



KPMG Japan Tax Newsletter

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OUTLINE OF THE 2021 TAX REFORM PROPOSALS

I. Corporate Taxation	
1. Special Measures for Promoting Investment in Digital Transformation	2
2. Special Measures for Promoting Investment for Carbon Neutrality...	3
3. Special Measures for Tax Loss Brought-Forwards	4
4. Tax Credits for R&D Costs	6
5. Tax Measure for Promoting M&A Using Own Shares.....	12
II. International Taxation - Tax Measures for Global Financial City	
1. Relaxation of Requirement for Deduction of Directors' Compensation	13
2. Amendments to Inheritance Tax/Gift Tax Levied on Overseas Properties of Foreign Talent	14
3. Clarification of Income Tax Treatment of Distribution Profit Received by Fund Managers	15
III. Improvements in Tax Administration Matters	
1. Amendments to the Requirement for Using a Seal on Tax-Related Documents.....	16
2. Provision of the Application Form for Tax Treaty, etc. by Electromagnetic Method.....	17
3. Expansion of Tax Agent System	18

The ruling coalition (the Liberal Democratic Party and Komeito) agreed on the 'Outline of the 2021 Tax Reform Proposals' (Proposal) on 10 December 2020. We have set out below brief summaries of the main points of the Proposal.

The Proposal itself is only an indicative outline and is unclear with respect to some of the contemplated changes. The details of the tax reform will be unveiled in the bills revising the tax laws and the succeeding amended tax laws, cabinet orders and ministerial ordinances. Please note that the final tax reform could differ from the Proposal depending on the outcome of discussions in the Diet.

I. Corporate Taxation

1. Special Measures for Promoting Investment in Digital Transformation

From the viewpoint of the importance of business process re-engineering through digital transformation for sustainable economic growth, the following special measures will be introduced to promote business transformation digital investment including investments which, for example, provide connectivity, use of cloud computing, replacement of legacy systems and cyber security based on the plan relating to the construction of new business, subject to certain amendments to the Industrial Competitiveness Enhancement Act:

Eligible companies		Blue-return filing companies whose plans for business adaptation ^{(*)1} are certified under the 'Amended Industrial Competitiveness Enhancement Act' (Act)		
Conditions		During the period from the enforcement date of the Act to 31 March 2023, <ul style="list-style-type: none"> Where eligible companies establish new or additional software in order to use for business adaptation under the Act conducted in accordance with the plans for business adaptation, or Where eligible companies disburse expenditure for utility of software necessary to conduct business adaptation (limited to expenditure treated as deferred charges) 		
Eligible assets		Facilities for business adaptation ^{(*)2} (which eligible companies acquire and put into use for business in Japan)	Deferred charges	
Tax incentives (i) or (ii))	(i) Special depreciation		Acquisition cost x 30%	Amount of deferred charges x 30%
	(ii) Tax credit ^{(*)3}	Other than the below case	Acquisition cost x 3%	Amount of deferred charges x 3%
		Where sharing data with business operator other than group firm ^{(*)4}	Acquisition cost x 5%	Amount of deferred charges x 5%

The upper limit of the amount applicable to the special measures is JPY30 billion among the total acquisition costs of eligible assets and the amount of eligible deferred charges.

^{(*)1} Plan for business adaptation is a plan submitted by a company which works company-wide for productivity improvement or new demand development by developing new products or introducing a new production method or a new sales method.

^{(*)2} Facilities for business adaptation are the following assets excluding R&D assets:

- Software established newly or additionally in order to use for business adaptation conducted in accordance with the plan for business adaptation (limited to business adaptation which has received confirmation from the competent minister that business adaptation

especially contributes to productivity improvement or demand development)

- Machinery, furniture and fixtures used for business adaptation along with the above software or software necessary to conduct that business adaptation

(*3) Upper limit of the amount of the tax credit is 20 percent of the corporation tax liability including the amount of tax credit applied by Special Measures for Promoting Investment for Carbon Neutrality (refer to 2.) for the fiscal year.

(*4) Group firm is a member of a group composed of companies that have parent company-subsidary relationship under the Companies Act.

