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Introduction

On 19 December 2025, Japan's ruling parties announced the 2026 tax reform proposal (the "Proposal"), which was posted on the Liberal Democratic Party's website (available in Japanese/PDF format).

Amid inflation and global tariff shifts, the Proposal aims to drive Japan's economic growth through bold investment and fiscal management.

Key corporate tax changes include a new incentive for capital investment across industries and an R&D tax credit for strategic technologies such as AI, quantum, and biotechnology. The tax credit for wage increases will be discontinued, except for small and medium-sized enterprises ("SMEs").

International tax revisions will align domestic rules with OECD guidance on the global minimum tax ("Pillar Two"), including changes to the top-up tax. For Pillar One (transfer pricing), the Proposal references Amount A and Amount B, outlining Japan's intention to address taxing rights and double taxation for Amount A, and to monitor international developments before implementing Amount B.

Indirect tax changes include amendments to Japanese consumption tax ("JCT") on cross-border electronic supplies to ensure fair taxation.

Individual income tax reforms will introduce inflation adjustments to basic deductions and a new defense special income tax from January 2027 to support increased defense funding.

Below, you will find key points regarding some of the proposals that may impact foreign-headquartered companies conducting business in Japan as well as individuals residing in Japan. It should be emphasized that these proposals have not been enacted yet and could change before becoming law. These proposals are expected to be enacted by March 2026.

Corporate Tax

1. Establishment of tax incentives for promoting investments in specified productivity improvement equipment, etc.

The following tax credit will be established, subject to the amendment of the Industrial Competitiveness Enhancement Act (the "ICE Act").

<table>
<tr><th>Items</th><th>Proposed</th></tr>
<tr><td>Qualified entities</td><td>Companies with the blue-form tax return filing status whose business adaptation plan under the ICE Act is approved during the period between the effective date of the ICE Act to 31 March 2029.</td></tr>
<tr><td>Qualifying assets (Specified machinery and equipment, etc.)</td><td>Machinery and equipment, tools, FF&E (furniture, fixtures and equipment), buildings, facilities attached to buildings, structures, and software that are part of production and related equipment (*1) exceeding a certain amount (*2) and fall under "Specified equipment for productivity improvement, etc." (tentative name). (*3)

(*1) Production and related equipment: Depreciable assets directly used for companies' business operations. Office equipment and fixtures, headquarters, dormitory buildings and similar facilities, and welfare and benefit facilities, etc. are not eligible.

(*2) Minimum thresholds regarding the acquisition cost of each asset are as follows:
■ Machinery and equipment: JPY 1.6 million
■ Tools and FF&E: JPY 1.2 million for each asset category. (Includes items where the acquisition cost of each unit or piece is JPY 0.4 million or more provided the total acquisition cost in the relevant fiscal year is at least JPY 1.2 million.)
■ Building: JPY 10 million
■ Facilities attached to buildings and structures: JPY 1.2 million for each asset category. (Facilities attached to buildings includes items with an acquisition is JPY 0.6 million or more, provided the total acquisition cost in the relevant fiscal year is at least JPY 1.2 million.)
■ Software: JPY 0.7 million

(*3) "Specified equipment for productivity improvement, etc." (tentative name) refers to "Equipment for productivity improvement, etc." under the ICE Act, for which the METI (Ministry of Economy, Trade and Industry) has confirmed that the investment plan for the introduction of such equipment meets the following criteria:
■ The total acquisition cost of equipment for productivity improvement, etc. comprising of production and related equipment must be at least JPY 3.5 billion (or at least JPY 500 million for SMEs or agricultural cooperatives, etc.).
■ It is expected that the average annual rate of return on investment will be at least 15%.
■ The financing methods being necessary for its realization are specified in the investment plan.
■ The investment plan is based on the resolution of an appropriate authority in a company, such as the board of directors or an equivalent body.
■ In addition to the above, it must satisfy requirements such as ensuring that the introduction of equipment for productivity improvement will lead to an increase in the company's capital expenditures.</td></tr>
<tr><td>Conditions</td><td>This incentive is applicable if all the following three requirements are satisfied:
■ Obtaining confirmation from the Minister of METI no later than 31 March 2029.
■ The specified machinery and equipment, etc. are acquired (*4) within five years from the date such confirmation is obtained.</td></tr>
</table>

