

## 1 Basic Concept of FY2022 Tax Reform

### 3. Review of the International Taxation System

As the globalization of the economy progresses and digital technologies have prevailed over all economic activities, a problem has become clear that the international taxation system established in a goods-oriented time (“no taxation without permanent establishment,” etc.) no longer functions appropriately and that fair taxation in market jurisdictions cannot be implemented.

Furthermore, excessive competition to lower corporate tax rates has weakened the foundation of corporate tax revenue in each country, and a situation has arisen in which fair competitive conditions among corporations are being inhibited.

Recognizing that response to such problems in international taxation is a pressing task, in October 2021, an international agreement was reached under the OECD/G20 Inclusive Framework on BEPS.<sup>1</sup> This international agreement reviews the international taxation principles that have continued for 100 years, and allocates new taxation rights of market jurisdictions from the viewpoint of preventing the diffusion of unilateral taxation measures that bring about uncertainty in the tax system. Additionally, the introduction of a global minimum tax rate will put a brake on the competition to lower corporate tax as well as lead to maintaining and improving the international competitive power of Japanese companies. Since the launch of the BEPS project, Japan has led the discussion on a reform of international taxation, and whole-heartedly welcomes this international agreement.

Going forward, it will be necessary to formulate and ratify multilateral treaties and reform domestic laws to implement this international agreement. We will continue to actively contribute to international discussions on refining the system and advance the development of a legal system that is in accordance with the international agreement. In doing so, we will review national and local corporate taxation systems while considering the relationship with existing systems so as to not impose an excessive burden on Japanese companies.

With regard to international tax avoidance and tax evasion countermeasures, we will continue to promptly conduct necessary reviews based on international discussions and the situation of tax avoidance. Additionally, we will consider how taxation on the salaries of non-residents should be, considering the re-expansion of cross-border business and movement of people expected in the post-Covid world. At the same time, as the international taxation system undergoes major reform, we will strengthen the system of the national tax authorities so that they can take timely and sufficient action such as developing and steadily enforcing domestic legislation and tax treaties.

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<sup>1</sup> BEPS: base erosion and profit shifting