



KPMG Japan Tax Newsletter

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OUTLINE OF THE 2024 TAX REFORM PROPOSALS

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The ruling coalition (the Liberal Democratic Party and Komeito) agreed on the 'Outline of the 2024 Tax Reform Proposals' ('Proposal') on 14 December 2023. We have set out below brief summaries of the main points of the Proposal.

The Proposal itself is only an indicative outline and is unclear with respect to some of the contemplated changes. The details of the tax reform will be unveiled in the bills revising the tax laws and the succeeding amended tax laws, cabinet orders and ministerial ordinances. Please note that the final tax reform could differ from the Proposal depending on the outcome of discussions in the Diet.

I. Corporate Taxation

1. Tax Credits for Promotion of Salary Increases

Where a blue-return filing company meets certain conditions such as sufficient salary increases for fiscal years beginning on or before 31 March 2024, tax credits based on the amount of the salary increase, etc. are allowed.

By virtue of the 2024 tax reform, the applicable period of this measure will be extended by 3 years. In addition, among traditional large-sized companies, companies whose number of regular employees is 2,000 or less will be newly categorized as ‘middle-scale companies’ and the conditions for application of the measure and the creditable ratios will be amended from the perspective of strengthening incentives for salary increases, realizing a structure by which salary exceeds prices and creating an environment to make people realize the benefits of overcoming deflation as well as having positive effects on overall working styles.

(1) Measures for all companies (for extra-large-sized companies)

In order to strengthen incentives for higher salary increases, conditions for higher salary increases will be introduced for extra-large-sized companies with more than 2,000 regular employees who are expected to play a leading role in salary increases despite rising prices.

In addition, in order to provide incentives for investment in human resources and for the creation of a pleasant workplace, additional conditions for increases in education and training costs will be mitigated after adding conditions to secure a certain level of education and training costs. Furthermore, from the perspective of supporting initiatives to balance childcare and work, and to promote women’s advancement, a new additional creditable ratio will be introduced by using the certification system (‘Kurumin’ and ‘Eruboshi’) by the Ministry of Health, Labour and Welfare for companies that are active in such efforts. (As for these additional measures, the conditions applied to middle-scale companies and small and medium-sized companies described in (2) and (3) below will also be amended in the same manner.)

Specifically, the current measure (small and medium-sized companies are also allowed to apply the measures described in (3) below) will be amended as follows:

[Current tax law]

Applicable period: Fiscal years beginning between 1 April 2022 and 31 March 2024

Conditions ^(*1) and creditable ratio ^(*2)				Maximum creditable ratio
Conditions for salary increase		Conditions for additional creditable ratio		
Increase ratio of salary payments ^(*3)	Creditable ratio	For education and training costs	Creditable ratio	
3% or more from the preceding fiscal year	15%	Increase of 20% or more from the preceding fiscal year	5%	20%
4% or more from the preceding fiscal year	25%			30%

^(*) For companies, whose number of regular employees is 1,000 or more with stated capital of JPY1 billion or more at the end of the fiscal year, the announcement of multi-stakeholder policies is also a condition for application of this measure.

(*2) The creditable amount is calculated using the following formula, and the upper limit is 20 percent of the corporation tax liability.

$$\{[\text{Salary payments in the current fiscal year}] - [\text{Salary payments in the preceding fiscal year}]\} \times \text{creditable ratio}$$

(*3) This means the increase ratio of salary payments for continuously employed people.

[Proposal]

Applicable period: Fiscal years beginning between 1 April 2024 and 31 March 2027

Conditions ^(*1) and creditable ratio ^(*2)						Maximum creditable ratio
Conditions for salary increase		Conditions for additional creditable ratio				
Increase ratio of salary payments ^(*3)	Creditable ratio	For education and training costs	Creditable ratio	For supporting women's advancement, etc.	Creditable ratio	
3% or more from the preceding fiscal year	10%	Increase of 10% or more from the preceding fiscal year and Education and training costs are 0.05% or more of salary payments	5%	Having received 'Platinum Kurumin' certification or 'Platinum Eruboshi' certification	5%	20%
4% or more from the preceding fiscal year	15%					25%
5% or more from the preceding fiscal year	20%					30%
7% or more from the preceding fiscal year	25%					35%

(*1) For companies, whose number of regular employees is 1,000 or more with stated capital of JPY1 billion or more, as well as those whose number of regular employees is more than 2,000, the announcement of multi-stakeholder policies will also be a condition for application of this measure.

(*2) The creditable amount is calculated using the following formula, and the upper limit is 20 percent of the corporation tax liability.

$$\{[\text{Salary payments in the current fiscal year}] - [\text{Salary payments in the preceding fiscal year}]\} \times \text{creditable ratio}$$

(*3) This means the increase ratio of salary payments for continuously employed people.

(2) Measures for middle-scale companies

Among traditional large-sized companies, those whose number of regular employees is 2,000 or less, which are expected to play a role in promoting salary increases and a virtuous economic cycle in their region (excluding those in which the total number of regular employees of the company and any company that has a control relationship with the company exceeds 10,000), the creditable ratios will be amended while the conditions for salary increase are maintained in order to create an environment that makes it easier to increase salaries.

Specifically, the current measure (small and medium-sized companies are also allowed to apply the measures described in (3) below) will be amended as follows:

[Current tax law]

Applicable period: Fiscal years beginning between 1 April 2022 and 31 March 2024

Conditions ^(*1) and creditable ratio ^(*2)				Maximum creditable ratio
Conditions for salary increase		Conditions for additional creditable ratio		
Increase ratio of salary payments ^(*3)	Creditable ratio	For education and training costs	Creditable ratio	
3% or more from the preceding fiscal year	15%	Increase of 20% or more from the preceding fiscal year	5%	20%
4% or more from the preceding fiscal year	25%			30%

(*) For companies, whose number of regular employees is 1,000 or more with stated capital of JPY1 billion or more at the end of the fiscal year, the announcement of multi-stakeholder policies is also a condition for application of this measure.

(*) The creditable amount is calculated using the following formula, and the upper limit is 20 percent of the corporation tax liability.

$$\{[\text{Salary payments in the current fiscal year}] - [\text{Salary payments in the preceding fiscal year}]\} \times \text{creditable ratio}$$

(*) This means the increase ratio of salary payments for continuously employed people.

[Proposal]

Applicable period: Fiscal years beginning between 1 April 2024 and 31 March 2027

Conditions ^{(*)1} and creditable ratio ^{(*)2}						Maximum creditable ratio
Conditions for salary increase		Conditions for additional creditable ratio				
Increase ratio of salary payments ^{(*)3}	Creditable ratio	For education and training costs	Creditable ratio	For supporting women’s advancement, etc.	Creditable ratio	
3% or more from the preceding fiscal year	10%	Increase of 10% or more from the preceding fiscal year	5%	Having received ‘Platinum Kurumin’ certification or ‘Platinum Eruboshi’ certification	5%	20%
4% or more from the preceding fiscal year	25%	and Education and training costs are 0.05% or more of salary payments		or Received ‘Eruboshi’ certification (third stage) in the current fiscal year		35%

(*) For companies, whose number of regular employees is 1,000 or more with stated capital of JPY1 billion or more at the end of the fiscal year, the announcement of multi-stakeholder policies will also be a condition for application of this measure.

