

# 2023 (Reiwa 5) Tax Reform

## Introduction of corporation tax for the global minimum tax

2023 March

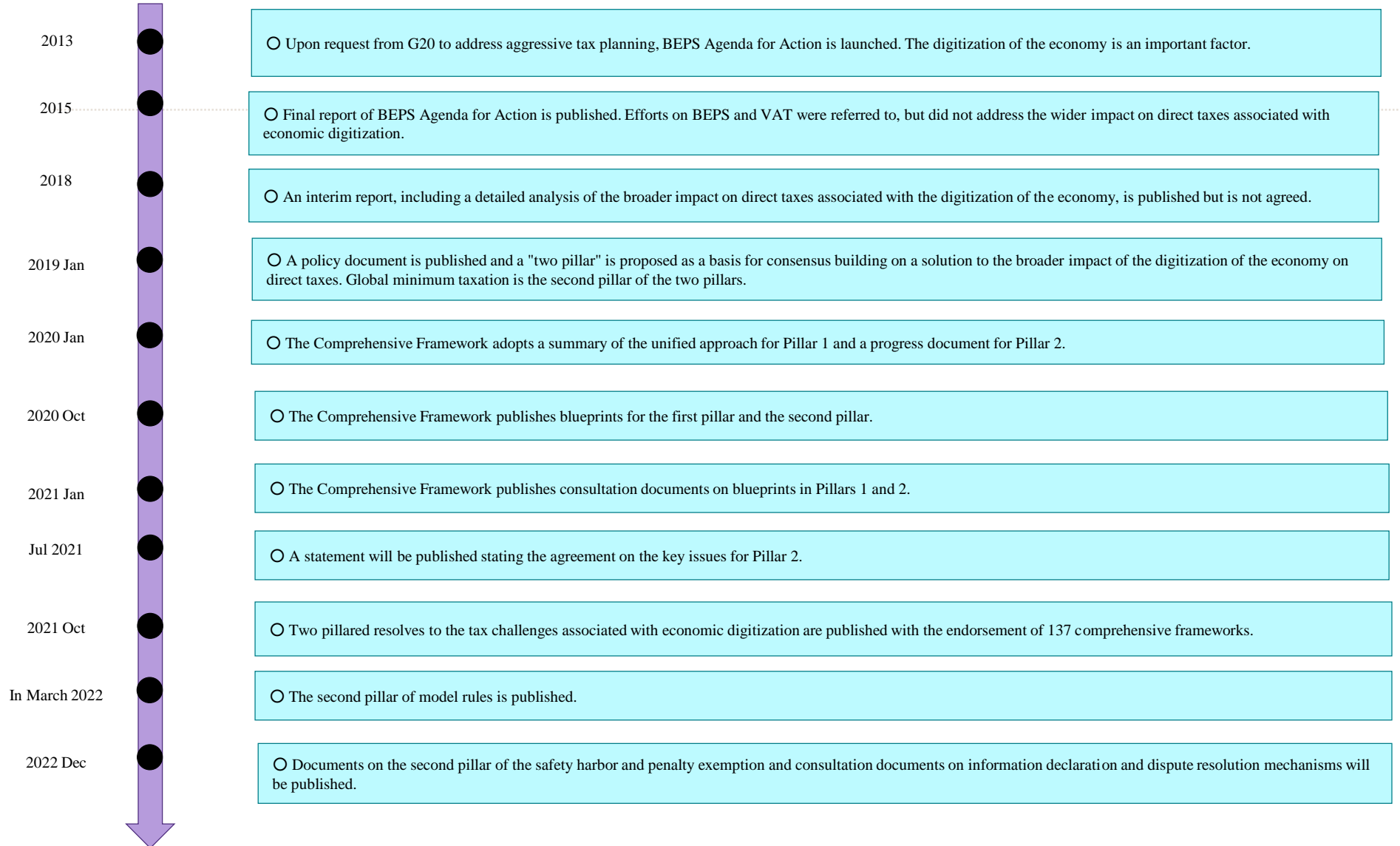
This document summarizes the major items included in the Outline of the Tax Reform for Fiscal 2023 issued by the ruling parties on December 16, 2022, and in the consultation documents published by the Organisation for Economic Co-operation and Development (OECD) on December 20, 2022.

