ASAF meeting

ASBJ

Status of Implementation of OECD Pillar Two Model Rules in Japan

Accounting Standards Board of Japan

September 2023

Status of Implementation of OECD Pillar Two Model Rules in Japan

ASBJ

- In Japan, the revised Corporate Income Tax Act which introduced the Income Inclusion Rules (hereinafter referred to as the "IIR") under the OECD's Pillar Two model rules was enacted in March 2023

- Related facts

Event	Fact in Japan
Enactment date of the Act implementing the model rules	March 28, 2023
Effective date of the Act implementing the model rules	April 1, 2024
Scope of the rules implemented	The IIR only *Further change to the Corporate Income Tax Act is expected in March 2024

Summary of the Corporate Income Tax Act Implemented in Japan

- **Requirements included in the Act**
  - The tax return including the GloBE Information Return (GloBE IR) regarding the top-up tax must be filed within 15 months (18 months in the first year of transition) after the end of the reporting period
  - Entities must pay the top-up tax when they file the tax return including the GloBE IR
  - The top-up tax for a certain year is a tax for the year the GloBE income is earned, even if the tax return is filed and the taxes are paid in subsequent years
- **The Act did not include requirements related to:**
  - Advance or interim payments of the top-up tax
  - Reallocating the top-up tax within the group

Update on the Development of Japanese GAAP - Deferred Taxes

ASBJ

- In March 2023, the ASBJ issued a Standard that required entities not to consider the impact of the change in the Act that introduced the Pillar Two model rules when they accounted for deferred taxes until the ASBJ issued further guidance
  - The ASBJ has not decided whether and if so when further guidance will be issued
- The ASBJ is currently discussing whether the existing standard on income taxes needs to be changed in addition to the tentative treatment for deferred taxes
- Issues under discussion include:
  - Accounting for current taxes
  - Treatment of the top-up tax in the non-consolidated financial statements of the parent

Update on the Development of Japanese GAAP - Current Taxes

ASBJ

- **The GloBE IR regarding the top-up tax must be filed within 15 months (18 months in the first year of transition) after the end of the reporting period**
  - **GloBE income was earned within this reporting period and thus entities should estimate the income taxes payable**
- **Given the uncertainty in estimating the income taxes payable, the ASBJ is discussing potential reliefs:**
  - **For annual and interim periods in the first year of transition**
  - **For interim periods in the second year and onwards**

Update on the Development of Japanese GAAP - Non-consolidated F/S

ASBJ

- The top-up tax will be treated as income tax in the consolidated financial statements of the group, because the top-up tax is imposed on the profits earned by companies within the consolidated group
- Whether the top-up tax should be treated as income tax in the non-consolidated financial statements of the parent is questionable:
  - The top-up tax is not imposed on profits earned by the parent
  - Nevertheless, the ASBJ is likely to propose reporting the top-up tax expense within the ‘income tax expense’ section in the non-consolidated income statement of the parent to avoid reclassification when preparing consolidated financial statements

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