	■ The said assets are utilized for the companies' business operations in Japan, excluding any use for leasing purposes. (*4) In the case of buildings, any acquisition or construction resulting from work undertaken for renovation – including expansion, reconstruction, repair, or redecoration – are included.
Tax benefits	In the fiscal year that includes the date on which the specified machinery and equipment, etc. are put into use for the business, either option one or option two below can be selected: ■ Option one - Immediate depreciation: Special depreciation together with the ordinary depreciation limit, up to the acquisition cost ■ Option two -Tax credit: 7% of the acquisition cost (or 4% in the case of buildings, facilities attached to buildings and structures) ➢ The tax credit is limited to 20% of the total corporate tax amount for the current fiscal year. ➢ For certain companies (*5), the amount exceeding the tax credit limit may be carried forward for three years. (*5) Companies eligible for the carry forward of excess tax credits: Companies eligible for the carry forward of excess tax credits are those that, during the period from the effective date of the amended ICE Act until 31 March 2029, have obtained certification under the ICE Act for a plan to address rapid and unforeseeable changes in international economic conditions, and, as of the last day of the fiscal year for which the carryforward is to be applied, have not had their certification revoked nor their plan period expired. In addition, such companies must have obtained confirmation from the Minister of METI that they are appropriately implementing measures to address the impact of rapid and unforeseeable changes in international economic conditions.
Disallowance of the tax incentives for large companies	For companies other than SMEs (excluding those falling under the category of exempted business operators) or agricultural cooperatives, etc., this incentive (excluding carryforward of excess tax credits) does not apply to certain fiscal years in which the amount of income exceeds the amount of income in the previous fiscal year and any of the following do not apply: ■ The percentage increase in the amount of wage payments to continuously employed employees over the wage payments to continuously employed employees in the previous fiscal year ≥1% (in cases where the stated capital, etc. is greater than JPY 1 billion with 1,000 regular employees or more, or where the regular employees exceed 2,000, the figure is ≥2%) ■ Domestic capital investment > Total depreciation cost for the current period x 30% (In cases where the stated capital, etc. is greater than JPY 1 billion with 1,000 regular employees or more, or where the number of regular employees exceed 2,000, the figure is 40%)
Restriction on overlapping with other tax incentives	A company that has obtained confirmation of its investment plan pertaining to the above tax incentives shall not be eligible to apply the following tax incentives during the period of the said investment plan: "tax incentives for promoting regional future investment", "tax incentives for strengthening the management of SMEs", and "tax incentives for investments in becoming for carbon neutral".

POINT:

Although the requirements for minimum investment and investment return ratio are set at a high level, the design of this incentive is deemed to be practical and accessible in practice, as large companies are also eligible and a grace period of up to five years is provided from the date of confirmation by METI until the assets are put into business use. It should be noted that the carry forward of the tax credit (for up to three years) is limited to companies that have obtained certification and confirmation for a plan to address rapid and unforeseeable changes in international economic conditions. Accordingly, the publication of detailed eligibility criteria and confirmation procedures, which will be clarified during the legislative process, will come at a later date.

2. Revision of R&D tax incentives

Revisions to Japan's R&D tax incentives are described below.

(1) New tax credit for Priority Industrial Technology R&D expenses

A new "Strategic Technology Area Type" R&D tax credit will be implemented for "Priority Industrial Technologies" (tentatively named) designated under the Industrial Technology Enhancement Act (the "ITE Act"). Covered technologies include AI, advanced robotics, quantum technology, semiconductors, communications, biotechnology, healthcare, fusion energy, and space, reflecting national strategies priorities.

Under the revised ITE Act, the tax credit will be available to corporations filing blue tax returns that are certified under the ITE Act for a priority R&D plan (tentatively named). The credit rate will be 40% of eligible Priority Industrial Technology R&D expenses, or 50% for Special Priority Industrial Technology R&D expenses, for any fiscal year in which at least one day falls within the Applicable Period (as defined below).
An overview of the tax credit is as shown in the table below.

	Proposed
Eligible corporations (certified R&D corporations)	Corporations that file blue tax returns and, during the period from the effective date of the revised ITE Act to 31 March 2029, are certified under the ITE Act for their Priority R&D Plans (tentatively named).
Applicable fiscal years	Each fiscal year in which any date during the Applicable Period (*1) falls. (*1) Applicable Period: The period from the date of certification of the Priority R&D Plan ("Date of Certification") to the day five years after that date ("Day After 5 Years"). If, however, the end date of the period for the certified Priority R&D Plan is before the Day After 5 Years, the Applicable Period for the plan is from the Date of Certification to the end date of the plan.
Covered R&D expenses	Any Priority Industrial Technology R&D expenses (*2). (*2) Priority Industrial Technology R&D expenses: R&D expenses for Specified Priority R&D (*3) performed by a certified R&D corporation during the Applicable Period according to its certified Priority R&D Plan. (*3) Specified Priority R&D: R&D for Priority Industrial Technologies (i.e., AI, advanced robotics, quantum, semiconductors, communications, biotechnology, healthcare, fusion energy, space) which are confirmed to meet certain criteria for early business incorporation.
Details of tax credit	■ The tax credit is available at 40% of Priority Industrial Technology R&D expenses (or 50% for Special Priority Industrial Technology R&D expenses (*4)). (*4) Special Priority Industrial Technology R&D expenses: Expenses for Priority Industrial

	Technology R&D jointly conducted with, or commissioned to, a Priority Industrial Technology joint R&D institution (tentatively named) under the ITE Act. ■ The tax credit is limited to 10% of corporate income tax for the current fiscal year. ■ Excess tax credits can be carried forward three fiscal years and utilized if R&D expenses exceed those of the previous fiscal year.

Measures will be implemented under the Group Aggregation system for calculating credit limits and carry forwards on an aggregate basis.

(2) Revision of general type R&D tax credit

The general R&D tax credit will be revised as shown in the table below.

<table>
<tr><th></th><th>Proposed Amendments</th></tr>
<tr><td>Revision of tax credit rate</td><td>The tax credit rates for fiscal years beginning on or after 1 April 2027 will be revised as follows, and the special measure raising the credit limit to 14% (generally 10%) will be extended by three years:
<table><tr><th>% of increase in R&D expenses from previous fiscal year</th><th>Tax credit %</th></tr><tr><td>3% or less</td><td>8.5% + (% of increase - 3%) x 8.5/13</td></tr><tr><td>More than 3% and 15% or less</td><td>8.5% + (% of increase - 3%) x 0.25</td></tr><tr><td>More than 15%</td><td>11.5% + (% of increase - 15%) x 0.375</td></tr></table></td></tr>
<tr><td>Revision to tax credit limitations based on % of change of R&D expenses</td><td>The tax credit limitation for fiscal years beginning on or after 1 April 2027 will be revised as follows, and the applicable period will be extended by three years:
■ % of increase > 7%: For every 1% of the increase (%) in excess of 7%, add 0.625% (up to 5%)
■ % of decrease > 1%: For every 1% of the decrease in excess of 1%, deduct 0.625% (up to 5%)</td></tr>
<tr><td>Additional R&D tax credit if R&D expenses are greater than 10% of average sales.</td><td rowspan="2">The applicable period will be extended by three years.</td></tr>
<tr><td>Additional credit limit</td></tr>
</table>

(3) Revision of tax credit for SME's R&D expenses (tax credit for enhancement of SME technology)

The R&D tax credit for SMEs will be revised as shown in the table below.

