

# Global Minimum Tax (Pillar Two): Compliance Requirements for Multinational Enterprises Operating in Japan

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## In brief

Multinational enterprise groups that operate in Japan ("Inbound MNE groups") must comply with Japan's global minimum tax ("Pillar Two") rules from fiscal years beginning on or after 1 April 2024, which includes the December 2025 fiscal year end for Inbound MNE groups with a calendar year end. This newsletter outlines the Pillar Two compliance requirements for such Inbound MNE groups.

The Pillar Two requirements described in this newsletter cover constituent entities located in Japan ("Japanese CEs"), including Japanese subsidiaries and Japanese branches of foreign corporations, which are directly or indirectly 100% owned by foreign corporations within an Inbound MNE group. Different requirements may apply to Japanese CEs that are partially owned by non-group members of an Inbound MNE group, and separate analysis will be required in such cases.

Currently, there is no indication of any change in timing of implementation or other delay of the new Pillar Two laws by the Japanese government.

## In detail

The earliest implementations of Pillar Two rules, largely in Europe, apply to fiscal years beginning on or after 1 January 2024. In Japan, the first Pillar Two legislation was introduced by the 2023 Tax Reform, which enacted the Income Inclusion Rule ("IIR") in line with the OECD's Pillar Two Global Anti-Base Erosion rules ("GloBE Rules"), effective for fiscal years beginning on or after 1 April 2024.

A Qualified Domestic Minimum Top-up Tax ("QDMTT") and an Undertaxed Profits Rule ("UTPR") were introduced in the 2025 Tax Reform Proposals and are expected to be effective for fiscal years beginning on or after 1 April 2026.

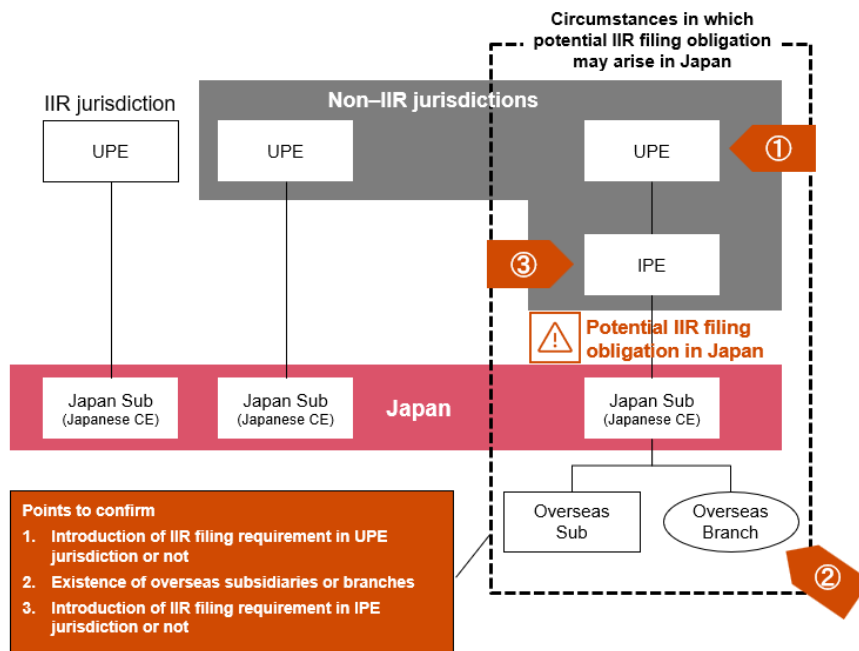
### 1. IIR Filing in Japan

Under the GloBE Rules, the IIR adopts a top-down approach. This means that the determination of which constituent entity is responsible for IIR filing starts from the highest point in the ownership chain, i.e., the ultimate parent entity ("UPE") and works down. The same top-down approach is adopted by the Japanese tax law. Accordingly, if the UPE of an Inbound MNE group is required to complete an IIR filing under the laws of the jurisdiction in which that UPE is located, no IIR filing will be required in Japan.

If an IIR filing is not required in the jurisdiction of the UPE, it is necessary to move down the ownership chain. To the extent an IIR filing is required in the jurisdiction of any foreign intermediate parent entity ("IPE") between the UPE and a Japanese CE, no IIR filing is required in Japan.

Caution is required, however, if neither the jurisdiction of the UPE nor of any foreign IPE have an IIR filing requirement. Even in this case, to the extent the Japanese CE does not wholly or partially own any foreign subsidiaries or branches, the IIR filing requirement under the Japanese tax law will not apply to that Japanese CE. Conversely, if the Japanese CE does wholly or partially own foreign subsidiaries or branches, and if a top-up tax under the Japanese IIR arises in a fiscal year for the jurisdictions where such foreign subsidiaries or branches are located, an IIR filing obligation will arise in Japan. The deadline for this filing, and for payment of the top-up tax is 15 months from the day following the end of the relevant fiscal year (18 months as a transitional measure may apply to the first fiscal year in certain cases).

