

## PRESS RELEASE

### **JAPAN: Ministry of Finance to reform taxation in accordance with BEPS**

#### **Guidance on Transfer Pricing Documentation and Country-by-Country Reporting**

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On September 16, 2014, the OECD released recommendations for a coordinated international approach to combat tax avoidance by multinational enterprises (MNEs) under the OECD/ G20 Base Erosion and Profit Shifting Project (“BEPS Project”), which looks at whether and why MNEs’ taxable profits are being allocated to low or no-tax locations with little or no economic activity, resulting in little or no corporate tax being paid. The project also proposes action plans to identify a series of domestic and international actions to address the problem and sets timelines for implementation. The first recommendations address seven actions. One of them is “Guidance on Transfer Pricing Documentation and Country-by- Country Reporting (Action 13),” which would largely affect tax administration of MNEs. MNEs would be required to prepare (a) “Master Files” for information regarding global business operations and transfer pricing policies, (b) “Local Files” for relevant related party transactions, and (c) Country-by-country Reports,” which require MNEs to report – annually and for each tax jurisdiction in which they do business – their revenue, net profit, income tax, total employment, capital, tangible assets and business activities of each entity.

In this connection, Japan’s Ministry of Finance intends to modify the tax laws in 2016 to reflect the recommendation. The tax reform would affect MNE administration. Japanese MNEs already have a Local File equivalent. However, Master Files and Countryby- country Reports would likely be new. MNEs would need to gather and update information regarding overseas operations every year. Therefore, each subsidiary/ affiliate or each branch of Japanese MNEs in every country would be required to report tax information regularly to their HQ in Japan. In addition, subsidiaries or branches in Japan of non-Japanese MNEs might be required to provide the same information to the Japanese Tax Authority.

Since other countries (at least members of OECD/G20) would require MNEs to provide the above three documents, all MNEs should investigate the policy and practice of tax authorities in every country where the MNE has a subsidiary/affiliate company or branch.

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