the resolution to grant the respective stock options shall be extended to fifteen (15) years for stock options issued by a stock corporation with a period of less than five (5) years since the date of its establishment that has not issued any shares listed on a financial instruments exchange.

7. NISA system to be made permanent and investment limits increased

The Nippon Individual Savings Account ("NISA") system was introduced to encourage investments by households in capital markets by way of providing tax exemptions for dividends and capital gains on listed shares below certain investment thresholds in tax-exempt accounts and tax exemptions for ordinary NISA and cumulative investment contracts ("Cumulative NISA").

The tax-exempt holding period will be made indefinite under the 2023 Tax Reform Proposals and the NISA system will be implemented as a permanent measure by removing deadlines for opening accounts. The annual investment ceilings will be increased. The non-taxable limitation for designated investment funds ("Cumulative Investment Limit") will be expanded to JPY 1.2m per year (increased from the current ceiling of JPY 0.4m per year). In addition, a separate growth investment framework will be established to replace the ordinary NISA (which enables investment in listed stocks) and allow non-taxable investments within a certain limit ("Growth Investment Limit"). The maximum annual investment under the Growth Investment Limit will be JPY 2.4m per year (increased from the current limit of JPY 1.2m per year) and can be applied in addition to the Cumulative Investment Limit. Accordingly, the maximum annual amount of investment, including the Cumulative Investment Limit and the Growth Investment Limit, will be expanded to JPY 3.6m in aggregate per year.

In order to limit the benefit of the preferential treatment for high-income earners with large investment capacity, apart from the annual investment ceiling, there is an aggregate limit over the lifetime. The total for the Cumulative NISA is revised to JPY 18m (increased from JPY 8m). In addition, the Growth Investment Limit is upgraded to JPY 12m (from JPY 6m).

Purchases of ordinary NISA and existing Cumulative NISA will be terminated at the end of 2023. For existing purchases of financial products under this system, the prior treatment will continue to apply (i.e., the tax-exempt holding period will continue to be limited). Any prior investments will not be aggregated with investments under the new system as described above for purposes of assessing the applicable investment limits under the new system (i.e., the Cumulative Investment Limit and Growth Investment Limit as set out above).

8. Adjusting the burden on exceptionally high levels of income

As part of the review of taxation of individual income, measures will be introduced that require a minimum tax of 22.5% on income exceeding a JPY 330 million threshold.

9. Procedures for documents pertaining to certain cross-border transactions

The following measures will be taken with regard to certain tax exemptions and reduced rates of tax on certain transactions conducted by foreign investors:

(1) With regard to the special exemption from taxation of interest on book-entry Japanese government bonds, etc., where the application and relevant documents are submitted to the tax office by way of an electronic data processing system ("e-Tax"), they need to be submitted in either XML or CSV format.

(2) With regard to the application procedures of tax treaties relating to dividends on listed shares handled by payment handling agents, instead of submitting optical disks to the tax office, the documents may be submitted electronically by way of e-Tax in CSV format.

The above amendments will apply to documents submitted on or after July 1, 2024.

10. Extension of the tax exemption on interest related to cross-border bond repurchase agreements (repo transactions)

The tax exemption on interest related to bond repurchase agreements conducted by specific foreign corporations with specified financial institutions is further extended by three (3) years (until March 31, 2026).

11. Special provisions for the taxation of investment corporations (actions pertaining to renewable energy power generation facilities)

With regard to the dividend deductibility requirements under the special tax exemption for investment corporations, the deadline for acquiring renewable energy power generation facilities in order to meet the asset test will be extended by three (3) years (until March 31, 2026) and the requirement that the total issue price of investment units issued in a public offering at the time of establishment must be JPY 100m or more will be removed.

12. Measures to reduce transfer taxes for J-REITs and TMKs

Tax reduction measures for registration tax on the transfer of ownership of specific real estate to asset securitization vehicles (J-REITs and TMKs) will be extended by two (2) years (until March 31, 2025). In addition, the expiration date of the special measures for concessionary adjustments to the tax base for real estate acquisition tax purposes for certain properties acquired by J-REITs and TMKs will be extended by two (2) years (until March 31, 2025).

13. Extension of concessions to reduce registration tax for the registration of transfer of ownership of land

Reduced rates of registration tax on the transfer of ownership of land by sale will be extended by three (3) years (until March 31, 2026).

Let's talk

For a deeper discussion of how this issue might affect your business, please contact:

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PwC Tax Japan has launched a new e-learning program called Tax Academy in October 2022, to support those wishing to develop their skills in the international tax field. For tax professionals outside Japan, the 'Introduction to Japanese taxes' series within Tax Academy provides a basic outline of the Japanese tax system, including corporate tax and consumption tax, and covers key points of international tax practice in English.

Please click here for details and to apply (charges apply):

www.pwc.com/jp/e/tax-academy