Japan Tax Bulletin

2026 Fiscal Year (Reiwa 8) Corporate & International Tax Reforms

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On 19 December 2025, Japan's ruling coalition released the outline of the fiscal year 2026 (Reiwa 8) tax reform proposals. While the proposals introduce several individual amendments to corporate and international tax rules, collectively they reflect a broader recalibration of Japan's tax policy - one that prioritizes strategic investment, domestic economic substance, and tighter alignment between incentives and measurable outcomes.

The proposals reflect a clear policy shift toward targeted incentives that support capital formation, advanced technology development, and economic security, while simultaneously tightening eligibility criteria, reducing reliance on broad-based tax benefits, and strengthening compliance expectations. This article summarizes the key corporate and international tax measures based on publications issued by the Ministry of Finance.

1. *Key Changes in Corporate Taxation*

1) *Tax measures to promote capital investment and productivity*

(1) *Enhanced incentives for capital investment*

- The Government has introduced the largest-ever tax incentive for large-scale and high value-added capital investments, which is intended to promote investment across industries. Unlike prior regimes that provided relatively broad depreciation or credit benefits, the eligibility under this new framework is explicitly linked to certified investment plans approved by the Ministry of Economy, Trade and Industry under the Industrial Competitiveness Enhancement Act.
- There are conditions prescribed which make companies eligible to apply for this approval, and this approval has to be sought before 31 March 2029. One of the key conditions is that the total capital investment amount should be JPY3.5 billion or more (JPY500 million or more for SMEs (small and medium enterprises)).
- Approved investments will be entitled to either immediate depreciation of the relevant asset or a tax credit (4% or 7% depending on the asset category). There are monetary limits prescribed for each type of asset.
- The total amount of tax credit that may be claimed is capped at 20% of the corporate income tax liability, with any unused portion eligible for carryforward for up to three years.
- From a policy perspective, this structure signals a clear preference for fewer but more substantive investments - favoring projects that demonstrate scale, productivity impact, and alignment with national industrial priorities. For businesses, early planning and certification will be critical, as access to incentives is increasingly front-loaded and conditional.

(2) *Revision to Research & Development (R&D) tax credit regime*

- A key feature of the reforms is the introduction of a new R&D tax credit category for 'strategic technologies', separate from the existing general R&D credit system.
- Eligible R&D activities must relate to designated priority technologies, including AI, advanced robotics, quantum technology, semiconductors, healthcare, fusion energy and aerospace. This requires certification pursuant to the Industrial Technology Enhancement Act
- For qualifying R&D expenses related to priority technologies, a 40% tax credit is available. There is a 50% tax credit available for special priority technology R&D expenses. The credit will be subject to an overall cap of 10% of the corporate income tax liability, with limited carryforward of excess credits permitted.
- The treatment of overseas outsourced R&D expenditure will be tightened. For fiscal years beginning on or after 1 April 2026, 70% of the overseas contracted R&D expenses will be eligible for credit, with this percentage to decline in subsequent years. This change signals a clear policy intent to prioritize R&D activities conducted within Japan.
- In addition, the general R&D tax credit regime will be revised for fiscal years beginning on or after 1 April 2027, with the applicable period extended by three years. Special R&D credits for SMEs will also be extended, subject to fulfilment of prescribed conditions.

(3) *Phasing out of wage increase tax incentives*

- The tax credit regime designed to promote wage increases will be phased out in a staggered manner, reflecting a reassessment of its effectiveness as a long-term policy tool.
- For large corporations, the regime will be abolished for fiscal years beginning on or after 1 April 2026.
- Medium-sized enterprises will be subject to stricter eligibility conditions from fiscal years beginning on or after 1 April

2026, with full abolition scheduled from fiscal years beginning on or after 1 April 2027.

- For SMEs, there is no change in claiming this tax credit for now but this position will be reviewed by the Ministry of Finance in the future tax reform cycles.
- In addition, tax credits for training and education expenses are abolished for all corporations, reinforcing the broader trend toward narrowing the scope of incentive-based measures.

(4) Extension and tightening of open innovation incentives

- The current open innovation investment promotion tax incentives are extended for two years, with revised acquisition thresholds intended to focus the benefit on larger and more substantive investments.
- For acquisitions of shares in domestic corporations by non-SME investors, the minimum acquisition price requirement will increase from JPY100 million to JPY200 million.
- For outright acquisitions, the threshold will rise from JPY500 million to JPY700 million. Specific rules will continue to acquisitions carried out in stages.

(5) Other corporate tax measures

The FY2026 proposals also include a number of additional corporate tax measures, several of which signal heightened compliance and documentation expectations:

- **Depreciation of low-value assets** – The acquisition cost threshold for immediate depreciation of low-value assets will be increased from JPY300,000 to JPY400,000 for corporations with fewer than 400 regular employees.
- **Document retention for intragroup transactions** – Documentation requirements for specified intragroup transactions - such as transfers of intellectual property, cost recharges, and management fee payments - will be strengthened. Failure to retain required documentation may result in revocation of approval for the blue-form tax return system.
- **Carbon neutrality** – Carbon-neutral investment promotion tax incentives will be revised, including adjustments to carbon productivity benchmarks, reductions in special depreciation and tax credit rates, and a two-year extension of the applicable period.

2) International Taxation

(1) Revision to the income inclusion rule

- Japan continues to refine its domestic implementation of the OECD BEPS Pillar Two Framework, following its early adoption of the global minimum tax rules. For the purposes of calculating adjusted covered taxes, certain deferred tax assets and deferred tax liabilities recorded prior to the transition year will be excluded. This is subject to the fulfilment of conditions as prescribed, and will be effective for fiscal years beginning on or after 1 April 2026.
- This amendment is intended to address transitional distortions and administrative complexity arising from the interaction between accounting deferred taxes and minimum tax calculations. It also reflects a shift from implementation toward stabilisation and technical alignment.

(2) Clarification of Controlled Foreign Corporation (CFC) Rules

- Japan's CFC regime will be amended to clarify the treatment of foreign related companies that have entered into liquidation. The clarification is expected to reduce uncertainty in cross-border restructuring, exit, and wind-down scenarios, particularly in light of increased post-pandemic reorganisations.
- This change will be effective for fiscal years beginning on or after 1 April 2026.

(3) Conclusion

- The FY2026 tax reform proposals reflect Japan's continued move toward a more selective and strategically focused tax policy framework. Incentives for capital investment and research and development are increasingly aligned with national priorities such as productivity enhancement, economic security, and domestic value creation, while broad-based and outcome-neutral tax benefits are being scaled back.
- At the same time, the reforms signal heightened expectations around compliance, documentation, and operational substance, particularly in the areas of R&D certification, intragroup transactions, and international tax reporting. From an international tax perspective, Japan's refinements to the BEPS Pillar Two framework and CFC rules indicate a focus on improving technical certainty and administrative coherence rather than expanding the scope of international tax measures.
- Overall, the reforms point toward a more disciplined, investment-driven tax environment in which businesses will need to align investment strategies, operational structures, and compliance processes closely with Japan's evolving policy objectives.