The Outline of the Tax Reform is merely a description of the policy and outline of the tax system revisions for the following fiscal year and beyond. The contents of the final tax system revisions will be decided upon submission of the Bill for the Revision of the Tax System and deliberation by the Diet. In addition, the consultation documents published by OECD will be finalized in the future after receiving the relevant public comments. Please note that the contents of this document may change as a result. Please note.



## **1. Road Towards Introduction of Global Minimum Tax**

# 1.Road Towards Introduction of Global Minimum Tax

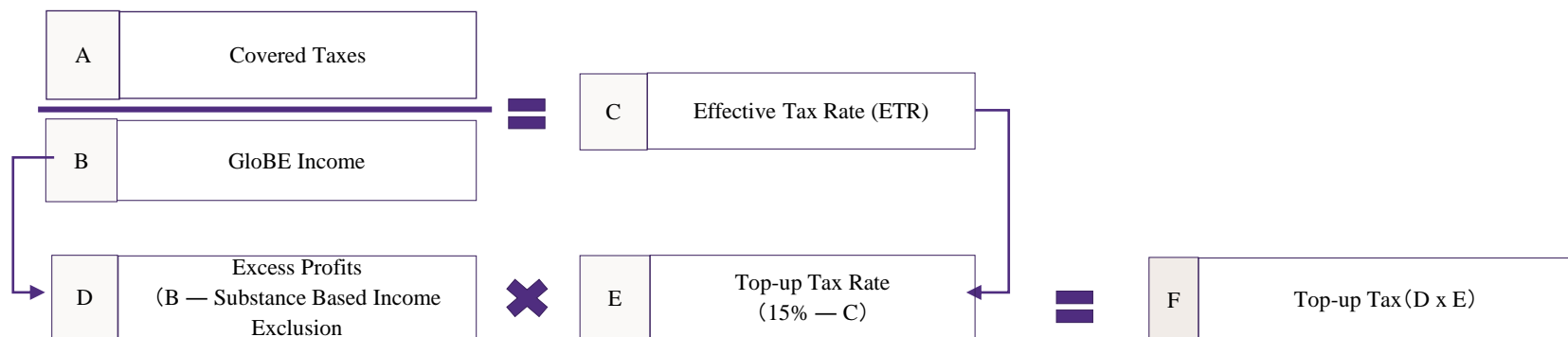




## **2. Creation of the corporation Tax for the global minimum tax in Japan**

# Creation of a corporate tax for the global minimum tax for each applicable fiscal year (1/3)

- ✓ Domestic corporations belonging to the group of specified multinational corporations are subject to "corporate tax on international minimum taxable amount for each target fiscal year (provisional name)" under the income aggregation rule with respect to the international minimum taxable amount.
- **Summary of income-totalization rule (Income Inclusion Rule:IIR) system**  
A system whereby the difference between the effective tax rate and the minimum tax rate is added in the country in which the parent company is located until the tax burden of a subsidiary, etc. located in a foreign country with an effective tax rate of less than 15% reaches the agreed minimum tax rate of 15%.
- **Effective tax rate(①/②)**
  - ① Molecular: Target tax amount ± adjustment items (equivalent to tax effects, etc.)
  - ② Denominator: Net income (loss) of accounting ± adjustment items (taxes, dividends, gains/losses on transfer of shares, etc.)  
※ The Revised Tax System Outline does not refer to the specific methods for calculating the effective tax rate, but it is thought to be based on OECD model-rule calculation method.



# Creation of a corporate tax for the global minimum tax for each applicable fiscal year (2/3)

- **Target corporations**

Domestic corporations belonging to a group of specific multinational corporations that meet the following requirements are eligible.

