Transfer Pricing News

Special Documentation Retention Rules for Related-Party Transactions in Japan — Key Practical Considerations

August 2026

In brief

Following the enactment of the 2026 tax reform, the "Special Documentation Retention Rules for Related-Party Transactions" (the "Special Rules") were introduced. The amended Ordinance for Enforcement of the Corporation Tax Act was promulgated on March 31, 2026, and the NTA issued revisions to the Corporation Tax Basic Circular together with the NTA's Administrative Guidelines on June 30, 2026, clarifying the requirements and the NTA's approach on the administration.

The Special Rules require a domestic corporation involving in certain related-party transactions to obtain or prepare and retain "Specified-Matter Documentation." "Specified-Matter Documentation" means supplementary documentation setting out required matters that are missing from the transaction-related documents, when those missing matters are necessary to calculate the consideration. It is determined using criteria similar to those under the transfer pricing rules whether an entity is a related party or not, and the term is not limited to foreign related parties. The Special Rules apply to domestic corporations in Japan whether or not they file blue returns and cover qualifying transactions with both domestic and foreign related parties. Accordingly, they are relevant not only to foreign-owned Japanese subsidiaries but also to Japanese-headquartered companies and Japanese multinational groups. This newsletter summarizes the clarified requirements and key practical considerations in relation to the Special Rules for domestic corporations and the group companies for supporting their compliance[1].

In detail

The Ministry of Finance has introduced measures to encourage taxpayer cooperation where requested documents are not provided during tax audits, preventing accurate fact-finding. In particular, cases have been identified in which a foreign parent company allocated aggregated expenses and indirect costs to group entities, raising concerns that income of a Japanese subsidiary was shifted overseas through payments it was not required to bear.

In future tax audits, Japanese companies bearing unsupported group expenses are likely to be required to provide evidence substantiating such charges.

1 PwC Tax Japan Transfer Pricing News: New requirements to maintain documentation for Intercompany Transactions within a Corporate Group https://www.pwc.com/jp/en/taxnews/pdf/tp-20260421-en.pdf

1. Overview of the relevant legislation, revisions to the Corporation Tax Basic Circular, and the NTA's Administrative Guidelines

The Special Rules form part of the documentation-retention framework under the Corporation Tax Act and are set out in Articles 59-2 (corporations filing blue returns) and 67-2 (other ordinary corporations, etc.) of the Ordinance for Enforcement of the Corporation Tax Act. On June 30, 2026, the NTA issued revisions to the Corporation Tax Basic Circular together with the NTA's Administrative Guidelines. The revised Corporation Tax Basic Circular addresses, among other matters, covered industrial property rights and intra-group services, the nature of the Specified-Matter Documentation, the use of multiple documents, recurring transactions, and the treatment of ordinary corporations that do not file blue returns. The NTA's Administrative Guidelines explain the required level of detail, the treatment of documents held by related parties, tax audit procedures, the relationship with deductibility, and rescission of approval to file a blue return, while seeking to balance proper tax administration with the compliance burden on taxpayers.

The Special Rules are intended to ensure the availability of information on related-party transactions; they do not require a taxpayer to demonstrate that the consideration reflects an arm's length price. However, because the information may serve as a starting point for a transfer pricing review, domestic corporations should ensure that compliance with the Special Rules is aligned with their local file and other transfer pricing documentation used to support the arm's length price.

2. Level of description required in the Specified-Matter Documentation

The revised Corporation Tax Basic Circular confirms that the Specified-Matter Documentation need not set out every detail of a transaction; it is sufficient if the required matters are set out that are missing from the transaction-related documents. If the required matters can be confirmed by reviewing multiple transaction-related documents together, there are no specified matters requiring separate documentation, and no separate Specified-Matter Documentation needs to be obtained or prepared.

The NTA's Administrative Guidelines state that the Special Rules do not require taxpayers, as a matter of course, to retain detailed materials beyond what would ordinarily be expected. The available documentation must contain enough information to obtain an objective understanding of the related-party transaction from a third party's view. The required level of detail is determined case by case based on the actual circumstances; including the nature of the transaction, how the consideration or costs are calculated, and the nature and function of the relevant assets or services. Contracts, invoices, service reports, and allocation calculations prepared anywhere within the group may already contain relevant information. A domestic corporation in Japan should therefore assess each transaction to confirm whether those documents, read together, make all required matters clear.

3. Clarification of the scope of covered transactions

The Corporation Tax Basic Circular provides examples of covered industrial property rights and other intangibles, as well as categories of intra-group services covered by the Special Rules. Examples of activities for which costs are shared within the group include advertising, sales promotion, and market analysis intended to maintain or enhance group-wide brands and trademarks; research and development; and the shared use, maintenance, and management of information systems, databases, buildings, and equipment. Examples of management, advisory, and other support services include advice on business planning, performance management, and internal controls; specialist support in human resources, labor matters, legal affairs, and finance; and the periodic or systematic provision of information useful for business operations. A lump-sum charge that is not itemized does not, by itself, place an activity outside the scope of the Special Rules. Accordingly, coverage must be assessed by reference to the particular transaction and its expense classification.

By contrast, activities undertaken solely by virtue of an entity's status as a shareholder or investor, and for which no consideration is contemplated as shareholder activities, do not ordinarily constitute covered intra-group services. It is therefore important to distinguish covered intra-group services from shareholder activities based on the relevant facts and circumstances and the substance of each activity.

