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Tax Update

NATIONAL TAX AGENCY – ADMINISTRATIVE GUIDANCE RELATED TO THE JAPANESE IIR AND JAPANESE CFC REGIME

By virtue of the 2025 tax reform, the Japanese Income Inclusion Rule (hereinafter 'J-IIR'), which is equivalent to the Income Inclusion Rule of the Global Minimum Tax in Pillar 2 agreed by the OECD/G20 Inclusive Framework on BEPS (hereinafter the 'IF') and which had been established in the 2023 tax reform and amended in the 2024 tax reform, was amended based on the content of the administrative guidance issued by the IF in June 2024, etc.

Additionally, under the Japanese CFC Regime (hereinafter the 'J-CFC'), the fiscal year in which taxable amounts generated by a Controlled Foreign Company (hereinafter the 'CFC') are included in taxable income of a Japanese parent company was amended from 'each fiscal year of the Japanese parent company which includes the day 2 months after the end of the fiscal year of the CFC' to 'each fiscal year of the Japanese parent company which includes the day 4 months after the end of the fiscal year of the CFC.'

On 26 September, the National Tax Agency released the administrative guidance (hereinafter the 'J-Amended AG', Japanese only) corresponding to those amendments to the J-IIR and J-CFC under the 2025 tax reform.

For example, the J-Amended AG explains the following treatments:

1. J-IIR

The 'adjusted covered tax amount', which is used as the numerator in the calculation of the effective tax rate, is the sum of the 'current covered tax amount' (the amount obtained by adding the 'allocated current covered tax amount' to current corporation tax amount and making certain adjustments to that amount), the 'deferred covered tax amount' (the amount obtained by adding certain adjustments to the 'adjusted deferred corporation tax expense') and certain covered tax.

The 2025 tax reform includes the following amendments to the 'adjusted covered tax amount':

- For the calculation of the 'current covered tax amount', the calculation method of the 'allocated current covered tax amount' was amended in

the case where the allocating constituent company or joint venture is subject to the specified provisions of the corporation tax law.

- For the calculation of the 'deferred covered tax amount', the 'allocated deferred covered tax amount' is added to the 'adjusted deferred corporation tax expense'.

The J-Amended AG newly provided various guidance concerning the calculation method of the 'allocated current covered tax amount' and 'allocated deferred covered tax amount.'

The guidance for the J-IIR under the J-Amended AG is applied to the corporation tax for the applicable fiscal years beginning on or after 1 April 2025, except for certain guidance.

2. J-CFC

In response to the amendment to the J-CFC mentioned above, the foreign exchange rate applied to taxable amounts generated by the CFC for the conversion into Japanese yen was also amended under the J-Amended AG. The guidance under the J-Amended AG states that the applied foreign exchange rate is the midpoint of the telegraphic buying and selling rates on the day 4 months after the end of the fiscal year of the CFC^(*) in principle. (This is the only guidance for the J-CFC under the J-Amended AG.)

The J-Amended AG states that the guidance before the amendments must be applied in case where the 'Act on Special Measures Concerning Taxation', etc. before the 2025 tax reform is applied.

^(*) The amended administrative guidance related to other amendments to 'Corporation Tax Law' and 'Act on Special Measures Concerning Taxation' under the 2025 tax reform was released on 30 June 2025.

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