



KPMG Japan Tax Newsletter

26 July 2021



2021 TAX REFORM

AMENDMENTS TO SCOPE OF INHERITANCE TAX/GIFT TAX

I. Outline of the Amendments and Timing of Application	2
1. Outline of the amendments	2
2. Timing of application.....	4
II. Scope of Taxable Assets of Inheritance Tax/Gift Tax	
1. Scope of taxable assets	5
2. Comparison of conditions before and after amendments.....	5
3. Transitional measure of the 2017 tax reform	7
III. Repeal of the Special Measures for Short-term Non-resident Donors....	8

Inheritance tax and gift tax are levied on an heir who acquires assets by inheritance and an individual (a donee) who acquires assets from another individual (a donor) as a gift, respectively. The scope of taxable assets depends on whether the individuals have or had domicile in Japan and whether they hold Japanese nationality, etc.

In the past tax reform, in order to promote acceptance of non-Japanese nationals into Japan, overseas assets were excluded from the scope of taxable assets for inheritance tax/gift tax purposes under certain conditions, where the underlying inheritance/gift involves non-Japanese nationals who reside or had resided temporarily in Japan or left Japan.

By virtue of the 2021 tax reform, in order to promote employment of highly-skilled foreign talent in Japan, the overseas assets acquired by non-Japanese nationals, who reside overseas or reside in Japan temporarily, are excluded from the scope of taxable assets for inheritance tax/gift tax purposes, where the underlying inheritance/gift involves a decedent/donor who is a non-Japanese national and is domiciled in Japan for employment, etc. regardless of their residence period.

I. Outline of the Amendments and Timing of Application

1. Outline of the amendments

The following is an outline of the amendments under the 2021 tax reform:

(1) Where non-Japanese national who resides in Japan for employment, etc. is decedent/donor

Inheritance tax/gift tax is not imposed on the overseas assets acquired by the following heir/donee from the following decedent/donor by inheritance (including the gift which becomes effective due to the death of the donor)/gifts (excluding the gift which becomes effective due to the death of the donor):

Heir/donee	<ul style="list-style-type: none"> A non-Japanese national with resident status who resides in Japan when an event occurs causing the inheritance/gift (excluding non-Japanese national whose total period of having domicile in Japan is more than 10 years within the past 15 years before an event occurs causing the inheritance/gift) A non-Japanese national who resides overseas when an event occurs causing the inheritance/gift
Decedent/donor	<ul style="list-style-type: none"> A non-Japanese national with resident status who resides in Japan when an event occurs causing the inheritance/gift

(The above tax treatment focuses on the amendments in the case of inheritance/gift between non-Japanese nationals. Please note that the same tax treatment is also applied where heir/donee is a Japanese national who resides overseas when an event occurs causing the inheritance/gift and who had never been domiciled in Japan within 10 years before an event occurs causing the inheritance/gift.)

Before the amendments, 'the total period of having domicile in Japan is 10 years or less within the past 15 years before an event occurs causing the inheritance/gift' should also be satisfied as a condition for the above decedent/donor (those classified as 'B' in the table shown in II. 1.). By virtue of the 2021 tax reform, the condition is repealed as follows:

	Before amendment		After amendment
Classification of decedent/donor	A non-Japanese national with resident status who resides in Japan when an event occurs causing the inheritance/gift		A non-Japanese national with resident status who resides in Japan when an event occurs causing the inheritance/gift (<u>regardless of the residence period</u>)
	Whose total period of having domicile in Japan is <u>10 years or less</u> within the past 15 years before an event occurs causing the inheritance/gift	Whose total period of having domicile in Japan is <u>more than 10 years</u> within the past 15 years before an event occurs causing the inheritance/gift	
Scope of taxable assets	Limited to domestic assets	Both domestic and overseas assets	Limited to domestic assets

(Refer to II. for a comparison of the conditions of decedent/donor before and after the amendments.)