	Proposed Amendments
Special provisions for the tax credit rate and additional credit limit if R&D expenses increase from previous fiscal year by more than 12%	The applicable period will be extended by three years.
Special provisions for the tax credit rate and additional credit limit if R&D expenses are greater than 10% of average sales	
Carryforward of excess tax credit	Excess tax credit can be carried forward by three years subject to the following conditions: ■ The amount of R&D expenses exceeds the amount of comparative R&D expenses in the fiscal year for which the tax credit is to be carried forward ■ The general type R&D tax credit is not applied for the fiscal year.

Measures will be implemented under the Group Aggregation system for calculating credit limits and carry forwards on an aggregate basis.

(4) Revision of tax credit for special R&D expenses

The tax credit for special R&D expenses will be revised as follows:

- The requirements to claim an R&D tax credit for expenses incurred in connection with joint or contracted R&D research with universities and national research institutes, etc., will be relaxed.
- R&D expenses related to pharmaceuticals intended for a limited number of users will no longer be eligible for the special R&D tax credit to the extent those expenses are included in calculating the new "Strategic Technology Area Type" R&D tax credit.
- The definition of "Newly Hired Advanced Research Personnel" for the purposes of the Open Innovation type tax credit will be expanded to include personnel with a doctoral degree who have been directors or employees of the corporation for less than five years.

(5) Revision to tax credit for expenses related to contract R&D overseas

The amount of expenses for R&D conducted overseas by other parties under a contract or agreement that is eligible for a tax credit will be revised as shown in the table below.

Category		Amount of R&D expenses eligible for tax credit
Expenses for R&D conducted overseas by other parties under a contract or agreement	Expenses for R&D related to pharmaceuticals, medical devices, or regenerative medicine products ("pharmaceuticals, etc.") that are related to clinical trials (limited to those with ensured scientific quality and reliability of results) conducted to confirm the efficacy and safety of such pharmaceuticals, etc.	The entire amount of such R&D expenses

	Other than the above.	50% of such R&D expenses with the following transitional measures: ■ Fiscal years beginning between 1 April 2026 and 31 March 2027: 70% of the R&D expenses. ■ Fiscal years beginning between 1 April 2027 and 31 March 2028: 60% of the R&D expenses.

POINT:

A new R&D incentive that allows the claiming of a tax credit at 40% or 50% of eligible R&D expenses will be implemented to promote R&D investment in Japan's strategic technology fields. It is expected that companies will deepen their understanding of the new system and proactively utilize it through prompt internal coordination.

3. Revisions to the Wage Increase Promotion Tax Credit

The wage increase promotion tax incentives will be revised according to the below.

The measure for all corporations will be abolished as of 31 March 2026; the measure for mid-sized corporations will be abolished upon expiry on 31 March 2027; and only the measure for SMEs will continue.

<table>
<tr><th>Category</th><th>Proposed Amendments</th></tr>
<tr><td>All corporations</td><td>To be abolished on 31 March 2026</td></tr>
<tr><td>Mid-sized corporations (2,000 or fewer regular employees)</td><td>

To be abolished upon expiry on 31 March 2027
With certain tightening for fiscal years beginning between 1 April 2026, and 31 March 2027.

<table>
<tr><th>Category</th><th>Current rule</th><th>Proposed Amendments</th></tr>
<tr><td>General Tax Credit of 10%</td><td>Applies when the percent of increase in wages for continuously employed employees is at least 3%.</td><td>The percent of increase will be raised to at least 4%.</td></tr>
<tr><td>Additional Tax Credit – extra increase</td><td>If the percent of increase is at least 4%, add 15% to the tax credit rate.</td><td>If the increase rate is at least 5%, add 5%; if at least 6%, add 15%.</td></tr>
<tr><td>Additional Tax Credit – training expenses</td><td>If training expenses (i) increase by at least 10%; and (ii) are at least 0.05% of total wages paid to employees, add 5% to the tax credit rate.</td><td>Abolished</td></tr>
</table>
</td></tr>
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<table>
<tr>
<td>SMEs</td>
<td>

■ The additional tax credit linked to training expenses will be abolished.

<table>
<tr><th>Category</th><th>Current rule</th><th>Proposed Amendments</th></tr>
<tr><td>Additional Tax Credit – training expenses</td><td>If (i) training expenses increase by at least 5%; and (ii) the training expenses are at least 0.05% of total wages paid, add 10% to the tax credit rate.</td><td>Abolished</td></tr>
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In addition, the following revisions will be made for local taxes:

- The deduction from the tax base of the value-added component (of the factor based Enterprise Tax regime) when salaries and wages increase (excluding SMEs) will be abolished upon expiry on 31 March 2027. For fiscal years beginning between 1 April 2026 and 31 March 2027, the following revisions will apply:
  - Scope: limited to corporations with 2,000 or fewer regular employees.
  - Requirement: salaries and wages paid to continuously employed employees must increase by at least four percent (currently three percent).
- In line with national tax revisions, the tax credit regime will apply to corporate Inhabitant tax for SMEs.

