KPMG

KPMG Japan Tax Newsletter

25 December 2025

Outline of the 2026 Tax Reform Proposals

The ruling coalition (the Liberal Democratic Party and the Japan Innovation Party) agreed on the 'Outline of the 2026 Tax Reform Proposals' ('Proposal') on 19 December 2025. 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. Special Measures for Promoting Investment in Specified Productivity-Enhancing Facilities

In order to realize a 'strong economy' through investment for crisis management and investment for growth, new special measures for promoting investment in specified productivity-enhancing facilities will be introduced from the perspective of promoting high value-added capital investment in Japan.

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

<table>
<tr><td>Eligible companies</td><td colspan="2">Blue-return filing companies</td></tr>
<tr><td rowspan="11">Eligible facilities (Specified machinery, etc.)</td><td colspan="2">Facilities that fall under all of the following:
• Facilities that constitute facilities for production(*1) and meet the below '(1) Facilities and requirements for acquisition cost'
• Facilities that qualify as specified productivity-enhancing facilities (Among productivity-enhancing facilities under the amended Act, that are confirmed by the Ministry of Economy, Trade and Industry (METI) as meeting the below '(2) Criteria for qualifying as specified productivity-enhancing facilities' during the period from the enforcement date of the amended Act to 31 March 2029)
• Facilities acquired by a company that has received such confirmation within 5 years from the date of confirmation, and used for its business in Japan (excluding those used for lease)</td></tr>
<tr><td colspan="2">(1) Facilities and requirements for acquisition cost</td></tr>
<tr><td>Machinery</td><td>• JPY1,600,000 or more per unit</td></tr>
<tr><td>Tool, Furniture and fixtures</td><td>• JPY1,200,000 or more per unit, or
• JPY400,000 or more per unit, with total acquisition costs in a fiscal year of JPY1,200,000 or more</td></tr>
<tr><td>Buildings</td><td>• JPY10,000,000 or more per unit</td></tr>
<tr><td>Attachments to buildings</td><td>• JPY1,200,000 or more per unit, or
• JPY600,000 or more per unit, with total acquisition costs in a fiscal year of JPY1,200,000 or more</td></tr>
<tr><td>Structures</td><td>• JPY1,200,000 or more per unit</td></tr>
<tr><td>Software</td><td>• JPY700,000 or more per unit</td></tr>
<tr><td colspan="2">(2) Criteria for qualifying as specified productivity-enhancing facilities</td></tr>
<tr><td colspan="2">• Total acquisition cost of productivity-enhancing facilities constituting the facilities for production stated in the investment plan for the introduction of productivity-enhancing facilities is JPY3.5 billion or more (JPY500 million or more for small and medium-sized companies, etc.).
• The annual average return on investment under the investment plan is expected to be 15% or more.
• The investment plan includes the financing methods necessary for its implementation.
• The investment plan is based on a decision by an appropriate body such as the board of directors.
• It meets the requirements such as that the introduction of productivity-enhancing facilities will increase the company's capital investment.</td></tr>
</table>

<table>
<tr><td colspan="2">Tax incentives
((1) or (2))</td><td>Buildings, Attachments to buildings, Structures</td><td>Machinery, Tools, Furniture and fixtures, Software</td></tr>
<tr><td rowspan="2"></td><td>(1) Special depreciation</td><td colspan="2">Acquisition cost of specified machinery, etc. – Limit amount on ordinary depreciation
(i.e., total acquisition costs can be deducted upfront.)</td></tr>
<tr><td>(2) Tax credit(*2)</td><td>Acquisition cost of specified machinery, etc. x 4%</td><td>Acquisition cost of specified machinery, etc. x 7%</td></tr>
<tr><td colspan="2">Carry-forward tax credit system</td><td colspan="2">• The amount in excess of the upper limit of the tax credit will be allowed to be carried forward for 3 years.
• Note that the carry-forward tax credit system will be applicable only to companies which have received certification under the amended Act for a plan to respond to unforeseeable rapid changes in the international economic situation during the period from the enforcement date of the amended Act to 31 March 2029, and which have received confirmation from the METI that they are reliably responding to such changes.</td></tr>
</table>

(*1) 'Facilities for production' means facilities consisting of depreciable assets directly used for business. Note that office furniture and fixtures, a head office building, boarding house and welfare facilities, etc. will not be treated as facilities for production.

(*2) Tax credit will be limited to 20 percent of the corporation tax liability for the fiscal year.

The above measures are subject to the '4. Restriction on Eligible Companies for Special Measures.' Therefore, large-sized companies will not be allowed to apply the measures (excluding the carry-forward tax credit system) where they do not meet either the conditions for salary increases or the conditions for capital investment in the fiscal year in which the adjusted taxable income in the fiscal year exceeds the adjusted taxable income in the preceding fiscal year. (Please refer to '4. Restriction on Eligible Companies for Special Measures' for details.)

Note that a company which has received confirmation of the investment plan for specified productivity-enhancing facilities will not apply the following special measures (excluding the carry-forward tax credit system under the tax measure (ii)) during the period of the investment plan.

(i) Special measures for promoting future investment in communities

(ii) Special measures for strengthening management of small and medium-sized companies

(iii) Special measures for promoting investment for carbon neutrality

2. Tax Credits for R&D Costs

(1) Tax credits for R&D costs for strategic industrial technologies

From the perspective of promoting corporate R&D in technology areas vital to national strategy, a new category will be introduced. Under this category, subject to amendments to the Industrial Technology Enhancement Act (hereinafter the 'Act'), the creditable ratio and maximum creditable amount will be provided for R&D costs for strategic industrial technologies under the Act (AI and advanced robotics, quantum, semiconductors and communications, bio and healthcare, fusion energy, and space), separately from the measures applied to existing categories.

<table>
<tr><td>Eligible companies</td><td colspan="3">Blue-return filing companies whose plans for strategic R&D under the Act are certified during the period from the effective date of the amended Act to 31 March 2029 (hereinafter the 'Certified R&D Companies')</td></tr>
<tr><td rowspan="2">Conditions</td><td colspan="3">Eligible companies incur R&D costs for strategic industrial technologies(*1) for each fiscal year including a day within the applicable period.</td></tr>
<tr><td>Applicable Period</td><td colspan="2">The period from (a) to (b)
(If (c) is earlier than (b), the period from (a) to (c))
(a): The date on which the plan for strategic R&D is certified
(b): The date before 5 years has passed from the date of (a)
(c): The end date of the plan period for the certified plan for strategic R&D</td></tr>
<tr><td rowspan="2">Tax measures (Tax credits(*2)(*3))</td><td>R&D costs for strategic industrial technologies</td><td>Amount of R&D costs for strategic industrial technologies</td><td>x 40%</td></tr>
<tr><td>R&D costs for special strategic industrial technologies</td><td>Amount of R&D costs for special strategic industrial technologies</td><td>x 50%</td></tr>
</table>

(*1) Amounts subject to the following tax credits will be excluded:

- Tax credits for general R&D costs for large-sized companies (please refer to (2).)
- Tax credits for general R&D costs for small and medium-sized companies (please refer to (3).)
- Tax credits for specified R&D costs (please refer to (4).)

(*2) The maximum creditable amount will be 10 percent of the corporation tax liability for the fiscal year.

(*3) The amount in excess of the maximum creditable amount will be allowed to be carried forward for three years, provided that the amount of R&D costs of the fiscal year, in which the Certified R&D Companies intend to apply the carry-forward tax credit system, exceeds that of the previous fiscal year.

Note that the measures will also be provided for cases where companies applying the Japanese group relief system apply tax credits for this new category.

[Definition of key terms]

- Amount of R&D costs for strategic industrial technologies: The amount of R&D costs paid by a Certified R&D Company during the applicable period for specific strategic R&D conducted in accordance with the certified plan for strategic R&D
- Specific strategic R&D: R&D that has been confirmed to relate to the strategic industrial technologies under the Act, which meet certain criteria for which early commercialization is particularly expected
- Amount of R&D costs for special strategic industrial technologies: Among the amount of R&D costs for strategic industrial technologies, those incurred for R&D conducted jointly with, or on a consignment basis to, a joint R&D institution for strategic industrial technologies under the Act

(2) Tax credits for general R&D costs for large-sized companies

Regarding the tax credits for general R&D costs for large-sized companies (under which the creditable amount is calculated by multiplying general R&D costs by the creditable ratio described below), the following amendments will be made in order to further strengthen incentives for companies to increase their R&D costs, based on data analysis from the perspective of Evidence-Based Policy Making (EBPM). The amendments will also take into account recent inflation and other factors.

[Current tax law]

(i) Creditable ratio

Increase-decrease R&D ratio	Creditable ratio	
	R&D ratio of 10% or less	R&D ratio exceeding 10%(*)
More than 12%(*)	11.5% + (Increase-decrease R&D ratio - 12%) x 0.375 (Upper limit: 14%)	The percentage shown on the left + The percentage shown on the left x (a) (Upper limit: 14%)
12% or less	11.5% - (12% - Increase-decrease R&D ratio) x 0.25 (Lower limit: 1%)	

(a): (R&D ratio - 10%) x 0.5 (Upper limit: 10%)

(*) The applicable period of these temporary measures is fiscal years beginning on or before 31 March 2026.

Note that, in case where the increased-decreased R&D ratio is less than zero for fiscal years beginning on or after 1 April 2026, the creditable rate is as follows:

Creditable ratio where the increase-decrease R&D ratio is less than zero		
(a)	Fiscal years beginning between 1 April 2026 and 31 March 2029	8.5% + Increase-decrease R&D ratio x (8.5/30)
(b)	Fiscal years beginning between 1 April 2029 and 31 March 2031	8.5% + Increase-decrease R&D ratio x (8.5/27.5)
(c)	Fiscal years beginning on or after 1 April 2031	8.5% + Increase-decrease R&D ratio x (8.5/25)

The creditable ratio will become zero where the increase-decrease R&D ratio is minus 30 percent or less for the fiscal years (a), minus 27.5 percent or less for the fiscal years (b), and minus 25 percent or less for the fiscal years (c).

