2025 Japan Tax Reform Proposals: Financial Services Industry & Real Estate Market

January 2025

In brief

On December 27, 2024, the Japanese government approved the 2025 Tax Reform Proposals ("2025 Tax Reform Proposals"), commonly known as Taiko. Draft legislation implementing these proposals will be presented to the Japanese parliament (Diet) in early 2025.

This Newsletter provides a brief and immediate summary highlighting significant developments of interest to Japan's financial services industry and real estate market.

For the text of the Taiko (in Japanese), refer to the following link:
https://www.mof.go.jp/tax_policy/tax_reform/outline/fy2025/20241227taikou.pdf

A Japanese language version of this Financial Services Tax News was separately released and may be accessed through the following link:
https://www.pwc.com/jp/ja/taxnews-financial-services/assets/fs-20241227-jp.pdf

A broader summary of the 2025 Tax Reform Proposals is published separately in our Japan Tax Update. A Japanese language version of this news item is also released separately. These may be accessed through the following link:
https://www.pwc.com/jp/ja/knowledge/news/tax-jtu/20241227.html

In detail

1. Revisions to the CFC rules

The following modifications will be made to the special provisions for the taxation of income relating to foreign affiliates of domestic corporations under the Japanese anti-tax haven rules:

(1) Inclusion of taxable income will be made in the fiscal year of domestic corporations that includes the day four months (currently two months) after the end of the fiscal year of the controlled foreign corporations ("CFC"s).

(2) The following documents will be excluded from the scope of documents to be attached with tax returns or stored in the hands of the domestic corporations:

① Statements of changes in shareholders' equity and statements of appropriation of retained earnings.
② Detailed statements of account items related to balance sheets and profit and loss statements.

These amendments are effective for domestic corporations for fiscal years beginning on or after April 1, 2025 (limited to fiscal years of CFCs ending on or after February 1, 2025). There will however be transitional measures that domestic corporations could apply the amendment (1) above for fiscal years beginning on or before April 1, 2025 (limited to fiscal years of CFCs ending from December 1, 2024 to January 31, 2025), resulting in the inclusion of taxable income in the fiscal years beginning on or after April 1, 2025 that includes the day four months after the end of the fiscal year of the CFC(s).

2. Amendments according to changes in lease accounting standards

On September 13, 2024, the Japanese Accounting Standard for Leases ("New Lease Accounting Standard") was announced by the Accounting Standards Board of Japan and will be applied from fiscal years beginning on or after April 1, 2027 (with early application permitted from the fiscal years beginning on or after April 1, 2025). Under the New Lease Accounting Standard, lessees are required to recognize right-of-use assets and lease liabilities for operating leases.

Prior to the issue of New Lease Accounting Standard, as there were no specific provisions under Japanese tax law, operating leases were treated as rental transactions for corporate tax purposes in accordance with Japanese generally accepted accounting principles. Following the changes in accounting standards, specific provisions (rental treatment) will be established for tax purposes as follows:

(1) When a corporation leases assets under an operating lease transaction, the liability determined under the lease contract will be included in deductible expenses for that fiscal year.

(2) Under the current law, when a corporation conducts finance lease transactions and recognize profits and expenses for accounting purposes using the instalment basis method, those profits and expenses shall be included in the taxable calculation for each fiscal year. The 2025 Tax Reform Proposals abolishes these special provisions, albeit there will be some transitional measures.

(3) For consumption tax purposes, under the current law, when a corporation conducts finance lease transactions and recognize profits for accounting purposes using the instalment basis method, those taxable sales shall be recognized for each fiscal year. The special provisions for consumption tax purposes will be abolished, though there will be some transitional measures.

(4) For the depreciation of lease assets of finance lease transactions concluded on or after April 1, 2027, which do not transfer ownership at the end of the lease period, the guaranteed residual value included in the acquisition cost will not be deducted in the calculation of the straight-line method over the lease period, and thus the asset can be depreciated to JPY1 at the end of the lease period.

(5) For land or buildings under an operating lease transaction, lease payments will be treated as rental expenses for the purpose of calculating the value-added component of enterprise tax.

3. Amendments of beneficiary certificates issuance trusts

Subject to the revision of the accounting rule for beneficiary certificates issuance trusts, the calculation of capital gain or loss of beneficiary rights of a specific beneficiary certificates issuance trust ("owned beneficiary rights") will be amended.

