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Japan tax alert

Ernst & Young Tax Co.

2024 Japan tax reform outline

- translation of the Japanese tax alert which was issued on 19 Dec 2023

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The fiscal year 2024 tax reform outline was released on 14 December 2023. In this alert, we provide an overview of the major reforms and revised provisions contained in the outline. Please note that provisions may be revised, deleted or added during Diet deliberations regarding the reform bill.

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Building a better working world

Corporate taxation

1. Creation of tax credit to promote domestic production in strategic industries

A tax credit to promote domestic production in strategic industries will be created. Companies may claim a tax credit proportional to their production/ sales volume of designated goods for which strategic long-term investment considered essential to national interests, provided companies invest in machinery or facilities to manufacture such goods. Designated goods include electric vehicles (rechargeable batteries), green steel, green chemicals, sustainable aviation fuel (SAF), and semiconductors, and separate unit values will be set for each of the goods. The maximum credit for the length of the incentive will be capped at the amount of all production facilities, including existing buildings, and the maximum credit for each year will be 40% of corporate tax liabilities (20% for investments related to semiconductors). In the interest of increasing the predictability of mid-to-long term investments conducted by companies, the credit will be available for an exceptionally extended period of ten years, with the carry-forward period being set at 4 years (3 years for investments related to semiconductors).

2. Creation of the “Innovation box” regime

In regard to patent rights or copyrights for AI-related software resulting from in-house R&D, a regime will be created which allows 30% of income generated from domestic transfers or domestic/international licensing of such intellectual property to be included in deductible expenses. Under this regime, which will be available for seven years beginning from April 2025, income derived from intellectual property will be segmented from total income and be eligible for a tax incentive, consequently supporting further investment in intangible assets by Japanese private-sector companies. The application and scope of this regime will be revised as necessary in the future.

3. Revisions to tax incentives encouraging wage increases

In order to further incentivize greater wage increases, large enterprises that increase wages by a minimum of 7% over prior year will be able to enjoy a corporate tax credit of 25% of the increase. Companies that encourage and foster an environment for women's initiatives or childcare support will be eligible for an additional tax credit, provided that certain requirements are met. The credit rate for large enterprises and medium-sized companies will be capped at 35%. The credit rate for SMEs will be increased to 45%, and credits can be carried forward for five years in the event a company is unable to enjoy the credits due to losses.

4. Revisions to size-based enterprise tax

The current criteria for corporations subject to size-based enterprise taxation under the corporate enterprise tax (capital of more than JPY100 million) will be maintained, but supplementary criteria will be added.

Even if a company that was subject to size-based enterprise tax in the previous year reduces its capital below JPY100 million in the current year, it will remain subject to sized-based enterprise tax if the total of its capital and capital surplus exceeds JPY1 billion. This reform will be effective as of 1 April 2025, and will apply to fiscal years beginning on or after this date. Measures to address last-minute capital reduction will also be established.

5. Other revisions

- Crypto assets held long-term by third parties other than the issuer will not be subject to mark-to-market valuation at the end of a period provided that certain requirements are met.
- The applicable period of spin-off tax rules in which partial spin-offs are treated as qualified share distributions will be revised and extended by four years.
- The applicable period of the tax incentive to promote open innovation will be extended by two years.
- Reserves for SME business reorganization investment losses will be expanded.
- Requirements for the non-applicability measures of specified tax credit rules will be made more stringent.
- The maximum amount of certain food and beverages expenses that may be excluded from the scope of entertainment expenses will be increased from the current JPY5,000 per person to JPY10,000 per person.

International taxation

1. Global minimum taxation

The Income Inclusion Rule (IIR) introduced in the 2023 tax reform will be revised as required.
Items expected to be discussed in detail by the OECD during and after 2024 are being considered for legislation in the 2025 tax reform at the earliest.

2. Establishment of reporting system for the automatic exchange of information requests related to crypto asset transactions of non-residents

A system which obligates domestic crypto asset transaction businesses to report transactions and other information of non-residents to the tax authorities will be established, with the aim of enabling the automatic exchange of such information with tax authorities of other countries according to tax treaties and preventing international tax evasion or avoidance via the use of crypto assets.

3. Other revisions

- There will be additional revisions to the foreign subsidiary income inclusion tax rules (CFC rules).
- Contributions-in-kind where domestic entities transfer intangible assets to the head office of a foreign entity will not be considered as qualified contributions-in-kind. There will be also revisions to the regulations for domestic/foreign attribution of transferred assets.
- The carry-forward period of excess interest under the earnings stripping rules will be extended to ten years.
- There will be revisions to the special measures for the reduction of book value of subsidiary shares.

Individual taxation, asset taxation, consumption taxation, and tax administration

1. Individual income taxation

- Individual income tax and inhabitant tax will respectively be reduced by JPY30 thousand and JPY10 thousand per person. While spouses and dependent relatives are eligible for this deduction, income limitations will apply.
- Eligibility for child allowances will be expanded to high school age children, but the dependent deduction for children of age 16 to 18 will be decreased.
- The borrowing limit for the housing loan tax credit which was scheduled to be decreased will instead be maintained, limited to young married couples and families with children.
- The upper limit of the exercise price eligible for tax incentives and offered by the stock option rules will be increased from the current JPY12 million to JPY36 million under certain conditions.

2. Consumption taxation

- A system that obligates platform businesses to remit taxes on behalf of foreign businesses will be introduced. Platform businesses of a certain scale which offer platform services to foreign digital businesses will be subject to the system.
- Revisions will be made to necessary systems in order to prevent tax avoidance by foreign businesses through their use of the tax-exempt enterprise system or the simplified calculation rules.
- In regard to the consumption tax exemption rules for foreign tourists, revisions will be made to only exempt purchases from consumption tax when customs confirm the purchased items are taken out of Japan. Details of these revisions are to be included in the 2025 tax reform.

3. Asset taxation

- The burden adjustment measure for fixed asset taxes will be extended through FY2024 to FY2026.
- In regard to the business succession tax rules (special measures), the due date for the submission of the specially approved succession plan will be extended by two years, to 31 March 2026.

4. Tax administration

- The submission of a request for corrections based on acts of concealment or falsification will be added to the scenarios subject to heavy additional taxes.
- In regard to representatives of companies who commit fraudulent acts and disperse company assets to avoid tax obligations, measures will be implemented to impose secondary national tax liability on such representatives under certain conditions.

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