

Proposal for **FY2026** Tax Reform

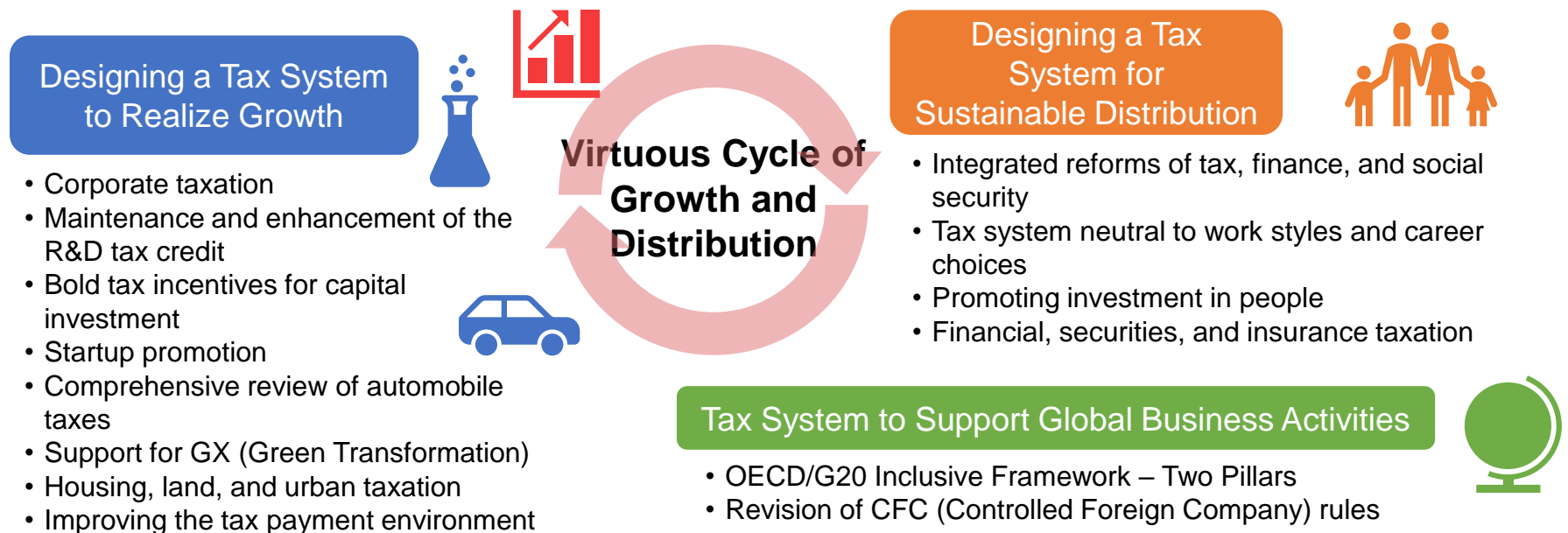
—Toward Establishing a Virtuous Cycle of Growth and Distribution—
Summary

September 16, 2025

Keidanren (Japan Business Federation)

I. Introduction

- ✓ In December 2024, Keidanren released **FUTURE DESIGN 2040**, presenting visions of Japan in 2040 as a “**Science and Technology-Oriented Nation**” and a “**Trade and Investment-Oriented Nation**.” These concepts are identified as sources of growth, with the aim of realizing a “**virtuous cycle of growth and distribution**” that builds a “**fair, equitable, and sustainable society**” and a “**robust middle class**”
- ✓ For the FY2026 tax reform, it is crucial to develop the tax system to promote **proactive domestic investment** to achieve sustainable growth. In particular, **tax measures that support strengthening research capacity and foster innovation, such as the R&D tax credit**, are key to establishing Japan as a science and technology-oriented nation
- ✓ From the perspective of equitable distribution, it is necessary to begin considering **integrated reforms of tax, finance, and social security**, including medium- to long-term challenges, to build a sustainable social security system oriented to all generations
- ✓ In pursuing the goal of becoming a trade and investment-oriented nation, it is important to respect international tax rules and proactively participate in rule-making



II. Designing a Tax System to Realize Growth

1. Corporate Taxation

(1) Review of Recent Corporate Tax Reforms

- ✓ While the tax rate was reduced in recent reforms, it is important to note that financial resources were fully secured through the expansion of the tax base.
- ✓ Considering the tax base, the ratio of corporate income tax to corporate business income (equivalent to corporate profits) has not exhibited a decline corresponding to the nominal effective corporate tax rate, and the actual tax burden has remained almost flat.