(*) The creditable amount is calculated using the following formula, and the upper limit is 20 percent of the corporation tax liability.

$$\{[\text{Salary payments in the current fiscal year}] - [\text{Salary payments in the preceding fiscal year}]\} \times \text{creditable ratio}$$

(*) This means the increase ratio of salary payments for continuously employed people.

(3) Measures for small and medium-sized companies

With respect to measures for small and medium-sized companies, a 5-year carry-forward system will be newly introduced in order to encourage loss-making companies, which have not been able to apply this measure, to give salary increases while the conditions for salary increases and creditable ratios are maintained.

[Current tax law]

Applicable period: Fiscal years beginning between 1 April 2022 and 31 March 2024

Conditions and creditable ratio ^(*)				Maximum creditable ratio
Conditions for salary increase		Conditions for additional creditable ratio		
Increase ratio of salary payments	Creditable ratio	For education and training costs	Creditable ratio	
1.5% or more from the preceding fiscal year	15%	Increase of 10% or more from the preceding fiscal year	10%	25%
2.5% or more from the preceding fiscal year	30%			40%

^(*) The creditable amount is calculated using the following formula, and the upper limit is 20 percent of the corporation tax liability.

$$\{[\text{Salary payments in the current fiscal year}] - [\text{Salary payments in the preceding fiscal year}]\} \times \text{creditable ratio}$$

[Proposal]

Applicable period: Fiscal years beginning between 1 April 2024 and 31 March 2027

Conditions and creditable ratio ^(*)						Maximum creditable ratio
Conditions for salary increase		Conditions for additional creditable ratio				
Increase ratio of salary payments	Creditable ratio	For education and training costs	Creditable ratio	For supporting women’s advancement, etc.	Creditable ratio	
1.5% or more from the preceding fiscal year	15%	Increase of 5% or more from the preceding fiscal year	10%	Having received ‘Platinum Kurumin’ certification or ‘Platinum Eruboshi’ certification or Received ‘Kurumin’ certification or ‘Eruboshi’ certification (second stage or more) in the current fiscal year	5%	30%
2.5% or more from the preceding fiscal year	30%	and Education and training costs are 0.05% or more of salary payments		45%		

^(*) The creditable amount is calculated using the following formula, and the upper limit is 20 percent of the corporation tax liability.

$$\{[\text{Salary payments in the current fiscal year}] - [\text{Salary payments in the preceding fiscal year}]\} \times \text{creditable ratio}$$

In addition, a carry-forward system will be introduced to allow carry forward for 5 years where there is any remaining creditable amount which has not been credited against the corporation tax liability in the current fiscal year. Note that the application of a carry-forward system will be limited to fiscal years when salary payments in the

fiscal year, in which the tax credit of the carried forward amount is applied, exceed salary payments in the preceding fiscal year in order to realize a sustainable salary increase.

(4) Amendments for multi-stakeholder policies

Corresponding to the introduction of measures for middle-scale companies, the scope of companies which are required to announce multi-stakeholder policies for the application of the measure will be expanded. In addition, along with the implementation of the invoicing system, the items to be included in the multi-stakeholder policy will be clarified and business partners with consumption tax exemption status will be included in the policy for building appropriate relationships with business partners.

	Current tax law	Proposal
Covered company	Companies whose number of regular employees is 1,000 or more with stated capital of JPY1 billion or more	Companies whose number of regular employees is 1,000 or more with stated capital of JPY1 billion or more, as well as those whose number of regular employees is more than 2,000
Items to be stated	Policies for salary increase, policies for building appropriate relationship with business partners, etc.	It will be clarified that 'business partners' include those who have consumption tax exemption status.

Other necessary amendments will be provided.

[Definition of key terms]

- Large-sized companies: Companies other than small and medium-sized companies
- Small and medium-sized companies: (i) or (ii) below:
 - (i) Companies with stated capital of JPY100 million or less, except for the following cases:
 - at least 50 percent of the shares are held by one large-scale company (e.g., a company whose stated capital is over JPY100 million); or
 - at least two-thirds of the shares are held by two or more large-scale companies
 - (ii) Companies with no capital whose number of regular employees is 1,000 or less

Note that a company whose 'annual average income' is over JPY1.5 billion is excluded from the definition of small and minimum-sized companies. 'Annual average income' is measured using income in the fiscal years ended during 3 years before the beginning date of the current fiscal year.

- Salary payments: Salary paid to domestic employees which is deductible in calculating the company's income for each fiscal year
- Domestic employees: Employees (excluding employees who have a special relationship with directors or who have the status of directors) working at offices located in Japan, who are listed in a wage ledger prescribed by the Labor Standards Act
- Continuously employed people: Certain domestic employees who worked for the full period of the current fiscal year and the full period of the preceding fiscal year

2. Restriction on Eligible Companies for Special Tax Measures

Large-sized companies, which do not take positive actions for salary increases and capital investment in spite of increasing their profits, are restricted from certain types of special tax measures.

By virtue of the 2024 tax reform, the applicable period of this measure will be extended by 3 years and the conditions will be strengthened.

[Current tax law]

(1) Outline of the measures	Large-sized companies are not allowed to apply tax credits under the five special tax measures indicated in (3) below for fiscal years beginning before 1 April 2024 where neither condition (i) nor (ii) in (2) is met.				
(2) Conditions	Neither (i) nor (ii) is met:				
	(i)	Certain large-sized companies	Salary payments for continuously employed people in the current fiscal year	\geq	Salary payments for continuously employed people in the preceding fiscal year $\times 101\%$
		Companies other than the above	Salary payments for continuously employed people in the current fiscal year	$>$	Salary payments for continuously employed people in the preceding fiscal year
	(ii)	Total acquisition costs of depreciable assets located in Japan in the current fiscal year		$>$	Total depreciation costs of depreciable assets recorded in the current fiscal year $\times 30\%$
		This rule is not applied for fiscal years where the current fiscal year's adjusted taxable income is equal to or smaller than the preceding fiscal year's adjusted taxable income.			
	(3) Scope of special tax measures to be restricted	Tax credits under the following measures: <ul style="list-style-type: none">• Tax credits for R&D costs• Special measures for promoting future investment in communities• Special measures for promoting investment in 5G technology• Special measures for promoting investment in digital transformation• Special measures for promoting investment for carbon neutrality			

[Proposal]

The applicable period of this measure and conditions will be amended as follows:

	Current tax law	Proposal
Applicable period	Fiscal years beginning before 1 April 2024	Fiscal years beginning before 1 April 2027
Scope of 'certain large-sized companies' in condition (i)	Companies which fall under both of the following: <ul style="list-style-type: none"> (a) The stated capital is JPY1 billion or more, and the number of regular employees is 1,000 or more (b) Certain cases where adjusted taxable income in the preceding fiscal year exceeds zero 	Companies which fall under any of the following (a) and (c) or (b) and (c): <ul style="list-style-type: none"> (a) The stated capital is JPY1 billion or more, and the number of regular employees is 1,000 or more (b) The number of regular employees is more than 2,000 (c) Certain cases where adjusted taxable income in the preceding fiscal year exceeds zero

