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Recent developments in international taxation: Japan

Overview

In recent years, Japan has updated its tax systems to reflect structural changes in the economic and social landscape: the field of international taxation is no exception. In response to the development of the digital economy, the increase in cross-border transactions, and initiatives by the OECD and the G20, the Japanese Government has implemented or will implement tax reforms to update its practices in international taxation.

This paper outlines the significant tax reforms in international taxation that have been determined or implemented in 2024.

Introduction of platform taxation on consumption tax (VAT in Japan)

Platform taxation is a tax system imposing the filing and payment obligations for consumption tax (VAT in Japan) on the operators of platforms rather than on the foreign business operators providing digital services – such as app sales – to customers in Japan via these platforms, under certain circumstances.

Japanese consumption tax is imposed on domestic transactions conducted as business activities. Whether a transaction is treated as a domestic transaction is determined based on criteria specific to the type of transaction. Digital services provided by foreign business operators via the internet, such as e-books, music and advertising distribution, are defined as the provision of electronic services. The criteria for determining whether these services are domestic or foreign transactions are based on the address of the recipient of the service. Services provided to domestic businesses or consumers are considered domestic transactions and are therefore subject to consumption tax.

If the provision of electronic services by foreign business operators is normally limited to business operators, considering the nature of the services, or the terms and conditions for providing the services, it is classified as the provision of business-to-business electronic services ('B2B electronic services'). When a foreign business operator provides B2B electronic services to business operators in Japan, the recipient business operators are generally required to file a consumption tax return and pay consumption tax. This taxation scheme, which places the burden of filing for and paying consumption tax on the business operators in Japan, is called the reverse charge mechanism.

On the contrary, the reverse charge mechanism does not apply to a foreign business operator providing business-to-consumer electronic services ('B2C electronic services'), which include services received by both individual customers and business operators, as well as those received only by customers. The foreign service provider is generally required to file a consumption tax return and pay the consumption tax.

However, with the rise of platform operators, even small-scale foreign business operators without a fixed base in Japan can easily enter the Japanese market as providers of digital

services and contents through large platforms. Since these foreign business operators have no physical presence in Japan, there are limitations in identifying, investigating and collecting taxes from these entities, making it challenging to enforce consumption tax properly.

In March 2024, the Consumption Tax Act of Japan was amended to introduce platform taxation for consumption tax. From 1 April 2025, if a foreign business operator provides B2C electronic services via a digital platform and receives compensation via a specified platform business operator, such a specified platform business operator is required to file a consumption tax return and pay the consumption tax in respect of the electronic services provided by the foreign business operator. This taxation scheme, which transfers the burden of filing for and paying the consumption tax, is called platform taxation.

A digital platform operator that receives more than JPY5bn in a taxable year for the provision of B2C electronic services must submit a designation notification to the Commissioner of the National Tax Agency by the submission deadline for filing a tax return of the taxation period. The National Tax Agency discloses a list of specified platform business operators which, as of 6 December 2024, includes the following:

- iTunes KK, operating App Store, Apple Books, and Apple Podcasts;
- Amazon Web Services Japan GK, operating AWS Marketplace;
- Google Asia Pacific Pte Ltd, operating Google Play; and
- Nintendo Co, Ltd, operating Nintendo eShop.

Amendments to the requirements for qualified contribution in kind

Under the Corporate Tax Act of Japan, a contribution in kind that meets certain requirements is treated as a qualified contribution in kind, allowing the deferral of taxation on the latent gains of the contributed assets. In the context of international taxation, the following scenarios are excluded from the scope of qualified contributions in kind.

1. A contribution in kind that a domestic corporation transfers domestic assets to a foreign corporation.
2. A contribution in kind that a domestic corporation transfers foreign assets to a foreign corporation, and all or part of those foreign assets are not attributable to a permanent establishment of the foreign corporation (limited to cases similar to the transfer of domestic assets).
3. A contribution in kind that a foreign corporation transfers domestic assets to another foreign corporation.
4. A contribution in kind that a foreign corporation transfers foreign assets to a domestic corporation.
5. A contribution in kind that a foreign corporation transfers foreign assets to another foreign corporation.

As noted in points (1) and (2), contributions in kind by a domestic corporation transferring assets located outside Japan to a foreign corporation is generally not excluded from the scope of qualified contributions in kind. However, intangible assets can be easily separated from the location where their value was created; even if they are attributable to a foreign establishment, part of their value may be created inside Japan. Therefore, it was necessary to amend the scope of qualified contributions in kind to prevent tax-related issues arising from the transfer of unrealised gains on assets from domestic corporations to foreign corporations.