2. Special Measures for Promoting Investment for Carbon Neutrality

The government aims to achieve net zero emissions of greenhouse gasses by 2050. Toward this goal, the following special measures for promoting investment in facilities, which contribute to decarbonization, will be introduced subject to certain amendments to the Industrial Competitiveness Enhancement Act:

Eligible companies	Blue-return filing companies whose 'plans for medium to long term environmental adaptation' are certified under the 'Amended Industrial Competitiveness Enhancement Act' (Act)		
Conditions	Eligible companies acquire eligible assets and put them into use for their businesses in Japan during the period from the enforcement date of the Act to 31 March 2024.		
Eligible assets	The following assets described in the 'plans for medium to long term environmental adaptation' under the Act: <ul style="list-style-type: none"> • Medium to long term environmentally adaptable facilities for productivity improvement^(*1) • Medium to long term environmentally adaptable facilities for the production of demand development products^(*2) 		
Tax incentives ((i) or (ii))	(i) Special depreciation		Acquisition cost x 50%
	(ii) Tax credit ^(*3)	Other than the below items	Acquisition cost x 5%
		Facilities which contribute to significant cuts in emissions of greenhouse gasses	Acquisition cost x 10%

The upper limit of the amount applicable to the special measures is JPY50 billion among the total acquisition costs of eligible assets.

(*1) Medium to long term environmentally adaptable facilities for productivity improvement are facilities used for 'medium to long term environmental adaptation', such as cuts in emissions of greenhouse gasses by the improvement in efficiency of production processes among facilities for productivity improvement, etc. prescribed by the Act.

(*2) Medium to long term environmentally adaptable facilities for the production of demand development products are facilities exclusively used for production of the products for ‘medium to long term environmental adaptation’ designated by the competent minister as products which are expected to contribute to the new demand development by Japanese business operators, such as products which contribute to business activities, especially for cuts in emissions of greenhouse gasses.

(*3) Upper limit of the amount of the tax credit is 20 percent of the corporation tax liability including the amount of tax credit applied by Special Measures for Promoting Investment in Digital Transformation (refer to 1.) for the fiscal year.

3. Special Measures for Tax Loss Brought-Forwards

The deductible amount of tax losses brought forward is in principle up to 50 percent of taxable income (before deduction of tax losses brought forward) for the fiscal year. (The deductible amount of tax losses brought forward for certain companies such as small and medium-scale companies (certain companies among companies whose stated capital is JPY100 million or less), newly established companies (certain companies among companies established within 7 years), tax qualifying Tokutei Mokuteki Kaisha (TMKs) and Toshi Houjin (J-REITs) is up to 100 percent of taxable income for the fiscal year.)

In consideration of the unprecedented situation caused by COVID-19, temporary special measures will be introduced for tax loss brought-forwards, subject to certain amendments to the Industrial Competitiveness Enhancement Act. The measures will allow the deduction of tax losses brought forward up to 100 percent of current taxable income to the extent of the amount of investment in business rebuilding or reorganizations for a certain period as follows:

Eligible companies	Companies which satisfy all of the following conditions: <ul style="list-style-type: none"> • Blue-return filing companies • Companies whose plans for business adaptation^(*1) under the ‘Amended Industrial Competitiveness Enhancement Act’ (Act) are certified during the period from the enforcement date of the Act to the day when 1 year elapsed since that enforcement date • Companies conducting business adaptation^(*2) under the Act in accordance with the plans for business adaptation
Conditions	Eligible companies have special tax losses under the special measures ^(*3) in the applicable fiscal year under the special measures ^(*4)
Tax incentives	The amount of special tax losses under the special measures is deductible to the extent of 100% of taxable income for the fiscal year (limited to the amount up to accumulated investments balance ^(*5) where the amount of special tax losses under the special measures exceeds 50% of taxable income for the fiscal year).