Condition (ii)	<div> <div>[Total acquisition costs of depreciable assets located in Japan in the current fiscal year]</div> <div>></div> <div>[Total depreciation costs of depreciable assets recorded in the current fiscal year] x 30%</div> </div>	Certain large-sized companies	<div>[Total acquisition costs of depreciable assets located in Japan in the current fiscal year]</div> <div>></div> <div>[Total depreciation costs of depreciable assets recorded in the current fiscal year] x 40%</div>
		Companies other than the above	Same as the current condition

[Definition of key terms]

- Total acquisition costs of depreciable assets located in Japan: Total acquisition costs of the depreciable assets (limited to buildings and facilities attached to buildings, structures, machinery, ships, aircraft, vehicles and delivery equipment, tools, furniture and fixtures, certain intangible fixed assets and certain animals) among assets (except for inventories, securities and deferred assets) in use for business in Japan and acquired in the current fiscal year and owned by a company at the end of the current fiscal year
- Total depreciation costs of depreciable assets recorded in the current fiscal year: Total depreciation costs of depreciable assets owned by a company and recorded as expenses in the books of account (the amount of excess depreciation in the preceding fiscal year is excluded and the amount recognized as a special reserve is included.)

(Please refer to [Definition of key terms] in ‘1. Tax Credits for Promotion of Salary Increases’ for other terms.)

3. Special Measures for Promoting Domestic Production in Strategic Fields

In order to raise the potential economic growth rate through improvement of productivity and enhancement of supply capacity, it is important to intensively promote domestic investment in fields that will drive medium- to long-term economic growth and truly strengthen Japan’s supply capacity. From this perspective, special measures for promoting domestic production in strategic fields will be introduced. The measures target investments in the strategic fields of GX, DX, and economic security, which are difficult for the private sector to make profitable but require particularly strategic long-term investments for the Japanese government. The measures provide tax credits in proportion to the production and sales volume of these investments.

The measures are subject to the amendments to the ‘Industrial Competitiveness Enhancement Act’ (hereinafter ‘Act’) and an outline of the measures is as follows:

Eligible companies	Blue-return filing companies whose plans for business adaptation ^{(*)1} are certified under the amended Act during the period from the enforcement date of the amended Act to 31 March 2027			
Conditions	Where eligible companies newly construct or expand the facilities for producing the products strengthening infrastructure for industrial competitiveness listed in the plans for business adaptation, those companies acquire the machines and other depreciable assets for the construction or the expansion (hereinafter ‘assets for producing the products strengthening infrastructure for industrial competitiveness’) and place them in service for business in Japan.			
Applicable fiscal year for tax credits	Each fiscal year including a day within 10 years from the certified day of the plans for business adaptation (hereinafter ‘applicable period’)			
Amount of tax credits	The lesser of the following: (1) The amount based on the sales volume, etc. of the products strengthening infrastructure for industrial competitiveness that are produced using ‘assets for producing the products strengthening infrastructure for industrial competitiveness’ during the applicable period in the fiscal year (2) The amount stated in the plans for business adaptation as the total amount of investment in the ‘assets for producing the products strengthening infrastructure for industrial competitiveness’ and the depreciable assets used directly or indirectly to produce the products strengthening infrastructure for industrial competitiveness (excluding the amount already applied to the tax credits under the measures)			
	Category of the products strengthening infrastructure for industrial competitiveness			‘Amount based on the sales volume, etc.’ in (1) above ^{(*)2}
	Semiconductors	Microcomputer semiconductors	Technology node 28-45nm equivalent	JPY16,000 / 1 sheet ^{(*)3}
			Technology node 45-65 nm equivalent	JPY13,000 / 1 sheet ^{(*)3}
			Technology node 65-90 nm equivalent	JPY11,000 / 1 sheet ^{(*)3}
			Technology node 90nm or more equivalent	JPY7,000 / 1 sheet ^{(*)3}
		Power semiconductors	Wafer mainly composed of silicon	JPY6,000 / 1 sheet ^{(*)3}
			Wafer mainly composed of silicon carbide or gallium nitride	JPY29,000 / 1 sheet ^{(*)3}
		Analog semiconductors	Image sensor	JPY18,000 / 1 sheet ^{(*)3}
			Other than the above	JPY4,000 / 1 sheet ^{(*)3}
	Electric vehicle	Electric vehicle and fuel cell electric vehicle that are not light vehicles		JPY400,000 / 1 vehicle
		Other than those above		JPY200,000 / 1vehicle
	Green steel			JPY20,000 / 1 ton
	Green chemicals			JPY50,000 / 1 ton
	Aviation fuel (SAF: Sustainable Aviation Fuel)			JPY30 / 1 liter
	Upper limit of the tax credits	Assets for producing semiconductors		Corporation tax liability x 20% ^{(*)4}
		Other than the above		Corporation tax liability x 40% ^{(*)4}
Carry-forward system	Assets for producing semiconductors		The amount in excess of the upper limit of the tax credit will be carried forward for 3 years	
	Other than the above		The amount in excess of the upper limit of the tax credit will be carried forward for 4 years	

Non-applicable conditions ^{(*)5}	The measures (except for the carry-forward system) will not be applicable to certain fiscal years in which the adjusted taxable income amount of the current fiscal year exceeds the adjusted taxable income amount of the previous fiscal year and neither (1) nor (2) is satisfied:			
	(1)	Salary payments for continuously employed people in the current fiscal year	≥	Salary payments for continuously employed people in the preceding fiscal year x 101%
	(2)	Total acquisition costs of depreciable assets located in Japan in the current fiscal year	>	Total depreciation costs of depreciable assets recorded in the current fiscal year x 40%

(*)1 It is limited to plans for business adaptation that state that the company will produce and sell the products strengthening infrastructure for industrial competitiveness under the amended Act as the business adaptation for environmental footprint reduction by energy consumption in accordance with the plan.

(*)2 Where the products strengthening infrastructure for industrial competitiveness are sold in the following periods, the ‘amount based on the sales volume, etc.’ in the table in (1) above will be replaced by the amount equivalent to the following, respectively:

Within the period from the day following the date on which 7 years have elapsed since (X) the date on which the assets for producing the products strengthening infrastructure for industrial competitiveness are placed in service for business in Japan’ to the date on which 8 years have elapsed since (X)	‘Amount based on the sales volume, etc.’ in the table in (1) above x 75%
Within the period from the day following the date on which 8 years have elapsed since (X) to the date on which 9 years have elapsed since (X)	‘Amount based on the sales volume, etc.’ in the table in (1) above x 50%
On or after the day following the date on which 9 years have elapsed since (X)	‘Amount based on the sales volume, etc.’ in the table in (1) above x 25%

(*)3 Diameter 200mm equivalent

(*)4 The amount of the upper limit of the tax credit is calculated based on the total amounts of the tax credits under the Special Measures for Promoting Investment in Digital Transformation and the Special Measures for Promoting Investment for Carbon Neutrality.

(*)5 Please refer to [Definition of key terms] in ‘1. Tax Credits for Salary Increases’ and ‘2. Restriction on Eligible Companies for Special Tax Measures.’

The amount of the tax credit under the measures will not be deducted from the taxable base (i.e., corporation tax) for local corporation tax purposes except for the amount of tax credits for semiconductor production assets. The measures will not be applied for corporate inhabitant tax purposes.

