# 7 Learn about "International Taxation"

## 1 International Taxation Systems

The international taxation system is a mechanism to adjust tax procedures for corporations and individuals which engage in cross-border economic activities. The coordination and clarification of international tax rules are important for economic activities and governments. Therefore, designing Japan's international taxation system reflects international discussions.

A recent major international effort is the **BEPS (Base Erosion and Profit Shifting)**Project. In order to achieve a level playing field, the Project aims to prevent multinational enterprises from engaging in BEPS. The OECD has been taking the lead of the Project collaborating with countries including Japan. The major nations endorsed the package of measures developed under the Project in October 2015, and now the Project has been increasingly inclusive with more than 140 jurisdictions participating.

Our recent and major initiatives include the introduction of "Global Minimum Taxation," Pillar 2 of the two-pillar solution, which was agreed in the OECD/G20 "Inclusive Framework on BEPS" in October 2021. With regard to Pillar 1, "Rules on Allocation of New Taxing Rights to Market Jurisdictions", discussion is under way in order to formulate the Multilateral Convention.

#### Summary of the International Agreement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalization of the Economy (October 2021) Pillar One (Rules on Allocation of New Taxing Rights to Market Jurisdictions) Pillar Two (Global Minimum Tax) In-scope companies are large and highly-profitable MNEs (multinational A system to secure a minimum tax rate of at least 15% per country of enterprises) with global turnover above 20 billion euros (approximately 2.9 trillion income, excluding certain exemptions, for MNEs with total annual revenue yen) and profitability (profit margin) above 10% (approx. 100 companies across of at least 750 million euros (approximately 110 billion yen). the world could be in scope.) . Amount A, equivalent to 25% of an MNE's profit in excess of 10% of the MNE's revenue, is allocated to market jurisdictions. **IIR:Income Inclusion Rule** Entire Revenue of an MNE Market Jurisdictions << Jurisdiction B << Jurisdiction A (ordinary tax rate) >> (low-tax jurisdiction) >> **Residual Profit** Amount A Taxation until Subsidiar subsidiary's effective tax rate reaches minimum **Routine Profit** Related Allocate to market tax rate (15%) jurisdictions in accordance with MNEs the same revenues regardless of Expenses, etc. whether an MNE's physical presence exists Residual Profit (excess of Routine Profit) 25% of Residual Profit

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Japan has concluded tax conventions with other jurisdictions to eliminate double taxation and promote investment and economic exchanges with those jurisdictions. Tax conventions provide the measures against international tax avoidance and the avoidance of tax collection through a framework for cooperation between tax authorities including exchange of information on taxpayers and mutual assistance in the collection of unpaid taxes.

Japan holds 84 taxation treaties with 153 countries and regions as of June 1, 2023.

### **Japan's Tax Convention Network**

(84 conventions, etc. applicable to 153 jurisdictions; as of June 1, 2023)

Taiikistan

#### **Japan's Tax Convention Network** Ministry of Finance Japan (84 conventions, etc. applicable to 153 jurisdictions; as of June 1, 2023) (see notes 1 and 2) Russia and New Independent States (12) Austria Netherlands Turkmenistan Armenia Belgium Ukraine Azerbaijan Kazakhstan Kyrgyz Russia

Norway Poland Bulgaria Croatia Czech Republic Portugal Romania Denmark Serbia Finland Slovenia Hungary Switzerland Iceland United Kingdom Ireland Guernsey (\*) Isle of Man (\*) Italy Latvia Jersey (\*) Lithuania Liechtenstein ( Luxemburg ntion with Japan) Albania Greenland Andorra Malta Bosnia and He Monaco Cyprus Faroe Islands Montenegro North Macedonia

Gibraltar San Marino Greece Africa (22)

South Africa Egypt Morocco Zambia (No bilateral convention with Japan) Benin Mauritania Botswana Mauritius Burkina Faso Namibia Cabo Verde Nigeria Cameroon Rwanda Senegal Ghana Seychelles Liberia Uganda

Tax information exchange agreements Convention on Mutual Administrative Assistance in Tax Matters (No bilateral convention) Private-sector tax arrangement with Taiwan Middle East (10) Asia and Pacific (28) Saudi Arabia Australia Malaysia Singapore Vietnam Israel Kuwait Oman Bangladesh Brunei Hong Kong India Korea Sri Lanka Macao (\*) Samoa (\*) Turkey New Zealand Pakistan Philippines Qatar China Indonesia (No bilateral convention with Japan) (No bilateral convention with Japan . Bahrain <u>Lebanon</u> Cook Islands Marshall Islands Nauru Niue Maldives <u>Jordan</u> Mongolia New Caledonia

America and the Caribbean (35) Brazil Canada Chile Ecuador Mexico Peru United States Uruguay Bahamas (\*) Bermuda (\*) British Virgin Islands (\*) Cayman Islands (\*) Panama (\*) (No bilateral convention with Japan) Anguilla Antigua and Barbuda Aruba Argentina <u>Barbados</u> Belize Costa Rica Curação Dominica Dominican Republic El Salvador Grenada Guatemala Montserrat Paraguay Saint Christopher and Nevis Saint Lucia Sint Maarten

Saint Vincent and the Grenadines

(Note 1) Since the Convention on Mutual Administrative Assistance in Tax Matters is a multilateral convention, and the tax conventions with the former Soviet Union and with the former Czechoslovakia were succeeded by more than one jurisdiction, the numbers of jurisdictions do not correspond to those of tax conventions, etc.

- (Note 2) The breakdown of the numbers of conventions, etc. and jurisdictions is as follows:

  Tax convention (a convention principally for the elimination of double taxation and the prevention of tax evasion and avoidance); 71 conventions applicable to 79 jurisdictions
  - Tax information exchange agreement (a convention principally for the exchange of information regarding tax matters); 11 conventions applicable to 11 jurisdictions (These jurisdictions
  - Convention on Mutual Administrative Assistance in Tax Matters: Entered into force by 122 jurisdictions (not including Japan) (These jurisdictions are underlined above) and applicable to 140 jurisdictions due to the extension of the application of the Convention (Jurisdictions to which the Convention is extended are underlined above with dotted lines). 62 jurisdictions out of 140 do not have a bilateral convention with Japan.
  - Private-sector tax arrangement with Taiwan; 1 jurisdiction

(Note 3) As for Taiwan, a framework equivalent to a tax convention is established in combination of (1) a private-sector tax arrangement between the Interchange Association (Japan) and the Association of East Asian Relations (Taiwan) and (2) Japanese domestic legislation to implement the provisions of the private-sector tax arrangement in Japan. (The two associations are now named Japan-Taiwan Exchange Association (Japan) and Taiwan-Japan Relations Association (Taiwan), respectively.)