4. Measures to reduce the compliance burden

The Corporation Tax Basic Circular and the NTA's Administrative Guidelines provide several measures intended to reduce the compliance burden. In principle, the domestic corporation receiving the relevant industrial property rights or intra-group services must retain the Specified-Matter Documentation at its place for tax payment or another permitted domestic location. If a parent company or another related party centrally maintains documents containing the required information, the Specified-Matter Documentation may be treated as having been retained at the domestic corporation's place for tax payment if the domestic corporation can obtain and present the required information without delay at the request of a tax examiner. Foreign parent companies, foreign subsidiaries, shared-service centers, and other group companies that maintain supporting information should therefore establish procedures for providing it promptly to the relevant domestic corporation, including information supporting shared-service cost allocations.

Where the same licensing arrangement involving industrial property rights or other covered intangibles, or the same provision of intra-group services, is repeated or continues over two or more fiscal years, the Special Rules apply in each fiscal year in which the transaction occurs. However, if a contract, agreement, or other document confirms that the transaction terms or service content have not changed, one set of Specified-Matter Documentation may be obtained or prepared and retained for the unchanged arrangement. This treatment reduces the administrative burden for recurring transactions while preserving the annual application of the Special Rules.

In addition, if a local file contains the required matters in sufficient detail to obtain an objective understanding of the related-party transaction from third party's view, no specified matters can remain missing for that transaction and no separate Specified-Matter Documentation is required. This treatment may benefit both foreign-owned Japanese subsidiaries and Japanese multinational groups. However, a local file may not include details of every transaction, and the Special Rules do not contain the transaction-value thresholds that apply to contemporaneous local-file documentation. Each transaction should therefore be reviewed to confirm that all required information is covered.

5. Compliance for tax audits and rescission of approval to file a blue return

The NTA's Administrative Guidelines state that determining a taxpayer's compliance with the Special Rules requires interpretation of the applicable law and assessment of the relevant facts, and should not be based solely on whether particular documents have been retained. For a corporation filing blue returns, the tax authorities determine whether to rescind approval to file a blue return after considering the document-retention status, whether any deficiency can be corrected, the seriousness of the noncompliance, and other circumstances. If the noncompliance is concluded as minor, the tax authorities may provide corrective guidance rather than rescind the approval.

If, during a tax audit, the Specified-Matter Documentation has not been retained or contains insufficient detail, the tax examiner clarifies the required items and then allows a reasonable period for the taxpayer to obtain or prepare and present the documentation. This administrative approach can provide the taxpayer an opportunity to address identified deficiencies before an adverse action by tax examiners.

The NTA has also clarified that retaining the Specified-Matter Documentation is not a condition for the deductibility of expenses arising from related-party transactions under the Corporation Tax Act. A deduction is therefore not denied solely because the documentation was not retained. Nevertheless, the deductibility of the expenses may still be challenged if the basis for calculating the consideration, the benefit received, or the substance of the transaction is not adequately supported. Domestic corporations should therefore maintain materials that substantiate payments to both domestic and foreign group companies, while separately addressing any requirement to support an arm's length price for cross-border related-party transactions.

6. Next steps for taxpayers

In light of the above, a domestic corporation in Japan should first identify its covered related-party transactions with both domestic and foreign group companies, and assess whether it has retained adequate documentation for each transaction. This review is relevant to foreign-owned Japanese subsidiaries, Japanese-headquartered companies, and Japanese multinational groups alike. The corporation should also identify where the relevant information is maintained within the group, and establish an intra-group process for obtaining that information when needed.

Obtaining supporting calculations for shared-service cost allocations can be challenging in practice, particularly when the information is held outside Japan. Foreign parent companies, foreign subsidiaries, shared-service centers, and other group entities should understand the Special Rules and be prepared to provide service descriptions, allocation keys, calculation workpapers, and other supporting information to the relevant domestic corporation without delay. The group should establish procedures for obtaining, reviewing, and retaining that information before it is requested in a tax audit. Determining whether a transaction is covered and whether the documentation contains sufficient detail requires a fact-specific analysis. Assessing the related risks, including possible rescission of approval to file a blue return and challenges to deductibility, also requires a fact-specific analysis.

The takeaway

Following the promulgation of the amended Ordinance for Enforcement of the Corporation Tax Act and the NTA's issuance of revisions to the Corporation Tax Basic Circular together with the NTA's Administrative Guidelines, it is clear that the Special Rules do not require an excessive level of detail in every case. Instead, the available documentation must enable a third party, such as a tax examiner, to obtain an objective understanding of the related-party transaction based on its facts and circumstances. The guidance also provides measures intended to reduce the compliance burden, including the use of multiple documents, flexibility regarding the place of retention, simplified documentation for recurring transactions, and use of the local file. At the same time, taxpayers must manage risks associated with rescission of approval to file a blue return and challenges to deductibility.

The Special Rules may significantly affect any domestic corporation that pays shared-service cost allocations, royalties, management fees, or other covered transactions to related parties. This includes foreign-owned Japanese subsidiaries as well as Japanese-headquartered group companies. A consistently-coordinated response is therefore important; it is important to establish procedures for obtaining information and ensuring alignment with the local file and other transfer pricing documentation.

Let’s talk

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

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