- (*1) Regarding plans for business adaptation, refer to (*1) in '1. Special Measures for Promoting Investment in Digital Transformation'.
- (*2) Business adaptation is limited to those that meet certain standards as being made in response to significant changes in economic and social circumstances.
- (*3) Special tax losses under the special measures are tax losses of blue-return filing companies incurred in the fiscal years including the date of the period from 1 April 2020 to 1 April 2021 (for certain cases, fiscal year ending during the period from 1 February 2020 to 31 March 2020 and the following fiscal year).
- (*4) Applicable fiscal year under the special measures is a fiscal year when all of the following conditions are satisfied:
- Fiscal years beginning within 5 years on or after the beginning date of the base fiscal year (the first fiscal year in which taxable income is generated after the fiscal year including the earliest beginning date of the fiscal year in which special tax losses under the special measures are incurred)
 - Fiscal years including implementation period of the plans for business adaptation
 - Fiscal years beginning on or before 1 April 2026
- (*5) Accumulated investments balance is (a) minus (b) as follows:
- (a) The amount of investments conducted in accordance with the plans for business adaptation
- (b) The amount equivalent to tax losses already deducted in excess of 50 percent of taxable income under the special measures

4. Tax Credits for R&D Costs

(1) Tax credits for total R&D costs

In order to maintain Japan's international competitiveness whilst dealing with various changes due to COVID-19, the rules concerning the tax credits for total R&D costs (under which the creditable amount is calculated by multiplying total R&D costs by the creditable ratio discussed below) will be amended to maintain incentives which sustain and expand R&D as follows:

(i) Large-sized companies

[Current tax law]

■ Basic rules

Increase-decrease R&D ratio	Creditable ratio
More than 8%	$9.9\% + (\text{Increase-decrease R\&D ratio} - 8\%) \times 0.3$ (Upper limit: 14% ^(*))
8% or less	$9.9\% - (8\% - \text{Increase-decrease R\&D ratio}) \times 0.175$ (Lower limit: 6%)

^(*) 10 percent for fiscal years beginning on or after 1 April 2021

Maximum tax credit	
Principle	Corporation tax liability x 25%
Certain venture R&D companies	Corporation tax liability x 40%

■ Temporary measures where R&D ratio exceeds 10 percent

Both of the following measures are available for fiscal years beginning between 1 April 2019 and 31 March 2021.

Creditable ratio (Upper limit: 14%)	Creditable ratio (under the basic rules)	+	Creditable ratio (under basic rules) x {(R&D ratio - 10%) x 0.5 (upper limit: 10%)}
Maximum tax credit	Maximum tax credit (under the basic rules)	+	Corporation tax liability x {(R&D ratio - 10%) x 2} (Upper limit: corporation tax liability x 10%)

[Proposal]

■ Basic rules

The following underlined items will be amended:

Increase-decrease R&D ratio	Creditable ratio
More than <u>9.4%</u>	$\underline{10.145\%} + (\text{Increase-decrease R\&D ratio} - \underline{9.4\%}) \times \underline{0.35}$ (Upper limit: 14% ^(*))
<u>9.4%</u> or less	$\underline{10.145\%} - (\underline{9.4\%} - \text{Increase-decrease R\&D ratio}) \times 0.175$ (Lower limit: <u>2%</u>)

^(*) 10 percent for fiscal years beginning on or after 1 April 2023

Maximum tax credit	
Principle	Corporation tax liability x 25%
<u>Companies increasing investment in R&D in spite of a certain degree of decrease in sales^(*)</u>	<u>Corporation tax liability x 30%</u>
Certain venture R&D companies	Corporation tax liability x 40%

(*) Applicable for fiscal years satisfying both of the following conditions for each fiscal year beginning between 1 April 2021 and 31 March 2023

- Ratio of decrease in sales compared to that in the base year \geq 2 percent
- R&D costs > R&D costs in the base year

■ Temporary measures where R&D ratio exceeds 10 percent

The applicable period will be extended by 2 years (fiscal years beginning on or before 31 March 2023). (There is no change in the contents of temporary measures.)

(ii) Small and medium-sized companies

[Current tax law]

■ Basic rules

Increase-decrease R&D ratio	Creditable ratio
More than 8% ^(*)	12% + (Increase-decrease R&D ratio - 8%) x 0.3 (Upper limit: 17%)
8% or less	12%

(*) Applicable for fiscal years beginning between 1 April 2019 and 31 March 2021

Increase-decrease R&D ratio	Maximum tax credit
More than 8% ^(*) ^(**2)	Corporation tax liability x 35%
8% or less	Corporation tax liability x 25%

(*) Applicable for fiscal years beginning between 1 April 2019 and 31 March 2021

(**2) Selective application, either of 'maximum tax credit' in the following temporary measures

■ Temporary measures where R&D ratio exceeds 10 percent

Both of the following measures are available for fiscal years beginning between 1 April 2019 and 31 March 2021.