POINT:

With wage growth recently exceeding the qualifying levels of this regime, the government is revising the framework. Measures for all corporations will end early (31 March 2026), mid-sized measures will be tightened and then end upon expiry (31 March 2027), and SME measures will continue for now, subject to future review. Additional tax credits linked to increased training expenses will be abolished for both mid-sized corporations and SMEs.

4. Revisions to disallowance of certain tax incentives for large corporations

The disallowance of certain tax credit provisions for large corporations (including R&D and other productivity enhancing credits) will be revised as follows and extended through 31 March 2029.

Category	Current rule	Proposed Amendments
Specified tax credit provisions	■ R&D tax credit ■ Regional Future Investment Promotion Tax regime ■ Carbon Neutral Investment Promotion Tax regime	The new tax credit for “Priority Industrial Technology R&D expenses” will be added to the existing scope.
Wage increases requirements for corporations other than “Specified Corporations” (*1)	The wages for continuously employed employees must increase.	The increase rate must be at least 1%.

For "Specified Corporations"	The increase rate must be at least 1%.	The increase rate must be at least 2%.
Requirements for the Regional Future / Carbon Neutral tax incentive regimes	Disallowed only if **neither** the wage requirement **nor** the domestic capital investment requirement is met.	Disallowed if **either** the wage requirement **or** the domestic capital investment requirement is not met (i.e., both must be met).
Applicability period	In effect until 31 March 2027	extended through 31 March 2029

(*1) Specified Corporations are, broadly speaking, corporations meeting any of the following: capital of JPY 1 billion or more and at least 1,000 regular employees; or more than 2,000 regular employees, and in certain cases where the amount of income in the previous fiscal year exceeds zero.

POINT:

This regime disallows certain special tax measures to prompt behavioral changes targeting companies reluctant to make investments or raise wages. Requirements have been further tightened following the FY2024 tax reform.

5. Revisions to the carbon neutral tax incentives

The tax incentives for investments in becoming carbon neutral will be revised as follows with an extension of two years. The same revision will also be applied to income tax.

The special depreciation rate and tax credit rate for SMEs (excluding those falling under the category of exempted business operators), non-SMEs and qualified large companies will be applied the following rates described in the table below. These rates will be determined based on the categories of carbon productivity improvement rates outlined in the certified energy-use environmental-load reduction project adaptation plan.

Items	Proposed amendments
SMEs (Excluding exempted business operators)	■ Special depreciation of 30% (currently 50%) or tax credit of 10% (currently 14%) for companies with carbon productivity improvement of 22% or more (currently 17% or more) ■ Special depreciation of 30% (currently 50%) or tax credit of 5% (currently 10%) for companies with carbon productivity improvement of 17% or more but less than 22% (currently 10% or more but less than 17%)
Non-SMEs	■ Special depreciation of 30% (currently 50%) or tax credit of 8% (currently 10%) for companies with carbon productivity improvement of 25% or more (currently 20% or more) ■ Special depreciation of 30% (currently 50%) or tax credit of 3% (currently 5%) for companies with carbon productivity improvement of 20% or more but less than 25% (currently 15% or more but less than 20%)
Qualified large companies (*1)	■ Special depreciation of 30% or tax credit of 8% for companies with carbon productivity improvement of 20% or more ■ Special depreciation of 30% or tax credit of 3% for companies with carbon productivity improvement of 15% or more but less than 20% (*1) Qualified large companies: non-SMEs engaged in a certain degree of supply chain collaboration (*2).

	(*2) A certain degree of supply chain collaboration: initiatives aimed at reducing energy-related CO_2 emissions by collaborating companies (meaning SMEs within the supply chain of the qualified large companies (excluding affiliate companies)) that meet all the following requirements: ■ Formulating a plan to improve the carbon productivity of the collaborating companies by 30% or more on a business site basis, without reducing the transaction volume with the collaborating companies, through support provided by the qualified large companies to the collaborating companies. ■ Entering into an agreement with the collaborating companies that clearly specifies that the qualified large companies bear costs related to the plan. ■ Incurring additional costs by the qualified large companies, which contribute to the reduction of energy-related CO_2 emissions by the collaborating companies. ■ Calculating the amount of reduction in the collaborating companies own energy-related CO_2 emissions.
Applicable period	Extended by two years

POINT:

The overall threshold for obtaining tax benefits will increase, as the eligibility criteria for the carbon productivity improvement rates are raised for both SMEs and large companies, while the applicable rates for special depreciation and tax credits are reduced. On the other hand, for "qualified large companies" that support the reduction of energy-related CO_2 emissions by SMEs through supply chain collaboration, the current requirements for the carbon productivity improvement rates will continue to apply. As a result, the proposed revision introduces a more targeted approach by providing differentiated treatment for companies that actively promote decarbonization through their entire supply chain.

6. New special recordkeeping requirement for transactions within corporate groups

When a domestic corporation enters into "specified transactions" with a related party (*1) (*2), and its transaction-related documents do not include particulars necessary to determine the consideration (e.g., details of the goods/services provided and the calculation of the consideration to be paid), the corporation must obtain or create documents (including electronic records) that clarify the missing items and must retain them.

Failure to retain such documents in accordance with the law may be grounds for the revocation of a blue return (approved filer) status, among other consequences.