(ii) Maximum creditable amount

Increase-decrease R&D ratio	Maximum creditable amount	
	R&D ratio of 10% or less	R&D ratio exceeding 10%(*)
More than 4%(*)	Corporation tax liability x 25% + Corporation tax liability x (a)	Corporation tax liability x 25% + Corporation tax liability x {higher of (a) or (c)}
Minus 4% or more and 4% or less	Corporation tax liability x 25%	Corporation tax liability x 25% + Corporation tax liability x (c)
Less than minus 4%(*)	Corporation tax liability x 25% + Corporation tax liability x (b)	

(a): (Increase-decrease R&D ratio - 4%) x 0.625 (Upper limit: 5%)

(b): (Increase-decrease R&D ratio + 4%) x 0.625 (Lower limit: minus 5%)

(c): (R&D ratio - 10%) x 2 (Upper limit: 10%)

(*) The applicable period of these temporary measures is fiscal years beginning on or before 31 March 2026.

Note that the maximum creditable amount for certain venture R&D companies is the amount shown in the above table plus an additional amount equivalent to 15 percent of the corporation tax liability.

[Proposal]

Applicable period: Fiscal years beginning between 1 April 2027 and 31 March 2029

(i) Creditable ratio

Increase-decrease R&D ratio	Creditable ratio	
	R&D ratio of 10% or less	R&D ratio exceeding 10%(*)
More than 15%(*)	11.5% + (Increase-decrease R&D ratio - 15%) x 0.375 (Upper limit: 14%)	The percentage shown on the left + The percentage shown on the left x (a) (Upper limit: 14%)
More than 3% and 15% or less	8.5% + (Increase-decrease R&D ratio - 3%) x 0.25	
3% or less	8.5% + (Increase-decrease R&D ratio - 3%) x (8.5/13)	

(a): (R&D ratio - 10%) x 0.5 (Upper limit: 10%)

(*) The applicable period of these temporary measures will be extended until fiscal years beginning on or before 31 March 2029.

Under the Proposal, the creditable ratio will become zero where the increase-decrease R&D ratio is minus 10 percent or less.

(ii) Maximum creditable amount

Increase-decrease R&D ratio	Maximum creditable amount	
	R&D ratio of 10% or less	R&D ratio exceeding 10%(*)
More than 7%(*)	Corporation tax liability x 25% + Corporation tax liability x (a)	Corporation tax liability x 25% + Corporation tax liability x {higher of (a) or (c)}
Minus 1% or more and 7% or less	Corporation tax liability x 25%	Corporation tax liability x 25% + Corporation tax liability x (c)
Less than minus 1%(*)	Corporation tax liability x 25% + Corporation tax liability x (b)	

(a): (Increase-decrease R&D ratio - 7%) x 0.625 (Upper limit: 5%)

(b): (Increase-decrease R&D ratio + 1%) x 0.625 (Lower limit: minus 5%)

(c): (R&D ratio - 10%) x 2 (Upper limit: 10%)

(*) The applicable period of these temporary measures will be extended until fiscal years beginning on or before 31 March 2029.

Note that the maximum creditable amount for certain venture R&D companies will be the amount shown in the above table plus an additional amount equivalent to 15 percent of the corporation tax liability.

[Supplemental information regarding fiscal years beginning between 1 April 2026 and 31 March 2027]

According to the Proposal, the applicable period of temporary measures regarding the maximum creditable amount and temporary measures where R&D ratio exceeds 10 percent under the current tax law, which is fiscal years beginning on or before 31 March 2026, will be extended. It is

considered likely that the applicable period of temporary measures regarding the creditable ratio under the current tax law, which is fiscal years beginning on or before 31 March 2026, will be extended, although the Proposal does not clearly state explicit details.

[Definition of key terms]

- Large-sized companies: Companies other than small and medium-sized companies
- Small and medium-sized companies: (a) or (b) below:

  (a) 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

  (b) Companies with no capital and with 1,000 or fewer regular employees

  Note that a company whose average income for the preceding three fiscal years is over JPY1.5 billion is excluded from the definition of small and medium-sized companies.
- Increase-decrease R&D ratio: (a) / (b)

  (a) [Total R&D costs in the current fiscal year] – [Annual average of R&D costs for the preceding three fiscal years] (if the figure is negative, the negative figure is used.)

  (b) Annual average of R&D costs for the preceding three fiscal years
- R&D ratio: Total R&D costs in the current fiscal year / Average sales
- Average sales: Average sales for the preceding three fiscal years and the current fiscal year
- Certain venture R&D companies: Companies which were established within the past 10 years and have tax losses to be carried forward (Subsidiaries of a large company are not eligible.)

(3) Tax credits for general R&D costs for small and medium-sized companies

Regarding the tax credits for general R&D costs for small and medium-sized companies (under which the creditable amount is calculated by multiplying general R&D costs by the creditable ratio discussed below), the following amendments will be made:

[Current tax law]

Applicable period: Fiscal years beginning between 1 April 2023 and 31 March 2026

(i) Creditable ratio

Increase-decrease R&D ratio	Creditable ratio	
	R&D ratio of 10% or less	R&D ratio exceeding 10%(*)
More than 12%(*)	12% + (Increase-decrease R&D ratio - 12%) x 0.375 (Upper limit: 17%)	The percentage shown on the left + The percentage shown on the left x (a) (Upper limit: 17%)
12% or less	12%	12% + 12% x (a)

(a): (R&D ratio - 10%) x 0.5 (Upper limit: 10%)

(*) The applicable period of these temporary measures is fiscal years beginning on or before 31 March 2026.

(ii) Maximum creditable amount

Increase-decrease R&D ratio	Maximum creditable amount	
	R&D ratio of 10% or less	R&D ratio exceeding 10%(*)
More than 12%(*)	Corporation tax liability x 35%	Corporation tax liability x 35%
12% or less	Corporation tax liability x 25%	Corporation tax liability x 25% + Corporation tax liability x (a) (Upper limit: Corporation tax liability x 35%)

(a): (R&D ratio - 10%) x 2 (Upper limit: 10%)

(*) The applicable period of these temporary measures is fiscal years beginning on or before 31 March 2026.

[Proposal]

Applicable period: Fiscal years beginning between 1 April 2026 and 31 March 2029

(i) Creditable ratio

The applicable periods for temporary measures for the creditable ratio applied where the increase-decrease R&D ratio exceeds 12 percent as well as temporary measures for the creditable ratio applied where the R&D ratio exceeds 10 percent will be extended until fiscal years beginning on or before 31 March 2029. Accordingly, the same creditable ratio as under the current tax law will be applied under the Proposal.

(ii) Maximum creditable amount

The applicable periods for temporary measures for the maximum creditable amount applied where the increase-decrease R&D ratio exceeds 12 percent as well as temporary measures for the maximum creditable amount applied where the R&D ratio exceeds 10 percent will be extended until fiscal years beginning on or before 31 March 2029. Accordingly, the same maximum creditable amount as under the current tax law will be applied under the Proposal.

(iii) Introduction of carry-forward tax credit system

A carry-forward tax credit system will be introduced to allow any remaining creditable amount which has not been credited against the corporation tax liability in the current fiscal year to be carried forward for three years, provided that R&D costs of the fiscal year for which small and medium-sized companies apply the carry-forward tax credit system exceed those of the previous fiscal year. The carry-forward tax credit system will not be applied for the fiscal year for which they apply the tax credit for general R&D costs for large-sized companies in (2) above. Note that the measure will also be provided for cases where companies applying the Japanese group relief system apply the carry-forward tax credit system.

[Definition of key terms]

Please refer to the [Definition of key terms] in (2) above.

(4) Tax credits for specified R&D costs

Regarding the tax credits for specified R&D costs (under which the creditable amount is calculated by multiplying specified R&D costs by the creditable ratio), the following amendments will be made:

- Amendments to requirements for R&D costs relating to joint/consignment R&D with/to universities

With respect to the requirement that the amounts of costs required for joint/consignment R&D with/to universities must be 'audited and confirmed by such universities,' the amounts 'certified by the head of such universities' will become acceptable in lieu of the 'audited and confirmed amounts' where the universities are designated by the Ministry of Economy, Trade and Industry as meeting certain requirements.

- Amendments to R&D costs for orphan drugs

Where all or part of the R&D costs for orphan drugs are subject to the tax credits for R&D costs for strategic industrial technologies in (1) above, those costs will be excluded from the scope of the tax credits for specified R&D costs.

- Amendments to R&D conducted by paying labor costs to certain postdoctoral employees, etc. involved in R&D activities

Requirements relating to the scope of certain postdoctoral employees, etc. involved in R&D activities as well as other requirements will be amended.

(5) Scope of R&D costs under the tax credit system

From the perspective of maintaining and strengthening domestic R&D personnel and domestic R&D bases, certain restrictions will be introduced on overseas consignment R&D costs, similar to those adopted in other countries. However, overseas clinical trials that are not suited to domestic R&D activities will be excluded from these restrictions.

Specifically, regarding the amount of costs related to consignment R&D to other parties (limited to those conducted overseas pursuant to the

contract or agreement), the following amounts will be eligible for the tax credits, depending on the classification of the R&D costs:

R&D costs related to consignment clinical trials(*1) conducted to confirm the efficacy and safety of drug, etc.(*2), within the scope of R&D pertaining to such drug		R&D costs
R&D costs other than above	Fiscal years beginning between 1 April 2026 and 31 March 2027	R&D costs x 70%
	Fiscal years beginning between 1 April 2027 and 31 March 2028	R&D costs x 60%
	Fiscal years beginning on or after 1 April 2028	R&D costs x 50%

(*1) These will be only those for which the scientific quality and the reliability of the outcomes are assured.

(*2) This will refer to drug, medical devices, or regenerative medical products.

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

3. Tax Credits for Promotion of Salary Increases

In order to achieve salary increases that exceed inflation, this measure will be amended to focus on small and medium-sized companies that are struggling with defensive salary increases, although the measure is still in effect.

In addition, the conditions for additional creditable ratio in the case of an increase in education and training costs will be abolished based on the Board of Audit's observation that the amount of tax credit may exceed the amount of increase in education and training costs.

(1) Special measures for corporation tax

(i) Measures for all companies (for large-sized companies)

The measures for all companies will be abolished ahead of schedule on 31 March 2026, in light of the current situation where the increase ratio of salary payments significantly exceeds the level required by the measures, and considering the requests to promote investment in human capital based on corporate governance reforms, the possibility that the measures will impede labor mobility toward more productive areas, as well as the situation where small and medium-sized companies are more concerned about labor shortages than large companies.