(2) Where non-Japanese national who resided in Japan makes a gift after leaving Japan

Gift tax is not imposed on the overseas assets acquired by the following donee from the following donor by gifts:

Donee	<ul style="list-style-type: none"> A non-Japanese national with resident status who resides in Japan when an event occurs causing the gift (excluding non-Japanese national whose total period of having domicile in Japan is more than 10 years within the past 15 years before an event occurs causing the gift) A non-Japanese national who resides overseas when an event occurs causing the gift
Donor	<ul style="list-style-type: none"> A non-Japanese national who does not have domicile in Japan when an event occurs causing the gift, had been domiciled in Japan at a point in time within 10 years before an event occurs causing the gift and does not have Japanese nationality at any time of having domicile in Japan

(The above tax treatment focuses on the amendments in the case of gift between non-Japanese nationals. Please note that the same tax treatment is applied where donee is a Japanese national who resides overseas, when an event occurs causing the gift, and who has never been domiciled in Japan within 10 years before an event occurs causing the gift.)

Before the amendments, either '(i) the total period of having domicile in Japan is 10 years or less within the past 15 years before leaving Japan^(*)' or '(ii) the total period of having domicile in Japan is more than 10 years within the past 15 years before leaving Japan^(*) and 2 years have elapsed after leaving Japan' should also be satisfied as a condition for the above donor (those classified as 'D1' in the table shown in II. 1.). By virtue of the 2021 tax reform, the condition is repealed as follows:

	Before amendment		After amendment
Classification of donor	A non-Japanese national who does not have domicile in Japan when an event occurs causing the gift, and who had been domiciled in Japan at a point in time within 10 years before an event occurs causing the gift		A non-Japanese national who does not have domicile in Japan when an event occurs causing the gift, had been domiciled in Japan at a point in time within 10 years before an event occurs causing the gift and does not have Japanese nationality at any time of having domicile in Japan (<u>regardless of the residence period</u>)
	Who falls under either of the following: (i) where the total period of having domicile in Japan is 10 years or less within the past 15 years before leaving Japan ^(*) (ii) where the total period of having domicile in Japan is more than 10 years within the past 15 years before leaving Japan ^(*) and 2 years have elapsed after leaving Japan	Other than left	
Scope of taxable assets	Limited to domestic assets	Both domestic and overseas assets	Limited to domestic assets

^(*) The donor should also satisfy the condition that the donor does not have Japanese nationality for the period of having domicile in Japan.

(Refer to II. for a comparison of the conditions for the donor before and after the amendments.)

2. Timing of Application

The above amendments shown in 1. are applied to inheritance tax/gift tax imposed on assets acquired by inheritance or gift on or after 1 April 2021.

[Reference information]

‘Resident status’ under the Immigration Control and Refugee Recognition Act

Table 1	(i)	Diplomat, Official, Professor, Artist, Religious Activities, Journalist
	(ii)	Highly Skilled Professional, Business Manager, Legal/Accounting Services, Medical Services, Researcher, Instructor, Engineer/Specialist in Humanities/International Services, Intra-company Transferee, Nursing Care, Entertainer, Skilled Labor, Specified Skilled Worker, Technical Intern Training
	(iii)	Cultural Activities, Temporary Visitor
	(iv)	Student, Trainee, Dependent
	(v)	Designated Activities
Table 2		Permanent Resident, Spouse or Child of Japanese National, Spouse or Child of Permanent Resident, Long-Term Resident

‘Resident status’ from (i) to (v) of the above Table 1 is applicable to the amendments explained in this KPMG Japan Tax Newsletter.

II. Scope of Taxable Assets of Inheritance Tax/Gift Tax



1. Scope of taxable assets

The following matrix shows the scope of taxable assets of inheritance tax/gift tax:

Although the conditions for the decedent/donor classified as 'B' and the donor classified as 'D1' are amended as explained in I. (refer to 2. for details), other conditions and the scope of taxable assets are the same as before the amendments.