When a corporation receives a principal repayment for owned beneficiary rights, in the calculation of the capital gain or loss of the owned beneficiary rights, the transfer cost will be calculated by multiplying the book value of the owned beneficiary rights by the principal reduction ratio.

The amendments above will apply to principal repayments made on or after April 1, 2026.

4. Revisions of dividend deductibility test for trustees of specific purpose trust

Subject to the revision of related laws, the 2025 Tax Reform Proposal will revise the terms of the dividend deductibility test for trustee corporations of specific purpose trusts (*Tokutei Mokuteki Shintaku)*.

Under the dividend deductibility test, distributions must exceed 90% of distributable profits. When distributions exceed the amounts obtained by deducting the principal amount of trust from net asset value at the end of fiscal year of trustee corporations, the excess portion should be added to distributable amounts for the purpose of assessing the dividend deductibility test. Following to the 2025 Tax Reform Proposal, the excess portion will be calculated by deducting the total amount of principal amount and valuation and conversion differences, etc. from net asset value.

5. Revisions to trusts subject to corporation tax

A trustee of a trust that has no beneficiaries is subject to corporation tax. When a trust subject to corporation tax ceases to qualify as such due to the presence of beneficiaries, the trust's assets and debts are deemed to have been transferred to the beneficiaries at their book value.

Following the 2025 Tax Reform Proposal, if a trust subject to corporation tax meets certain conditions ("Specified Corporate Tax Trust"), "Specified Shares" in the trust's assets are deemed to have been acquired by the beneficiaries at their fair market value for the calculation of taxable income of the beneficiaries.

Notes

1. Specified Corporate Tax Trust refers to a trust subject to corporation tax without beneficiaries, where the "Issuing Corporation, etc." of the Specified Shares included in the trust's assets is the trustor, and directors of the issuing corporation are to be designated as beneficiaries of the trust, considering their years of service etc.

2. Specified Shares refer to shares other than certain restricted stocks.

3. Issuing Corporation, etc. refers to the corporation issuing Specified Shares, the directors etc. of issuing corporation, or individuals and corporations that have a special relationship with these directors, etc.

6. Extension measures to reduce transfer taxes for J-REITs and TMKs

Tax reduction measures for registration tax on the transfer of ownership of specific real estate to asset securitization vehicles (J-REITs and TMKs) will be extended by a further two (2) years (until March 31, 2027). In addition, the expiration date of the special measures for concessionary adjustments to the tax base for real estate acquisition tax purposes for certain properties acquired by J-REITs and TMKs will also be extended by two (2) years (until March 31, 2027).

Let's talk

For a deeper discussion of how this issue might affect your business, please contact:

PwC Tax Japan
Otemachi One Tower, 1-2-1 Otemachi, Chiyoda-ku, Tokyo 100-0004, Japan
Email：jp_tax_pr-mbx@pwc.com
www.pwc.com/jp/e/tax

Financial Services Tax Group

Kenji Nakamura Partner	Stuart Porter Partner	Nobuyuki Saiki Partner
Satoshi Matsunaga Partner	Akiko Hakoda Partner	Takashi Nonaka Partner
Nobuyoshi Hiruma Partner	Seigo Sugiyama Partner	Kotaro Fujino Partner

Kazunori Aoki
Partner

Rob Kissner
Partner

Shinri Kobayashi
Partner

Mayumi Nishikawa
Partner

Akemi Kito
Managing Director

Hiroshi Takagi
Managing Director

Kyoko Imamura
Director

Mikio Yasutake
Director

Nancy Kong
Director

Manabu Horiuchi
Director

Kunio Yoshida
Director

Akiko Fukutani
Director

Katsunobu Kitamura
Director

Junpei Noda
Director

Motokazu Takasaki
Director

Tax News

View all news

Subscribe to the PwC Tax Japan Newsletter

Subscribe

E-learning

PwC Tax Japan launched a new e-learning program called Tax Academy in October 2022, to support those wishing to develop their skills in the international tax field. For tax professionals outside Japan, the ‘Introduction to Japanese taxes’ series within Tax Academy provides a basic outline of the Japanese tax system, including corporate tax and consumption tax, and covers key points of international tax practice in English.

Please click here for details and to apply:

Click here to apply