

KPMG Japan Tax Newsletter

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2026 TAX REFORM

MEASURES BASED ON THE INTERNATIONAL AGREEMENT ON THE GLOBAL MINIMUM TAX

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On 19 December 2025, the ruling coalition (the Liberal Democratic Party and the Japan Innovation Party) agreed on the 'Outline of the 2026 Tax Reform Proposals' (hereinafter the 'Proposal')^(*), which was subsequently approved by the Cabinet on 26 December of the same year.

The Proposal includes proposed amendments related to the global minimum tax. Following the international agreement reached on 5 January 2026 on the coexistence of the global minimum tax and the minimum tax regimes of certain jurisdictions, including the United States which maintains its own minimum tax regime, the cabinet approved a set of measures reflecting the international agreement (hereinafter, the 'Measures') on 23 January 2026 and the Ministry of Finance released the Measures on its web-site on the same day (Japanese only). The Measures will be legislated under the 2026 tax reform together with the amendments presented in the Proposal.

We have set out below brief summaries of the outline of the Measures.

The Measures themselves are only an indicative outline and are 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 Measures depending on the outcome of discussions in the Diet.

(*) We have set out brief summaries of the outline of the main points of the Proposal in our Tax Newsletter '[Outline of the 2026 Tax Reform Proposals](#)' issued on 25 December 2025.

I. International Developments Surrounding the Global Minimum Tax

1. International Developments to Date

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 measures equivalent to the IIR (hereinafter the 'Japanese IIR'). In addition, the 2025 tax reform introduced the measures equivalent to the UTPR (hereinafter the 'Japanese UTPR') and the measures equivalent to the QDMTT (hereinafter the 'Japanese QDMTT'). Furthermore, regarding the Japanese IIR, amendments were made by virtue of the 2024 and 2025 tax reform in accordance with the Administrative Guidance (hereinafter the 'AG') published by the OECD.

On the other hand, the United States opposed the application of the global minimum tax. The Republican Party, in particular, objected to the UTPR on the grounds that it infringed upon U.S. taxing rights and potentially increase the tax burden on U.S. companies, especially large tech companies, that have a significant portion of their profits overseas. On 20 January 2025, upon reassuming the U.S. presidency, Mr. Trump signed an executive order that included a memorandum asserting that the OECD's global tax deal would be 'invalid' in the United States. Furthermore, on 22 May 2025, the U.S. House of Representatives passed the 'One Big Beautiful Bill,' positioned as the budget reconciliation bill for fiscal year 2025. The bill proposed, through the creation of a new Section 899 of the Internal Revenue Code, to classify the UTPR and digital services taxes, etc. as 'unfair foreign taxes,' and to impose so-called retaliatory measures on companies located in jurisdictions that implement such taxes. The retaliatory measures included increasing taxes on income, etc. (such as PE or branch taxation) and withholding taxes on U.S. source interest and dividends, etc. by 5 percent each year up to an additional 20 percent above the statutory rate.

In response to the above, the G7 issued a statement on 28 June 2025 announcing that it had reached an agreement to accept the U.S. request to treat U.S. companies as an exception under the global minimum tax framework, and that the United States would, in turn, refrain from introducing the new Section 899 of the Internal Revenue Code^(*).

Because the statement included elements such as those below, close attention was focused on how the OECD, which issued a comment welcoming the G7 statement^(*), would follow up and what measures it would subsequently introduce:

- A side-by-side system would fully exclude U.S. parented groups from the UTPR and the IIR in respect of both their domestic and foreign profits.

- A side-by-side system would include a commitment to ensure any substantial risks that may be identified with respect to the level playing field, or risks of base erosion and profit shifting, are addressed to preserve the common policy objectives of the side-by-side system.
- Work to deliver a side-by-side system would be undertaken alongside material simplifications being delivered to the overall Pillar 2 administration and compliance framework.
- Work to deliver a side-by-side system would be undertaken alongside considering changes to the Pillar 2 treatment of substance-based non-refundable tax credits that would ensure greater alignment with the treatment of refundable tax credits.

(*1) ['G7 statement on global minimum taxes'](#) (PDF 26KB)

(*2) OECD ['Statement by the OECD Secretary-General on G7 Progress on International Tax Co-operation'](#)

2. Publication of the Side-by-Side Package

On 5 January 2026, the OECD released the following comprehensive package detailing the agreed side-by-side system in its press release '[International community agrees way forward on global minimum tax package](#)':

- [Tax Challenges Arising from the Digitalisation of the Economy – Global Anti-Base Erosion Model Rules \(Pillar Two\), Side-by-Side Package](#) (PDF 1,088KB)

In the press release, the OECD explains that the package, developed after several months of intensive negotiations, represents a significant political and technical agreement which will set the foundation for stability and certainty in the international tax system and the Side-by-Side Package will preserve the gains achieved so far in the global minimum tax framework and protect the ability for all jurisdictions, particularly developing countries, to have first taxing rights over income generated in their jurisdictions.