(*1) Related party: determined under the same standards as for transfer pricing rules.

(*2) Specified transactions: limited to transactions that give rise to selling, general, and administrative expenses, including:

- Transfers or licenses of industrial property rights, etc., by the related party to the domestic corporation (including granting rights to use such IP).

- Provision of services by the related party to the domestic corporation, such as:
  - Business activities (e.g., R&D, advertising/promotion) performed under a contract or agreement between the parties that utilize the related party's know-how and other business resources in industry, commerce, or academia.
    - Allowing the domestic corporation to use "dedicated assets" (assets intended exclusively for the business of the group)
    - and the maintenance/management of such assets.

  - Management, supervision, guidance, provision of information, and similar services based on the related party's know-how in industry, commerce, or academia.

  - Other services similar to the above.

International tax

Global minimum taxation

Revision of Japanese IIR

Regarding the calculation of the adjusted covered taxes for IIR, the following deferred tax assets and liabilities arising prior to the transitional fiscal year shall be disregarded:

- Deferred tax assets arising from tax credit arrangements with national or local governments (concluded on or after 1 December 2021), or from other equivalent circumstances.
- Deferred tax assets or liabilities arising from fair market value adjustments of assets or liabilities under foreign corporate income tax laws or regulations (enacted on or after 1 December 2021 and before the beginning of the transitional fiscal year).

POINT:

This revision is based on the OECD/G20 Inclusive Framework on BEPS administrative guidance issued on 15 January 2025, regarding deferred tax assets from government-granted tax benefits under Article 9.1 of the Model Rules.

Japanese Consumption Tax ("JCT")

1. Tax reform of JCT on cross-border electronic commerce

The following revision to the JCT treatment of cross-border electronic commerce will be implemented:

(1) Revision of the scope of taxable supplies

1. Supply of goods shipped from overseas to Japan via mail-order sales, where the tax-exclusive consideration per unit is JPY 10,000 or less (provisionally referred to as "supply of Specified Low-Value Asset"), shall become subject to JCT.

   Note: For the purpose of calculating the amount of deductible input JCT under the simplified taxation method, transactions classified as the supply of Specified Low-Value Assets shall be excluded from the taxable supplies that forms the basis of the calculation.

2. Import JCT shall not be levied on the removal of taxable goods from a bonded area, provided that the goods are related to the supply of Specified Low-Value Assets by registered enterprises as detailed in (3)1 below (provisionally referred to as "Specified Low-Value Asset Seller") and the following information is stated on the relevant import declaration.

   i. The registration number of the Specified Low-Value Asset Seller that performed the supply of the Specified Low-Value Asset

   ii. An indication that the goods are related to the supply of Specified Low-Value Asset

      Note: If such taxable goods are imported by post, the above information must instead be included in the customs declaration form affixed or attached to the goods, in accordance with the Universal Postal Convention.

3. In the case where an enterprise (other than JCT-exempt enterprises) conducts a supply of Specified Low-Value Asset and import JCT is imposed on the relevant goods, the enterprise may deduct the import JCT from its JCT liability for the tax period, provided that the relevant import permit is retained.

POINT:

In recent years, as the cross-border e-commerce market for goods continues to expand, a number of issues have become increasingly evident, including the competitive distortions between domestic and foreign businesses resulting from the import JCT exemption for low-value imported goods (JPY 10,000 or less), and non-filing by foreign sellers.

To address these issues and align with the approaches adopted by other countries, a new regime will be introduced under which the sellers will be liable for JCT on low-value imported goods that were previously exempt under the de minimis exemption. Additionally, as described in (2) below, the regime will also shift the JCT liability for e-commerce sale of goods to platform operators. These measures intend to ensure a level playing field for both domestic and foreign businesses and enhance the integrity of the tax system.

(2) Introduction of platform taxation for e-commerce sale of goods

1. The following supplies of goods conducted through a digital platform, where the consideration is received via a platform operator as described in 2. below (provisionally referred to as "Type II Platform Operator"), shall be deemed as supplies made by the Type II Platform Operator for JCT purposes:

   i. Supply of goods made by foreign enterprises in Japan (including any incidental supply, but excluding the supply of Specified Low-Value Asset)

   ii. Supply of Specified Low-Value Asset made by an enterprise

   Note: Following the above revision, the Specified Platform Operators related to the supply of digital services will be redesignated as "Type I Platform Operators" (provisional name).

2. A platform operator is obliged to file a notification to the Commissioner of the National Tax Agency, and the Commissioner shall designate the platform operator as a Type II Platform Operator, if the total consideration (including tax) of the supplies of goods described in 1.i. and ii. (that are deemed to have been made by the platform operator) for a tax period exceeds JPY 5 billion.

3. A Type II platform operator is eligible to claim input JCT on domestic taxable purchases and removals of taxable goods from a bonded area performed by a foreign enterprise specified in 1.i., as if these purchases and removals were performed by the platform operator itself, provided these purchases and removals are exclusively attributable to the supply of goods specified in 1.i. that is covered by the platform taxation regime, and that prior consent has been obtained from the relevant foreign enterprise.

   Note: A Type II platform operator that applies the above rules must include the details of the relevant input tax credit in a schedule attached to the final JCT return.

POINT:

A platform taxation regime for sale of goods will be implemented to shift the JCT filing and remittance obligations to platform operators for the sale of goods shipped from domestic warehouses. This change intends to ensure appropriate JCT reporting of the sale of goods made by foreign enterprises and appropriate taxation for the supply of Specified Low-Value Assets as discussed in (1) above.