(2) Trends in Domestic Investment, Wage Increases, and Tax Revenue

- ✓ As Japan's economy has moved away from deflation, coupled with corporate efforts and policy measures, positive trends have been observed in domestic investment and wage increases. Capital investment has reached record levels, and major firms have achieved wage hikes exceeding 5% for two consecutive years.
- ✓ This virtuous cycle of growth and distribution has resulted in record-high tax revenues. With corporate earnings continuing to grow, corporate tax revenue has expanded significantly, contributing to overall tax revenue growth.

(3) Tax System to Support Domestic Investment, R&D, and Wage Growth

- ✓ Many countries are promoting active domestic investment policies, including tax incentives, to attract investment.
- ✓ To ensure international equal footing and maintain locational competitiveness, it is vital to improve Japan's investment environment from a medium- to long-term perspective, with both public and private sectors working together.
- ✓ Particular attention must be paid to Japan's relatively high effective corporate tax rate. **Any further increases could severely undermine competitiveness compared to other countries, negatively impacting domestic investment and wage growth momentum.**
- ✓ Special tax measures should be effectively used to provide incentives for companies actively engaging in domestic investment and R&D.

II. Designing a Tax System to Realize Growth

2. Tax System for Strengthening Research Capabilities, Fostering Innovation, and Promoting Investment

(1) Maintenance and Enhancement of the R&D Tax Credit

- ✓ Strengthening research capacity and generating innovation are essential to making Japan a “Science and Technology-Oriented Nation.” However, Japan’s research performance is currently sluggish internationally.
- ✓ To encourage greater R&D investment, it is critical to maintain and enhance the R&D tax credit.

① General Type

- ✓ The current temporary measures should be maintained at least at existing levels.
- ✓ Deduction rates and upper limits should be reviewed to determine whether further expansion is appropriate for promoting R&D investment.
- ✓ Introducing a carryforward deduction system would enhance predictability.

② Open Innovation Type

- ✓ Procedures should be further simplified.
- ✓ Categories involving advanced research personnel should be expanded, and requirements relaxed.

③ Enhancing Support for Strategic Fields

- ✓ Based on “autonomy” and “indispensability,” priority areas should be defined. For R&D expenses in these areas, deepened support should be considered, including creation of new categories.

④ Review of Eligible R&D Expenses

- ✓ The scope of eligible expenses should be revised to reflect the realities of corporate R&D (e.g., humanities/social sciences, agile development).

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2. Tax System for Strengthening Research Capabilities, Fostering Innovation, and Promoting Investment

(2) Bold Tax Incentives for Capital Investment

- ✓ Considering international competition to attract investment, bold measures such as immediate expensing and tax credits should be introduced to support companies actively investing domestically
- ✓ Procedures should be simple and user-friendly (e.g., simple written confirmation procedure), covering a wide range of equipment without limiting by industry

(3) Tax Measures to Promote Startups

- ✓ Extension of open innovation promotion tax system
- ✓ Revision of special permanent establishment taxation rules for foreign partnership members

(4) Tax System to Support Corporate Value Enhancement

- ✓ Review of the tax system for partial spin-offs and review of the tax system to expand the use of incentive compensation

3. Comprehensive Review of Automobile Taxes

(1) Items to be Revised in FY2026 Tax Reform

- ✓ Abolition of the environmental performance-based automobile tax, adoption of a medium-term policy for reviewing ownership taxes, and extension of eco-car tax reduction and green tax measures
- ✓ Measures toward abolishing provisional gasoline tax rates, with consideration of administrative practices

(2) Medium- to Long-Term Issues in Vehicle Taxation

- ✓ Unification of tax base on vehicle weight
- ✓ Long-term review considering advances in mobility society

II. Designing a Tax System to Realize Growth

4. Environment and Energy Taxation

(1) Support for Companies Engaged in GX (Green Transformation)

- ✓ Extension of carbon-neutral investment promotion tax system
- ✓ Extension of special fixed asset tax treatment for renewable energy power facilities
- ✓ Expansion of tax system to promote domestic production in strategic fields

