

2024 Japan Tax Reform Proposals: Financial Services Industry & Real Estate Market

December 2023

In brief

On December 14, 2023, the ruling parties in Japan released their 2024 Tax Reform Proposals (“2024 Tax Reform Proposals”), commonly known as Taiko. Draft legislation implementing these proposals will be presented to the Japanese parliament (Diet) in early 2024.

This Newsletter provides a brief and immediate summary highlighting significant developments of interest to Japan’s financial services industry and real estate market. In addition, our Newsletters brings to attention that at the 212th session of the Diet, the "Law for Partial Amendment of the Financial Instruments and Exchange Act, etc." was enacted, revising the definition of profits of investment corporations.

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

https://storage2.jimin.jp/pdf/news/policy/207233_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/knowledge/news/tax-financial-services/2023-12.html>

A broader summary of the 2024 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/ja/knowledge/news/tax-jtu/20231215.html>

In detail

1. Review of Global Minimum Tax

The Income Inclusion Rule (IIR) will be reviewed seeking to clarify its scope and application based on the guidance issued by OECD and in conjunction with ongoing international tax discussions.

The domestic minimum taxation (QDMTT or Qualified Domestic Minimum Top-up Tax), which is expected to be subject to further discussions by the OECD over the next few years, will be considered for subsequent tax reforms.

For more details, refer to our Japan Tax Update.

2. Revision of valuation methods for crypto assets

The valuation at the end of the fiscal year of crypto assets with restrictions on transfer and other conditions* that fall under the category of market crypto assets held by a corporation is to be based on either of the following valuation methods as elected by corporate taxpayers:

- (1) Cost method; or
- (2) Market value method.

* Crypto assets with restrictions on transfer and other conditions are crypto assets where: (a) technical measures are taken to prevent the transfer to other persons, or certain restrictions are imposed on the transfer of crypto assets; and (b) in order for the Certified Association for Payment Service Providers to publicly announce that the restriction in (a) has been imposed, a person having the crypto assets, etc. must notify this to the crypto asset exchanger.

The valuation method must be selected for each type of crypto asset with restrictions on transfer and other conditions, and notified to the tax authority by the due date for filing a tax return for the fiscal year that includes the date of acquisition. If the valuation method is not selected, the cost method is applied. For self-issued crypto assets that are continuously held since issuance, the cost method is used.

3. Extension of carry-forward period for excess interest arising under the earnings stripping rules

The carry-forward period for the excess (non-deductible) interest arising from the application of the earnings stripping rules for fiscal years commencing from April 1, 2022 to March 31, 2025 will be extended from seven to ten years.

4. Revision of tax qualified stock options

Generally, the tax point for stock options is upon their exercise. This can be deferred until the shares are sold for certain directors, etc. if qualifying conditions are met.

Among the conditions of tax qualified stock option contracts, it will not be necessary to always entrust the storage of shares upon exercising the stock option to financial institutions. This is permitted where there is an agreement that the company must manage the shares held by the director/employee based on an agreement between the company and the director/employee.

In addition, the exercise amount cap in any year will be increased from JPY 12 million to:

- (1) Stock options granted by a joint-stock company incorporated within the prior five years: JPY 24 million; or
- (2) Stock options granted by a certain joint-stock company*: JPY 36 million.

* A certain joint-stock company is one whose term after the date of establishment is five years or more but less than 20 years, and which is either a: (i) a non-listed company; or (ii) a company which has been listed within five years.

5. Extension of tax exemption measure for interest on margin for OTC derivative transactions

Where a foreign financial institution conducts over-the-counter (OTC) derivative transactions with domestic financial institutions and receives interest on certain margin account deposits, the interest income is exempt from taxation. The expiration date for this measure will be extended by three years (until March 31, 2027).

6. Non-application of withholding of interest on tokenisation bonds

Interest on certain bonds received by public corporations or financial institutions subject to qualifying criteria is not subject to withholding tax. Interest on government or corporate bonds that fall under Electronically

Transferred Securities (Denshi Kiroku Iten Yukashoken Hyoji Kenri to) managed by a financial institution in a manner that satisfies certain requirements will now be included within the scope of these exemptions.

7. Development of a Reporting System for the Automatic Exchange of Transaction Information for non-residents

A reporting system for the automatic exchange of information on crypto assets and other transactions related to non-residents will be developed. Moreover, the reporting system for the automatic exchange of financial account information related to non-residents will include specified electronic means of payment.

8. Abolishment of tax exemption related to Japanese sukuk

The tax exemption for dividends received by non-residents or foreign corporations from Registered Specific Purpose Trust Beneficial Interests that fall under the category of Bond-type Beneficial Interests that applies for issuance by March 31, 2024 will expire for subsequent years and not be extended.

9. Review of the Definition of Profits of Investment Corporations

On November 20, 2023, the Law for Partial Amendment of the Financial Instruments and Exchange Act, etc. was enacted to deduct valuation and translation adjustments, etc. in the calculation of "profits" of investment corporations as stipulated in the Act on Investment Trusts and Investment Corporations from the basis of such calculation.

The effective date of this amendment is stipulated as a date by government ordinance not to exceed three months from the date of promulgation. The change will apply to profits related to fiscal periods beginning on or after the date of promulgation.

Let's talk

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

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E-learning

PwC Tax Japan 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:

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