(3) Introduction of a registration regime for Specified Low-Value Asset Sellers

1. **Registration of Specified Low-Value Asset Sellers**
   A "Specified Low-Value Asset Seller" means an enterprise (other than JCT-exempt enterprises) that supplies Specified Low-Value Assets, and those that has filed the application with the competent tax office and has been registered by the District Director of the tax office.

   Note: Where a Specified Foreign Enterprise (i.e., a foreign enterprise that has no office or other place of business in Japan) applies for the above registration, additional requirements will apply, including the appointment of a tax representative for JCT.

2. **Deregistration of Specified Low-Value Asset Sellers**
   Upon submission by a Specified Low-Value Asset Seller to the competent tax office of a notification requesting cancellation of its registration, the District Director of the tax office may cancel the registration.

3. **Applicability of the small--business exemption threshold**
   The small--business exemption threshold shall not apply for the tax period following the tax period that includes the date of the registration as mentioned in 1. and for each subsequent tax period, unless a deregistration notification as mentioned in 2. is filed.

4. **Obligations of Specified Low-Value Asset Sellers**
   A Specified Low-Value Asset Seller shall include the following information on the shipment invoice (or a similar document) and provide the same information to the importer or to the customs broker who submits the import declaration on the importer's behalf under the Customs Act (hereinafter collectively the "Importer, etc.").

   i. The registration number of the Specified Low-Value Asset Seller; and
   ii. An indication that the goods are related to the supply of Specified Low-Value Asset.

5. **Prohibition on the issuance of documents similar to invoices for supply of Specified Low-Value Assets**
   i. With respect to goods other than those related to supply of Specified Low-Value Assets made by a Specified Low-Value Asset Seller, it is prohibited to provide to the Importer, etc. any invoice or similar document that may cause the goods to be mistakenly regarded as related to a supply of Specified Low-Value Asset by a Specified Low-Value Asset Supplier, or to inform the Importer, etc., of the registration number specified in 4. i. above (or any number likely to be mistaken therefor) and the information specified in 4. ii. above.

   ii. Regulations will be established to define the authority to conduct questioning and inspections during audits in relation to the provision of incorrect information as described in i. above.

POINT:

Following the tax reform, a Specified Low-Value Asset Seller is in principle required to submit the JCT return and fulfill the JCT liability obligation with the competent tax office in respect of supplies of Specified Low-Value Assets. However, import JCT may still be levied on certain Specified Low-Value Assets at the time of import with the payment obligation imposed on the buyer, which would result in double taxation. To prevent this double taxation, a registration system for Specified Low-Value Asset Sellers will be established, which requires the seller's registration number to be indicated at the time of import.

(4) Effective date and applicability

Revision (1)–(3) shall apply to the supply of goods and services, taxable purchases made in Japan by enterprises, and taxable goods withdrawn from bonded areas from 1 April 2028.

(5) Other

Special provisions for the applicability of small business exemption threshold to Specified Low-Value Asset Sellers shall be implemented, together with related transitional measures and other necessary measures.

2. Revision to the transitional measures under the Qualified Invoice System

(1) Transitional measure regarding input JCT deduction for small-scale individual entrepreneurs registered as Qualified Invoice Issuers

1. For tax periods falling within 2027 and 2028, Qualified Invoice Issuers that are individual entrepreneurs are eligible to calculate the amount of input JCT credit (that is deductible from

output JCT) for a tax period as 70% of the amount of output JCT, which will result in the JCT liability being calculated as 30% of output JCT, provided that the entrepreneur would benefit from the small-business exemption threshold for the tax period if it had not been registered as a Qualified Invoice Issuer or had not filed a Notification of Election to be a JCT Taxpayer.

2. A Qualified Invoice Issuer that wishes to apply this transitional measure shall indicate its application in its final JCT return.

3. A Qualified Invoice Issuer that has applied the transitional measure may switch to the simplified taxation method for the following tax period, if it files a Notification of Election of Simplified Taxation Method with the competent tax office by the deadline for filing the final JCT return for the following tax period.

   Note: Individual entrepreneurs who have been covered by the existing transitional measure for small-scale enterprises and have become Qualified Invoice Issuers will also be eligible to apply the new transitional measure. The transitional measure may be applied to tax periods ending on or after 1 October 2026.

POINT:

Enterprises that have been applying the existing 20% special rule (transitional measure that allows small-scale enterprises to calculate the amount of JCT liability as 20% of its output JCT), must in principle switch to the simplified taxation method upon the termination of this special rule. Nevertheless, given that special considerations are required for individual entrepreneurs to mitigate their compliance burdens and support wider adoption of the Qualified Invoice System, a two-year transitional measure will be implemented to allow individual entrepreneurs to calculate the amount of JCT liability as 30% of its output JCT. Individual entrepreneurs who have been using the 20% special rule should also be entitled to this new transitional measure.

(2) Transitional measure regarding input JCT deduction on taxable purchases from non-Qualified Invoice Issuers

1. The percentage of deductible input JCT under the transitional measure for each period is specified as follows.

i	From 1 October 2026 to 30 September 2028	70%
ii	From 1 October 2028 to 30 September 2030	50%
iii	From 1 October 2030 to 30 September 2031	30%

2. Where the aggregate amount of taxable purchases from a single supplier that is not a Qualified Invoice Issuer exceeds the following threshold, the transitional measure shall not apply to the excess portion.