Decedent Donor		Heir Donee		Domicile in Japan		No domicile in Japan		
				E	F	Japanese national		Non-Japanese national I
						G Domicile in Japan within past 10 years	H No domicile in Japan within past 10 years	
Domicile in Japan		A						
		B						
No domicile in Japan	Domicile in Japan within past 10 years	C						
		D1						
	No domicile in Japan within past 10 years	D2						

[Scope of taxable assets]

	Both domestic and overseas assets
	Limited to domestic assets

2. Comparison of conditions before and after amendments

(1) B

Conditions before amendments	Conditions after amendments
Decedent/donor <ul style="list-style-type: none"> • who has domicile in Japan and resident status when an event occurs causing the inheritance/gift and • <u>whose total period of having domicile in Japan is 10 years or less within the past 15 years before an event occurs causing the inheritance/gift</u> 	Decedent/donor <ul style="list-style-type: none"> • who has domicile in Japan and resident status when an event occurs causing the inheritance/gift

- The condition of 'total period of having domicile in Japan is 10 years or less within the past 15 years before an event occurs causing the inheritance/gift' was repealed.

(2) D1

Conditions before amendments	Conditions after amendments
Decedent <ul style="list-style-type: none"> • who does not have domicile in Japan when an event occurs causing the inheritance, • who had been domiciled in Japan at a point in time within 10 years before an event occurs causing the inheritance and • who does not have Japanese nationality at any time of having domicile in Japan 	Decedent/donor <ul style="list-style-type: none"> • who does not have domicile in Japan when an event occurs causing the inheritance/gift, • who had been domiciled in Japan at a point in time within 10 years before an event occurs causing the inheritance/gift and • who does not have Japanese nationality at any time of having domicile in Japan
Donor <ul style="list-style-type: none"> • who does not have domicile in Japan at the time of the gift, • who had been domiciled in Japan at a point in time within 10 years before the gift and • who falls under either of the following: <ul style="list-style-type: none"> (i) where the total period of having domicile in Japan is 10 years or less within the past 15 years before leaving Japan (the donor does not have Japanese nationality for the period of having domicile in Japan); or (ii) where the total period of having domicile in Japan is more than 10 years within the past 15 years before leaving Japan (the donor does not have Japanese nationality for the period of having domicile in Japan) and 2 years have elapsed after leaving Japan 	

The conditions for donor classified in 'D1' are amended and become the same conditions for the decedent.

<Conditions other than above (no amendments)>

D2	Decedent/donor <ul style="list-style-type: none"> • who does not have domicile in Japan when an event occurs causing the inheritance/gift and • who had never been domiciled in Japan within 10 years before an event occurs causing the inheritance/gift
F	Heir/donee <ul style="list-style-type: none"> • who has domicile in Japan and resident status when an event occurs causing the inheritance/gift and • whose total period of having domicile in Japan is 10 years or less within the past 15 years before an event occurs causing the inheritance/gift

3. Transitional measure of the 2017 tax reform

By virtue of the 2017 tax reform, overseas assets were added to the scope of taxable assets of inheritance tax/gift tax where an heir/donee who is a non-Japanese national and resides overseas acquires them from a decedent/donor who resides overseas and who had been domiciled in Japan at a point in time within 10 years before the inheritance/gift (except for the decedent/donor categorized in 'D1'^(*)).