Creditable ratio (Upper limit: 17%)	Creditable ratio (under the basic rules)	+	Creditable ratio (under the basic rules) x {(R&D ratio - 10%) x 0.5 (upper limit: 10%)}
Maximum tax credit	Maximum tax credit (under the basic rules)	+	Corporation tax liability x {(R&D ratio - 10%) x 2} (Upper limit: corporation tax liability x 10%)

[Proposal]

■ Basic rules

The following underlined items will be amended:

Increase-decrease R&D ratio	Creditable ratio
More than <u>9.4%</u> ^(*)	12% + (Increase-decrease R&D ratio - <u>9.4%</u>) × <u>0.35</u> (Upper limit: 17%)
<u>9.4%</u> or less	12%

(*) Applicable for fiscal years beginning between 1 April 2021 and 31 March 2023

Increase-decrease R&D ratio	Maximum tax credit	
More than <u>9.4%</u> ^(*) ^(*)	Principle	Corporation tax liability × 35%
	<u>Companies increasing investment in R&D in spite of a certain degree of decrease in sales^(*)</u>	<u>Corporation tax liability × 40%</u>
<u>9.4%</u> or less	Principle	Corporation tax liability × 25%
	<u>Companies increasing investment in R&D in spite of a certain degree of decrease in sales^(*)</u>	<u>Corporation tax liability × 30%</u>

(*) Applicable for fiscal years beginning between 1 April 2021 and 31 March 2023

(*) Selective application, either of 'maximum tax credit' in the temporary measures (refer to [Current tax law])

(*) Applicable for fiscal years satisfying the same conditions as for large-sized companies

■ Temporary measures where R&D ratio exceeds 10 percent

The applicable period will be extended by 2 years (fiscal years beginning on or before 31 March 2023). (There is no change in the contents of temporary measures.)

[Definition of key terms]

- Large-sized companies: Companies other than small and medium-sized companies
- Small and medium-sized companies: (a) or (b) below:
 - (a) Companies with stated capital of JPY100 million or less, except for the following cases:
 - at least 50 percent of the shares are held by one large-scale company (e.g. a company whose stated capital is over JPY100 million); or
 - at least two-thirds of the shares are held by two or more large-scale companies
 - (b) Companies with no capital whose number of regular employees is 1,000 or less

Note that a company whose average income for the preceding 3 fiscal years is over JPY1.5 billion is excluded from the definition of small and medium-sized companies for the purpose of this measure for fiscal years beginning on or after 1 April 2019.

- Increase-decrease R&D ratio: (a) / (b)
 - (a) [Total R&D costs in the current fiscal year] – [Annual average of R&D costs for the preceding 3 fiscal years] (if the figure is negative, the negative figure is used.)
 - (b) Annual average of R&D costs for the preceding 3 fiscal years
- Certain venture R&D companies: Companies which were established within the past 10 years and have tax losses to be carried forward (Subsidiaries of a large company are not eligible.)
- R&D ratio: Total R&D costs in the current year / Average sales
- Average sales: Average sales for the preceding 3 fiscal years and the current fiscal year
- Ratio of decrease in sales compared to that in the base year: $((b) - (a)) / (b)$, where (a) is less than (b)
 - (a) Sales in the current fiscal year
 - (b) Sales in the latest fiscal year ending before 1 February 2020
- R&D costs in the base year: R&D costs in the latest fiscal year ending before 1 February 2020

(2) Tax credits for specified R&D costs

Specified R&D costs are eligible for the special rules under which the creditable amount is calculated by multiplying specified R&D costs by the creditable ratio discussed below. From the viewpoint of promoting continuously high quality R&D, the following indicates the scope of specified R&D costs and the underlined items will be newly treated as specified R&D costs under the 2021 tax reform:

Scope of specified R&D costs (R&D costs used for the following R&D activities)		Creditable ratio
Joint R&D	National R&D institutions	30%
	Universities	
	R&D venture companies	<u>25%</u>
	<u>Externalized companies of national R&D companies, etc.</u>	
	Private enterprises	20%
	R&D partnerships	
Consignment R&D	National R&D institutions	30%
	Universities	
	R&D venture companies	<u>25%</u>
	<u>Externalized companies of national R&D companies, etc.</u>	
	Specified small and medium-sized companies	20%
	Certain private enterprises	
Royalties on intellectual property	Specified small and medium-sized companies	20%
R&D concerning orphan regenerative medicine products		20%
R&D concerning medicine products with special use		

Some amendments will also be made regarding joint/consignment R&D activities with/to national R&D institutions, universities and specified small and medium-sized companies.