- ① Total revenues in the consolidated financial statements for two or more of the four fiscal years immediately preceding the relevant fiscal year shall equal or exceed 750 million euros (approximately 100 billion yen in Japanese yen).
- ② At least one legal entity or a corporate group where a permanent establishment is located in a jurisdiction other than the country in which the final parent company is located.

- **Taxation method**

International minimum tax (tax base) x 90.7/100 (the remaining 9.3/100 is local corporate tax) \*Specific calculation methods are described below.

- **Due Date for Tax Return and Payment**

The tax return and payment shall be filed within one year and three months (or, in certain cases, one year and six months) from the day following the last day of each relevant fiscal year.

- **Business Year of Commencement of Application**

The application shall be made from the applicable fiscal year commencing on or after April 1, 2024.

- **Exemption from declaration**

Exemption from declaration if there is no international minimum tax (tax base). In addition, in addition to implementing the transitional exemption criteria (\* to be described later) that utilize the entries in certain country-specific reports (CbCR), the prescribed measures will be taken.

- **Information reporting system**

Subject companies (including corporations exempted from declaration) shall provide the matters to be reported on by e-Tax by the due date for declaration and payment (to be conducted in English). Where there are two or more domestic corporations subject to the provision, it may be provided by one of the representative corporations (with penalties for non-provision and false reports). Similar to the provision of country-specific reporting matters (CbCR), there are exceptions such as exemption from the obligation to provide domestic corporations, which are obliged to provide, when the tax authorities of the country where the final parent company is located are deemed to provide the above-mentioned reporting matters, etc. to Japan. ※Details of information filing will be described later.

# Creation of a corporate tax for the global minimum tax for each applicable fiscal year (3/3)

Method of calculation of international minimum taxation					
Step 1 Calculation of Group Net Income by Country	Country-specific calculations Total income	—	Country-specific calculations Total amount of loss	=	Group net income by country
Step 2 Calculation of Adjusted Taxes by Country	Tax subject to net profit and loss	+	Tax effect accounting adjustments	+	Certain adjustments = Country-adjusted Amount of subject tax
Step 3 Calculation of the effective tax rate by country	Country-adjusted Amount of subject tax =		Effective tax rate by country Group net income by country		
Step 4 Calculation of International Minimum Tax by Country	Excess profit ( Group net income by country — Real income deduction )	×			
	Additional tax rate ( Base rate (15%) — Effective tax rate by country )	=	International by Country Minimum Tax Amount		
Step 5 Calculation of the Group International Minimum Tax	International by Country Minimum Tax Amount	+	International recalculation by country Minimum Tax Amount	+	Undistributed income Minimum taxable amount — Domestic and international Minimum taxable amount = Group International Minimum Tax
Step 6. Calculation of international minimum taxable amount by company, etc.	Group international Minimum taxable amount	×	Individual calculation Amount of income Country-specific calculations Total income	=	International Minimum Tax by Company, etc.
Step 7 Calculation of International Minimum Tax	International by company, etc. Minimum taxable amount	×	Ownership ratio	=	International minimum tax (*1)

※1 From this, the minimum international taxation attributable to the intermediate parent company or partially owned parent company, which is located at a lower level than the parent company, is deducted.



### **3. Outline of the Transitional Safe Harbor Rules and Information Return based on the Country-by-Country Report (CbCR)**



# Transitional Safe Harbor Rules Based on CbCR

- **Period covered (= transition period): All fiscal years beginning on or before December 31, 2026 and ending on or before June 30, 2028**

(Up to December 2026 in the case of corporations with fiscal year-ends in December and up to March 2027 in the case of corporations with fiscal year-ends in March)

- **Three cases of exemption from international minimum taxation**

- ① Negligible Criteria (De Minimis Test): jurisdictions with sales of less than 10 million euros and pre-tax income of less than 1 million euros
- ② Effective tax rate testing (ETR Test): jurisdictions with effective tax rates of 15% or higher
- ③ Routine Income Testing (Routine Profits Test): jurisdictions where group net income by country is less than or equal to real income deduction (SBIE)

- **Provisional Safe Harbor Rules**

## ① Minimal testing (De Minimis Test)

- ✓ Perform minimal testing based on qualified CbCR (CbCR implement based on qualified financial statements).