The Side-by-Side Package includes, for example, the following elements:

- MNE groups whose UPE is located in an eligible jurisdiction are exempt from the application of the IIR and the UTPR.
- The impact of certain tax credits intended to promote investment (such as those for capital investment and R&D, etc.) on the calculation of the effective tax rate (hereinafter the 'ETR') will be mitigated
- Extending the application of the existing transitional CbCR safe harbour by one year and introducing a permanent safe harbour allowing a simplified calculation of the ETR.

II. Measures Based on the International Agreement on the Global Minimum Tax

In light of the international agreement indicated in I.2. above regarding the Side-by-Side Package, by virtue of the 2026 tax reform, tax measures equivalent to the global minimum tax in Japan will be amended as follows in accordance with the Measures:

1. Japanese IIR

In the Proposal, the amendments to the Japanese IIR^(*) are indicated based on the AG released by the OECD in January 2025, which clarified certain aspects of the IIR. The Measures propose the following amendments, together with other necessary measures:

^(*) For an outline of the amendments, please refer to our Tax Newsletter '[Outline of the 2026 Tax Reform Proposals](#)' issued on 25 December 2025.

(1) Introduction of exemption criteria

An exemption criteria will be introduced under which, if the UPE, etc. of a specified MNE group, etc. is located in a jurisdiction designated by the Minister of Finance as an internationally recognized jurisdiction that satisfies the following conditions and other requirements (hereinafter the 'eligible jurisdiction'), jurisdictional top-up-tax amount for constituent companies, etc. and joint ventures belonging to the specified MNE groups, etc. will be treated as zero. Consequently, the MNE groups whose UPE, etc. is located in the eligible jurisdiction will be exempt from application of the Japanese IIR and the Japanese UTPR.

[Conditions]

(i)	Under the tax laws of the jurisdiction (limited to those enacted before 1 January 2029, the same will apply in (ii) and (iii) below), corporate income will be subject to tax at a rate of 20% or more.
(ii)	Under the tax laws of the jurisdiction, the domestic minimum top-up tax will be imposed, or an amount calculated based on the net profit or loss for each applicable fiscal year of the company will be subject to tax at a rate of 15% or more.
(iii)	Under the tax laws of the jurisdiction, in cases where a subsidiary, etc. (i.e., a company in which another company directly or indirectly holds an equity interest) does not conduct its own administration, control and management in the jurisdiction where its head office is located or in other similar cases, there is a provision that treats the income of such subsidiary, etc. as income of the another company and includes it in taxable income. Such provision must calculate the includable amount, in principle, based on all of the subsidiary's income.

The above amendments will be applied to the applicable fiscal years beginning on or after 1 January 2026.

(2) Extension of the transitional CbCR safe harbour

The transitional CbCR safe harbour is a temporary exemption criterion introduced to reduce the administrative burden on companies arising from the implementation of the global minimum tax. Under the safe harbour, if a constituent company, etc. of a specified MNE group, etc. satisfies one of the conditions (the de minimis test, the simplified effective

tax rate test or the routine profits test) based on information reported in its Country-by-Country Report (CbCR), the top-up tax of the jurisdiction where the constituent company, etc. is located will be treated as zero.

The transitional CbCR safe harbour is currently applicable for applicable fiscal years beginning between 1 April 2024 and 31 December 2026. It is proposed that the application period will be extended by one year, until 31 December 2027.

The application period for the transitional CbCR safe harbour under the Japanese QDMTT, which is a similar rule under the Japanese IIR, will also be extended as described above.

(3) Introduction of a special measure for adjusted covered taxes

A special measure will be introduced under which a certain amount^(*) of the eligible amounts for applying the following tax credits, etc. will be added to the adjusted covered taxes:

[Tax credits, etc.]

Limited to tax credits or income deduction designated to promote investment that satisfy the following conditions:

- The amount eligible for tax credits or income deduction is calculated based on the amount of expenditure.
- The amount eligible for tax credits is calculated based on the production volume, etc. of tangible assets located in the jurisdiction.

^(*) In principle, the upper limit is the allocated amount corresponding to the greater of (i) 5.5 percent of the total remuneration of certain employees, or (ii) 5.5 percent the total depreciation expense for certain tangible assets.

The above amendments will be applied to the applicable fiscal years beginning on or after 1 January 2026.

2. Japanese QDMTT

While the Proposal does not specifically indicate any amendments to the Japanese UTPR, the Measures propose the introduction of an exemption criterion as follows together with other necessary measures:

Introduction of an exemption criterion

Where the UPE, etc. of a specified MNE group, etc. is located in a jurisdiction designated by the Minister of Finance as an internationally recognized jurisdiction that satisfies certain conditions including that the jurisdiction's tax laws (limited to those enacted as of 1 January 2026) impose a tax on corporate income at a rate of 20 percent or more, the portion of the group's international minimum tax residual amount of the specified MNE group, etc. that is attributable to the jurisdiction of the UPE will be excluded from the group's international minimum tax residual amount of the specified MNE group, etc.

3. Local Tax

With respect to the corporate inhabitant tax, the necessary measures will be provided in line with the national tax treatment regarding the amendments to the Japanese IIR, etc.

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