

# Japan update



# Speakers



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# Political update

## PM Takaichi administration – key points

### Powerful mandate to implement significant economic, immigration and defence reforms

- Liberal Democratic Party secured two-thirds supermajority of Lower House on 8 Feb 2026 election win
- Non-reliance on coalition partners will allow reforms to be enacted quickly

### Government spending as economic stimulus

- Has advanced plans for large, state-led investments in strategic sectors such as AI and semiconductor manufacturing

### Tax policies

- Other than two-year suspension of consumption tax on food items, no significant policies announced so far
- Significant tax reductions unlikely given required funding for improvement of defence capabilities

### Balancing value of Yen against interest rate increases

- Has advocated for lower interest rates to combat inflation but needs to guard against further yen depreciation

# FY2026 Tax Reform

- FY2026 tax reform proposals issued on 19 Dec 2025
- Generally, proposals are incorporated into Japanese tax laws following Parliamentary debate in late March
- Proposed tax reforms primarily focus on government policy to drive economic growth through investment
  - Tax credit/special depreciation for investment in specified productivity-enhancing facilities
  - Tax credit for R&D undertaken for strategic industrial technologies (AI, advanced robotics, semiconductors, etc.)
  - Introduction of R&D tax credit carryforward system
  - Revision of tax credits for domestic production of semiconductors and other specified products (electric vehicles, green steel, etc.)
  - Revision of special measures for promoting open innovation (acquisition cost of shares in specified start-up companies partially deductible up to 25%)

# FY2026 Tax Reform

## Financial services industry



### Corporate tax

- Taxation of foreign partnership members (Fund PE Income Exemption)
- Record keeping (including for transfer pricing) requirements for transactions within corporate groups



### Consumption tax

- Transfers of cryptocurrency assets
- Leasing of cryptocurrency assets
- Provision of services to non-residents relating to real estate located in Japan
- Transitional measures for input JCT credits for Non-Qualified Invoices



### Real estate related tax

- Extension of reduced rate of Registration and License Tax applicable to transfer of land
- Extension of special measure for deferral of capital gains tax on replacement of specific assets
- Extension of special measure for Infrastructure REIT

