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Japan Tax & Legal Inbound Newsletter

Japanese tax authorities publish FAQ on simplified and streamlined approach

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Introduction

On June 30, 2025, the National Tax Agency of Japan ("NTA") published an FAQ on its website restating and clarifying its position on the so-called simplified and streamlined approach ("Simplified Approach") as set out in the Organization for Economic Cooperation and Development's ("OECD") guidance on "Special considerations for baseline distribution activities" (commonly referred to as Pillar 1 - Amount B of the Inclusive Framework on BEPS). As the OECD finalized its guidance in February 2024 and countries are considering to implement the Simplified Approach, this publication from the Japanese tax authorities is timely as it provides much needed clarity to Japanese headquartered multinationals and foreign headquartered multinationals with Japanese operations alike.

1. Contents of the FAQ

The FAQ reiterates that Japan will not implement the Simplified Approach for qualifying transactions for the time-being and clarifies that regardless of whether a Japanese taxpayer's foreign related counter party operates in a jurisdiction that has adopted the Simplified Approach for qualifying transactions, the NTA's position for a Japanese taxpayer are as follows:

1) Determining an arm's length price should be based on conventional methods
2) APAs should be based on conventional methods
3) MAPs should be based on conventional methods unless the relevant tax treaty includes the Simplified Approach
4) TP documentation should be prepared based on conventional methods.

2. What it means for taxpayers

For Japanese taxpayers, this means business as usual preparing benchmarks to determine and document arm's length pricing even for transactions qualifying for the Simplified Approach.

Key points:

- **Japan headquartered companies:** even though the Simplified Approach was not implemented in Japan and many other countries, its pricing matrix may function as a return on sales ("ROS") floor (lower limit) for tax authorities scrutinizing the returns of distributors in their jurisdiction. Therefore, it remains advisable to monitor applicable ROS ranges, and the target and actual ROS of group distributors. Where the ROS of distributors are lower than the ROS based on the Simplified Approach, risk mitigation strategies should be considered.

- **Foreign headquartered companies with Japanese operations:** there are still no documentation shortcuts and a wait and see approach is not advisable. For companies pursuing a document and defend strategy, audit ready documentation of Japanese distributors still means benchmarks using Japanese comparables. On the other hand, although the window to implementation of the Simplified Approach is not completely closed, companies seeking greater tax certainty under the APA regime can move forward with greater confidence that the Simplified Approach will not be implemented imminently.

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