## ② Simplified effective tax rate testing (Simplified ETR Test)

- ✓ Exempted when the simplified effective tax rate is less than or equal to the transition tax rate, which was 15% through 2024, 16% in 2025 and 17% in 2026
- ✓ Simplified effective tax rate = Simplified adjusted pre-tax income by country/income reported in qualifying CbCR
- ✓ Simply calculated adjusted amount of taxes by country = income tax expense recorded in qualifying financial statements-(income taxes other than subject taxes + income taxes on uncertain tax positions)

## ③ Routine profit test (Routine Profits Test)

- ✓ Exemption when national group net income calculated on the basis of qualified CbCR falls below SBIE calculated under the rule of international minimum taxation

- **Qualified Financial Statements**

- ✓ Separate financial statements used for the preparation of consolidated financial statements of the ultimate parent company
- ✓ Non-consolidated financial statements prepared in accordance with accepted or authoritative accounting standards (if they are reliable)
- ✓ Financial Statements Used for Preparation of CbCR (if the constituent entities are not included in the consolidated financial statements)

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# Proposed Information Return

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● **The information declaration model (currently open to pubcome) includes the following items:**

**1. General Information**

1. Information on the MNE Group, reporting years, reporting companies, and accounting standards

**2. Firm's structure**

1. Information about the ultimate parent company, members of the constituent companies and JV groups, and excluded corporations
2. Information on changes in corporate structures during the period

**3. Calculation of effective tax rate and additional tax amount**

1. Jurisdiction
2. Information on the application of exemptions by jurisdiction (Safe Harbor Rules and Immunity)
3. Calculations by jurisdiction (net income, adjusted taxes, effective tax rate, SBIE, additional taxes, domestic minimum tax, deferred taxes, recalculation mechanisms, transitional provisions, etc.)
4. Calculation by corporate structure (e.g., net income, adjusted taxes, selected options, exclusion of international vessel income, application of other accounting standards)
5. Information on exemption provisions at the initial stage of international activities

**4. Allocation and attribution of international minimum taxation**

1. Information on the application of the Combined Low Tax Countries and Income Rule (IIR) or the Minor Tax Payment Rule (UTPR)
2. Tax attribution in the light taxation payment rule (UTPR)



#### **4. Points to note and countermeasures in the application of global minimum tax**

# Points to note in applying global minimum tax

- 1. Global minimum taxation is calculated on the basis of financial statements in accordance with accounting standards, rather than on a tax basis.**
  1. Are the consolidated financial statements of the ultimate parent prepared in accordance with acceptable accounting standards (IFRS or JGAAP)?
  2. Is the non-consolidated financial statements of subsidiaries used for the consolidated financial statements available in a timely manner?
  3. Are unconsolidated subsidiaries' separate financial statements prepared in accordance with acceptable accounting standards?
- 2. The tax return is filed after one year and three months (or one year and six months), but accrued income taxes must be calculated within three months of the settlement of accounts.**
  1. Is information available in a timely fashion to determine the applicability of the Safe Harbor rule?
  2. If the Safe Harbor rule is not applicable, is it possible to calculate estimates under certain assumptions (policies)?
- 3. Even if the global minimum tax amount is zero, if consolidated sales exceed 750 million euros (about 100 billion yen), an information return must be prepared and submitted.**
  1. How do you collect information from overseas subsidiaries in order to prepare information returns? (For example, can you collect that information effectively by creating a reporting package and issuing appropriate instructions?)
  2. How will the accuracy of information provided by overseas subsidiaries be verified?
  3. Have you considered introducing a system to reduce the likelihood of errors in the information gathering process?
- 4. In the event of a global minimum tax, much time and effort must be expended to prepare a corporate tax return for the international minimum tax.**
  1. Can't we take measures (tax planning) in advance so that there is no global minimum tax amount?
  2. Are there resources (personnel and systems) to prepare tax returns in case of a global minimum tax?
  3. Have you considered the use of outside experts?



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