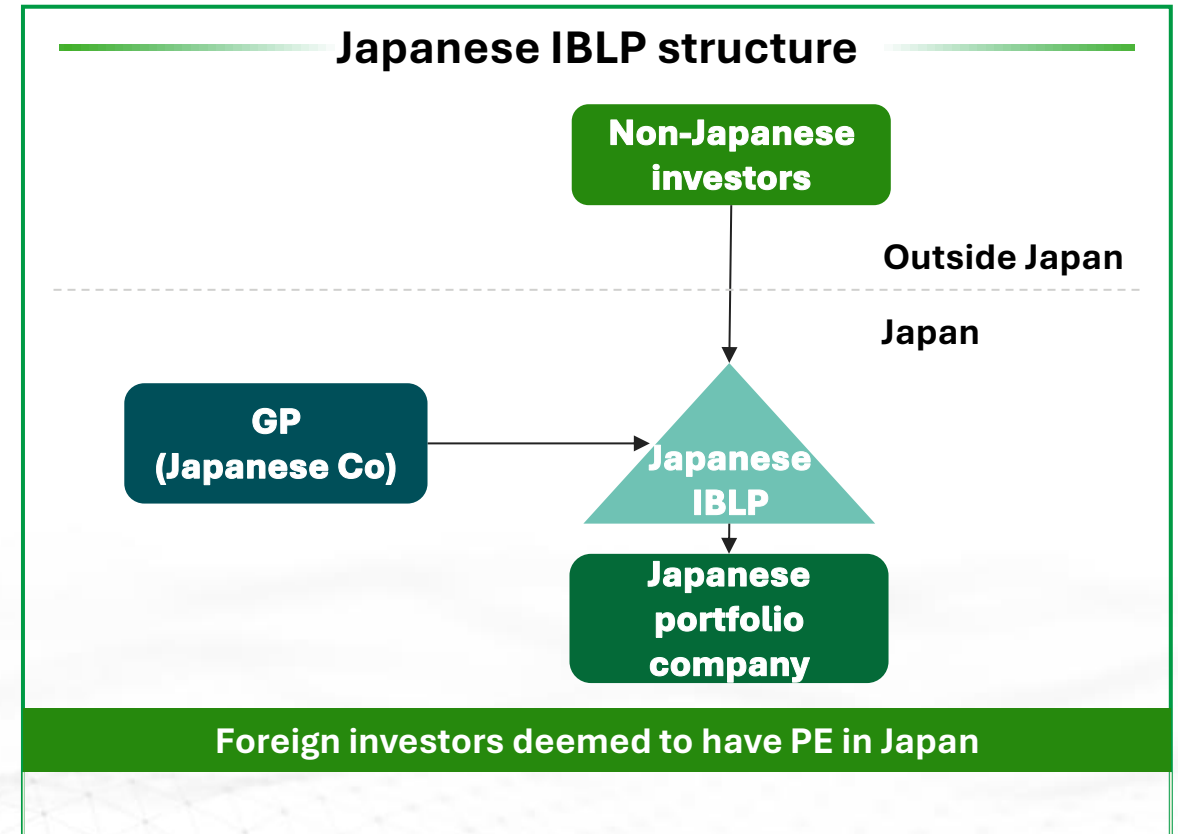
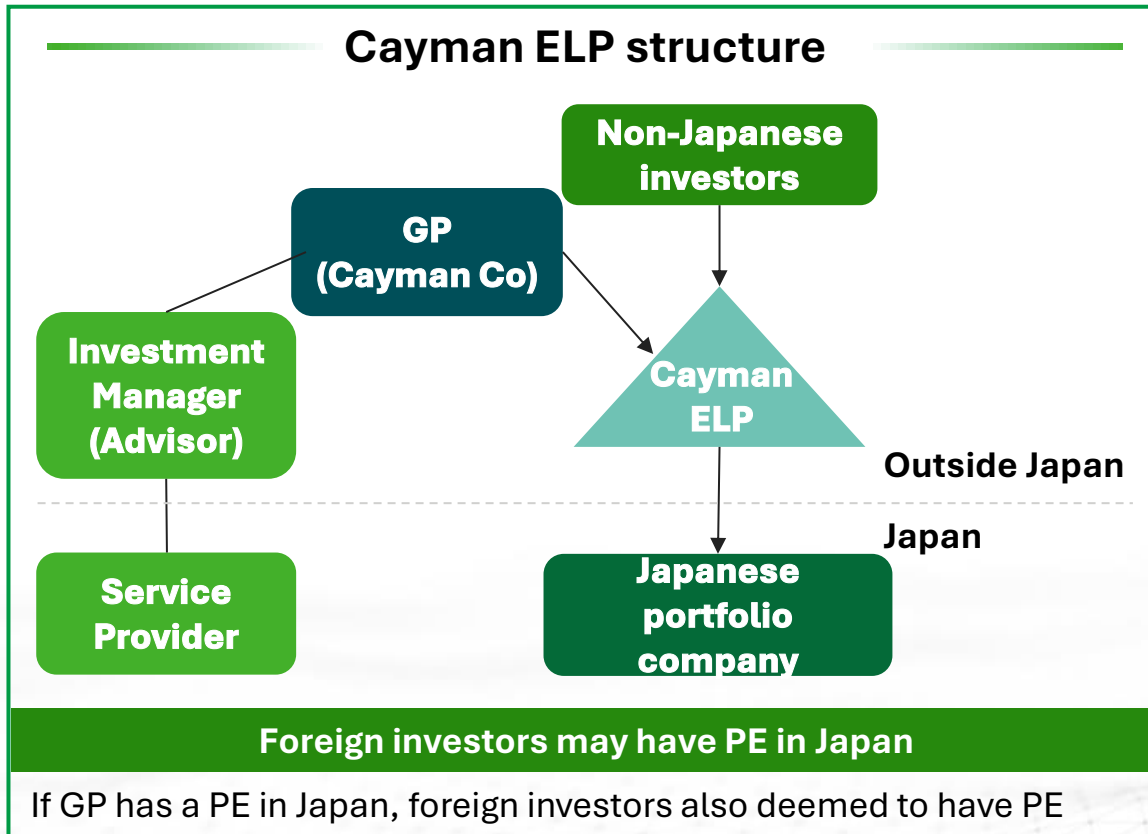


### Individual income tax

- Taxation of gains from transfer of crypto assets
- Fair tax burden on extremely high-level income