4. Innovation Box Tax System

From the viewpoint of strengthening Japan's competitiveness as an R&D base and encouraging investment in intangible assets by the private sector, tax measures for innovation will be introduced to allow an income deduction of 30 percent of the income arising from certain intellectual property generated as the result of R&D conducted by the company in Japan. The outline of the measure is as follows:

Applicable period	Fiscal years beginning between 1 April 2025 and 31 March 2032
Eligible company	Blue-return filing company which has eligible income
Eligible income	Income arising from the transfer of 'specified patent rights, etc.' to a resident or a Japanese company (excluding related parties ^{(*)1}) or the lending of specified patent rights, etc. ^{(*)2} to another person (excluding related parties ^{(*)1}) (hereinafter, 'patent rights, etc. transfer transaction')
Covered intellectual property ('Specified patent rights, etc.')	Certain patent rights and copyrights for programs using artificial intelligence related technologies acquired or produced on or after 1 April 2024
Tax measure (Income deduction)	<p>The amount equivalent to 30% of the smaller of the following amounts is deductible for the fiscal year:</p> <p>(1) The total amounts calculated by the formula of '(i) x (iii) / (ii)' for each 'patent rights, etc. transfer transaction' in the fiscal year^{(*)3}</p> <p>(i) The amount of income arising from the 'patent rights, etc. transfer transaction'</p> <p>(ii) Among the amount of R&D expenses incurred in the current fiscal year and the preceding fiscal year or before (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, etc.' of the 'patent rights, etc. transfer transaction'</p> <p>(iii) Total amount of qualified R&D expenses included in the amount of (ii) above</p> <p>(2) The amount of income for current fiscal year</p>

(*)1 Related parties are determined by the same standard of related parties in the transfer pricing rules.

(*)2 Lending of 'specified patent rights, etc.' includes the establishment of rights for 'specified patent rights, etc.' and the transactions of having other persons use 'specified patent rights, etc.'

(*)3 In the fiscal years beginning before 1 April 2027, where any of the 'specified patent rights, etc.' of the 'patent rights, etc. transfer transaction' in the current fiscal year are directly related to R&D started before the first day of the first fiscal year beginning on or after 1 April 2025, the amount in (1) will be replaced by the amount calculated by the formula of '(i) x (iii) / (ii)' below.

(i) Total amount of income arising from the 'patent rights, etc. transfer transaction' in the current fiscal year

(ii) Total amount of R&D expenses incurred in the current fiscal year and the preceding two fiscal years

(iii) Total amount of qualified R&D expenses included in the amount of (ii) above

The introduction of this tax measure will provide a tax benefit equivalent to a corporation tax rate of approximately 7 percent (23.2% x 30%) for eligible income. (The effective corporate tax rate will be reduced by approximately 9 percent (29.74% x 30%) from 29.74 percent to approximately 20 percent.)

Note that under this tax measure, where the acquisition cost or license fee of 'specified patent rights, etc.' paid by a company to its related parties is less than the arm's-length price, those transaction prices will be replaced by the arm's-length prices, and where such cost is paid by the company to its related parties in Japan, the company will be required to prepare necessary documents and present or submit them without delay upon request from the tax authorities.

In addition, a special provision to extend the statutory limitation for corrections, rules of inquiry and inspection to third parties engaging in the same business, application of the estimation clause when documents are not presented or submitted, and other necessary measures will be provided.

[Definition of key terms]

- R&D expenses: The amount of R&D expenses under the accounting standard for R&D expenses, etc. with certain adjustments
- Qualified R&D expenses: The amount of R&D expenses other than the acquisition cost of 'specified patent rights, etc.', license fees, consignment R&D expenses paid to a related overseas company, and R&D expenses for a business conducted through a foreign office, etc.

5. Taxation on Reorganizations (Tax-Qualified Contribution-In-Kind)

(1) Scope of tax-qualified contribution-in-kind

Under the current tax law, a contribution-in-kind, in which a Japanese company transfers foreign assets/liabilities to a head office, etc. of the foreign company, satisfies one of the conditions to be treated as a tax-qualified contribution-in-kind.

By virtue of the 2024 tax reform, a contribution-in-kind in which a Japanese company transfers intangible assets^(*) to a head office, etc. of the foreign company will be excluded from the scope of a tax-qualified contribution-in-kind.

Because of the fact that intangible assets can be easily separated from the place where the asset value was created, even the intangible assets created in Japan can belong to foreign offices, although part of the value has been created in Japan. This amendment is proposed from the viewpoint of preventing adverse tax effects caused by the transfer of unrealized gains on assets of Japanese companies out of Japan and ensuring Japanese taxation rights.

^(*) Intangible assets will be defined as the following assets which should be compensated for their commercial usage (sales, loan, etc.) between independent parties under ordinary terms and conditions:

- Industrial property rights or any other rights concerning technology, production methods involving special technology or any other equivalent rights or methods (including the right to use these rights)
- Copyrights (including publication rights, neighboring rights and other equivalent rights)

The above amendment will be applicable to contributions-in-kind made on or after 1 October 2024.

(2) Determination of location of assets/liabilities to be transferred by contribution-in-kind

One of the conditions for a tax-qualified contribution-in-kind is whether the assets/liabilities transferred by the contribution-in-kind are located in Japan or not.

By virtue of the 2024 tax reform, determination of the location of assets/liabilities will be amended as follows:

	Current tax law	Proposal
Assets/liabilities located in Japan	Real estate, etc. located in Japan and other assets/liabilities belonging to an office located in Japan	Real estate, etc. located in Japan and other assets/liabilities related to a business conducted through a head office, etc. of the Japanese company or a permanent establishment in Japan of the foreign company
Assets/liabilities located outside Japan	Assets/liabilities (excluding real estate, etc. located in Japan) belonging to an office located outside Japan	Assets/liabilities (excluding real estate, etc. located in Japan) related to a business conducted through a foreign office, etc. (equivalent to a permanent establishment located outside Japan, etc.) of the Japanese company or a head office, etc. of the foreign company

The above amendment will be applicable to contributions-in-kind made on or after 1 October 2024.

6. Entertainment Expenses

From the viewpoint of stimulating economic activities of small and medium enterprises, which play central roles in regional revitalization, and dispelling the deflationary mindset related to eating and drinking expenses, the tax rule for entertainment expenses will be amended.

(1) Amendment to the amount of deductible limit for eating and drinking expenses

Under the current tax law, eating and drinking expenses, whose cost is JPY5,000 or less per person (excluding those solely for the company's directors/employees and relatives of them), are excluded from non-deductible entertainment expenses, where the requirement for preservation of relevant documents is satisfied. ('Special measure for deductible eating and drinking expenses')

By virtue of the 2024 tax reform, the amount of deductible limit for eating and drinking expenses will be amended to JPY10,000 or less per person in consideration of the current status of expenses for business meetings.

The above amendment will be applied to eating and drinking expenses paid on or after 1 April 2024.

(2) Extension of applicable period

The rule for non-deductible entertainment expenses, including 'Special measure for deductible eating and drinking expenses' and 'Special measure for a small and medium-scale company', will be extended by 3 years to fiscal years beginning on or before 31 March 2027.

