

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.

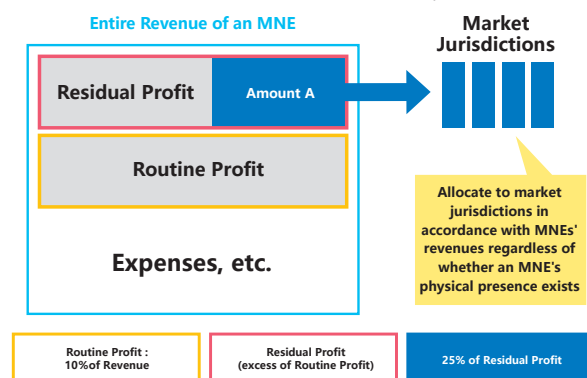
A recent major international effort is the **BEPS (Base Erosion and Profit Shifting)** Project. In order to achieve a level playing field, the Project aims to prevent multinational enterprises from engaging in BEPS. The OECD has been taking the lead of the Project collaborating with countries including 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)

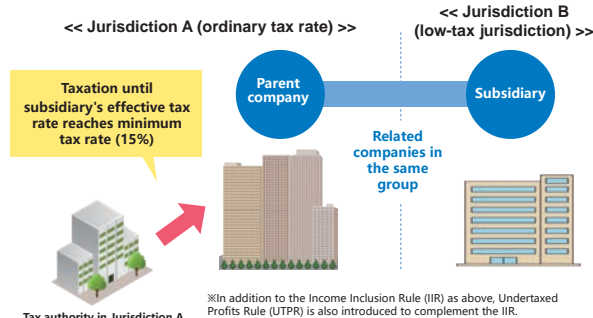
In-scope companies are large and highly-profitable MNEs (multinational enterprises) with global turnover above 20 billion euros (approximately 2.9 trillion yen) and profitability (profit margin) above 10% (approx. 100 companies across the world could be in scope.) . Amount A, equivalent to 25% of an MNE's profit in excess of 10% of the MNE's revenue, is allocated to market jurisdictions.



Pillar Two (Global Minimum Tax)

A system to secure a minimum tax rate of at least 15% per country of income, excluding certain exemptions, for MNEs with total annual revenue of at least 750 million euros (approximately 110 billion yen).

IIR: Income Inclusion Rule



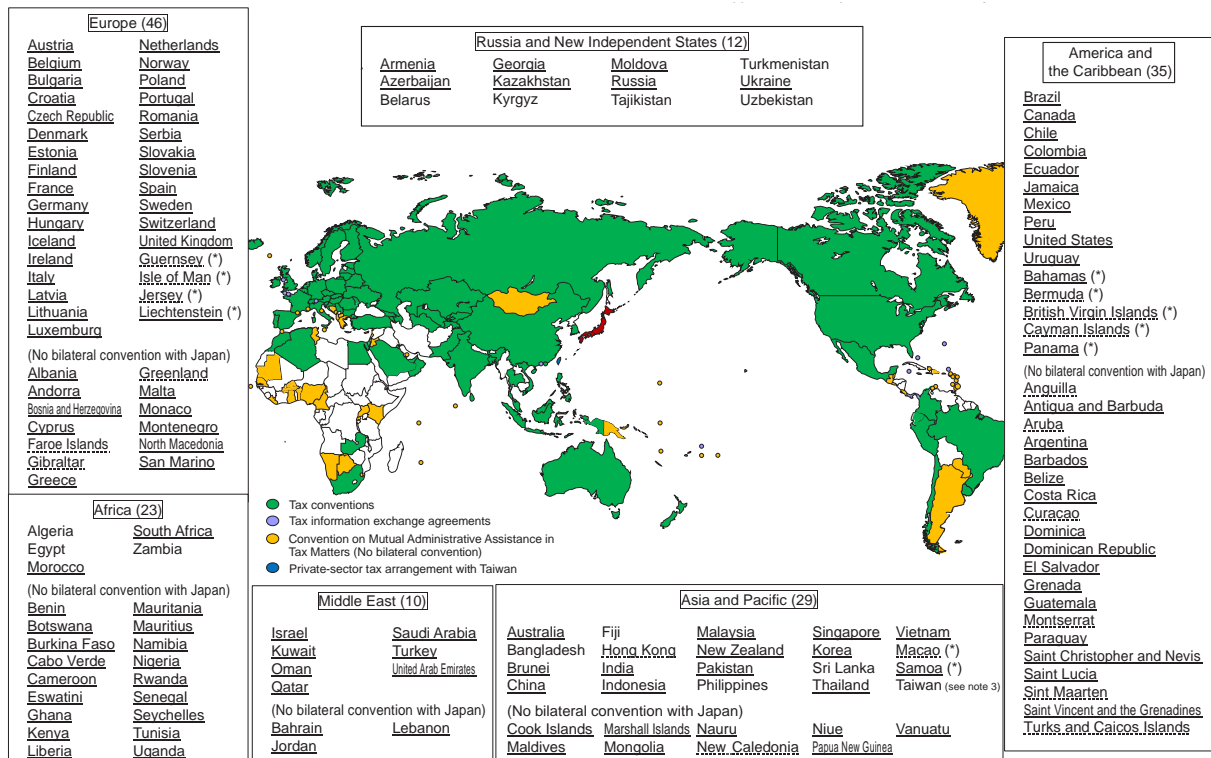
2 Tax Conventions

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 86 taxation treaties with 155 countries and regions as of May 1, 2024.

Japan's Tax Convention Network

《86 conventions, etc. applicable to 155 jurisdictions; as of May 1, 2024》



(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); 73 conventions applicable to 80 jurisdictions.
- Tax information exchange agreement (a convention principally for the exchange of information regarding tax matters); 11 conventions applicable to 11 jurisdictions (These jurisdictions are marked with (*) above).
- Convention on Mutual Administrative Assistance in Tax Matters; Entered into force by 124 jurisdictions (not including Japan) (These jurisdictions are underlined above) and applicable to 142 jurisdictions due to the extension of the application of the Convention (Jurisdictions to which the Convention is extended are underlined above with dotted lines). 63 jurisdictions out of 142 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.)