An illustrative example of a situation in which an IIR filing may be required by the Japanese CE of an Inbound MNE is provided in the diagram below (assuming 100% ownership in all cases).



## 2. GloBE Information Return Filing in Japan

Regardless of whether there is an IIR filing obligation in Japan, all Japanese CEs that are members of an Inbound MNE group have or are likely to have an obligation to file a return equivalent to the OECD's GloBE Information Return ("GIR"). (Currently only Japanese domestic corporations are covered by this rule, however, Japanese branches are also expected to be covered with the introduction of the UTPR in the FY2025 Tax Reform Proposals.) This *Report on Specific Multinational Enterprise Groups* ("Japan GIR") is required to be filed within 15 months (18 months for the initial year) from the day following the end of each relevant fiscal year. If there are multiple Japanese CEs of an Inbound MNE group, any one of them may file the Japan GIR as a representative on behalf of the others.

Where a UPE or IPE of an Inbound MNE group is required to file a GIR in its jurisdiction, and a Qualifying Competent Authority Agreement covering the exchange of information is in place between that jurisdiction and Japan, the filing of the Japan GIR will not be required. Instead, a *Notification of Ultimate Parent Entity of a Specific Multinational Enterprise Group* ("P2 NUPE") will be required to be filed by any Japanese CE. In this case too, if there are multiple Japanese CEs of an Inbound MNE group, any one of them may file the P2 NUPE as a representative on behalf of the others. The due date is the same as that for the Japan GIR.

For clarity, note that the filing of a *Notification of Ultimate Parent Entity of a Specific Multinational Enterprise Group* is already mandatory under Japan's Country-by-Country Reporting and Master File legislation. However, the newly introduced P2 NUPE is a different notification, and the format and filing due dates are also different.

Consistent with the GIR under the GloBE Model Rules, the Japan GIR requires a significant amount of detailed information be collected and submitted, including information about the Inbound MNE group, jurisdictional safe harbours and exclusions, and GloBE computations. Practically therefore, it is likely to be the UPE that collects the necessary information and prepares the GIR. It will be difficult for a Japanese CE to complete the filing by itself, independent of any input from other members of the Inbound MNE group.

### 3. QDMTT and UTPR Filing in Japan

A QDMTT and UTPR were both introduced by the 2025 Tax Reform Proposals. Assuming those proposals are enacted by the Japanese government as scheduled in March 2025, Japanese CEs with tax payable under either the QDMTT or UTPR will also have a QDMTT or UTPR filing obligation, respectively. A new process for Japanese CEs to provide QDMTT information will also be established.

Further information about these new measures will be provided as the Japanese government releases the details.

### 4. Summary of Pillar Two Filing Requirements in Japan

The table below provides a summary of the Pillar Two filing obligations for a Japanese CE of an Inbound MNE group.

Japan	Legislation status	Filing due date	Filing obligation
IIR	Effective for fiscal years beginning on or after April 1, 2024	Within 15 months from the respective fiscal year end (18 months for the initial year)	International Minimum Taxable Amount >0
GIR or P2 NUPE	Same as above	Same as above	Japanese CE that is a domestic corporation (*)
QDMTT	2025 Tax Reform Proposals		
UTPR	(Proposed effective date for fiscal years beginning on or after April 1, 2026)		

(\*) Japanese branches of Inbound MNE groups are also expected to be covered under the FY2025 Tax Reform Proposals.

## The takeaway

With the introduction of Pillar Two, Inbound MNE groups face significant additional tax compliance challenges in Japan and elsewhere, that are beyond the scope of a single Japanese CE to manage. For most Inbound MNE groups, it is assumed that the UPE will lead Pillar Two data gathering and will prepare any IIR or GIR filings required. However, as coordination with group companies globally will be required in all cases, we recommend all subsidiaries and branches of Inbound MNE groups that are caught by the Pillar Two requirements proactively check the status of Pillar Two preparation within their group.

We are ready to provide support in understanding the Japanese Pillar Two requirements, as well as collating, assembling and reviewing any Japanese information that may be required to meet those compliance obligations.

## 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](mailto:jp_tax_pr-mbx@pwc.com)

[www.pwc.com/jp/e/tax](http://www.pwc.com/jp/e/tax)

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Kazuhito Asakawa  
Partner

Ryann Thomas  
Partner

Shintaro Yamaguchi  
Partner

Naoya Uchiyama  
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