7. Size-Based Business Tax

(1) Companies Subject to Size-Based Business Tax

The number of companies subject to size-based business tax has decreased to approximately two-thirds of that at the introduction in 2004, mainly due to companies reducing stated capital to JPY100 million or less. Among such capital reductions, there are cases of capital reductions in which stated capital is simply transferred to the capital surplus account rather than compensating losses. In addition, there are also cases in which the scope of size-based business tax is substantially reduced by setting the stated capital of subsidiaries at JPY100 million or less at the time of corporate reorganization, etc.

By virtue of the 2024 tax reform, the following amendments will be made to the scope of companies subject to size-based business tax, considering the spirit of corporate tax reform to enhance companies' earning power and the objective of introduction of this taxation system to stabilize local tax revenues and ensure fairness of the tax burden, while not affecting startup companies and M&As of small and medium-sized companies.

(i) Rules for capital reduction

While maintaining the current rules, supplemental rules will be added for companies subject to size-based business tax as follows:

Companies subject to size-based business tax	Current rule	Companies whose stated capital is over JPY100 million
	Temporary measure	A company which was subject to size-based business tax in the fiscal year preceding the fiscal year and falls under both of the following will be subject to size-based business tax: <ul style="list-style-type: none"> The stated capital for the fiscal year is JPY100 million or less. The total amount of stated capital and capital surplus (including those similar) for the fiscal year exceeds JPY1 billion.
Enforcement date	Comes into force on 1 April 2025 and applicable for fiscal years beginning on or after that date	
Transitional measure	With respect to the first fiscal year beginning on or after the enforcement date, notwithstanding the above temporary measure, companies that were subject to size-based business tax in the fiscal year preceding the fiscal year including the promulgation date (in the case where the stated capital was JPY100 million or less on the day preceding the promulgation date, the first fiscal year ending on or after the promulgation date), whose stated capital is JPY100 million or less and total amount of stated capital and capital surplus exceeds JPY1 billion in the first fiscal year beginning on or after the enforcement date, will be subject to size-based business tax.	

In addition to the above, necessary measures will be provided.

(ii) Rules for 100 percent subsidiaries, etc.

In response to subsidiaries engaging in business activities based on the creditworthiness of the parent company, additional rules will be introduced in addition to the current rule, and special measures will be provided to mitigate drastic changes and to consider M&As of medium-sized companies, etc. as follows:

Companies subject to size-based business tax	Current rule	Companies whose stated capital is over JPY100 million	
	Additional rules	A 100% subsidiary, etc. ^(*) of ‘a company whose total amount of stated capital and capital surplus exceeds JPY5 billion (excluding the case where the company is a tax exempted company, etc.) or a mutual company/foreign mutual company’ (‘specified company’) that falls under both of the following will be subject to size-based business tax: <ul style="list-style-type: none">• The stated capital at the end of the fiscal year is JPY100 million or less.• The total amount of stated capital and capital surplus (in the case where the 100% subsidiary, etc. has made a dividend to its 100% parent company, etc. from capital surplus on or after the promulgation date, the amount calculated by adding the amount equivalent to such dividends) at the end of the fiscal year exceeds JPY200 million.	
Measure to mitigate drastic changes	For companies, which become subject to size-based business tax due to the above additional rules, a measure will be provided to allow the deduction of the following amount, which is calculated based on the amount in excess of the amount of business tax calculated by current taxation rules, from the amount of business tax calculated by applying rules of size-based business tax:		
	Fiscal years beginning between 1 April 2026 and 31 March 2027		Excess amount x 2/3
	Fiscal years beginning between 1 April 2027 and 31 March 2028		Excess amount x 1/3
Special measure to consider M&As of medium-sized companies, etc.	In the case where a company whose plan for special business restructuring is certified under the amended Industrial Competitiveness Enhancement Act by 31 March 2027 acquires another company through the acquisition of shares, share delivery (Kabushiki-Kofu) or share-for-share exchange (Kabushiki-Kokan) under certain special business restructuring carried out in accordance with the certified plan, and continues to hold shares on or after the date of acquisition (limited to certain cases), business tax on the business conducted by the other company (including a company that was acquired by the company certified for the plan within 5 years prior to its certification, hereinafter ‘other company, etc.’) will be excluded from the scope of size-based business tax for each fiscal year from the fiscal year including the date of acquisition to the fiscal year including the day on which 5 years have elapsed from the date of acquisition. Note that in the case where such other company, etc. is subject to size-based business tax in accordance with the current rule or (i) above, it will be excluded from this special measure.		
Enforcement date	Comes into force on 1 April 2026 and applicable for fiscal years beginning on or after that date		

^(*) A 100 percent subsidiary, etc. is a company which has a 100 percent control relationship as prescribed in the corporation tax law with a specified company and a company in which all of the shares are held by two or more specified companies in a 100 percent group.

In addition to the above, necessary measures will be provided.

(2) Special measures for added value components of size-based business tax

Under the current tax law, where a company subject to size-based business tax (companies whose stated capital is over JPY100 million) meets conditions for salary increases under the Tax Credits for Promotion of Salary Increases discussed in '1. Tax Credits for Promotion of Salary Increases,' a certain amount is deductible from the taxable base of the added value component.

By virtue of the 2024 tax reform, along with the amendment of the Tax Credits for Promotion of Salary Increases and the amendment of the scope of companies subject to size-based business tax from 1 April 2025 as discussed in (1), this special measure will also be amended as follows:

[Current tax law]

Eligible company	Companies subject to size-based business tax (whose stated capital is over JPY100 million)
Applicable period	Fiscal years beginning between 1 April 2022 and 31 March 2024
Conditions ^(*)	Increase ratio of salary payments for continuously employed people is 3% or more from the preceding fiscal year.
Creditable amount	$\{[\text{Salary payments in the current fiscal year}] - [\text{Salary payments in the preceding fiscal year}]\} \times \text{Adjustment rate for employment stability deduction}$

^(*) For companies, whose number of regular employees is 1,000 or more with stated capital of JPY1 billion or more at the end of the fiscal year, the announcement of multi-stakeholder policies is also a condition for application of this special measure.

[Proposal]

Eligible company	Companies subject to size-based business tax other than those on the right	Small and medium-sized companies subject to size-based business tax
Applicable period	Fiscal years beginning between 1 April 2024 and 31 March 2027	Fiscal years beginning between 1 April 2025 and 31 March 2027
Conditions ^(*)	Increase ratio of salary payments for continuously employed people is 3% or more from the preceding fiscal year.	Increase ratio of salary payments is 1.5% or more from the preceding fiscal year.
Creditable amount	$\{[\text{Salary payments in the current fiscal year}] - [\text{Salary payments in the preceding fiscal year}]\} \times \text{Adjustment rate for employment stability deduction}$	$\{[\text{Salary payments in the current fiscal year}] - [\text{Salary payments in the preceding fiscal year}]\} \times \text{Adjustment rate for employment stability deduction}$

^(*) For companies, whose number of regular employees is 1,000 or more with stated capital of JPY1 billion or more, as well as whose number of regular employees is more than 2,000, the announcement of multi-stakeholder policies will also be a condition for application of this measure.