^(*) The decedent/donor categorized in 'D1' after the 2017 tax reform (and before the 2018 tax reform) was the decedent/donor meeting the following conditions:

- who does not have domicile in Japan when an event occurs causing inheritance/gift,
- who had been domiciled in Japan at a point in time within 10 years before an event occurs causing inheritance/gift,
- whose total period of having domicile in Japan is 10 years or less within the past 15 years before an event occurs causing inheritance/gift and
- who does not have Japanese nationality for the period of having domicile in Japan

In accordance with the amendment under the 2017 tax reform, a transitional measure was provided. Where an heir/donee, who is a non-Japanese national and resides overseas, acquires assets during the period from 1 April 2017 to 31 March 2022 from the following 'non-Japanese person who resides overseas', the scope of assets subject to inheritance tax/gift tax is limited to domestic assets:

Non-Japanese person who resides overseas	A person who has neither domicile in Japan nor Japanese nationality for the period from 1 April 2017 to the time when an event occurs causing inheritance/gift (i.e. a non-Japanese national who has left Japan by 1 April 2017 and who continues to reside overseas, etc.)
--	--

The above transitional measure will be continuously applied to inheritance tax/gift tax after the 2021 tax reform.

III. Repeal of the Special Measures for Short-term Non-resident Donors

By virtue of the 2021 tax reform, the special measures for short-term non-resident donors which had been established under the 2018 tax reform were repealed on or after 1 April 2021.

Where a person acquired assets from the specified donor (please see below) by gift before 1 April 2021, the special measures for short-term non-resident donors can be applied to the gift tax return filed by the person even on or after 1 April 2021.

<Special Measures for Short-term Non-resident Donors>

Where a non-Japanese national who resides overseas acquired assets from a specified donor by gift, the donee is required to file a gift tax return depending on the cases as follows (not between 1 February and 15 March of the year following the year in which the donee acquired the assets):

Specified donor	<p>A 'specified donor' is a donor meeting the following conditions:</p> <ul style="list-style-type: none"> • who does not have domicile in Japan at the time of the gift, • who had been domiciled in Japan at a point in time within 10 years before the gift, • whose total period of having domicile in Japan is more than 10 years within the past 15 years before leaving Japan (who does not have Japanese nationality for the period of having domicile in Japan) and • who left Japan within the past 2 years
-----------------	---

	Cases	Taxable assets	Filing due date
(i)	Where the specified donor returned to Japan within 2 years after leaving Japan	Both domestic and overseas assets	Between 1 February and 15 March of the year following the year in which the specified donor returned to Japan
(ii)	Where 2 years elapsed since the specified donor left Japan (without returning to Japan)	Limited to domestic assets	Between 1 February and 15 March of the year following the year in which 2 years elapsed since the specified donor left Japan

KPMG Tax Corporation

Tokyo Office

Izumi Garden Tower,
1-6-1 Roppongi, Minato-ku,
Tokyo 106-6012
TEL : +81 (3) 6229 8000
FAX : +81 (3) 5575 0766

Osaka office

Osaka Nakanoshima Building 15F,
2-2-2 Nakanoshima, Kita-ku,
Osaka 530-0005
TEL : +81 (6) 4708 5150
FAX : +81 (6) 4706 3881

Nagoya office

Dai Nagoya Building 26F,
28-12 Meieki 3-chome, Nakamura-ku,
Nagoya 450-6426
TEL : +81 (52) 569 5420
FAX : +81 (52) 551 0580

Kyoto Office

Nihon Seimei Yasaka Building 7F,
843-2 Higashi Shiokoji-cho,
Shiokoji-dori Nishinotoin-higashiiru, Shimogyo-ku,
Kyoto 600-8216
TEL : +81 (75) 353 1270
FAX : +81 (75) 353 1271

Hiroshima Office

Hiroshima Kogin Buiding 7F,
2-1-22 Kamiya-cho, Naka-ku,
Hiroshima 730-0031
TEL : +81 (82) 241 2810
FAX : +81 (82) 241 2811

Fukuoka Office

Kamiyo Watanabe Building 4F,
1-12-14 Tenjin, Chuo-ku,
Fukuoka 810-0001
TEL : +81 (92) 712 6300
FAX : +81 (92) 712 6301

info-tax@jp.kpmg.com

home.kpmg/jp/tax-en

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2021 KPMG Tax Corporation, a tax corporation incorporated under the Japanese CPTA Law and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.