# Taxation of foreign partnership members

Typical fund structures for private equity investment for non-Japanese investors



## Fund PE Income Exemption

# Taxation of foreign partnership members

Qualifying foreign limited partner satisfying below requirements exempt from deemed PE treatment

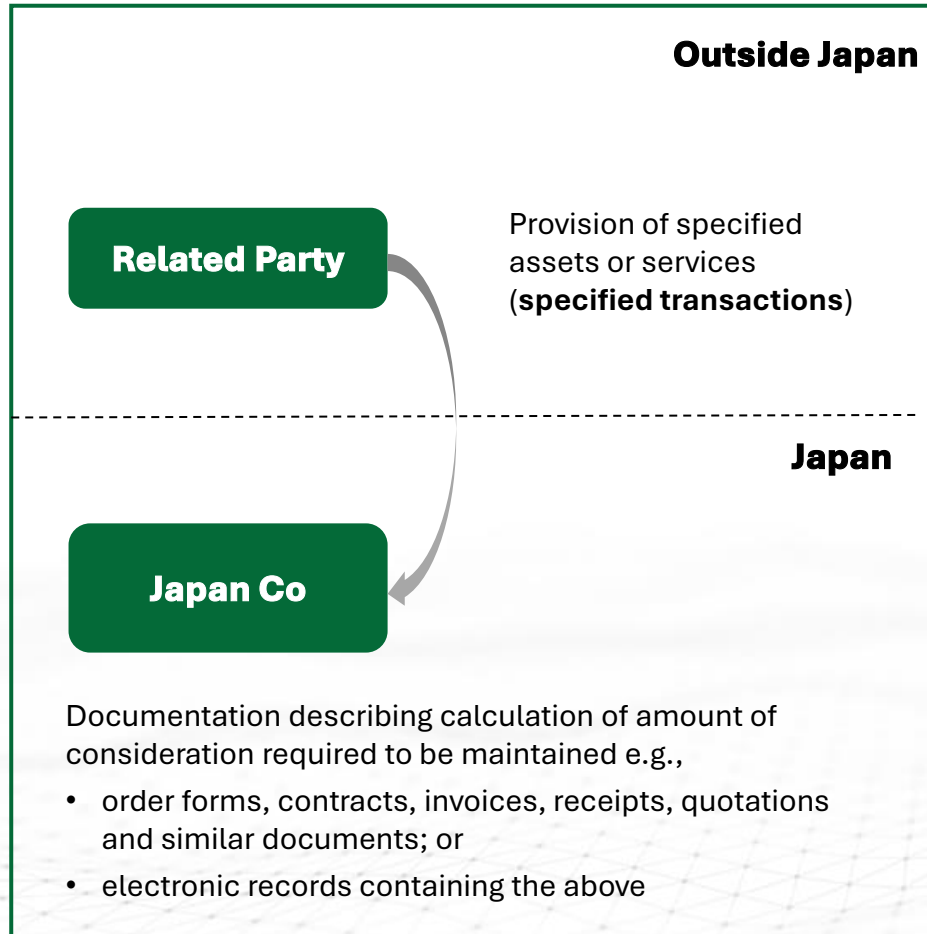
Current Tax Law	Proposed for 2026 Tax Reform
The partner is a limited partner	
The partner does not participate in the management* of the partnership	Approval of conflict-of-interest transactions excluded from scope of activities considered to be management
The partner's interest in partnership assets, based on the higher of the partner's ownership interest or interest in profits and losses, is less than 25%	Increased to less than 50%, provided investment partnership has certain form of limited partnership advisory committee
The partner is not related to or otherwise have special dealings with the general partner(s) of the partnership	
The partner does not have a PE in Japan other than the PE attributed to them as a limited partner of the partnership	Will be abolished
Prescribed application has been filed by each foreign limited partner	

\* Defined as:

- a. Execution of business
- b. Decision making relating to execution of business
- c. Approval, consent or similar actions regarding execution of business or decision making relating to execution of business