In addition, amendments to operational improvement of the tax credit for specified R&D costs will be made.

(3) Scope of R&D costs subject to the tax credit system

For the purpose of promoting digital transformation by companies through supporting R&D in the software field, R&D costs included in acquisition cost of software for in-house use (e.g. software provided in cloud environment) will be subject to the tax credit system by the amendment of (i) in addition to the amendments of (ii) and (iii) concerning the scope of R&D costs subject to the tax credit system.

(i) Inclusion in the scope of R&D costs

R&D costs recorded as R&D expenses and included in acquisition cost of non-R&D assets (inventory, fixed assets and deferred charges which are not put into use for R&D at the time of use of business) will be included in the scope of R&D costs subject to the tax credit system.

Corresponding to the above amendments, the following amendments are also proposed:

- Cost of sales or depreciation costs and losses on transfer/disposal of non-R&D assets, where the acquisition cost includes the amount recorded as R&D expenses, will be excluded from the scope of R&D costs subject to the tax credit system.
- Either the tax credit system or special depreciation, etc. will be applicable to non-R&D assets where the acquisition cost includes the amount recorded as R&D expenses.

(ii) Exclusion from the scope of R&D costs

Reverse engineering (operation which does not fall under R&D to get new knowledge or to devise new application of available knowledge) will be excluded from the scope of R&D costs subject to the tax credit system.

(iii) Clarification of the scope of R&D costs other than above

It is proposed to clarify that R&D costs for the development of technology contributing to improvement of the developer's business operation will be included in the scope of R&D costs subject to the tax credit system as far as such R&D is related to engineering or natural science.

5. Tax Measure for Promoting M&A Using Own Shares

From the viewpoint of promoting agile business restructuring and maintaining/strengthening competitiveness, a new tax measure for deferral of recognition of capital gains or losses of shareholders of a target company will be introduced with regard to M&A to acquire shares in the target company by using own shares.

This is a permanent measure which will be applied to cases where shareholders (both companies^{(*)1} and individuals) transfer shares in the target company and acquire shares^{(*)2} in the acquiring company under a 'Share Delivery System' (Kabushiki-Kofu Seido) which is newly introduced in the amended Companies Act^{(*)3}.

^{(*)1} For foreign companies, the measure will be applied only to the portion of capital gains or losses on shares in the target company which are managed at their permanent establishments located in Japan.

^{(*)2} Where any assets other than shares in the acquiring company are delivered to the shareholders, the measure will be applied only in cases where the value of the shares in the acquiring company is 80 percent or more of the total value of assets delivered as consideration for the acquisition. In this case, deferral of capital gains or losses will be limited to the portion attributable to the shares in the acquiring company.

^{(*)3} The Act will come into force on 1 March 2021.

The acquiring company will be required to attach the 'Share Delivery Plan' and the detailed statements (including documents supporting the calculation of the value or number of assets delivered by the 'Share Delivery') to its final tax returns.

Note that the current special measures for deferral of recognition of capital gains or losses on shares, which cover share exchanges conducted by a company which obtains approval for its Business Plan for Special Business Restructuring under the Industrial Competitiveness Enhancement Act during the period from 9 July 2018 to 31 March 2021, will be repealed on the expiration date.

II. International Taxation

Tax Measures for Global Financial City

In order to establish Japan’s position as a Global Financial Centre, the following tax measures will be introduced as a part of solving various issues from the viewpoint of attracting businesses, human resources and funds from overseas:

1. Relaxation of Requirement for Deduction of Directors’ Compensation

One of the requirements for deduction of certain performance-linked compensation paid to directors for corporation tax purposes is that the content of the calculation method of directors’ compensation is disclosed using the Annual Securities Report, etc. without delay after the date of the decision of the calculation methods, etc. by the compensation committee. Therefore, in general, an unlisted company that is not obliged to submit the Annual Securities Report does not meet above requirement and cannot deduct certain performance-linked compensation paid to directors.