Additionally, domestic assets are generally defined as assets or liabilities attributable to a place of business located within Japan. Conversely, foreign assets are generally defined as assets or liabilities attributable to a place of business located outside Japan. However, there have been court cases in Japan addressing the issue of whether assets used for a business conducted by a domestic corporation but located in its foreign operations should be classified as domestic or foreign assets. To ensure stability in tax practices, it was necessary to clearly align the attribution of income derived from assets or liabilities with the location to which those assets or liabilities are attributable.

In response, two amendments were made regarding the scope of qualified contributions in kind.

1. The scope of qualified contributions in kind was revised to exclude contributions in kind transferring certain intangible assets to the foreign corporation receiving the contribution. Certain intangible assets refer to the intangible assets, such as patents, utility models, designs, trademarks, know-how and copyrights, that are held by a domestic corporation and for which compensation should be paid if their transfer, lending, licensing or other similar transactions are conducted under the usual terms of trade between independent enterprises.
2. The criteria for determining whether assets or liabilities transferred through contributions in kind are classified as domestic or foreign have been amended. This determination is now based on whether the assets or liabilities are associated with business conducted through the head office of a domestic corporation or a permanent establishment of a foreign corporation, or through a foreign branch of a domestic corporation or the head office of a foreign corporation.

These new rules apply to contributions in kind effective on or after 1 October 2024.

Reactions to the OECD's Pillar Two

In March 2023, the Corporate Tax Act of Japan was amended to introduce the income inclusion rule (IIR) of the OECD's Pillar Two. In March 2024, in response to the implementation of the IIR in foreign countries, there were also amendments to relevant tax systems, including the scope of foreign tax credits, the scope of qualified mergers that allow for tax deferral, and the requirements for being classified as a controlling foreign company (CFC), to clarify relevant tax treatments. In Japan, the IIR applies to taxpayers' fiscal years beginning on or after 1 April 2024.

Consequently, a tax reform act to introduce the undertaxed profits rule (UTPR) and the qualified domestic minimum top-up tax (QDMTT) was passed in March 2025. In Japan, the UTPR and QDMTT are expected to apply to taxpayers' fiscal years beginning on or after 1 April 2026.

Recent updates on Japan's tax treaty network

Since January 2023, new tax treaties between Japan and Azerbaijan, Algeria and Greece have come into effect. For Japanese taxes, the new tax treaty with Azerbaijan applies to taxes levied on the basis of a taxable year for any taxable years beginning on or after 1 January 2024, and to taxes levied not on the basis of a taxable year on or after 1 January 2024. Similarly, the new tax treaties with Algeria and Greece apply to taxes levied on the basis of a taxable year for any taxable years beginning on or after 1 January 2025, and to taxes levied not on the basis of a taxable year on or after 1 January 2025.

On the other hand, since January 2023, Japan has executed new tax treaties with Ukraine, Turkmenistan and Armenia, but these have not yet come into effect as of 29 May 2025.

Additionally, tax treaties between Japan and Hong Kong, Romania, Mexico and Vietnam have recently become subject to the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (MLI). While certain base erosion and profit shifting (BEPS) prevention measures under the MLI were already applicable to the tax treaty between Japan and Finland, the prevention measure under Article 9, Paragraph 4 of the MLI has been newly applied since 1 January 2024.

Implementation of reporting system for the automatic exchange of transaction information related to crypto assets for non-residents

In 2022, the OECD published the Crypto-Asset Reporting Framework (CARF), an international standard for the automatic exchange of transaction information related to crypto assets held by non-residents between tax authorities, based on tax treaties and other agreements. To implement the CARF, a tax reform act passed in March 2024 includes amendments to introduce the following systems:

- those who have conducted or will conduct crypto asset transactions through a crypto asset exchange operator in Japan will be required to report information, including their name, address, country of residence, and foreign taxpayer identification number, to the crypto asset exchange operator; and
- crypto asset exchange operators in Japan will be required to report information to the tax authorities, including the name, address, country of residence and foreign taxpayer identification number of their users who are non-residents of Japan, and the name of each type of crypto asset involved in transactions and the total amount of consideration for the sale or purchase of each type of crypto assets by their users who are non-residents of Japan.

These reporting systems are scheduled to be implemented on 1 January 2026, with information exchange set to begin in 2027.