	Current	Proposed amendment
Aggregate amount of taxable purchases (calendar year or fiscal year)	JPY 1 billion	JPY 100 million

Note: The above revision will apply to tax periods beginning on or after 1 October 2026.

POINT:

To further mitigate the impact of the Qualified Invoice System on small-scale enterprises, the expiration date of the transitional measure will be extended by two years. The percentage of deductible input JCT will be reduced in stages, until no deduction is available upon termination of the measure on 30 September 2031.

Furthermore, considering this transitional measure has previously been used for tax avoidance purposes, the per-supplier cap on the aggregate amount of eligible taxable purchases shall be lowered from JPY 1 billion to JPY 100 million to prevent such inappropriate use.

3. Others

(1) Revision of documentation requirements for export exemption of cash-settled supplies

For the supply of goods involving an export that is settled in cash or cash equivalents, a taxpayer must maintain an import permit or its equivalent in the importing jurisdiction (including electronic record thereof), in addition to the documents currently required, to treat such supply as zero-rated for JCT purposes.

Note: The above revision will apply to supplies made on or after 1 October 2026.

(2) Revision of tax treatment of services in relation to real estate in Japan

The supply of services to non-residents relating to real estate located in Japan shall be excluded from the scope of JCT export exemption, and other necessary measures shall be implemented.

Note: The above revision shall apply to supplies made on or after 1 October 2026. However, it shall not apply to supplies made on or after 1 October 2026 based on contracts concluded on or before 31 March 2026.

Japanese Consumption Tax (Customs duty and import JCT)

Abolition of special provision for determination of customs value of imported goods

The special rule under which the customs value of personal-use goods is set at 60% of the overseas retail price will be abolished.

POINT:

As the cross-border e-commerce market for goods continues to expand, the competitive distortions between foreign and domestic enterprises have become increasingly apparent due to the special rule for determining the customs value of imported goods intended for personal use, which sets the customs value at 60% of the overseas retail price. Furthermore, with the increasing prevalence of overseas travel, the widespread use of the internet and the expansion of logistics networks, the original legislative purpose of this special rule envisaged for souvenir purchases has been diminished / changed. In addition, instances of improper use of this special rule have been observed. The planned abolition of this special rule is expected to ensure fair competition between domestic and foreign enterprises and appropriate taxation.

Individual Income Tax

1. Measures responding to inflation and system reforms to promote investment for asset formation

(1) Introduction of an inflation adjustment mechanism for basic deductions and other items.

1. **Basic Deduction**
   To offset the erosion of the real value of deductions caused by inflation, the main part of the basic deduction will be adjusted. The adjustment will be made by multiplying the pre-revision deduction amount by the rate of increase in the overall Consumer Price Index (CPI) over the most recent two years at the time of the tax reform. In addition, the provisions for the special portion will also be revised accordingly.

(Unit: JPY)

Total income amount	Deduction amount					
	Main portion		Special portion		Total	
	Current (2025)	Proposal (2026-2027)	Current (2025)	Proposal (2026-2027)	Current (2025)	Proposal (2026-2027)
1.32M or less	580K	620K	370K	420K	950K	1040K
Over 1.32M up to 3.36M	580K	620K	300K	420K	880K	1040K
Over 3.36M up to 4.89M	580K	620K	100K	420K	680K	1040K
Over 4.89M up to 6.55M	580K	620K	50K	50K	630K	670K
Over 6.55M up to 23.50M	580K	620K	0	0	580K	620K
Over 23.50M up to 24.00M	480K	480K	0	0	480K	480K
Over 24.00M up to 24.50M	320K	320K	0	0	320K	320K
Over 24.50M up to 25.00M	160K	160K	0	0	160K	160K
Over 25.00M	0	0	0	0	0	0

Notes:

- Effective for individual income tax from 2026, and for withholding taxes on employment income and public pension, etc. paid on or after 1 January 2027.
- For the special portion for 2028 and onward, if the total income amount is JPY 1,320,000 or less, it will be JPY 370,000, and if the total income amount exceeds JPY 1,320,000, the deduction will be zero.

2. **Income requirements for dependent relatives and spouse living in the same household**

In line with the increase in the main portion of the basic deduction, the total income requirements for dependent relatives and spouses living in the same household will also be raised from the current JPY 580,000 to JPY 620,000.

3. **Minimum guaranteed amount for employment income deduction**

Similar to the main portion of the basic deduction, a special measure will be established to increase the minimum guaranteed amount for 2026 and 2027.

(Unit: JPY)

	Deduction amount					
	Main portion		Special portion		Total	
	Current (2025)	Proposal (2026-2027)	Current (2025)	Proposal (2026-2027)	Current (2025)	Proposal (2026-2027)
Minimum guaranteed amount of employment income deduction	650K	690K	0	50K	650K	740K

Notes:

- Effective for individual income tax from 2026, and for withholding taxes paid on or after 1 January 2027.
- The special portion will be applied through the year-end tax adjustment process.

2. Increasing efforts to promote asset formation and economic growth through finance

(1) Expansion of the NISA system

- To support asset formation for future generations, the minimum eligibility age for the Installment (Tsumitate) investment type NISA will be lowered to zero.
- For accounts held by minors (ages 0-17), the annual investment limit will be JPY 600,000, and the tax-free holding limit will be JPY 6 million. Withdrawals by a parent or guardian from the account of a minor aged 12 or older will require the minor's consent.
- Mutual fund products comprising stock indices of developed and emerging countries will be added to the list of indices of Installment (Tsumitate) investment type NISA. Further, to meet the asset management needs of a wide range of generations, mutual funds with bonds accounting for more than 50% of their asset management will be included in the scope.