[Definition of key terms]

- Adjustment rate for employment stability deduction: (Labor costs – the amount of employment stability deduction) / Labor costs

(Please refer to [Definition of key terms] in ‘1. Tax Credits for Promotion of Salary Increases’ for other terms.)

II. International Taxation

1. Japanese Income Inclusion Rule

The Global Anti-Base Erosion Rule including in ‘Pillar 2’ that is the one of the solutions to address the tax challenges arising from the digitalization of the economy, which was developed by the OECD/G20 Inclusive Framework on BEPS in October 2021 and agreed upon internationally, will be further legislated under the 2024 tax reform in accordance with the international agreement, following the 2023 tax reform in order for Japanese companies to maintain and improve their international competitiveness.

Specifically, the following amendments will be made to the Japanese Income Inclusion Rule^(*) (hereinafter ‘J-IIR’) from the perspective of clarifying the rules based on the content of the administrative guidance issued by the OECD and international discussions, etc.

(1) Jurisdictional top-up tax

The jurisdictional top-up tax amount is the basis for calculating the international minimum tax amount under the J-IIR.

The following amendments will be made to the jurisdictional top-up tax:

- The Qualified Domestic Minimum Top-up Tax (QDMTT) Safe Harbour will be established so that if the constituent companies, etc. are subject to the QDMTT that meets certain requirements in a country where those constituent companies, etc. are resident, the jurisdictional top-up tax in the country will be deemed to be zero.
- Where stateless constituent companies, etc. are subject to the QDMTT, the amount of the QDMTT will be deducted in the calculation of the jurisdictional top-up tax.

(2) Effective tax rate

The international minimum tax amount by country for an applicable fiscal year, which is the basis for calculating the jurisdictional top-up tax amount in (1) above, is defined as the amount calculated by multiplying the ‘balance of amount of group net income by country after deducting the substance-based income exclusion’ by the ‘ratio of the standard tax rate (15%) after deducting the effective tax rate (‘ETR’) of the country, where the constituent companies, etc. are resident.

The above ETR is calculated as follows:

(i) / (ii)	
(i) Adjusted covered tax by country	Total amount of the adjusted covered tax of all constituent companies, etc. located in the same country of residence as those constituent companies, etc. for the applicable fiscal year
(ii) Amount of group net income by country	The positive amount after deducting (b) from (a) below: (a) The total amount of the GloBE income of all constituent companies, etc. located in the same country of residence as those constituent companies, etc. for the applicable fiscal year (b) The total amount of the GloBE loss of all constituent companies, etc. located in the same country of residence as those constituent companies, etc. for the applicable fiscal year

The following amendments will be made to the ETR:

- The amount of applicable tax credits (limited to those that meet certain requirements) based on ownership interests in flow-through companies, etc. will be added to the amount of the adjusted covered tax indicated in (a) above as an option by each country related to the Specified Multinational Enterprise ('MNE') Groups, etc.
- The excluded gains or losses on the mark-to-market valuation of certain ownership interests from GloBE income will be included in the GloBE income as an option by each country related to the Specified MNE Groups, etc.

(3) Information declaration system

A Japanese company which is a constituent company, etc. of the Specified MNE Group, etc. has to provide certain information related to the Specified MNE Group, etc. in English via e-Tax to the competent tax office within 1 year and 3 months (1 year and 6 months in certain cases) from the day after the end of each applicable fiscal year.

The following amendments will be made to the system:

- Reporting information related to the Specified MNE Group, etc. will be amended depending on the classification of the Japanese companies subject to this obligation.

(4) Foreign tax credits

The following (i) will be excluded from the scope of foreign tax credits and (ii) will be eligible for foreign tax credits:

(i) Taxes excluded from the scope of foreign tax credits	<p>Foreign taxes in the following:</p> <ul style="list-style-type: none"> • Tax equivalent to corporation tax on J-IIR • Taxes imposed on a constituent company, etc. of the Specified MNE Group, etc., whose country of residence is a foreign country (limited to the taxes for which the tax base is an amount other than the amount of tax base of tax equivalent to corporation tax on J-IIR among the amount equivalent to the jurisdictional top-up tax) or equivalent taxes
(ii) Taxes eligible for foreign tax credits	<ul style="list-style-type: none"> • QDMTT

Other necessary measures will be provided for national tax, and necessary measures will also be provided for local tax so that the amount of corporation tax imposed by the J-IIR will not be included in the amount of corporation tax as the basis for calculating the corporate inhabitant tax.

In addition, legislation for the QDMTT and Undertaxed Profit Rule (UTPR), etc., for which implementation details are expected to be discussed at the OECD continuously after this year, will be examined under the 2025 tax reform or after in consideration of international discussions on them.

(*) For an overview of the J-IIR, please refer to the Tax Newsletter [‘Outline of the 2023 Tax Reform Proposals’](#) issued on 22 December 2022

2. Controlled Foreign Company (CFC) Regime

The Controlled Foreign Company (CFC) Regime will coexist with 'Pillar 2' mentioned in '1. Japanese Income Inclusion Rule' and even after the introduction of 'Pillar 2', the importance of the CFC regime as a measure preventing tax avoidance through foreign subsidiaries will not change.

Based on the consideration of the additional administrative burdens on companies resulting from the introduction of 'Pillar 2', additional amendments to the CFC regime will be made under the 2024 tax reform, following the amendments under the 2023 tax reform.

The CFC regime includes a special provision that excludes certain foreign subsidiaries, which are considered to have a limited risk of tax avoidance, from the scope of the Paper Company subject to full-inclusion rule as a Specified CFC (i.e., the income of a Specified CFC for a fiscal year with certain adjustments must be included in its Japanese shareholders' income), where the effective tax rate of the Specified CFC is under 30 percent (27 percent for fiscal years beginning on or after 1 April 2024 for the Japanese shareholder company under the 2023 tax reform).

By virtue of the 2024 tax reform, where a foreign subsidiary has no income, etc. for the fiscal year, the calculation of the income ratio, which is one of the requirements for the determination of whether it is a Paper Company subject to full-inclusion rule under the special provision, will not be required for that fiscal year.

In addition, similar amendments will be made to related measures such as the Corporate Inversion and necessary measures will be provided for corporate inhabitant tax and business tax, etc. in accordance with the above amendments of national tax.

3. Earnings Stripping Rules

Under the earnings stripping rules (ESRs), the deduction of net interest payments in excess of 20 percent of adjusted taxable income is disallowed in order to prevent tax avoidance by the payment of excess interest compared to the size of taxable income. The disallowed interest payments incurred in the past 7 years are deductible in a fiscal year up to a certain threshold provided certain conditions are satisfied.

During the course of gathering the proposals for the 2024 tax reform from the ministries, amendments to the ESRs were proposed because financial institutions, which are raising funds from the market in foreign currencies (by exchanging yen for dollars, etc.) and making international investments, may be subject to a significant tax burden by the application of the ESRs due to the recent rise in interest rates in Europe and the U.S., despite having no intention of tax avoidance.

Corresponding to the above proposal, by virtue of the 2024 tax reform, the carry-forward period of disallowed interest payments related to the fiscal years beginning between 1 April 2022 and 31 March 2025 will be extended to 10 years.