By virtue of the 2021 tax reform, subject to the amendment of the ‘Financial Instruments and Exchange Act’ (Act), the tax measures to enable deduction of certain performance-linked compensation for directors of an unlisted non-family company, etc., whose main business is investment management, will be proposed in consideration of the special circumstances that the performance-linked compensation is under the supervision of stakeholders such as investors.

The tax measures will be applied where the unlisted company satisfies the requirements that the calculation method of the compensation and the business results, etc. based on which the calculation is made will be disclosed on the websites of the ‘Financial Services Agency’ (FSA), etc.

[Outline of the proposal]

Eligible companies	Blue-return filing companies who meet the definition of Specified Investment Managers
Requirements	Where the performance-linked compensation ^(*) will be paid to the executive officers of the Specified Investment Managers in each fiscal year beginning in the period from 1 April 2021 to 31 March 2026 (limited to the fiscal years ending on or after the date of enforcement of the amended Act), the requirement of pre-approval by the investors is satisfied.
Tax measures for deductible performance-linked compensation for directors	<ul style="list-style-type: none"> • The business report submitted by the Specified Investment Managers under the Act and disclosed on the websites of the FSA will be treated as the Annual Securities Report in which performance indicators, etc. should be stated. • Where the Specified Investment Managers submitted the business report stating the content of the calculation method of the performance-linked compensation^(*) without delay after the date of the decision of the calculation methods, etc. by the compensation committee and disclosed the content of the calculation method to the public in the explanatory documents under the Act, the disclosure requirements of the content of the calculation method of the performance-linked compensation^(*) by the Annual Securities Report will be satisfied.

(*) The performance-linked compensation is limited to the objective compensation based on indicators related to profits generated by the transactions conducted as the investment of the investment assets.

[Definition of key terms]

Specified Investment Managers	<p>The following companies (excluding a company which has the obligation to submit the Annual Securities Report and its wholly owned subsidiaries):</p> $\frac{\text{Total amount of income related to the below operations}}{\text{Total amount of income for the fiscal year}} \geq 75\%$ <ul style="list-style-type: none"> • Investment Management Business conducted by the Financial Instruments Business Operators, etc. • Specially Permitted Businesses for Qualified Institutional Investors, etc. conducted by the Specially Permitted Business Notifying Person • Specially Permitted Businesses for Overseas Investors, etc. conducted by the Specially Permitted Business for Overseas Investors, etc. Notifying Person • Specially Permitted Businesses during the Transition Period conducted by the Specially Permitted Business for Transition Period Notifying Person
Requirement for pre-approval by the investors	<p>Either of the following requirements is satisfied:</p> <ul style="list-style-type: none"> • The fund contract, etc. of the investment assets includes statements that the performance-linked compensation will be paid and the calculation method of the performance-linked compensation. • Before the start of the fiscal year in which the tax measures will be applied, the fact that the performance-linked compensation will be paid and the calculation method of the performance-linked compensation are reported at the partners meeting of the Investment Limited Partnership of the investment assets, and there are no statements or records of objections against the report by any partners in the meeting minutes.

2. Amendments to Inheritance Tax/Gift Tax Levied on Overseas Properties of Foreign Talent

Inheritance tax and gift tax are levied on an heir who acquired properties by inheritance and an individual (a donee) who acquired properties from another individual (a donor) as a gift, respectively. The scope of taxable properties depends on whether the individuals have or had domicile in Japan and whether they hold Japanese nationality. Under the current tax law, if the total period of having domicile in Japan of the decedent/donor is more than 10 years within 15 years before an event occurs causing the inheritance/gift, regardless of the situation of the heir/donee, inheritance tax/gift tax will be levied not only on properties in Japan but also on overseas properties.

By virtue of the 2021 tax reform, amendments to inheritance tax/gift tax will be proposed from the viewpoint of promoting the employment of highly skilled foreign talent in Japan.