(2) Separate Taxation of Crypto-Assets

- When crypto-assets registered with a Financial Instruments Business Operator (“specified crypto-assets”) are transferred to a crypto-asset exchange operator, capital gains resulting from such transfer will be taxed separately from other income at a flat tax rate of 20% (15% National Income Tax, 5% Local Inhabitant Tax). This change is subject to amendments to the Financial Instruments and Exchange Act.
- A three-year loss carry-forward deduction will be introduced for losses incurred on the transfer of specified crypto-assets.
- These amendments will apply to the transfer of specified crypto-assets made on or after January 1 of the year following the year in which the revised Financial Instruments and Exchange Act comes into effect.
- The following measures will be taken for crypto-assets that generate capital gains under aggregate taxation. This revision will apply for the year following the year in which the revised Financial Instruments and Exchange Act comes into effect.
  - Special deductions for capital gains will not be allowed from capital gains.
  - The measure to calculate capital gains income as one-half (1/2) for assets held for more than five years will not be applied.
  - Capital losses will not be allowed to be aggregated with other income subject to aggregate taxation.

3. Ensuring tax equity and fairness

(1) Revision of special tax measures for significantly high income earners

With a view to ensure fairness of the tax burden, the "Measures to adjust the burden on significantly high income earners" applicable from 2025 onward, will be revised as follows:

	Current	Proposed
Special Deduction	JPY 330 million	JPY 165 million
Tax rate	22.5%	30%

Note: Effective from 2027.

(2) Revisions to hometown tax donation (Furusato Nozei)

The following revisions will be made to the special deduction from of local inhabitant taxes for hometown tax donation.

	Current	Proposed
Deduction Limit	20% of income-based portion of individual inhabitant tax	20% of the income-based portion of individual inhabitant tax or the following amounts, whichever is lower ・Prefectural inhabitant tax: JPY 772,000 (JPY 386,000 for designated cities) ・Municipal inhabitant tax: JPY 1,158,000 (JPY 1,544,000 for designated cities)

Note: Effective from 2028.

4. Tax measures to secure financial resources for strengthening defense capabilities

The new Special Defense Income Tax [*tentatively named*] will be imposed as a new surtax to secure stable financial resources for strengthening defense capabilities. At the same time, the rate of Special Reconstruction Tax will be reduced to prevent increase in the burden on households (The combined total of the Special Defense Income Tax and the Special Reconstruction Tax will remain same as the earlier Special Reconstruction Income Tax). In addition, the tax period will be extended by 10 years to ensure total amount of funds for reconstruction is secured.

(1) Establishment of a special defence income tax

	Proposed
Taxpayer	Persons liable to pay individual income tax and persons liable for withholding income Tax
Tax calculation	The individual income tax amount for the year multiplied by a tax rate of 1%

Note: Effective from 2027.

(2) Reduction in the Special Reconstruction Tax rate as well as extension of the tax period

	Current	Proposed
Tax rate	2.1%	1.1%
Tax period	until 2037	until 2047

Note: Effective from 2027.

Asset Taxation

Revision of Valuation Methods for Rental Properties

In accordance with the fair market value principle of the Inheritance Tax Act, and to address the actual gap between the market price of rental properties and their inheritance tax valuation, and taking into account actual transaction practices, the following revisions will be made.

(1) Contents

Applicable Rental Properties		Acquisition Timing of the Applicable Rental Properties	Valuation Method
(i)	Certain rental properties acquired or newly constructed by the decedent, etc. through a transaction for consideration	Acquired within 5 years prior to the date of taxation	Valued at its fair market value as of the date of taxation (*1)
(ii)	Certain Rental properties that are the underlying asset of rights arising from financial instrument transactions involving Specified Joint Real Estate Ventures Agreement or trust beneficiary interests	Applicable regardless of acquisition timing	Valued at its fair market value as of the date of taxation (*2)

(*1) For the fair market value as of the date of taxation, the property may be valued at 80% of the price calculated from the acquisition cost and adjusted for land price fluctuations, etc., unless doing so is deemed to have adverse tax implications.

(*2) For the fair market value as of the date of taxation, the property may be valued based on an appropriate disposal or purchase price indicated by the operator or seller at the request of the investor, such as actual transaction prices known to the business operator, or the price stated in periodic reports, unless doing so is deemed to have adverse tax implications. If such information is not available, the valuation shall follow the method (i) above, taking into account the acquisition timing and the reliability of the valuation.

(2) Application

This revision will apply to the valuation of assets acquired through inheritance, etc., from 1 January 2027 onwards.

However, the revision in (1)(i) above does not apply to houses newly constructed (including those under construction as of a specified date) on land owned by the decedent, etc., (provided the land was owned for at least five years prior to the specified date) if the construction is completed by the date specified in the relevant notification for the revision.

POINT:

To counter tax avoidance aimed at reducing appraised values, the valuation method for rental properties will be revised. Rental properties acquired within five years prior to the date of taxation will be subject to the new method. However, fractional real estate products will be subject to this method regardless of the acquisition timing, a point that warrants particular attention.

In addition, regarding the valuation of unlisted shares, Article 185 of the Basic Instructions on Property Valuation stipulates that real estate acquired by the company under valuation within three years prior to the date of taxation is to be valued at its fair market value. However, since the treatment for cases where the company under valuation acquires rental properties is not clearly stipulated, it is important to closely monitor future developments.

Japan Tax Reform

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