(ii) Measures for middle-scale companies

With regard to measures for middle-scale companies, in addition to the abolition of the conditions for additional creditable ratio in the case of an increase in education and training costs, the conditions will be strengthened as follows in order to encourage higher salary increases,

and this measure will be abolished on the expiration of the applicable period:

[Current tax law]

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

<table>
<tr><th colspan="6">Conditions(*1) and creditable ratio(*2)</th><th rowspan="3">Maximum creditable ratio</th></tr>
<tr><th colspan="2">Conditions for salary increase</th><th colspan="4">Conditions for additional creditable ratio</th></tr>
<tr><th>Increase ratio of salary payments(*3)</th><th>Creditable ratio</th><th>For education and training costs</th><th>Creditable ratio</th><th>For supporting childcare and women's advancement</th><th>Creditable ratio</th></tr>
<tr><td>3% or more from the preceding fiscal year</td><td>10%</td><td rowspan="2">Increase in education and training costs by 10% or more from the preceding fiscal year
and
Education and training costs are 0.05% or more of salary payments</td><td rowspan="2">5%</td><td rowspan="2">Having received 'Platinum Kurumin' certification or 'Platinum Eruboshi' certification at the end of the fiscal year
or
Received 'Eruboshi' certification (third stage) in the current fiscal year</td><td rowspan="2">5%</td><td>20%</td></tr>
<tr><td>4% or more from the preceding fiscal year</td><td>25%</td><td>35%</td></tr>
</table>

(*1) 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 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:

{[Salary payments in the current fiscal year] – [Salary payments in the preceding fiscal year]} x creditable ratio

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

[Proposal]

The following underlined parts will be amended:

Applicable period: Fiscal year beginning between 1 April 2026 and 31 March 2027 (Abolished on the expiration of the applicable period)

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 supporting childcare and women's advancement	Creditable ratio	
4% or more from the preceding fiscal year	10%	Having received 'Platinum Kurumin' certification or 'Platinum Eruboshi' certification at the end of the fiscal year or Received 'Eruboshi' certification (third stage) in the current fiscal year	5%	15%
5% or more from the preceding fiscal year	15%			20%
6% or more from the preceding fiscal year	25%			30%

(*1) 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 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:

{[Salary payments in the current fiscal year] – [Salary payments in the preceding fiscal year]} x creditable ratio

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

(iii) Measures for small and medium-sized companies

With regard to measures for small and medium-sized companies, in consideration of companies engaging in defensive salary increases amid competition for human resources, the current measures will be maintained except for the abolition of the conditions for additional creditable ratio in the case of an increase in education and training costs. When the applicable period expires, necessary amendments will be considered taking into account the status of application, etc.

[Current tax law]

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

<table>
<tr><th colspan="6">Conditions and creditable ratio(*)</th><th rowspan="3">Maximum creditable ratio</th></tr>
<tr><th colspan="2">Conditions for salary increase</th><th colspan="4">Conditions for additional creditable ratio</th></tr>
<tr><th>Increase ratio of salary payments</th><th>Creditable ratio</th><th>For education and training costs</th><th>Creditable ratio</th><th>For supporting childcare and women's advancement</th><th>Creditable ratio</th></tr>
<tr><td>1.5% or more from the preceding fiscal year</td><td>15%</td><td rowspan="2">Increase in education and training costs by 5% or more from the preceding fiscal year
and
Education and training costs are 0.05% or more of salary payments</td><td rowspan="2">10%</td><td rowspan="2">Having received 'Platinum Kurumin' certification or 'Platinum Eruboshi' certification at the end of the fiscal year
or
Received 'Kurumin' certification or 'Eruboshi' certification (second stage or more) in the current fiscal year</td><td rowspan="2">5%</td><td>30%</td></tr>
<tr><td>2.5% or more from the preceding fiscal year</td><td>30%</td><td>45%</td></tr>
</table>

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

{[Salary payments in the current fiscal year] – [Salary payments in the preceding fiscal year]} x creditable ratio

[Proposal]

The following underlined parts will be amended:

Applicable period: Fiscal year beginning between <u>1 April 2026</u> and 31 March 2027

<table>
<tr><th colspan="4">Conditions and creditable ratio(*)</th><th rowspan="3">Maximum creditable ratio</th></tr>
<tr><th colspan="2">Conditions for salary increase</th><th colspan="2">Conditions for additional creditable ratio</th></tr>
<tr><th>Increase ratio of salary payments</th><th>Creditable ratio</th><th>For supporting childcare and women's advancement</th><th>Creditable ratio</th></tr>
<tr><td>1.5% or more from the preceding fiscal year</td><td>15%</td><td rowspan="2">Having received 'Platinum Kurumin' certification or 'Platinum Eruboshi' certification at the end of the fiscal year
or
Received 'Kurumin' certification or 'Eruboshi' certification (second stage or more) in the current fiscal year</td><td rowspan="2">5%</td><td><u>20%</u></td></tr>
<tr><td>2.5% or more from the preceding fiscal year</td><td>30%</td><td><u>35%</u></td></tr>
</table>

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

{[Salary payments in the current fiscal year] – [Salary payments in the preceding fiscal year]} x creditable ratio

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

Where a company subject to size-based business tax meets conditions for salary increases under the Tax Credits for Promotion of Salary Increases, it is allowed to apply a special measure which allows companies to deduct a certain amount from the taxable base of the added value component.

In line with the amendment of the Tax Credits for Promotion of Salary Increases as discussed in (1) above, this measure will also be amended as follows:

[Current tax law]

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	{[Salary payments in the current fiscal year] – [Salary payments in the preceding fiscal year]}	x	Adjustment rate for employment stability deduction	{[Salary payments in the current fiscal year] – [Salary payments in the preceding fiscal year]}	x 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, as well as whose number of regular employees is more than 2,000 at the end of the fiscal year, the announcement of multi-stakeholder policies is a condition for application of this measure.

[Proposal]

The following underlined parts will be amended:

Eligible company	Middle-scale companies subject to size-based business tax(*)			Small and medium-sized companies subject to size-based business tax	
Applicable period	Fiscal years beginning between 1 April 2026 and 31 March 2027 (Abolished on the expiration of the applicable period)			Fiscal years beginning between 1 April 2025 and 31 March 2027	
Conditions	Increase ratio of salary payments for continuously employed people is 4% or more from the preceding fiscal year.			Increase ratio of salary payments is 1.5% or more from the preceding fiscal year.	
Creditable amount	{[Salary payments in the current fiscal year] – [Salary payments in the preceding fiscal year]}	x	Adjustment rate for employment stability deduction	{[Salary payments in the current fiscal year] – [Salary payments in the preceding fiscal year]}	x 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 a condition for application of this measure.

[Definition of key terms]

- Large-sized companies: Please refer to [Definition of key terms] in '(2) Tax credits for general R&D costs for large-sized companies' of '2. Tax Credits for R&D Costs.'
- Small and medium-sized companies: Please refer to [Definition of key terms] in '(2) Tax credits for general R&D costs for large-sized companies' of '2. Tax Credits for R&D Costs.'
- 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
- Middle-scale companies: Companies whose number of regular employees is 2,000 or less (excluding those in which the total number of regular employees of the company and any companies being controlled by the company exceeds 10,000)
- Adjustment rate for employment stability deduction: (Labor costs – the amount of employment stability deduction) / Labor costs

4. Restriction on Eligible Companies for Special Tax Measures

From the perspective of encouraging large-sized companies, which do not take positive actions for capital investment and salary increases in spite of increasing their profits, to change their behavior, the conditions for restricting the application of certain types of special tax measures will be strengthened and the scope of special tax measures to be restricted will be expanded, and the application period will be extended to 31 March 2029.

[Current tax law]

(1) Outline of the measures		Large-sized companies are not allowed to apply tax credits under the special tax measures indicated in (3) below for fiscal years beginning before 1 April 2027 where neither condition (i) nor (ii) in (2) below is met. Note that this measure is not applied for fiscal years where the current fiscal year's adjusted taxable income is less than or equal to the preceding fiscal year's adjusted taxable income.				
(2) Conditions		Neither (i) nor (ii) is satisfied:				
	(i) Conditions for Salary increases	Certain large-sized companies	Salary payments for continuously employed people in the current fiscal year	≥	Salary payments for continuously employed people in the preceding fiscal year	x 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) Conditions for capital investment	Certain large-sized companies	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%
		Companies other than the above	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 30%
(3) Scope of special tax measures to be restricted		Tax credits under the following measures: • Tax credits for R&D costs • Special measures for promoting future investment in communities • Special measures for promoting investment for carbon neutrality				

[Proposal]

<table>
<tr><td colspan="2">(1) Outline of the measures</td><td colspan="5">Large-sized companies will not be allowed to apply tax credits under the special tax measures indicated in (3) below for fiscal years beginning between 1 April 2026 and 31 March 2029 where conditions in (2) below are met.
Note that this measure will not be applied for fiscal years where the current fiscal year's adjusted taxable income is less than or equal to the preceding fiscal year's adjusted taxable income.</td></tr>
<tr><td colspan="2" rowspan="2">(2) Conditions</td><td colspan="2">For tax credits for R&D costs</td><td colspan="3">Neither (i) nor (ii) is satisfied:</td></tr>
<tr><td colspan="2">For special tax measures other than tax credits for R&D costs in (3) below</td><td colspan="3">Either (i) or (ii) is not satisfied:</td></tr>
<tr><td rowspan="2"></td><td rowspan="2">(i) Conditions for Salary increases</td><td>Certain large-sized companies</td><td>Salary payments for continuously employed people in the current fiscal year</td><td>≥</td><td>Salary payments for continuously employed people in the preceding fiscal year</td><td>x 102%</td></tr>
<tr><td>Companies other than the above</td><td>Salary payments for continuously employed people in the current fiscal year</td><td>≥</td><td>Salary payments for continuously employed people in the preceding fiscal year</td><td>x 101%</td></tr>
<tr><td rowspan="2"></td><td rowspan="2">(ii) Conditions for capital investment</td><td>Certain large-sized companies</td><td>Total acquisition costs of depreciable assets located in Japan in the current fiscal year</td><td>></td><td>Total depreciation costs of depreciable assets recorded in the current fiscal year</td><td>x 40%</td></tr>
<tr><td>Companies other than the above</td><td>Total acquisition costs of depreciable assets located in Japan in the current fiscal year</td><td>></td><td>Total depreciation costs of depreciable assets recorded in the current fiscal year</td><td>x 30%</td></tr>
<tr><td colspan="2">(3) Scope of special tax measures to be restricted</td><td colspan="5">Tax credits under the following measures:
• Tax credits for R&D costs (including the newly introduced tax credit for R&D costs for strategic industrial technologies(*1) (excluding the carry-forward tax credit system))
• Special measures for promoting future investment in communities
• Special measures for promoting investment for carbon neutrality
• Special measures for promoting investment in specified productivity-enhancing facilities(*2) (including special depreciation and excluding carry-forward tax credit system)</td></tr>
</table>

(*1) Please refer to '2. Tax Credits for R&D Costs' for an overview of the measures.

