

Japan and South Africa: 2023 shifting trends in international tax



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Will Japan's recent implementation of the global minimum tax accelerate the discussions around the implementation of the GloBE rules?



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What is Pillar 2 and why is it important?

The debate around the implementation of Pillar 2 has been ongoing in the international tax sphere for a few years. Essentially, Pillar 2 is a principal rule of the Organisation of Economic Cooperation and Development's (OECD) 15% global minimum tax proposal. As part of the process of addressing the tax challenges arising from digitalisation, as well as base erosion and profit shifting, the OECD proposed the implementation of a 15% global minimum tax in 2019.

The importance of this proposal from an international tax perspective, which originated in the initial OECD BEPS (Base Erosion and Profit Shifting) project, is that it essentially aims to end the debate on disparities in domestic tax rates amongst various global states. In essence, it ensures that multinational companies pay a minimum effective corporate tax rate of 15% irrespective of the local tax rate or base, which may be less.

A brief overview of Japan's Tax Reform Package

In its ruling coalition, Japan outlined its 2023 Tax Reform Package, which includes the implementation of the 15% global minimum tax proposal. The Tax Reform Package includes legislative outlines of a global minimum corporate tax based on Pillar 2. It further introduces an Income Inclusion Rule (IIR) that, in broad terms, aligns with the GloBE Model Rules. This particular draft legislation will be submitted to the Diet (the national legislature of Japan) in January 2023, and if passed, will become effective from the fiscal year beginning in or after April 2024.



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The IIR would apply to Japanese-headquartered Multinational Enterprises (MNEs) and Japanese subsidiaries of foreign-headquartered MNEs, if the worldwide gross revenue of the ultimate parent entity in two or more of the four preceding fiscal years is €750m or higher.

The impact of Japan's implementation on the Pillar 2 debate

Together with the EU, Japan has been one of the biggest advocating states for the implementation of Pillar 2. It has, on numerous occasions, demonstrated its commitment to the implementation of the GloBE rules and, in our view, this step by Japan moves the discussion on Pillar 2 to its next phase. It is possible that this move by Japan may further prompt the implementation of Pillar 2 amongst EU states, making it more likely that the GloBE rules will be implemented across other states.

In essence, states that have signed up to, and committed to the adoption of, the GloBE rules, which include South Africa and the US, will now be under more pressure to implement them. Japan's ruling coalition has indeed shifted the Pillar 2 debate towards affirming its global adoption and confirms Japan's intention to lead the implementation of Pillar 2 as it gears up to host the G7 Summit in October 2023.

As the Pillar 1 and Pillar 2 debates continue, Japan has taken a firm position and we anticipate that some other states will follow suit.

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