The amendments will exclude overseas properties acquired by a non-Japanese national who resides overseas or stays in Japan for a short term as heir/donee from the scope of inheritance tax/gift tax regardless of the residence period of decedent/donor who has domicile in Japan for employment, etc. as follows:

[Outline of the proposal]

Eligible person	Heir/donee	<ul style="list-style-type: none"> • A non-Japanese national with resident status who resides in Japan for a short term • A non-Japanese national who resides overseas, etc.
	Decedent/donor	<ul style="list-style-type: none"> • A non-Japanese national with resident status who resides in Japan when an event occurs causing the inheritance/gift
Requirement for resident status	The resident status under Table 1 of the Immigration Control and Refugee Recognition Act (i.e. the resident status in 'Table 1' (1) to (5) of [Reference information] below)	
Tax measures for the exclusion from the scope of inheritance tax/gift tax	Where the above heir/donee acquired overseas properties from the above decedent/donor by inheritance/gift, the overseas properties will be excluded from the scope of the tax payment obligations of inheritance tax/gift tax.	

[Reference information]

Resident status under the Immigration Control and Refugee Recognition Act

Table 1	(1)	Diplomat, Official, Professor, Artist, Religious Activities, Journalist
	(2)	Highly Skilled Professional, Business Manager, Legal/Accounting Services, Medical Services, Researcher, Instructor, Engineer/Specialist in Humanities/International Services, Intra-company Transferee, Nursing Care, Entertainer, Skilled Labor, Specified Skilled Worker, Technical Intern Training
	(3)	Cultural Activities, Temporary Visitor
	(4)	Student, Trainee, Dependent
	(5)	Designated Activities
Table 2	Permanent Resident, Spouse or Child of Japanese National, Spouse or Child of Permanent Resident, Long-Term Resident	

3. Clarification of Income Tax Treatment of Distribution Profit Received by Fund Managers

It has been unclear whether profits distributed to fund managers based on the performance of their fund management is treated as financial income (i.e. separate taxation) or business income (i.e. comprehensive taxation).

By virtue of the 2021 tax reform, where the distribution ratio has economic rationality, etc. for the distribution of profits in excess of the investment ratio (carried interest) that the fund manager receives from a fund (a partnership whose business is transfer of shares, etc.) in which the fund manager has an equity interest, it will be clarified that the carried interest will not be subject to comprehensive taxation as consideration for the provision of services, but will be subject to separate taxation as a gain on transfer of shares, etc. The Financial Services Agency will take necessary measures to ensure the convenience and appropriateness of filing of tax returns by the fund manager.

III. Improvements in Tax Administration Matters

1. Amendments to the Requirement for Using a Seal on Tax-Related Documents

From the viewpoint of the response to the emerged issues caused by the reduction of administrative procedure costs by promoting digital government through national and local governments and the spread of COVID-19, sealing by the submitter on national tax-related documents submitted to the competent tax office will not be required after the amendments in order to reduce the burden of tax procedures, except for the following tax-related documents:

(i)	Documents that are required to be affixed with the registered seal and to attach the certificate of registered seal among the documents related to the provision of collateral and the procedures for payment in kind
(ii)	Documents related to discussions on division of property among the attached documents under the special measures of inheritance tax and gift tax

- The requirement for applying a seal on the local tax-related documents will also be abolished and additional measures related to the above amendments are expected.
- The application of a seal to question records in criminal investigation procedures for national tax and local tax purposes will be treated in accordance with the criminal proceeding.

The above amendments will be applied to the national tax-related documents and local tax-related documents to be submitted on or after 1 April 2021. In consideration of the objective of the amendments, the national tax-related documents without seal will be operationally acceptable even before the enforcement date of the amendments, where such documents will not be required sealing by the submitter after the amendments.

2. Provision of the Application Form for Tax Treaty, etc. by Electromagnetic Method

If non-residents, etc. receiving the payment of Japanese source income which is subject to withholding taxes in Japan intend to claim for the reduction or exemption of withholding income tax based on a tax treaty, it is necessary to submit the application form for the tax treaty, etc.