(*2) Please refer to '1. Special Measures for Promoting Investment in Specified Productivity-Enhancing Facilities' for an overview of the measures.

[Definition of key terms]

- Large-sized companies: Please refer to [Definition of key terms] in '(2) Tax credits for general R&D costs for large-sized companies' of '2. Tax Credits for R&D Costs.'
- Certain large-sized companies: Companies which fall under any of the following (i) and (iii) or (ii) and (iii):

  (i) The stated capital is JPY1 billion or more, and the number of regular employees is 1,000 or more at the end of the fiscal year

(ii) The number of regular employees is more than 2,000 at the end of the fiscal year

(iii) Certain cases where adjusted taxable income in the preceding fiscal year exceeds zero

- 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 '3. Tax Credits for Promotion of Salary Increases' for other terms.)

5. Special Measures for Promoting Domestic Production in Strategic Fields

In line with the introduction of '1. Special Measures for Promoting investment in Specified Productivity-Enhancing Facilities,' the special measures for promoting domestic production in strategic fields (hereinafter the 'special measures') will be amended as follows:

(1) Amount of tax credit

(i) Amount of tax credit for semiconductors

The amount of tax credit for semiconductors under the special measures is the sum of the lesser of the following for each type of semiconductor(*):

- Amount based on the sales volume, etc. during the applicable period in the fiscal year in accordance with the category of the semiconductors produced by the assets for semiconductor production
- Amount equivalent to certain amount treated as the total amount of investment in the assets for semiconductor production used for business and the depreciable assets used directly or indirectly for the production of semiconductors together with the assets for semiconductor production

By virtue of the 2026 tax reform, the acquisition cost of the 'Specified Machinery, etc.' to which 'Special Measures for Promoting Investment in Specified Productivity-Enhancing Facilities' is applied (the same applies to (ii)), will be excluded from the amount of investment in the assets for semiconductor production and the depreciable assets used directly or indirectly for the production of semiconductors together with the assets

for semiconductor production, which are the basis for calculation of the amount of tax credit for semiconductors.

(ii) Amount of tax credit for specified products

The amount of tax credit for specified products (i.e., electric vehicle, green steel, green chemicals and SAF) under the special measures is the sum of the lesser of the following for each product(*):

- Amount based on the sales volume, etc. during the applicable period in the fiscal year in accordance with the category of the specified products produced by the assets for specified products production
- Amount equivalent to certain amount treated as the total amount of investment in the assets for specified products production used for business and the depreciable assets used directly or indirectly for the production of specified products together with the assets for specified products production

By virtue of the 2026 tax reform, the acquisition cost of the 'Specified Machinery etc.' to which 'Special Measures for Promoting Investment in Specified Productivity-Enhancing Facilities' is applied, will be excluded from the amount of investment in the assets for specified products production and the depreciable assets used directly or indirectly for the production of specified products together with the assets for specified products production, which are the basis for calculation of the amount of tax credit for specified products.

(*) There is a separate provision for calculation of the upper limit amount of tax credits.

(2) Non-applicable provision

In line with the amendments of '4. Restriction on Eligible Companies for Special Tax Measures,' the provisions restricting the application of the special measures will be amended as underlined below:

[Current tax law]

The tax credits under the special measures are not applicable for fiscal years(*) that do not satisfy <u>both</u> of the following conditions:

(i)	Salary payments for continuously employed people in the current fiscal year	<u>≥</u>	Salary payments for continuously employed people in the preceding fiscal year	x <u>101%</u>
(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	x 40%

[Proposal]

The tax credits under the special measures are not applicable for fiscal years(*) that do not satisfy any of the following conditions:

(i)	Salary payments for continuously employed people in the current fiscal year	≥	Salary payments for continuously employed people in the preceding fiscal year	x 102%
(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	x 40%

(*) This rule is not applied for fiscal years where the amount of adjusted taxable income in the current fiscal year is equal to or smaller than the amount of adjusted taxable income in the preceding fiscal year.

[Definition of key terms]

Please refer to [Definition of key terms] in '3. Tax Credits for Promotion of Salary Increases' and '4. Restriction on Eligible Companies for Special Tax Measures.'

6. Special Measures for Promoting Open Innovation

Where a blue-return filing company who conducts specified business activities(*) (hereinafter the 'Eligible Company') acquires shares of a start-up (hereinafter the 'Issuing Company') that meet certain conditions (hereinafter the 'Specified Shares'), the special measures for promoting open innovation allow the Eligible Company to include the amount equivalent to 25 percent of the acquisition cost of the Specified Shares in deductible expenses in the fiscal year including the day of acquisition. This is a temporary measure from 1 April 2020 to 31 March 2026.

(*) Specified business activities mean business activities aimed towards undertaking business by which high productivity or developing new businesses are expected by utilizing management resources other than the company's own management resources.

By virtue of the 2026 tax reform, the following amendments will be made based on the amendments to related laws and regulations, and the applicable period will be extended by two years (to 31 March 2028):

(1) Scope of Specified Shares

In order to create a globally competitive startup ecosystem, the scope of Specified Shares subject to this special measure will be amended as follows from the perspective that it is extremely important to diversify the exit strategies of startups, which have been pointed out to be overly focused on IPOs, which is an urgent issue, and promote M&A in particular:

Classification of Specified Shares	Scope of Specified Shares	
	Current tax law	Proposal
Capital contribution type	Shares acquired through cash contribution for capital increase(*1)	Shares acquired through cash contribution for capital increase(*1) (*2)
M&A type	Shares acquired by purchasing from a person other than the Issuing Company, where such acquisition results in holding more than 50% of the total voting rights of the Issuing Company(*3) (*4)	(i) Shares acquired by purchasing from a person other than the Issuing Company, where such acquisition results in holding more than 50% of the total voting rights of the Issuing Company(*2) (*3) (*4)
		(ii) Shares acquired by purchasing from a person other than the Issuing Company, with an expectation to hold more than 50% of the total voting rights of the Issuing Company within 3 years from the date of acquisition(*3) (*4)

(*1) Additional capital contributions to the Issuing Company made by the Eligible company, who already holds more than 50 percent of the total voting rights, are excluded. In addition, where the special measure (Capital contribution type) was applied to an investment in the same Issuing Company in the past, only additional capital contributions that result in holding more than 50 percent of the total voting rights are eligible.

(*2) Shares that are acquired in the same issue as shares acquired through (ii) of the M&A type will be excluded from the scope of Specified Shares.

(*3) Shares for which more than 50 percent of the total voting rights are already held immediately before the acquisition are excluded.

(*4) Shares that are acquired in the same issue as shares to which the special measure (cash contribution type) had already been applied on or after 1 April 2023 are excluded.

(2) Requirements for Specified Shares

The requirements for Specified Shares will be amended as underlined below:

	Classification of Specified Shares		Requirements for Specified Shares	
			Requirements for acquisition cost per case	Requirement for estimated holding period
Current tax law	Capital contribution type		• Payment by large-sized companies(*): JPY100 million or more • Payment by small and medium-sized companies(*): JYP10 million or more • Payment to foreign companies: uniformly JPY500 million or more	Over 3 years
	M&A type		JPY500 million or more	Over 5 years
Proposal	Capital contribution type		• Payment by large-sized companies(*): <u>JPY200 million or more</u> • Payment by small and medium-sized companies(*): JYP10 million or more • Payment to foreign companies: uniformly JPY500 million or more	Over 3 years
	M&A type	Shares fall under (1)(i)	<u>JPY700 million or more</u>	Over 5 years
		<u>Shares fall under (1)(ii)</u>	<u>JPY300 million or more</u>	<u>Over 5 years</u>

(*) Please refer to [Definition of key terms] in '(2) Tax credits for general R&D costs for large-sized companies' of '2. Tax Credits for R&D Costs.'

(3) Upper limit of the acquisition cost of Specified Shares and deductible ratio

Under the special measure, when the Eligible Company acquires Specified Shares and records in the accounting books the amount calculated by the following formula or less in the fiscal year including the day of the acquisition, the amount accounted for in the special account can be included in deductible expenses:

Deductible amount	=	Acquisition cost of the Specified Shares (up to the upper limit)	x	Deductible ratio

By virtue of the 2026 tax reform, as the shares acquired under the above (1)(ii) will be newly added to the scope of this special measure, the upper limit of the acquisition cost of Specified Shares and deductible ratio will be set as underlined below:

Classification of Specified Shares		Upper limit of the acquisition cost of Specified Shares	Deductible ratio
Capital contribution type		JPY5 billion	25%
M&A type	Shares fall under (1)(i)	JPY20 billion	
	Shares fall under (1)(ii)	<u>JPY20 billion</u>	<u>20%</u>

(4) Cause for reversal of special account, etc.

Where the cause for reversal of the special account occurs, the reversed amount, which had been deducted in the fiscal year including the day of the acquisition, shall be included in taxable income in the fiscal year including the day on which the cause for reversal occurred.

By virtue of the 2026 tax reform, the causes for reversal of the special account related to the Specified Shares, etc. will be amended as follows:

(i) Specified Shares acquired through M&A type (i) in (1) above

From the perspective of promoting more integrated collaboration with start-ups, the method of reversal of special accounts in the event of merger of the Issuing Company by the Eligible Company will be amended as follows:

Causes for reversal	Methods of reversal of special accounts	
	Current tax law	Proposal
In the case where the achievement of growth and development of the business conducted by the Issuing Company is certified, and where a merger is conducted in which the Eligible Company with the special account is a surviving company and the Issuing Company is the merged company	The full amount in the special account on the date of dissolution is included in the taxable income in the fiscal year of the Eligible Company in which the date of dissolution of the Issuing Company as a result of the merger is included.	The amount in the special account will be reversed and included in the taxable income in equal amounts for 5 years from the first day of the fiscal year following the fiscal year including the date of merger.