# Transactions within corporate groups

Record keeping requirements relating to specified transactions to be maintained



- “Related Party” same as for transfer pricing rules i.e.,
  - i. a foreign company which owns directly or indirectly 50% or more of the Japanese company’s shares;
  - ii. a foreign company where the same person owns directly or indirectly 50% or more of both the foreign company and the Japanese company; or
  - iii. a foreign company which shares a substantial control relationship with the Japanese company.
- “Specified transactions”
  - i. transfer or lease of industrial property rights and copyrights;
  - ii. R&D, advertising, promotion, etc. services using management resources, industrial or commercial experience, or academic knowledge/experience;
  - iii. use of assets solely for business use of Japan Co.; and
  - iv. provision of management or similar services based on industrial or commercial experience, or academic knowledge/experience.
- Failure to maintain records may be treated as reason for cancellation of blue form tax return status

# Consumption tax

Transfers of cryptocurrency assets	Treated as transfer of securities—exempt (5% of sale proceeds included in denominator of taxable sales ratio calculation)
Leasing of cryptocurrency assets	Exempt
Provision of services to non-residents relating to real estate located in Japan	Excluded from scope of export exemption

	Current		Proposed for 2026 Tax Reform	
	Period	Deductible input JCT	Period	Deductible input JCT
Transitional measures for input JCT credits for Non-Qualified Invoices	1 Oct 2023 to 30 Sep 2026	80%	1 Oct 2026 to 30 Sep 2028	70%
	1 Oct 2026 to 30 Sep 2029	50%	1 Oct 2028 to 30 Sep 2030	50%
	On or after 1 Oct 2029	-	1 Oct 2030 to 30 Sep 2031	30%

# Transfer Pricing

## 1 FY2026 tax reform impacts

- Address situations where auditors do not get necessary TP information.
- If information necessary to calculate TP is not made available, it may result in the tax authorities taking measures, such as revoking blue-form taxpayer status.
- One example of how this could be impactful is orders to prove and justify the deductibility of expenses allocated from overseas, etc.

## 2 Business driven TP planning

- Asset management TP in focus in parallel with expansion of asset managers in Japan.
- Surging reinsurance outflows that include relate party outflows which have been in focus by tax auditors and increasingly APA teams.
- Record level M&A activity is driving (1) M&A deal i/c financing, (2) FS industry M&A TP due diligence (DD) and post merger integration (PMI) TP and (3) private equity's portfolio company M&A DD and PMI TP.

## 3 Japan as a global APA leader

- NTA information indicates that for their 2024 operation year, cases with the United States (25%) followed by India (15%), China (13%), Korea (12%), and Germany (5%).
- OECD study indicates that for 2024 Japan is globally the #1 Jurisdictions for prioritising dispute prevention in competent authority TP cases as measured based on APA to TP MAP cases ratio (86.8%).
- Financial service industry APAs tend to involve Japan and the US, UK, Germany, Switzerland, and/or Singapore.

# Real estate related taxes

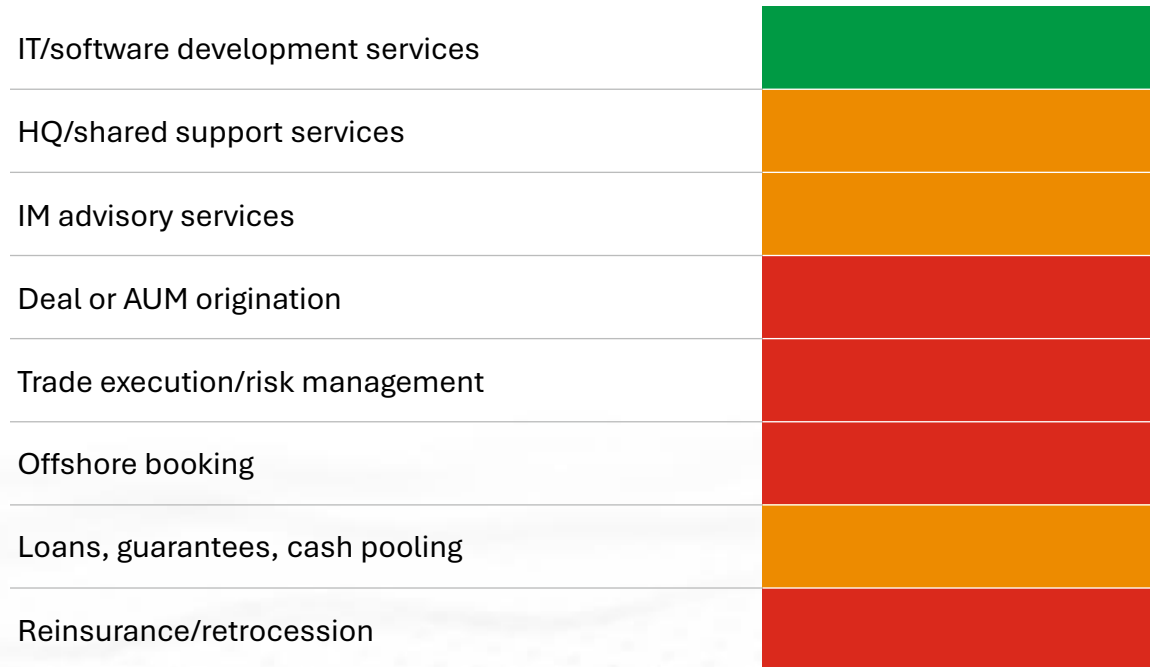
Extension certain periods on the following special measures

