

# Japan Tax Bulletin

## Updates on Japan Tax Reform Outline (FY2026)

### - Documents to be Retained for Intra-group Transactions -

#### March 2026

#### 1. Documents to be retained for intra-group transactions

##### 1) Purpose of the new requirement

The FY2026 Tax Reform Outline (published Dec 12, 2025) introduces tighter documentation rules for intra-group transactions, affecting companies of all sizes. This measure specifically targets arbitrary pricing or lack of documentation for intra-group services (including IP transfers and loans), such as shared cost facilities.

Under these arrangements, common functions like R&D, advertising, or IT are centralized in one entity, with costs allocated to group members based on usage or benefit-derived criteria. While the effective date remains undecided, this reform aims to address long-standing transfer pricing challenges.

Despite the prevalence of these transactions, verifying the amount of payments remains difficult because paperwork detailing the nature of the services or the specific basis for the payment amount is often inadequate or missing. Consequently, existing records are frequently insufficient to justify the arm's length nature of the payments.

The primary objective of this new requirement is to ensure that entities operating in Japan proactively prepare and preserve documents related to these shared service costs, enabling them to furnish such records without delay during tax examinations.

##### 2) What you need to prepare

The new requirement is for entities residing in Japan carrying out “Specified Transactions” (transactions that generate service costs, such as: the transfer or loan of industrial property rights like technology or copyrights; provision of R&D and advertising; provision of dedicated assets; and managerial services) with a “Related Party” (defined as per transfer pricing rules, i.e., 50% or more equity holdings or other substantial managerial/transactional relationships), to prepare and preserve “Transaction-Related Documents” (including order forms, contracts, invoices, receipts, quotations, and equivalent electronic records)<sup>1</sup>.

These documents must contain the necessary details to justify the amount of payment related to those service transactions. Most importantly, failure to comply may result in the **revocation of Blue Return filing status**, which affords taxpayers various

preferential tax treatments in Japan, such as the ability to carry forward net operating losses (NOLs).

#### 2. What You Need to Do in Practice: Navigating Challenges in Tax Examination

To comply with the new requirements and mitigate tax examination risks, multinational companies with operations in Japan must understand the difference between “global” standards and Japanese tax practice.

##### 1) Managing Extensive Information Requests

Japanese tax audits are known for their broad scope and the continuous addition of data requests. While examiners aim to grasp the overall scope of the corporate group, foreign headquarters often feel overwhelmed by the sheer volume of the request.

##### 2) Meeting Coherent Documentation Standards

Japanese authorities prioritize consistency and supporting evidence. Verbal explanations are rarely sufficient; examiners expect detailed vouchers or records to back every claim.

The challenge is that documents prepared at global headquarters often lack the granularity required in Japan. Low-quality or inconsistent data inevitably triggers additional, more intrusive requests.

##### 3) Practical Steps for Compliance

To safeguard your Blue Return status, the following actions are essential:

Identify all “Specified Transactions” and verify if current contracts or invoices clearly explain the service nature and calculation basis (e.g., cost allocation).

Obtain supplemental data, and if global records are insufficient, proactively prepare supplementary electronic records, such as time-logs or asset usage reports.

Enhance collaboration communication between the Japanese subsidiary and the overseas parent. It is vital to clarify the examiner’s intent before submitting data to ensure the response is high-quality and prevents misunderstandings.

<sup>1</sup> Source: Ministry of Finance, “Outline of the FY2026 Tax Reform”, p70-72, issued December 2025.  
[https://www.mof.go.jp/tax\\_policy/tax\\_reform/outline/fy2026/20251226taikou.pdf](https://www.mof.go.jp/tax_policy/tax_reform/outline/fy2026/20251226taikou.pdf)

Carry out cross-departmental review, and align accounting, legal, and business units to ensure internal pricing policies are consistently documented and reflected in actual transactions.

### 3. Grant Thornton's Insight

#### 1) Strategic Shifts in Enforcement

The FY2026 tax reform proposal suggests a potentially significant shift in enforcement by introducing the "failure to fulfill document retention obligations" as a formal ground for revoking a taxpayer's Blue Return status. If enacted, this change could weaken the historical legal shield of Corporate Tax Law Section 130, which has generally protected Blue Return filers from the application of Estimated Assessment (Section 131) based on external indicators.

Estimated Assessment allows authorities to calculate income based on broad factors (assets, production volume, employee count) when records are missing (as opposed to Presumptive Taxation in transfer pricing, which requires more detail to estimate the arm's length nature of foreign related party transactions). While this does not currently apply to Blue Return corporations, authorities could invoke it by first revoking the Blue Return status. This in theory grants authorities significantly more tactical flexibility, allowing them to move beyond strict transfer pricing comparability requirements and determine income based on various indirect evidence.

#### 2) How it may work in practice

While the risks highlighted above are technically possible, the practical application in the field is expected to be more measured:

- *Legislative Status:*

The 2026 Amendment Bill is currently under deliberation in the Diet, but it does not yet include the "Special provisions for document retention". We expect this to be addressed via amendments to ministerial/departmental ordinances regarding Blue Returns, rather than a change to the primary law.

- *The Threshold for Estimated Taxation:*

Section 131 (Estimated Taxation) is only applicable when a "necessity for estimation" is strictly proven. Historically, this has not been applied aggressively, as tax authorities face the risk of having the legality of such assessments challenged in court.

- *Administrative Due Process:*

The revocation of Blue Return status is governed by strict administrative guidelines. Examiners will most likely be instructed to repeatedly and persistently request taxpayers to comply before seeking revocation. Therefore, it may not be

applied indiscriminately or frequently, but rather as a tool of last resort for uncooperative taxpayers.

#### 4. Future Points to Monitor

The following details remain fluid and require further confirmation:

- *Effective Date:*

The specific timing for the implementation of these document retention rules.

- *Scope of Free Services:*

Whether services and licenses provided for free by a Japanese entity are covered under "Specified Transactions."

- *Domestic vs. Foreign Related Parties:*

The "Tax Reform Outline" states that related parties will be determined using the same criteria as transfer pricing rules. Crucially, there is currently no language explicitly limiting this to transactions with foreign related parties; therefore, domestic group transactions may also be in scope.

- *Official Commentary:*

Further clarity is expected once the legislative drafters at the ministry release their commentary in "The Compendium of Tax Reform" (zei-sei-kai-sei-no-su-be-te), which will reveal the official intent and purpose of the new system.