(ii) Specified Shares acquired through M&A type (ii) in (1) above

The causes for reversal of the special accounts for the Specified Shares acquired in accordance with (1)(ii) above, which will be added by the 2026 tax reform, will be provided as follows after the amendments of the current causes for reversal:

	Causes for reversal	Methods of reversal of special accounts
(a)	Where 3 years have passed since the acquisition of the Specified Shares (Note that the cases will be excluded where the Eligible Company comes to hold more than 50% of the total voting rights of the Issuing Company within 3 years from the date of acquisition.)	The amount in the special amount will be reversed and included in the taxable income in the fiscal year including the day on which 3 years have passed.
(b)	In the case described in parentheses in (a) above, where the Eligible Company comes to no longer hold more than 50% of the total voting rights of the Issuing Company	The amount in the special account will be reversed and included in the taxable income in the fiscal year including the day on which the Eligible Company no longer holds more than 50% of the total voting rights.
(c)	In the case where the achievement of growth and development of the business conducted by the Issuing Company is certified, and where a merger is conducted in which the Eligible Company with the special account is a surviving company and the Issuing Company is the merged company	The amount in the special account will be reversed and included in the taxable income in equal amounts for 5 years from the first day of the fiscal year following the fiscal year including the date of merger.

The causes for reversal other than the above will be the same as the current causes for reversal of Specified Shares acquired through M&A type (i) in (1) above.

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

7. Special Measures for Preparation and Preservation of Documents Related to Transactions within Corporate Groups

When a Japanese company conducts a 'specified transaction' with a related party(*1), and the 'transaction-related documents, etc.' do not describe or record the necessary information to calculate the amount of consideration for that transaction(*2), the Japanese company will be required to obtain or prepare, and preserve documents (including electromagnetic records) that clarify such information not described or recorded.

Furthermore, failure to preserve the above documents in accordance with the provisions of the relevant laws and regulations will be treated as a reason for the cancellation of approval for the blue-form tax return system.

(*1) Related party will be determined based on the same standards as those applied to related parties under the transfer pricing tax rules.

(*2) This will include details of the assets or services provided in the transaction, or details of the calculation of the amount of consideration to be paid by the Japanese company in the transaction.

[Definition of key terms]

Specified transaction	The following transactions (limited to those that make selling expenses, general and administrative expenses, or other costs incurred):	
	(1)	The transfer or leasing of the following assets (hereinafter the 'industrial property rights, etc.') by the related party to the Japanese company (including acts whereby the related party allows the Japanese company to use such 'industrial property rights, etc.', such as the establishment of rights pertaining to industrial property rights, etc.): (i) Industrial property rights and other rights relating to technology, production methods based on specific technologies, or similar assets (ii) Copyrights (including publishing rights, neighboring rights to copyrights, and other similar rights) (iii) Copyrighted works of computer programs

Specified transaction	(2)	Among services provided by the related party to the Japanese company, the following: (i) Activities carried out by the related party based on a contract or agreement between the Japanese company and the related party, in any of the following business activities: • Business activities, such as research and development, advertising and promotion, etc., conducted by utilizing management resources, such as industrial, commercial, or academic knowledge and experience etc., owned by the related party • Acts whereby the related party allows the Japanese company to use exclusive assets owned by the related party (assets intended solely for the business use of the Japanese company and the related party), as well as the maintenance and management of such exclusive assets (ii) Provision of services, such as management or guidance of business operations, or provision of information, by the related party to the Japanese company, conducted based on the industrial, commercial, or academic knowledge and experience owned by the related party (iii) Other services similar to those described in (i) and (ii) above
Transaction-related documents, etc.	The following documents or electromagnetic records that are required to be retained under the provisions of the corporation tax law and related regulations: • Order forms, contracts, invoices, receipts, quotations, and other similar documents received or issued in connection with transactions • Electromagnetic records in which the information normally stated in the above documents is recorded	

II. International Taxation

1. Global Minimum Tax

In order to deal with the Global Minimum Tax agreed by the OECD/G20 Inclusive Framework on BEPS in October 2021, the 2023 tax reform introduced the 'corporation tax on international minimum tax amount for each applicable fiscal year' (hereinafter the 'Japanese IIR'), etc. which is equivalent to the IIR. In addition, the measures equivalent to the UTPR and the QDMTT were introduced under the 2025 tax reform.

Furthermore, regarding the Japanese IIR, etc., amendments were made by the 2024 and 2025 tax reform in accordance with the Administrative Guidance (hereinafter the 'AG') published by the OECD.

By virtue of the 2026 tax reform, additional amendments will be made to the Japanese IIR in accordance with the AG released by the OECD in January 2025.

Specifically, with respect to the calculation of the Adjusted Covered Taxes, in case where deferred tax assets or deferred tax liabilities are recorded in the fiscal years prior to the Transition Year, the following deferred tax assets or deferred tax liabilities will be disregarded and other necessary measures will be provided:

- Deferred tax assets arising from agreements on tax credits, etc., concluded with national or local governments (limited to those concluded on or after 1 December 2021 for the purpose of increasing the amount of deferred tax assets related to such tax credits, etc.) or from similar circumstances
- Deferred tax assets or deferred tax liabilities recognized by evaluating the amount of assets or liabilities at market value under the laws and regulations of countries or regions other than Japan equivalent to corporation tax (limited to those enacted between 1 December 2021 and the day before the beginning of the Transition Year)

With respect to local corporate inhabitant tax, necessary measures will also be provided in line with the treatment of corporate tax as amended above.

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The following statements are presented as a basic approach in the Proposal:

'With respect to Global Minimum Tax (Pillar 2), international discussions are ongoing regarding the coexistence between the Global Minimum Tax and the tax systems of certain countries (including the United States) that satisfy specified conditions (i.e., 'side-by-side system') for the purpose of stabilizing the international tax system. If an international consensus is reached in the near future, a prompt review will be considered in accordance with that consensus and the future response will be examined based on the status of discussions.'

Accordingly, attention should be paid to developments in international discussions and to the response of the tax authorities in the event that an international consensus is reached.

2. Controlled Foreign Company (CFC) Regime

The Controlled Foreign Company (CFC) Regime will coexist with 'Pillar 2' mentioned in '1. Global Minimum Tax' 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', the following amendments will also be provided under the 2026 tax reform, continuing the tax reforms enacted over the past three years.

Furthermore, the Proposal clearly states that the necessary amendments will continue to be considered in tax reforms from 2027 onward.

(1) Special measures for partial-inclusion CFC or financial CFC dissolved

(i) Application of CFC regime

In cases where a CFC falls under the Liquidated Partial-Inclusion CFC or the Liquidated Financial CFC, for the Applicable Liquidation Fiscal Year, the Liquidated Partial-Inclusion CFC will be treated as a partial-inclusion CFC, and the Liquidated Financial CFC will be treated as a financial CFC respectively, for the purposes of applying the CFC regime.

Furthermore, when the tax authority requests the submission of the following documents, etc. related to the CFC from a Japanese company and such documents are not submitted by the deadline, it will be presumed that the CFC does not fall under the Liquidated Partial-Inclusion CFC or the Liquidated Financial CFC and that the fiscal year does not fall under the Applicable Liquidation Fiscal Year for the purposes of applying the above tax treatment.

- Documents, etc. certifying that the CFC falls under either the Liquidated Partial-Inclusion CFC or the Liquidated Financial CFC
- Documents, etc. certifying that the fiscal year of the CFC falls under the Applicable Liquidation Fiscal Year

[Definition of key terms]

Liquidated Partial-Inclusion CFC	Among CFCs that have been dissolved, CFC that falls under a partial-inclusion CFC in any fiscal year beginning within 2 years prior to the start date of the fiscal year including the dissolution date
Liquidated Financial CFC	Among CFCs that have been dissolved, CFC that falls under a financial CFC in any fiscal year beginning within 1 year prior to the start date of the fiscal year including the dissolution date
Applicable Liquidation Fiscal Year	A fiscal year including the day within the period from the last day of the first fiscal year in which a CFC no longer falls under a partial-inclusion CFC or a financial CFC due to the dissolution until, in principle, the day on which 3 years have passed from the last day

(ii) Calculation of abnormal income

A partial-inclusion CFC whose effective tax rate is less than 20 percent is subject to the passive income inclusion rule. Abnormal income (income that would not normally arise from its business and is considered to have no basis for occurrence in light of the economic substance of the CFC such as its asset size and personnel), which is one type of passive income, is calculated by deducting a certain amount from a specified amount of income based on the financial statements for each fiscal year.

By virtue of the 2026 tax reform, for the Applicable Liquidation Fiscal Year in cases where a CFC falls under the Liquidated Partial-Inclusion CFC or the Liquidated Financial CFC, the amount of total assets, personnel expenses and accumulated depreciation, which are the basis for calculating the deductible amount in the calculation of abnormal income, will be those corresponding to the fiscal year immediately preceding the first fiscal year in which the company no longer falls under a partial-inclusion CFC or a financial CFC due to the dissolution.

(iii) Calculation of income generated from overcapitalization

In case where a partial-inclusion CFC falls under a financial CFC, the amount subject to passive income inclusion rule is determined as the greater of (a) the amount of income generated from overcapitalization or (b) the total of certain amounts such as consideration for the leasing of tangible fixed assets and royalties for the use of intangible assets.

By virtue of the 2026 tax reform, for the Applicable Liquidation Fiscal Year in case where a CFC falls under the Liquidated Financial CFC, the amount of income generated from overcapitalization will be deemed to be zero for the purposes of calculating the partial-inclusion amount for the financial CFC.

(iv) Special measure for dissolved financial CFC

There is a special measure which certain financial income arising in the fiscal year including the day within the period from the day (hereinafter the 'Day') on which a partial-inclusion CFC no longer falls under a financial CFC due to the dissolution until, in principle, the day before three years passed from the Day is not subject to the passive income inclusion rule.

By virtue of the 2026 tax reform, the special measure will be abolished.

(2) Special measure for paper companies

For certain CFCs that are considered to have limited risk of tax avoidance, a special measure is provided under certain requirements whereby such CFC is not treated as a paper company among the specified CFC subject to the company-based full inclusion rule.