Currently, the non-residents, etc. need to submit the application form for tax treaty, etc. in writing to the competent tax office through the withholding agent who is a payer of the Japanese source income by the day before the day when the Japanese source income is paid. By virtue of the 2021 tax reform, it will be permitted to provide the application form for tax treaty, etc. by electromagnetic method instead of submission in writing as follows:

(1)	Provision of the application form for tax treaty, etc. by electromagnetic method	<ul style="list-style-type: none"> The non-residents, etc. will be able to provide the matters to be described in the application form for tax treaty, etc. by electromagnetic method, instead of submission in writing, to the withholding agent, etc. who meets certain conditions^(*). Where the non-residents, etc. who submit the application form for tax treaty, etc. (excluding certain application form for tax treaty, etc. related to dividends, etc. of book-entry transfer shares, etc. subject to the Act on Book-Entry Transfer of Corporate Bonds and Shares) provide the matters to be described in the application form for tax treaty, etc. by electromagnetic method, verification procedures for the name of the submitter will be required.
(2)	Provision of the attached document by electromagnetic record	<ul style="list-style-type: none"> The non-residents, etc., who provide the matters to be described in the application form for tax treaty, etc. by electromagnetic method, will also be able to provide the electromagnetic record^(**) reflecting the matters to be described in the attached document instead of the submission in writing to the withholding agent, etc. at the time of providing the matters to be described in the application form for tax treaty, etc. by electromagnetic method^(*).

^(*) If the matters to be described in the application form for tax treaty, etc. or the attached document are provided by electromagnetic method or electromagnetic record, it will be treated as if the application form for tax treaty, etc. or the attached document have been submitted.

^(**) In case the attached document is a resident certificate, etc., only electromagnetic records created by a scanner, etc., which satisfy certain requirements of resolution and tone, are accepted.

In addition, the tax exemption application for the following special provisions will also be permitted to be provided by electromagnetic method instead of submission in writing, and additional measures in relation to the above amendments are expected:

- Taxation on interest on Book-Entry National Government Bonds
- Taxation on interest on margin for over-the-counter derivatives transactions of foreign financial institutions, etc.
- Taxation on interest received by a foreign financial institution from bond transactions with repurchase/resale agreements, etc.

3. Expansion of Tax Agent System

The following measures concerning the tax agent system will be introduced:

(1) Request for notification of tax agent to a taxpayer

Where a taxpayer who has to appoint a tax agent does not make a notification of a tax agent, the competent tax office will clearly indicate the necessary matters to be processed by a tax agent ('specified matters'), and be able to request the taxpayer to make a notification of a tax agent by the date determined in consideration of the number of days normally required for the preparation but within a period not exceeding 60 days ('designated date').

(2) Request to a domestic convenience person to become a taxpayer's tax agent

Where a taxpayer who has to appoint a tax agent does not make a notification of a tax agent, the competent tax office will be able to request a person who has domicile or residence in Japan and has the ability to process the specified matters ('domestic convenience person') to become the taxpayer's tax agent.

(3) Appointment of specified tax agent by the tax authority

Where the taxpayer who has received a request described in (1) above ('specified taxpayer') does not make a notification of a tax agent by the designated date, the competent tax office will be able to appoint the following domestic related person as a tax agent for processing the specified matters ('specified tax agent') from among the domestic convenience persons who have received a request to become a tax agent described in (2) above:

Specified taxpayer		Scope of domestic related persons
(a)	Individual	<ul style="list-style-type: none"> (i) Spouse or any other relatives who live in the same household with the specified taxpayer and have attained the age of majority (ii) A person who has a close relationship under a contract with the specified taxpayer about the taxable basis of national tax, etc. or the factual basis for calculation of the tax amount, etc. (iii) An enterprise who provides a place for transactions using an Electronic Data Processing System and other transactions continuously conducted by the specified taxpayer
(b)	Company	<ul style="list-style-type: none"> (i) A company who has a relationship with the specified taxpayer whereby either of them holds 50% or more of the total amount of the other company's issued shares or any other special relationship (ii) A director of the specified taxpayer or spouse or any other relatives who live in the same household with the director and have attained the age of majority (iii) A person described in (a)(ii) or (iii) above

Where the competent tax office appoints the specified tax agent, the specified taxpayer and the specified tax agent will be notified of that appointment in writing. In this case, these persons will be able to appeal or litigate.

The amendments will be applied to requests and appointment in (1) to (3) above on or after 1 January 2022.

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