



# KPMG Japan e-Tax News

No.332 26 June 2025

## Tax Update

### FINANCIAL SERVICES AGENCY – PUBLICATION OF INQUIRY DOCUMENT ON JAPANESE EARNINGS STRIPPING REGIME

On 24 June 2025, the Financial Services Agency (hereinafter 'FSA') released the inquiry document containing the results of the inquiry to the National Tax Agency (hereinafter 'NTA') about the tax treatments of the Japanese Earnings Stripping Regime (hereinafter 'J-ESR') on the FSA's website (Japanese only), after confirming the purpose and objectives of the J-ESR with the Ministry of Finance.

The J-ESR is designed to prevent tax avoidance through the payment of excessive interest compared to income and to prevent the erosion of Japan's tax base. The 'interest payments', which are the basis for calculating the 'covered interest payments' subject to the J-ESR, include 'payments economically equivalent to interest.'

The inquiry document summarizes the meaning of 'payments economically equivalent to interest' as follows and in response to the inquiry to the NTA, the FSA's view on this inquiry document was confirmed as being acceptable by the NTA:

#### [Relationship between the J-ESR and the final report on Action 4 of the OECD/G20 BEPS Project]

- The provisions of the J-ESR reflect the recommendations in the final report on Action 4 (Limiting base erosion involving interest deductions and other financial payments) of the OECD/G20 BEPS Project. Therefore, the scope of the 'amount of interest, etc.' is in line with that in the final report. The inclusion of 'payments economically equivalent to interest' in 'interest payment' under the J-ESR is also consistent with the purpose of the final report.

#### [Financial transactions that fall under 'payments economically equivalent to interest']

##### <General remarks>

- When the relationship between the 'deemed interest amount' of a financial derivative transaction or hedging instrument and the 'borrowing' of a company's financing is economically close in terms of the purpose and nature of the entire transaction, the 'deemed interest amount' paid is determined to be 'payments economically equivalent to interest.'

- For example, the amount to be paid through Interest Rate Swap (hereinafter 'IRS') agreements falls under 'payments economically equivalent to interest' because, in general, funding and IRS agreements can be assessed as having a close economic relationship with the purpose of avoiding the risk of interest rate fluctuations that have a direct impact on the amount of interest on loans. However, the IRS, for which no such relationship is recognized, does not fall under 'payments economically equivalent to interest.'

#### <Other considerations>

- The above example shows a general theory, and it should be judged whether the amount to be paid falls under 'payments economically equivalent to interest' by observing the overall series of transactions and examining whether the transaction to be judged has an economically close relationship with financing in substance.
- Whether or not something falls under 'payments economically equivalent to interest' should be determined by focusing on the economic nature of the transaction to be judged. Accordingly, for example, the accounting treatment record as interest expense does not necessarily mean that it falls under 'payments economically equivalent to interest.'
- As a result of focusing on the economic nature, 'payments economically equivalent to interest' may cover a broader range of things than interest on borrowings in the legal sense, such as interest on loan contracts. On the other hand, it is not considered that a transaction generates 'payments economically equivalent to interest' only by taking account of the calculation factors of interest rates in a part of the transaction, such as by referring to the market interest rate (for example, the forward exchange rate is determined by the interest rate between two currencies based on the spot market, and the calculation factor of the interest rate is included) in calculating the amount to be paid or received.

## 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 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

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

[info-tax@jp.kpmg.com](mailto:info-tax@jp.kpmg.com)  
[kpmg.com/jp/tax-en](http://kpmg.com/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.

© 2025 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.