The asset ratio condition, which is one of the conditions for the special measure, prescribes that the ratio of the total amount of book value of certain assets such as shares in foreign subsidiaries and receivables to the book value of total assets recorded on the balance sheet at the end of the fiscal year should exceed 95 percent.

By virtue of the 2026 tax reform, if the amount of the total assets recorded on the balance sheet at the end of the fiscal year of CFC are zero, the CFC will not be required to make the determination of the asset ratio condition for that fiscal year.

(3) Special measure for effective tax rate

In calculating the effective tax rate (hereinafter the 'ETR'), the numerator is defined as the amount of foreign corporate taxes imposed on the income of each fiscal year of a CFC based on its financial statements by the jurisdiction of its head office. There is a special measure for the calculation of the ETR, which allows the highest tax rate to be used in calculating the ETR if the foreign corporate tax rate in the jurisdiction of CFC's head office increases according to the income amounts.

By virtue of the 2026 tax reform, the special measure will not be applied in the following cases: (i) it is not ordinarily expected that the highest tax rate will be applied; (ii) the income amounts that fall within the income bracket to which the highest tax rate applies are extremely limited; or (iii) it is recognized that applying the special measure would be significantly inappropriate due to other circumstances.

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Note that similar amendments will be made to related measures such as the Corporate Inversion Rules in line with the (1) through (3) above.

(4) Timing of application

The above amendments will be applied to CFCs for fiscal years beginning on or after 1 April 2026.

(Necessary measures will also be provided for corporate inhabitant tax and business tax, etc. in line with the above amendments of corporation tax.)

3. Special Measures for Foreign Partners of Investment Funds

Where a non-resident or foreign company (hereinafter the 'foreign partner') who is an overseas limited partner (hereinafter the 'LP') invests in a fund with a general partner (hereinafter the 'GP') in Japan, the LP is generally treated as having a permanent establishment (hereinafter the 'PE') in Japan.

Notwithstanding above, the special measures provide an exemption from income tax and corporation tax on Japanese source income earned through the fund where certain conditions are satisfied.

By virtue of the 2026 tax reform, the conditions will be amended and the procedures simplified under the special measures.

(1) Conditions

Where a foreign partner satisfies all of the following conditions and has submitted an application form for the special measures indicated in (2) below, and has continuously satisfied all of the following conditions from

the date of execution of the investment fund agreement to the date of the submission, the special measures will be applied to the foreign partner for the period beginning on and after the date of the submission:

(i)	The foreign partner is an LP of an investment fund.
(ii)	The foreign partner does not engage in any of the following actions related to the execution of business of the investment fund: (a) Execution of business (b) decision-making on the execution of business (c) approval, consent or similar actions regarding the execution of business or decision-making on the execution of business (hereinafter the 'approval, etc. of the execution of business')
(iii)	The ownership ratio of the foreign partner in the partnership property of the investment fund is less than 25%.
(iv)	The Foreign partner has no special relationship with the GP of the investment fund.
(v)	If the foreign partner does not conduct business through a PE under the investment fund agreement, the foreign partner does not have any income attributable to the PE.

By virtue of the 2026 tax reform, a part of the above conditions will be amended as follows:

- With respect to condition (ii), the scope of actions excluded from 'approval, etc. of the execution of business' will be prescribed as the 'approval, etc. of conflict-of-interest transactions' ('approval, etc. of self-dealing, etc. of the GP' under the current tax law).
- With respect to condition (iii), the ownership ratio threshold for the LP will be raised to less than 50 percent where investment fund establishes a certain committee composed of LPs, etc. of the investment fund.
- With respect to condition (v), this condition will be abolished.

(2) Application procedure

A foreign partner who intends to apply for the special measures is required to submit the prescribed application form for the special measures, which contains the necessary items, together with the required documents to the competent tax office of the manager responsible for the allocation of profits of the investment fund, via the manager.

By virtue of the 2026 tax reform, the items to be stated in the application form will be amended, and other necessary measures will be provided in line with the amendments in (1) above.

III. Consumption Taxation

1. Taxation on Cross-Border Electronic Commerce

In recent years, as the market for cross-border electronic commerce related to the sale of goods has expanded, issues have emerged such as competitive imbalances caused by the tax exemption system for low-value imported goods and non-filing by foreign business operators.

In order to address these issues, the taxation on cross-border electronic commerce will be amended as follows:

(1) Amendments to the tax exemption system for low-value imported goods

For cross-border mail order sales, importers are subject to customs duty and consumption tax.

Notwithstanding the above, from the perspective of ensuring smooth customs clearance, imported goods with a taxable value of JPY10,000 or less are, in principle, exempt from both customs duties and consumption tax.

By virtue of the 2026 tax reform, for the purpose of ensuring the fairness of competitive conditions and appropriate taxation between domestic and foreign business operators, the treatment of consumption tax related to the tax exemption system for low-value imported goods will be amended as follows, so that consumption tax will be imposed on business operators (sellers) based on the establishment of the registration system for specified low-value asset sellers described in (2) below:

Scope of taxable transactions for consumption tax	Transfer of assets (limited to those with a value of JPY10,000 or less per asset (excluding tax)) shipped to Japan from outside Japan through mail order sales (hereinafter the 'Transfer of Specified Low-Value Assets') will be subject to consumption tax on the transfer of assets.(*)
Treatment of import consumption tax for importers	With respect to the withdrawal of taxable goods from bonded areas related to Transfer of Specified Low-Value Assets conducted by a specified low-value asset seller, measures will be provided so that import consumption tax will not continue to be imposed as long as the following items are described in the import declaration, etc. for the taxable goods: • The registration number of the specified low-value asset seller who conducted the Transfer of Specified Low-Value Assets related to the taxable goods • A statement that the taxable goods are related to the Transfer of Specified Low-Value Assets (In the case where the taxable goods related to the Transfer of Specified Low-Value Assets are imported as postal items, the taxable goods, for which the above items are described in the customs declaration attached or affixed to them by the sender in accordance with the postal convention instead of the import declaration, etc., will be subject to this measure.)
Treatment of business operators when import consumption tax is imposed	In the case where a business operator (excluding tax-exempt business operators) conducted the Transfer of Specified Low-Value Assets on which import consumption tax is imposed as taxable goods related to the Transfer of Specified Low-Value Assets, the amount of consumption tax imposed will be deducted from the consumption tax imposed on the taxable base for the taxable period, provided that the import license, etc. for the taxable goods is retained.

(*) The Transfer of Specified Low-Value Assets will be excluded from the scope of transfer of taxable assets which is the basis for the calculation of the tax credits of consumption tax under the simplified tax credit system.

(2) Introduction of the registration system for specified low-value asset sellers

In order to prevent consumption tax from being imposed both at the time of sale and at the time of import on the Transfer of Specified Low-Value Assets, a registration system for specified low-value asset sellers will be introduced to certify that the consumption tax has been imposed at the time of sale. The outline of the system is as follows:

Registration of specified low-value asset sellers	• A specified low-value asset seller is a business operator who conducts the Transfer of Specified Low-Value Assets (excluding tax-exempt business operators) and submits an application to the competent tax office and is registered by the tax office. • In order for a specified foreign business operator (who has no office or place of business, etc. in Japan) to be registered, it will be required to have a tax agent for consumption tax. • Application for registration will be accepted from 1 October 2027.
Obligations of specified low-value asset sellers	Where a specified low-value asset seller conducts the Transfer of Specified Low-Value Assets, it will be required to state the following information on the purchase orders, etc. related to the shipment, and notify the information to the person who intends to import the assets related to the Transfer of Specified Low-Value Assets or the customs broker who acts as their agent for import declaration under the Custom Act. • The registration number of the specified low-value asset seller • A statement that the asset falls under the asset related to the Transfer of Specified Low-Value Assets
Cancellation of registration	Where a specified low-value asset seller submits a notification requesting cancellation of registration to the competent tax office, the registration will be cancelled.
Application of special measure for consumption tax exemption system	For the taxable periods on or after the taxable period following the taxable period which includes the date of registration, the special measure for consumption tax exemption system will not apply unless a notification requesting cancellation of registration is submitted.

In addition to the above, with respect to assets other than those related to the Transfer of Specified Low-Value Assets conducted by a specified low-value asset seller, it will be prohibited to issue purchase orders, etc. which could be mistaken for the Transfer of Specified Low-Value Assets conducted by a specified low-value asset seller to importers, or notify numbers, etc. which could be mistaken for the registration number to importers. Furthermore, provisions on the right of inquiry and inspection related to the tax audit concerning such issuance or notification will be provided.

(3) Introduction of platform taxation for sales of goods

In order to address the issue of non-filing by foreign business operators in goods sales through platforms, and to ensure the fairness of competitive conditions and appropriate taxation between domestic and foreign

business operators, platform taxation will be introduced to shift tax obligations on sales of goods to platform operators.

Outline of the measure	(i) Among the following transfers of assets made through digital platforms, those for which consideration is received through platform operators designated by the National Tax Agency ('NTA') (hereinafter the 'Type 2 Platform Operator'), will be treated as having been made by the Type 2 Platform Operator so that the Type 2 Platform Operator will be liable to pay/file consumption tax on such transfer of assets.(*) (a) Transfers of assets conducted by foreign business operators in Japan (including the transfer of assets incidental thereto, and excluding those falling under the Transfer of Specified Low-Value Assets) (b) Transfer of Specified Low-Value Assets conducted by business operators (ii) Among the taxable purchases made in Japan and the withdrawal of taxable goods from bonded areas by the foreign business operator described in (i)(a) above, those required only for the transfer of assets described in (i)(a) above that are subject to platform taxation will be treated as having been made by the Type 2 Platform Operator so that the Type 2 Platform Operator will be eligible for consumption tax credit by obtaining the approval of the foreign business operator in advance.
Type 2 Platform Operator	A person who is designated by the NTA because the total amount of consideration for the transfer of assets described in (i)(a) and (b) exceeds JPY5 billion (including tax) during the taxable period of the platform operator
Notification obligation and designation system	• Assuming that this platform taxation has been introduced since 1 January 2027, where the amount calculated by multiplying the total amount of consideration for the transfer of assets referred to in (i)(a) and (b) above, which should be subject to platform taxation, by 4 during the period from that date to 31 March of the same year exceeds JPY5 billion (including tax), the platform operator will be required to notify the NTA. The NTA will then designate the platform operator as a Type 2 Platform Operator. • The designation above will take effect on 1 April 2028. • Necessary transitional measures will be provided regarding the procedures for the designation system for Type 2 Platform Operators.

