Petition for Reform of Tax Systems for Crypto Assets (FY2023)

November 16th, 2022

Japan Blockchain Association (JBA)

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Preface

There is growing global interest in the concept of "web3[1]," a new digital economy where autonomous users can directly connect with each other through a decentralized, blockchain-based network without reliance on a specific platform or intermediary. web3 is also being looked to as the next-generation implementation of the Internet, an epoch-making innovation that only happens approximately once every 30 years. This is the next evolution following the information revolution, and has the potential to drive economic growth not only in Japan, but around the world.

However, Japan's web3 sector is gradually falling behind the rest of the world due to hurdles like heavy tax obligations and ambiguous rules around crypto assets. Compared to its counterparts overseas, Japan has a very low rate of aspiring entrepreneurs. Many from that already small pool of entrepreneurs are attracted by the possibilities of web3, but first-rate talent skilled in web3 are increasingly discouraged by the Japanese business climate, leading to a brain drain to sites overseas.

"The arrival of the Web 3.0 era is a great opportunity for Japan. But if we continue as we are now, we will surely miss the boat."

These opening remarks used in the NFT[2] White Paper (draft)[3] released in March 2022 by the Liberal Democratic Party's NFT Policy Project Team[4] (formed in January of the same year), a sub-unit of the Liberal Democratic Party Headquarters for the Promotion of a Digital Society, suggest a strong sense of impending crisis that the mistakes of the Web 2.0 era, where Japan played second fiddle to the United States, must not be repeated. On May 5th of the same year, Prime Minister Kishida gave a keynote speech[5] at Guildhall, London, saying, "Japan will develop an environment for the promotion of Web 3.0, such as blockchain, NFTs and the metaverse, and achieve a society that facilitates the birth of new services." Moreover, the Basic Policy for Economic and Financial Management and Reform 2022[6], the so-called "Honebuto no Hoshin" ("big-

[1] Referred to as "web3" in this document. However, the referenced documents use the notation "Web 3.0".
[2] Non-Fungible Token
[3] Web site of Masaaki Taira (Liberal Democratic Party) https://www.taira-m.jp/Japan%27s%20NFT%20Whitepaper_E_050122.pdf
[4] Renamed to "web3 Project Team" on August 4, 2022
[5] Web site of the Prime Minister's Official Residence https://japan.kantei.go.jp/101_kishida/statement/202205/_00002.html
[6] Cabinet Office web site https://www5.cao.go.jp/keizai-shimon/kaigi/cabinet/2022/decision0607.html

boned" or core policy) which was decided by the cabinet on June 7th, 2022, explicitly states: "We will also consider improving the environment for the implementation of Web3.0 such as the use of NFT and DAO[7] based on blockchain technology," indicating to both a domestic and international audience the Japanese government's intent to promote web3 as a spoke in national strategy. It is highly likely that the use of crypto assets, which do not depend on a specific country, will become mainstream for payment processing in the coming borderless web3 era. Therefore, as part of shoring up a climate to foster web3 in Japan, revising Japan's crypto asset tax system, which is disadvantageous compared to the global standard, is utterly paramount.

Japan Blockchain Association (JBA)[8] is an organization formed after the Japan Authority of Digital Assets, which itself was established in September 2014, was renamed. We have engaged in a wide manner of public relations concerning crypto asset taxation and the design of systems around it. Given our pedigree, we are likely the most historic web3/blockchain related organization in the world. Furthermore, with regard to the tax system, we have over the years lobbied for crypto assets to be exempt from consumption tax, and this has led to some tax system reforms. There has also been a recent uptick in the number of JBA directors and advisors who have moved their bases of operations overseas in order to carry out web3 business. Despite the advent of the web3 era being a major opportunity for Japan, this development is fraught with the risk that the so-called "lost 30 years" may grow to become the "lost 50 years." Given that we are seeing positive trends towards the promotion of web3, it is our strong hope and desire that, by reforming the tax system around crypto assets this year, Japan can again lead the world in the coming web3 era, just as it did in 2017, when it was a global leader in crypto assets.