(2) Comprehensive Review of Energy Taxes

- ✓ Revision of the Global Warming Countermeasure Tax; appropriate adjustment of consumption tax and petroleum taxes (elimination of double taxation); and making raw material exemptions tax-free under general rules

5. Housing, Land, and Urban Taxation

- ✓ Extension of mortgage tax credit, extension of rollover relief for business assets related to long-term land holdings
- ✓ Extension of urban renewal tax system and special measures for National Strategic Special Zones

6. Extension of Expiring Special Tax Measures

- ✓ Extension of reserve system for overseas investment losses, special depreciation and rollover relief for oceangoing vessels
- ✓ Extension/expansion of local base enhancement tax system, expansion of corporate hometown tax donation program (including donations to municipalities where headquarters are located), and extension/expansion of SME-related tax measures

7. Local Taxes

- ✓ Review of tax base for corporate enterprise tax in electricity and gas supply sectors
- ✓ Review of local corporate taxation framework, and consolidation/simplification of office taxes

8. Improving the Tax Payment Environment and Others

- ✓ Digitalization of national taxes (improving e-Tax usability, digitizing audits and interactions with authorities)
- ✓ Digitalization of local taxes (digitalizing notifications and payment procedures, linking national and local tax information)

III. Designing a Tax System for Sustainable Distribution

1. Integrated Reforms of Tax, Finance, and Social Security

- ✓ To build a fair, equitable, and sustainable system, it is crucial to curb increases in social insurance burdens on working generations, secure revenue through taxation, and rebalance taxes and social insurance contributions
- ✓ Priority should be placed on ability-to-pay taxation regardless of age (increasing burden on the wealthy)
- ✓ Expanded use of the My Number system is needed to accurately assess individual capacities
- ✓ A refundable tax credit system should be considered to support low-income earners
- ✓ The “Social Security Outlook” should be urgently revised, and a cross-party national council (tentatively named “Council for Promoting Integrated Reforms of Tax, Finance, and Social Security”) established for discussion

2. Tax System Neutral to Work Styles and Career Choices

- ✓ Review of retirement income deduction
- ✓ Abolition of the special corporate tax on retirement benefits of corporate pensions (or at least extension of suspension)

3. Promoting Investment in People

- ✓ Review of thresholds and limits in line with inflation (e.g., non-taxable meal allowance)
- ✓ Tax incentives to encourage local companies’ participation in school-community activities
- ✓ Review of the use of the International Tourist Tax

4. Financial, Securities, and Insurance Taxation

- ✓ Permanent expansion of life insurance premium deductions for households with children
- ✓ Extension of gift tax exemption for lump-sum education funding
- ✓ Further expansion and improvement of NISA
- ✓ Strengthening reserve system for extraordinary risks related to fire insurance
- ✓ Review of inheritance tax valuation for listed stocks

IV. Tax System to Support Global Business Activities

1. OECD/G20 Inclusive Framework – Two Pillars

(1) Pillar Two (Global Minimum Tax)

- ✓ With respect to the “side-by-side” of the Global Minimum Tax and the U.S. GILTI regime, it is expected that a solution acceptable and implementable by IF member jurisdictions will be promptly agreed at an early stage, and the revisions will be made public
- ✓ Permanent safe harbors should be designed to significantly reduce compliance burdens
- ✓ Necessary revisions should be made regarding pushdown of CFC tax amounts

(2) Pillar One (Reallocation of Taxing Rights to Market Jurisdictions)

- ✓ Constructive discussions on Amount A should continue within the IF
- ✓ Unilateral measures such as digital services taxes (DST) should be promptly withdrawn

2. Revision of Japan’s Controlled Foreign Company Rules

- ✓ Introduction of the global minimum tax has increased compliance burdens. Moreover, J-CFC taxation is applied to income not eroding Japan’s tax base, potentially hindering overseas business activities. To eliminate excessive taxation and reduce administrative burdens, urgent revision is essential

3. Other Domestic Tax Measures

- ✓ Review of taxation on cross-border e-commerce transactions

4. Tax Treaties

- ✓ New and revised treaties should be pursued, including with Global South countries, with attention to reducing withholding taxes