(*) In accordance with the amendments, the name of 'Specified Platform Operator' for the provision of digital services will be changed to 'Type 1 Platform Operator.'

(4) Special measures for consumption tax exemption system

From the perspective of reducing the tax administrative burden of small business operators, the special measures for consumption tax exemption system are applied to business operators whose taxable sales in the base period are JPY10 million or less, in principle, to exempt them from the consumption tax liability. The application of the system will be treated as follows:

- Where the first day of the base period for a business operator is before 1 April 2028, the special measures for consumption tax exemption system will be applied based on the assumption that the amendments in (1) above and the platform taxation in (3) above had already been implemented from the first day of that base period.
- Note that in the case where there are circumstances that make it difficult to calculate taxable sales based on the assumption that the

amendments, etc. had already been implemented since the first day of the base period, the amount calculated by multiplying the taxable sales based on the assumption that the amendments, etc. had already been implemented during the period from 1 October 2027 to 31 December 2027 by four will be allowed. In addition, necessary transitional measures will be provided.

(5) Timing of application

The timing of application of the amendments to (1) through (4) above is as follows:

'Registration of specified low-value asset sellers' in (2)	Applied from 1 October 2027
'Notification obligation and designation system' in (3)	Applied from 1 April 2027
Other than the above	Applied to transfer of assets and taxable purchases made by business operators in Japan, and taxable goods withdrawn from bonded areas on or after 1 April 2028

2. Taxation on Services Related to Real Estate Located in Japan

Among the transfers of assets, etc. to non-residents conducted in Japan, provision of services related to real estate located in Japan (such as real estate brokerage fees) is treated as similar to export transactions and eligible for export exemption for consumption tax purposes.

In light of the fact that the effect of such provision of services related to real estate that cannot be taken out of Japan is considered to be attributable to Japan, and that there is an increasing trend of non-residents acquiring real estate located in Japan, from the perspective of fairness with the provision of services to residents, provision of services related to real estate located in Japan to non-residents will be excluded from the scope of export exemption for consumption tax purposes. In addition, other necessary measures will be provided.

This amendment will be applied to transfers of assets, etc. made on or after 1 October 2026. Note that the amendment will not apply to transfers of assets, etc. made on or after 1 October 2026 based on a contract concluded by 31 March 2026.

IV. Individual Taxation

1. Personal Reliefs, etc.

(1) Measures for basic deduction, etc. during the inflation phase

By virtue of the 2026 tax reform, a mechanism will be introduced to increase the basic deduction and employment income deduction in line with inflation, in order to deal with the recent rise in prices. In addition, further increases of the basic deduction and employment income deduction will be provided based on the 'Three-Party Agreement' (*) reached in December 2024. As a result, in 2026 and 2027, the minimum taxable amount (the amount of the tax-free threshold of income tax) will be increased from the current JPY1.6 million to JPY1.78 million, and the scope of eligibility will be expanded from individuals whose total income is JPY1.32 million or less (equivalent to JPY2 million or less in gross salary in the case of salary income only) to individuals whose total income is JPY4.89 million or less (equivalent to JPY6.65 million or less in gross salary in the case of salary income only), thereby strengthening consideration for low-income and middle-income earners.

(*) This refers to the agreement presented on 11 December 2024 by the Liberal Democratic Party, Komeito and the Democratic Party For the People (hereinafter the 'DPFP'), under which the so-called 'JPY1.03 million threshold' would be increased from 2025, aiming to reach JPY1.78 million insisted on by the DPFP.

(i) Introduction of a mechanism to increase the basic deduction, etc. in line with inflation

In response to the income tax issue that the effective tax burden increases as prices rise due to the fixed amount of basic deduction, a mechanism will be introduced to review the general provisions of the basic deduction and the minimum fixed amount of the employment income deduction (hereinafter the 'basic deduction under the general rule' and the 'employment income deduction under the general rule', respectively) in a timely manner as follows:

- For the basic deduction under the general rule, adjustment will be made by multiplying the amount of deduction before review by the rate of increase in the Consumer Price Index (overall) for the last two years at the time of tax reform.
- For the employment income deduction under the general rule, the same measures as for the basic deduction under the general rule will be provided.

In consideration of the administrative burden on withholding agents, if the review results in fractional amounts in the deduction, the amount of deduction will be rounded to the nearest JPY10,000. Furthermore, in the first year of the review, the adjustment will not be reflected in monthly withholding but will be reflected in the year-end adjustment.

(ii) Further increases based on the 'Three-Party Agreement'

In principle, the special provision of the basic deduction (hereinafter the 'basic deduction under the special rule'), which was introduced as a permanent measure under the 2025 tax reform, is to be reviewed in consideration of the 'standard amount for public assistance' on an ongoing basis. Taking that into account, from the perspective of dealing with employment adjustment and considering low-income and middle-income earners facing severe conditions due to rises in prices, the minimum taxable amount will be set at JPY1.78 million in line with the spirit of the 'Three-Party Agreement.' Accordingly, as a special provision limited to 2026 and 2027, the basic deduction under the special rule will be exceptionally increased, and the minimum fixed amount of the employment income deduction will be increased by introducing the special provision of employment income deduction (hereinafter the 'employment income deduction under the special rule').

Note that, until 'standard amount for public assistance' reaches JPY1.78 million, the minimum taxable amount of JPY1.78 million will be maintained by transferring the amount equal to 'the amount of increase in basic deduction and employment income deduction under general rules based on (i)' from these special provisions to each general rule.

(2) Basic deduction

(i) Measures in 2026 and 2027

(a) General rule

Based on (1)(i), the amount of basic deduction under the general rule will be increased by JPY40,000(*) from the current JPY580,000 to JPY620,000 for individuals whose total income is JPY23.5 million or less (equivalent to JPY25.45 million or less in gross salary in the case of salary income only).

(*) This amount will be calculated using the following formula: JPY580,000 (the amount of deduction before review) × 6.0% (rate of increase in the Consumer Price Index (overall) from October 2023 to October 2025)

(b) Special rule

Based on (1)(ii), the amount of the basic deduction under the special rule will be increased by JPY50,000 from the current JPY370,000 to JPY420,000 for individuals whose total income is JPY4.89 million or less (equivalent to JPY6.65 million or less in gross salary in the case of salary income only).

(JPY)

Amount of total income	Basic deduction		
	Current tax law		Proposal
	Total amount (General rule + Special rule)		Total amount (General rule + Special rule)
	Year 2026	Year 2027	Year 2026 ~ Year 2027
Up to 1,320,000	950,000 (580,000 + 370,000)	950,000 (580,000 + 370,000)	1040,000 (620,000 + 420,000)
Excess over 1,320,000 Up to 3,360,000	880,000 (580,000 +300,000)	580,000 (580,000 + 0)	
Excess over 3,360,000 Up to 4,890,000	680,000 (580,000 + 100,000)		
Excess over 4,890,000 Up to 6,550,000	630,000 (580,000 + 50,000)		670,000 (620,000 +50,000)
Excess over 6,550,000 Up to 23,500,000	580,000 (580,000 + 0)		620,000 (620,000 + 0)
Excess over 23,500,000 Up to 24,000,000	480,000 (480,000 + 0)	480,000 (480,000 + 0)	480,000 (480,000 + 0)
Excess over 24,000,000 Up to 24,500,000	320,000 (320,000 + 0)	320,000 (320,000 + 0)	320,000 (320,000 + 0)
Excess over 24,500,000 Up to 25,000,000	160,000 (160,000 + 0)	160,000 (160,000 + 0)	160,000 (160,000 + 0)
Excess over 25,000,000	0	0	0

(ii) Measures in or after 2028

(a) General rule

Based on (1)(i), the amount of basic deduction under the general rule will be reviewed to reflect the rate of increase in the Consumer Price Index (overall) for the last two years at the time of the tax reform.

(b) Special rule

The amount of the basic deduction under the special rule is the amount amended under the 2025 tax reform, which is JPY370,000 for individuals whose total income is JPY1.32 million or less (equivalent to JPY2 million or less in gross salary in the case of salary income only).

(iii) Timing of application

The above amendments of the basic deduction under the general rule will be applied from 2026 for national income tax purposes. With regard to withholding tax on salaries and public pensions, etc., the above amendments of the basic deduction under the general rule will be applied to those paid on or after 1 January 2027.

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

Note that the basic deduction for inhabitant tax purposes will not be amended, so that the maximum amount of such deduction will remain unchanged at the current JPY430,000 (where the amount of total income of the previous year is JPY24 million or less).

(3) Minimum fixed amount of employment income deduction

(i) Measures in 2026 and 2027

(a) General rule

Based on (1)(i), the minimum fixed amount of the employment income deduction under the general rule will be increased by JPY40,000 (same amount as the basic deduction under the general rule) from JPY650,000 to JPY690,000.

(b) Special rule

Based on (1)(ii), the minimum fixed amount of the employment income deduction under the special rule will be JPY50,000.

(JPY)

<table>
<tr><th rowspan="2">Gross salary (A)</th><th colspan="2">Employment income deduction</th></tr>
<tr><th>Current tax law</th><th>Proposal</th></tr>
<tr><td>Up to 1,900,000</td><td>650,000</td><td rowspan="2">740,000
(General rule 690,000
+ Special rule 50,000)</td></tr>
<tr><td>Excess over 1,900,000
Up to 2,200,000</td><td rowspan="2">(A) x 30% + 80,000</td></tr>
<tr><td>Excess over 2,200,000
Up to 3,600,000</td><td>(A) x 30% + 80,000</td></tr>
<tr><td>Excess over 3,600,000
Up to 6,600,000</td><td>(A) x 20% + 440,000</td><td>(A) x 20% + 440,000</td></tr>
<tr><td>Excess over 6,600,000
Up to 8,500,000</td><td>(A) x 10% + 1,100,000</td><td>(A) x 10% + 1,100,000</td></tr>
<tr><td>Excess over 8,500,000</td><td>1,950,000</td><td>1,950,000</td></tr>
</table>

(ii) Measures in or after 2028

(a) General rule

Based on (1)(i), the minimum fixed amount of the employment income deduction under the general rule will be reviewed to reflect the rate of increase in the Consumer Price Index (overall) for the last two years at the time of the tax reform.