Type of tax / Transaction	Current Tax Law	Proposed for 2026 Tax Reform
Registration and License Tax (registration of ownership of real property)	Land: 1.5% of appraised value ( <b>until 31 Mar 2026</b> , 2% thereafter)	Extended for further <b>three years</b> to 31 Mar 2029
	Buildings: 2% of appraised value	
Special measure for deferral of capital gains tax on replacement of certain assets	Broadly, capital gain on replacement of long-held properties or certain district property which meet certain conditions can be deferred	Extended for further <b>three years</b> to 31 Mar 2029 but scope and size of the preferential treatment will be reduced
Special measure for infrastructure REIT	Acquisition of facilities for renewable energy power generation allowed as exception in determination of asset holding requirements, which is one of tax qualified requirements for REIT	Extended for further <b>five years</b> to 31 Mar 2031 but scope of "renewable energy facilities" will be limited

# Transfer Pricing

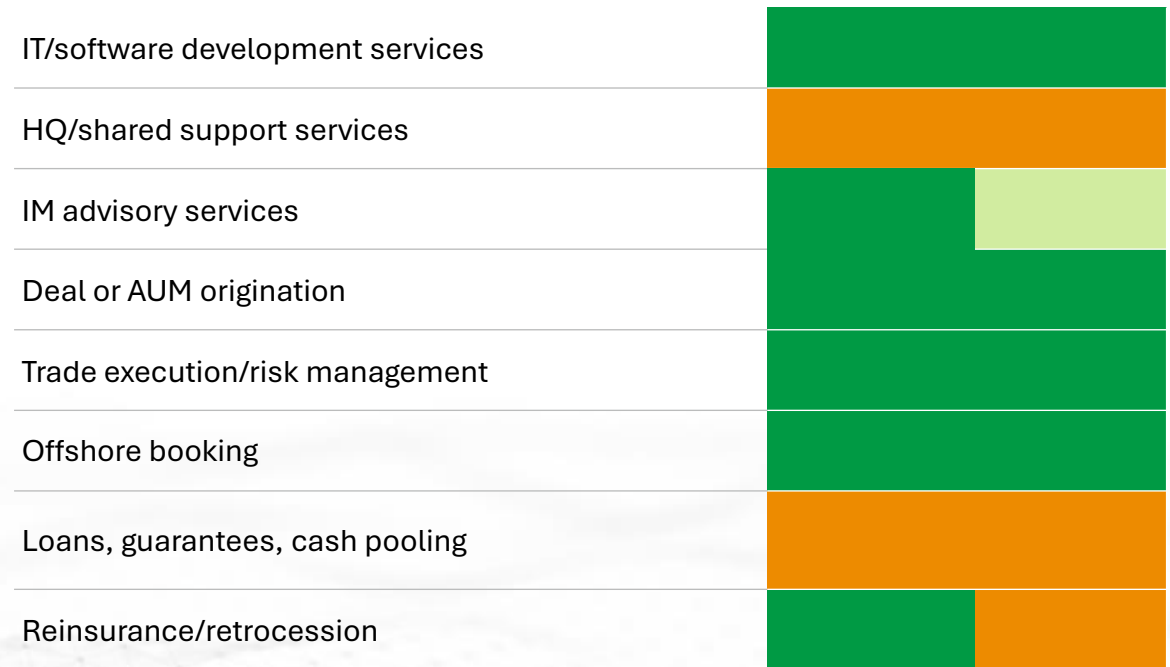
## FSTP controversy

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## Use of MAP/BAPA

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