4. Reporting System for Automatic Exchange of Information on Crypto-Assets, etc. Transactions Related to Non-Residents

From the viewpoint of preventing international tax evasion and tax avoidance involving crypto-assets in which distributed ledger technology is used, the OECD announced the Crypto-Asset Reporting Framework (CARF) in October 2022.

By virtue of the 2024 tax reform, a reporting system, which obliges crypto-asset exchange service providers, etc. in Japan to report information on crypto-assets, etc. transactions related to non-residents to the tax authorities, will be established for the purpose of automatic exchange of information on crypto-assets, etc. transactions related to non-residents among tax authorities of each country under tax treaties, etc.

(1) Submission of notification form by specified person who conducts crypto-assets, etc. transactions

A specified person who conducts transactions involving crypto-assets, etc. with a crypto-asset exchange service providers, etc. through its business office, etc. in Japan on or after 1 January 2026 will be required to submit a notification form stating the name, address or location of the head office, etc., country of residence, the taxpayer's number in the country of residence, if the country of residence is a foreign country, and other necessary information to the head of the business office, etc. of the crypto-asset exchange service providers, etc. at the time of the transactions involving crypto-assets, etc.^(*)

In addition, if a specified person, who submitted the notification form, changed the country of residence, etc., the specified person will be required to submit a notification form for the change stating the country of residence after the change and other necessary information to the head of the business office, etc. of the crypto-asset exchange service providers, etc. by the day on which 3 months have elapsed from the day on which the change occurred.

^(*) In the case of a specified person who conducts transactions involving crypto-assets, etc. with a crypto-asset exchange service providers, etc. through its business office, etc. in Japan as of 31 December 2025, the specified person will be required to submit a notification form by 31 December 2026.

(2) Provision of reporting matters by crypto-asset exchange service providers, etc.

Where a specified person who conducts transactions involving crypto-assets, etc. through a business office, etc. of the crypto-asset exchange service providers, etc.^(*) in Japan has a contract subject to the reporting with the crypto-asset exchange service providers, etc. at 31 December, the crypto-asset exchange service providers, etc. will be required to provide the reporting matters to the competent tax office where the head office, etc. of the crypto-asset exchange service providers, etc. is located through e-Tax, etc. by 30 April of the following year.

Note that the crypto-asset exchange service providers, etc. will also be required to prepare and preserve records on matters related to the country of residence, etc. of the specified person and other necessary matters.

^(*) Excluding a listed company on foreign financial instruments exchanges, etc.

[Definition of key terms]

Specified person	<ul style="list-style-type: none"> • A person/company who conducts transactions involving crypto-assets, etc. through a business office, etc. of the crypto-asset exchange service providers, etc. in Japan. • Where the above company is a specified company, the specified company and its substantial controller, etc.
Transactions involving crypto-assets, etc.	<ul style="list-style-type: none"> • Sale and purchase of crypto-assets, etc. • Exchange of crypto-assets, etc. with another crypto-assets, etc. • Intermediation, etc. of the above actions • Conclusion of contracts for transfer and acceptance of crypto-assets, etc.
Crypto-asset exchange service providers, etc.	<ul style="list-style-type: none"> • Crypto-asset exchange service provider • Electronic payment instruments service provider (including those who issue the electronic payment instruments) • Certain financial instruments business operators
Crypto-assets, etc.	<ul style="list-style-type: none"> • Crypto-asset • Certain electronic payment instruments • Certain electronically recorded transferable rights indicated on securities, etc.
Contract subject to reporting	<p>A contract related to transactions involving crypto-assets, etc. concluded by any of the following:</p> <p>(i) A person ('reporting person' in (ii)) whose place of residence, etc. is a certain country or region of the other country, etc. under a tax treaty, etc. ('reporting country' in (ii))</p> <p>(ii) Specified company whose country of residence, etc. is other than the reporting country and whose substantial controller is the reporting person</p>
Reporting matters	<p>[The following information and other necessary information of the specified person]</p> <p>Name, address or location of the head office, etc., country of residence, etc., the taxpayer's number in the country of residence if the country of residence, etc. is a foreign country</p> <p>[The following information and other necessary information for each type of crypto-assets, etc. related to the sale and purchase, etc. of crypto-assets, etc.]</p> <p>Name of crypto-assets, etc., total amount of consideration for the sale and purchase of crypto-assets, etc., total quantity and number of transactions</p>

In addition to the establishment of penalty provisions for non-submission or false statements in the notification form, etc., in (1) above, or non-provision or false statements in the reporting matters, etc. in (2) above, other necessary measures will be provided to ensure the effectiveness of the reporting system.

III. Consumption Tax

1. Platform Taxation

With the expansion of the digital services market, many foreign suppliers are entering the Japanese market through digital platforms, but it has become difficult to capture, investigate and collect the consumption tax which is payable by the foreign suppliers.

In order to address these issues and ensure the fairness of competitive conditions and appropriate taxation between domestic and foreign suppliers, a measure (so called platform taxation) will be introduced to impose tax obligations on platform operators on behalf of foreign suppliers.

Outline of the measure	Among B2C (business to consumer) digital services provided through digital platforms by foreign suppliers, the digital services, for which consideration is received through platform operators subject to this measure ('specified platform operators'), will be treated as having been provided by the specified platform operators so that the specified platform operator will be liable to pay consumption tax on such digital services.
Specified platform operator	A person who is designated by the National Tax Agency ('NTA') because the total amount of consideration for the B2C digital services provided by foreign suppliers through the platform operator's digital platform exceeds JPY5 billion during the taxable period of the platform operator
Procedures	<ul style="list-style-type: none"> A person who meets the conditions of a specified platform operator will be required to submit a notification to the NTA by the filing due date of a final consumption tax return for the taxable period. Where the NTA designates a specified platform operator, it will notify the specified platform operator and will make the name, etc. of the digital platform of the specified platform operator public on its website immediately. A specified platform operator designated by the NTA will be required to notify the foreign suppliers. A specified platform operator will be required to attach a detailed statement including the amount, etc. subject to the measure to its final consumption tax return.

The above measure will be applicable to B2C digital services provided on or after 1 April 2025. Note that necessary transitional measures will be provided for the designation and notification in advance under the designation system for specified platform operators.

2. Special Measures for Consumption Tax Exemption System, etc. Related to Foreign Business Operators

By virtue of the 2024 tax reform, in order to prevent tax avoidance by foreign business operators using the consumption tax exemption system or the simplified tax credit system, the following amendments will be provided.

