



The Twelfth IMF-Japan High-Level Tax Conference
For Asian Countries in Tokyo

October 26, 2022

Taxation to Crypto Assets in Japan

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1. Definition of Crypto Assets

Definition by the Payment Services Act

[Revised in June 2016]

- It can be used as a means of payment in transactions with unspecified persons and can be exchanged with fiat currencies (e.g., Japanese yen, foreign currencies).
- It is electronically recorded and can be transferred by means of an electronic data processing system.
- It is not a fiat currency or a currency-denominated asset.

2. Tax Treatment of Crypto Assets

Tax Acts and Guidance

- Revision of the Consumption Tax (VAT) Act
[FY2017 revision]
- Issuance of the NTA Guidance
[September 2017]
*This guidance has been updated regularly.
- Revision of the Income Tax Act and the Corporation Tax Act to clarify tax treatment of crypto assets.
[FY2019 revision]

Income Tax

- Profits arising from crypto assets trading are categorized as miscellaneous income or business income, which is applied to the aggregated income taxation.
- The progressive taxation apply to the aggregated income, ranging from 15% to 55% including local tax, depending on the amount of income in a year.
- Loss from crypto assets transaction cannot offset with other income categories and cannot carry over to subsequent years.
- Accession of crypto assets through “Fork” shall not be taxed at the time of accession. Profit from “Mining” of crypto assets shall be taxed. (Same in the Corporation Tax)
- The book value of transferred crypto assets is calculated with “Moving average method” or “Total average method.” (Same in the Corporation Tax)

Corporation Tax

- Profits or losses from the transfer of crypto assets shall be recognized in the business year that includes the contract date.
- Crypto assets for which an active market exists shall be valued with fair market value at the end of every business year, and difference between the fair market value and the book value shall be included in the business year.
- For margin transactions of crypto assets that are not settled at the end of every business year, the profit or loss calculated as if they were settled at the end of the business year shall be included in the business year.

VAT(Consumption Tax)

- The Consumption Tax Act revision in FY2017 regulated transfer of crypto assets shall be exempted from VAT taxation after July 2017, since these are a means of payment under the Payment Services Act.

Inheritance Tax

- Inherited crypto assets shall be treated the same as other assets (e.g., cash, real estate)
- If there is an active markets for a crypto asset, the valuation is based on the trading price of the crypto-asset, which exchange service providers publish.
- As for crypto assets without active markets, the valuation shall be made individually depending on the content and nature of the crypto assets.

3. Future Issues for Consideration

[Income Tax]

- Separate taxation in the same way with stock transaction to which flat 20% of taxation is applied.
- Loss carry-over among miscellaneous income for crypto transaction

[Corporation Tax]

- Limit fair market valuation of crypto assets only to short-term trading purposes (Or at least self-owned tokens issued by the corporation should be excluded from fair-market valuation)
- Clarification of the treatment of “Initial Coin Offering”

[Inheritance Tax]

- Rational calculation of fair market valuation of crypto assets without a trading market.