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Tax Update

NATIONAL TAX AGENCY — EXPLANATION OF THE ADMINISTRATIVE GUIDANCE RELATED TO THE JAPANESE INCOME INCLUSION RULE

The Japanese Income Inclusion Rule (hereinafter, the 'J-IIR') which is equivalent to the Income Inclusion Rule in the Global Minimum Tax, was enacted under the 2023 tax reform.

On 26 April 2024, the National Tax Agency released the explanation of the Administrative Guidance (hereinafter, the 'J-AG'), which was issued on 21 September 2023 corresponding to the enactment of the J-IIR.

The explanation of the J-AG explains the purpose and treatment of all the new guidance regarding contributions, definitions, international minimum tax amounts and transitional treatment. It also provides the background behind the establishment of the new guidance, points to note and other information that is not provided by the J-AG.

Under the 2023 tax reform, the J-IIR was legislated based on the Global Anti-Base Erosion Model Rules and the Administrative Guidance (hereinafter, the 'OECD-AG') released by the OECD/G20 Inclusive Framework on BEPS in December 2021 and February 2023, respectively. Under the 2024 tax reform, the J-IIR was amended to clarify the rules based on the additional OECD-AG released thereafter and international discussions. It is expected that an amended J-AG corresponding to the 2024 tax reform will also be released in the future.

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

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

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

Fukuoka Office

Kamiyo Watanabe Building 8F,
1-12-14 Tenjin, Chuo-ku,
Fukuoka 810-0001
TEL : +81 (92) 712 6300
FAX : +81 (92) 712 6301

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 Kyoto 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

info-tax@jp.kpmg.com
home.kpmg/jp/tax-en

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