(b) Special rule

The minimum fixed amount of the employment income deduction under the special rule will not be applied.

(iii) Timing of application, etc.

Similar amendments will be made for inhabitant tax purposes as well. These amendments of the employment income deduction under the general rule will be applied from 2026 for national income tax purposes and 2027 for inhabitant tax purposes.

Along with the amendment of the employment income deduction under the general rule, the withholding tax tables, etc. for salaries will be amended. The amendments of these tables will be applied to salaries, etc. paid on or after 1 January 2027.

The employment income deduction under the special rule will be applied in the year-end adjustment.

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

(4) Other amendments related to (2) and (3)

Along with the amendments to general rules of '(2) Basic deduction' and '(3) Minimum fixed amount of employment income deduction,' necessary amendments, including the following, will be provided:

- Regarding the spouse deduction, the threshold amount of total income of a spouse who resides in the taxpayer's household will be increased from JPY580,000 to JPY620,000.
- Regarding the dependent deduction, the threshold amount of total income of a dependent relative will be increased from JPY580,000 to JPY620,000.
- Regarding the single parent deduction, the threshold amount of gross income of a child who resides in the single parent's household will be increased from JPY580,000 to JPY620,000.
- Regarding the working student deduction, the threshold amount of total income of a working student will be increased from JPY850,000 to JPY890,000.

Similar amendments will be made for inhabitant tax purposes, and these amendments will be applied from 2026 for national income tax purposes and from 2027 for inhabitant tax purposes.

(5) Single parent deduction

The amount of single parent deduction will be amended as follows:

(JPY)

	Amount of deduction	
	Current tax law	Proposal
Income tax	350,000	380,000
Inhabitant tax	300,000	330,000

This amendment will be applied from 2027 for national income tax purposes and from 2028 for inhabitant tax purposes.

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

2. Tax Measures to Secure Financial Resources for Strengthening Defense Capability (Special Defense Income Tax)

The 'Outline of the 2023 Tax Reform Proposals' stated the policy that corporation tax, income tax and tobacco tax would be increased in phases over multiple years toward 2027 in order to secure financial resources for the drastic strengthening of Japan's defense capability. The 'Outline of the 2024 Tax Reform Proposals' stated that, based on the above policy and the fundamental direction derived from it, further examination would be conducted, and the intention to take necessary legislative measures at an appropriate time would be clarified in the supplementary provisions of the amended tax law under the 2024 tax reform. This was clearly stated in Article 74 of the supplementary provisions of the amended tax law under the 2024 tax reform.

Based on this, by virtue of the 2025 tax reform, 'special defense corporation tax' was introduced, and measures to increase tobacco tax were provided. By virtue of the 2026 tax reform, the following measures for income tax will be provided:

(1) Introduction of special defense income tax

'Special defense income tax' will be imposed on income tax as a new additional tax at the rate of 1 percent for the time being as follows:

	Special defense income tax
Taxpayers(*)	Taxpayers for income tax
Tax base	Base income tax for the year
Calculation of tax amount	The amount of special defense income tax = Base income tax for the year x 1%
Taxable period	For the time being, from years beginning in 2027 or after

(*) The person obligated to withhold income tax will have to withhold and pay the special defense income tax on the withholding income tax.

Note that the calculation of tax amounts other than the calculation of base income tax, the above 'Calculation of tax amount' and 'Taxable period' will be the same as those for special reconstruction income tax.

Furthermore, filing, payment, etc., withholding, etc., the right of question and inspection of the tax authority, penalties, etc. will be the same as those for special reconstruction income tax, and other necessary measures will be provided.

(2) Amendments related to special reconstruction income tax

To secure the financial resources necessary for recovery and reconstruction from the Great East Japan Earthquake, special reconstruction income tax has been imposed since 2013 at a rate of 2.1 percent on the base income tax of the taxpayers for income tax.

By virtue of the 2026 tax reform, in consideration of the current household economic conditions and to avoid an increase in the burden on households, the rate of the special reconstruction income tax will be

reduced as indicated by the underlined portions in the table below. On the other hand, in order to avoid any impact on the steady implementation of reconstruction projects and to ensure that the total amount of reconstruction funding is fully secured, the taxable period will be extended. Going forward, necessary measures will be taken while monitoring the status of securing financial resources for recovery.

	Current tax law	Proposal
Tax rate	2.1%	1.1% (Applicable from 2027 for income tax, etc. purposes)
Taxable period	For the years from 2013 to 2037	For the years from 2013 to 2047

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

3. Fair Tax Burden on Extremely High-Level Income

It is statistically said that the national income tax burden ratio of wealthy individuals who have a large amount of asset income derived from stocks or land, etc., which are subject to separate taxation at a flat rate, decreases when their income reaches JPY100 million. In order to deal with the so-called 'JPY100 million barrier,' from the perspective of fairness of the tax burden, by virtue of the 2023 tax reform, new tax measures were established which require a minimum tax burden for extremely high-level income.

By virtue of the 2026 tax reform, as part of enhancing the financial reallocation function and from the perspective of ensuring fairness in the tax burden in order to further address the issue known as the 'JPY100 million barrier,' the tax measures will be amended so that individuals, whose 'Amount of Standard Taxable Income' for the year exceeds JPY165 million (JPY330 million under the current tax law), will be subject to the tax measures and the applied tax rate will be increased to 30 percent (22.5 percent under the current tax law) as follows:

[Current tax law]

([Amount of Standard Taxable Income for the year] – [JPY330 million])
x 22.5% – [Amount of Standard National Income Tax for the year]

[Proposal]

([Amount of Standard Taxable Income for the year] – [JPY165 million])
x 30% – [Amount of Standard National Income Tax for the year]

The amended tax measures will be applied from 2027 for national income tax purposes.

[Definition of key terms]

Amount of Standard Taxable Income	The sum of the amount of gross income and the amount of each income subject to separate declaration taxation system (including the amount of dividend income and capital gains, etc. from listed shares, etc. calculated without consideration of the No-declaration System)
Amount of Standard National Income Tax	The sum of the amount of national income tax on the tax return (excluding the amount of income subject to the No-declaration System) and the amount of withholding tax on income subject to the No-declaration System

4. Crypto Assets

With respect to crypto assets transactions, based on the 'Outline of the 2025 Tax Reform Proposals' released by the ruling coalition in December 2024, the taxation method will be amended to apply separate taxation to income derived from spot transactions, derivative transactions and ETFs of crypto assets that contribute to asset formation for the individuals, provided that legislative measures are implemented to establish a sound trading environment, such as the obligation to provide explanations for investor protection.

Specifically, subject to amendments to the Financial Instruments and Exchange Act (hereinafter the 'Act'), etc., the following measures will be introduced along with other necessary measures:

(1) Transfer, etc. of specified crypto assets

Under the current tax law, profits arising from the transfer, etc. of crypto assets are generally treated as miscellaneous income and taxed as ordinary income. By virtue of the 2026 tax reform, where a resident taxpayer, etc. transfers, etc. specified crypto assets(*1) to a crypto asset exchange operator(*2), the capital gains arising from such transfer, etc. will be taxed separately from ordinary income at a flat rate of 20 percent (15 percent national income tax, 5 percent inhabitant tax).

In addition, if there is a loss arising from the transfer, etc. of specified crypto assets to a crypto asset exchange operator that cannot be fully deducted in the calculation of capital gains from specified crypto assets for the year in which the transfer, etc. took place, such remaining amount of loss will be allowed to be carried forward and deducted from capital gains on specified crypto assets within the next three years beginning with the following year, subject to certain requirements.

These amendments will be applied to transfers, etc. of specified crypto assets conducted on or after 1 January of the year following the effective date of the amended Act (hereinafter the 'Effective Date').

(*1) Crypto-Assets, etc. registered in the 'Registry of Financial Instruments Business Operators'

(*2) A crypto asset exchange operator will be required to submit a report stating certain matters related to a resident taxpayer, etc. who conducted a transaction of specified crypto assets during the year to the tax authority by 31 January of the following year of the transaction. The above amendment will be applied to transactions of specified

crypto assets conducted on or after 1 January of the year following the Effective Date.

(2) Crypto assets derivative transactions related to the specified crypto assets

Under the current tax law, there is a special provision whereby the amount of miscellaneous income, etc. arising from cash settlement for certain futures transactions is taxed separately from ordinary income at a flat rate of 20 percent (15 percent national income tax, 5 percent inhabitant tax). In addition, if there are losses arising from the calculation of miscellaneous income, etc. related to futures transactions, such losses are allowed to be carried forward and deducted from miscellaneous income, etc. related to futures transactions within the next three years beginning with the following year.

By virtue of the 2026 tax reform, the above special provision will also be applied to miscellaneous income, etc. related to specified crypto asset derivative transactions(*).

The above amendment will be applied to cash settlement for the specified crypto asset derivative transactions conducted on or after the Effective Date.

(*) Crypto asset derivative transactions related to the specified crypto assets

(3) Crypto assets that are the basis for capital gains subject to ordinary income

The following measures will be provided for crypto assets that are the basis for capital gains subject to ordinary income:

- The special deduction for capital gains will not be applied to gains from the transfer of such crypto assets.
- No special measure will be applied to treat the amount of capital gains (i.e., gains from assets held for more than five years) on such crypto assets as one-half for calculation purposes.
- Losses arising from the calculation of capital gains related to such crypto assets will not be allowed to be offset against other ordinary income.

The above amendments will be applied to national income tax on or after the year following the year in which the Act comes into effect.

[Reference information]

Subject to amendments to the Act, etc., the following measures will also be introduced for consumption tax purposes:

Transfer of crypto assets	• The transfer of crypto assets will be treated as assets equivalent to securities and continue to be exempt from consumption tax (treated as 'assets equivalent to payment instrument' under the current tax law). • For the purpose of calculating the taxable sales ratio for consumption tax purposes, an amount equivalent to 5% of the proceeds of such transfer will be included in the denominator in calculating the taxable sales ratio.
Lending of crypto assets	• Consumption tax will not be imposed, and other necessary measures will be provided.

These amendments will be applied to transfers of crypto assets conducted on or after the Effective Date in (1) above.

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