(1) Amendments to special measures for consumption tax exemption system

Under the consumption tax law, taking the tax burden of small business operators into consideration, a business operator is exempted from consumption tax liabilities in principle, where the amount of taxable sales in the base period^{(*)1} is JPY10 million or less. ('Consumption tax exemption system')

However, even if the amount of taxable sales of a business operator in the base period is JPY10 million or less, where the business operator falls under certain conditions, the business operator is not exempted from consumption tax liabilities and has to file a consumption tax return as a taxable person. ('Special measures for consumption tax exemption system')

Among the 'Special measures for consumption tax exemption system', the following special measures are not working for foreign business operators appropriately and will be amended under the 2024 tax reform as follows:

Special measures for consumption tax exemption system	Current tax law (Conditions to be treated as a taxable person)	Proposal
Special measure for exemption from consumption tax liability based on taxable sales in the specified period ^{(*)2}	Companies whose taxable sales in the specified period are over JPY 10 million (Instead of taxable sales, total amount of salary paid to residents can be used.)	Foreign business operators will not be allowed to use the total amount of salary paid to residents.
Special measure for exemption from consumption tax liability for Newly Established Companies	Companies that do not have a base period and whose stated capital at the beginning of the fiscal year having no base period is JPY10 million or more	Even if foreign companies have a base period, the application of this special measure will be determined at the time of commencement of their business in Japan.
Special measure for exemption from consumption tax liability for Specified Newly Established Companies	Companies that have no base period, whose stated capital is less than JPY10 million, and that are Specified Newly Established Companies ^{(*)3} at the beginning of the fiscal year in which the companies have no base period	<ul style="list-style-type: none"> Companies, which are established and directly or indirectly controlled by a business operator whose income including its foreign source income exceeds JPY5 billion, will be added to the Specified Newly Established Companies subject to this special measure. Even if foreign companies have a base period, the application of this special measure will be determined at the time of commencement of their business in Japan.

^{(*)1} The base period generally means the fiscal year 2 years prior to the current fiscal year for a company, and the calendar year 2 years prior to the current year for an individual, respectively.

(^{*2}) The specified period generally means the first 6 months of the previous fiscal year for a company, and the period from January to June of the previous year for an individual, respectively.

(^{*3}) Companies which are controlled directly or indirectly by a business operator whose taxable sales exceed JPY500 million in the period corresponding to the theoretical base period of the fiscal year of the companies.

(2) Amendments to the simplified tax credit system

It is not generally assumed that foreign business operators, which do not have permanent establishments in Japan, have taxable purchases in Japan. Accordingly, it is not appropriate that the consumption tax credit is applied based on the assumed purchase ratio, which is determined by the type of business. Therefore, by virtue of the 2024 tax reform, the simplified tax credit system will not be applied to foreign business operators, which do not have permanent establishments under the income tax law or the corporation tax law in Japan as of the first day of the taxable period.

The same amendments will be made to a transitional measure for small business operators who choose to become a registered supplier under the invoicing system (so called special measure of 20 percent).

The above amendments will be applied for taxable periods beginning on or after 1 October 2024.

IV. Individual Taxation

Stock Option Tax System

In order to provide new opportunities for workers and raise productivity and potential economic growth rates, it is essential to drastically strengthen the startup ecosystem. Therefore, further amendments to the tax system for stock options will be made under the 2024 tax reform, following the amendments under the 2023 tax reform.

(1) Amendments to Requirements for Entrustment with Custody of Shares

From the viewpoint that startups will be able to obtain management resources such as funds and human resources from existing companies by promoting M&A and are expected to realize stronger growth in their subsequent business development, the requirements for entrustment with custody of shares, which is one of the requirements of the contract for the stock acquisition rights under the special measures for tax-qualified stock options, will be amended to enable flexible responses at the time of a corporate acquisition.

Specifically, if the requirement in (i) below is satisfied, the requirement in (ii) below will not be applied.

(i) New requirement (How to manage by the startups themselves)	The shares (limited to the restricted stock) to be delivered upon exercise of the stock acquisition rights, which satisfied certain requirements, are managed, etc. by the company to which the stock acquisition rights are exercised in accordance with a management agreement, etc. between the granted person of the stock acquisition rights and the company.
(ii) Requirement that is not required to be satisfied if the above (i) is satisfied	Entrustment with custody, etc. of shares acquired upon exercise of stock acquisition rights to a business office, etc. of financial instruments business operators, etc.

(2) Amendments to Upper limit of Exercise Price of the Stock Acquisition Rights

The upper limit of the annual exercise price of the stock acquisition rights, which is one of the requirements of the contract for the stock acquisition rights under the special measures for tax-qualified stock options, will be raised as follows, which aims to contribute to the recruitment of human resources during the later stage of the startup:

[Upper limit of the annual exercise price of the stock acquisition rights]

Current tax law	Proposal	
JPY12 million	Other than below	JPY12 million
	Stock acquisition rights granted by a company whose term after the date of incorporation is less than 5 years	JPY24 million
	Stock acquisition rights granted by any of the following companies whose term after the date of incorporation is not less than 5 years and less than 20 years: <ul style="list-style-type: none"> Companies other than the listed companies Listed companies whose term after the date of listing is less than 5 years 	JPY36 million

(3) Amendments to External Highly Skilled Human Resources

The requirements related to external highly skilled human resources who satisfy certain requirements, which were added to the eligible person for tax-qualified stock options under the 2019 tax reform, will be amended as follows, subject to the amendments to the 'Ordinance for Small and Medium-sized Enterprises Business Enhancement Act.'

(i) Certified newly established small and medium-sized companies, etc.

In order to qualify for the special measures for tax-qualified stock options, the certified newly established small and medium-sized companies, etc. have to satisfy the requirement that the amount of stated capital is less than JPY500 million and the number of regular employees is 900 or less at the time of the first acquisition of shares of the newly established small and medium-sized companies, etc. by a person engaged in investment and guidance related to new business activities.

By virtue of the 2024 tax reform, above requirement will be abolished.

(ii) External highly skilled human resources

The requirement of 'at least 3 years of work experience' for external highly skilled human resources will be changed to 'at least 1 year of work experience' for executives of listed companies. In addition, this requirement will be abolished for those who have national licenses, those who have doctoral degrees and those who are residing in Japan with highly skilled professional status.

Furthermore, the scope of external highly skilled human resources will be amended to include professors, associate professors and those who have at least 1 year of work experience as a key employee of a listed company, etc.

Other necessary measures will be provided.

V. Tax Measures to Secure Financial Resources for Strengthening Defense Capability

The 'Outline of the 2023 Tax Reform Proposals' indicated that corporation tax, income tax and tobacco tax will be increased in phases over multiple years toward 2027 in order to secure financial resources for the drastic strengthening of Japan's defense capability. (For an overview of the indication of the 'Outline of the 2023 Tax Reform Proposals', please refer to the Tax Newsletter '[Outline of the 2023 Tax Reform Proposals](#)' issued on 22 December 2022.)

The 'Outline of the 2024 Tax Reform Proposals' states that tax measures to secure financial resources for strengthening defense capabilities will be implemented in accordance with the 'Outline of the 2023 Tax Reform Proposals' and provides the following direction regarding tobacco tax:

- Since there is an inequity in the tax burden between heated and paper cigarettes, the difference in tax burden will be eliminated in line with the basic concept of taxation on consumption, which requires similar tax burdens for the same or equivalent items, and the increased revenue from the appropriateness of this taxation will be used for defense resources.
- In addition to the above, the tobacco tax rate for national tax will be increased, and financial resources equivalent to JPY3 per cigarette will be secured together with the increase in revenue from the appropriateness of taxation^(*).

^(*) The 'Outline of the 2023 Tax Reform Proposals' indicated that an increase equivalent to JPY3 per cigarette will be implemented in phases.

The intent of taking necessary legislative measures at an appropriate time based on the results of the study in accordance with the 'Outline of the 2023 Tax Reform Proposals' and the basic direction described above will be clarified in the supplementary provision of the tax law related to the 2024 tax reform.

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