[7] Decentralized Autonomous Organization
[8] 165 member firms (as of November 14, 2022)

Requests regarding application of the tax system to crypto assets

Request 1: Elimination of accounting year-end tax on unrealized capital gains for corporations that issue and hold crypto assets

Use the book value of crypto assets (other than those intended for short-term trading purposes) held by corporations that issue or acquire crypto assets instead of taxation based on market value at the end of a given fiscal term. In particular, abolish the term-end unrealized capital gains tax on tokens issued in-house, which is a factor driving many companies out of Japan. This would in turn stop the brain drain of web3 talent overseas, and rapidly shore up a climate in Japan where web3 businesses can thrive.

Request 2: Introduction of self-assessed separate taxation, and carryforward deductions for losses

Change the taxation method for gains from crypto asset transactions from a tax on aggregate income to self-assessed separate taxation, and set the tax rate uniformly to 20%. Moreover, allow for losses realized in a given year to be carried over for three years starting from the year following the year in which the losses were incurred, deducting them from crypto asset income for the following year onwards. In addition, apply the same treatment to crypto asset derivative instruments. Furthermore, since it is difficult for crypto asset exchange operators, which frequently transfer crypto assets between overseas and domestic operators, to ascertain the trade price of the customer's crypto assets, we request that a scheme for self-assessed separate taxation be implemented, rather than separate withholding tax at the source.

Request 3: Eliminate taxation when exchanging crypto assets with each other

When crypto assets are exchanged with each other, income tax is levied on profits generated each time they are exchanged. It is highly likely that the exchange of crypto assets will become the chief method used for borderless payments in the coming web3 economy, and given the wide variety of transactions that occur and the types of crypto assets to be exchanged, this makes tax calculation extremely complicated, which significantly hinders the convenience that should be inherent in crypto assets. In line with this, abolish the tax on exchanges between crypto assets.

The innovative services being brought about by new technologies, such as blockchain-based crypto assets, NFTs, and DeFi[9], have the potential to overturn the very principles and concepts that have been considered the status quo under conventional legal and administrative systems. Therefore, as the government considers shoring up a climate for promoting web3, this calls for active discussions from players in industry, government, and academia that transcend pre-existing frameworks, with our foremost and most pressing request around this being taxation reform for crypto assets.

1. Purpose of this petition

The so-called "Honebuto no Hoshin" ("big-boned" or core policy) which was decided by the cabinet on June 7th, 2022 explicitly states: "We will proceed with consideration of environmental improvements aimed at promoting Web 3.0, such as the use of NFTs and DAOs based on blockchain technology," positioning web3 as a core spoke in Japan's economic growth strategy. This petition seeks reforms to the tax system for crypto assets, which represents the largest barrier for corporations looking to operate web3 businesses in Japan, and impedes Japanese citizens from actively holding and using crypto assets. It is our hope that Japan will come to be seen domestically and internationally as an advanced web3 country, and that the nascent economy and industry that web3 is creating will expand, greatly contributing to the growth of the Japanese economy, which is today under serious pressure to revitalize itself.

[9] Decentralized Finance

2. The current state of crypto assets and blockchain

2.1. Trends around crypto assets

The paper "Bitcoin: A Peer-to-Peer Electronic Cash System[10]" published on the Internet by Satoshi Nakamoto in October 2008 ushered in Bitcoin as a new way of executing transactions based on encrypted proof rather than centralized trust by financial institutions or other bodies. Since then, about 14 years have passed, and the total market value of crypto assets, including Bitcoin, reached over ¥300 trillion[11] at one time (November 2021), with these assets being actively traded around the world. If we restrict our sample to Internet users aged between 16 to 64, the global average crypto asset ownership rate is 10.2%[12], with Japan below the average at 6.4%. Furthermore, data indicates that the ratio in the US is 12.7%, suggesting that people's expectations for the outlook of crypto assets there are higher than those in Japan.

Moreover, statistics[13] from the Japan Virtual and Crypto Assets Exchange Association (JVCEA) indicate that the number of users of trading accounts with domestic crypto asset exchanges is steadily increasing, and the growth rate itself is on an upward trend, particularly starting around 2019. As of June 2022, about 6.3 million accounts have been created, with investments in crypto assets by Japanese citizens reaching a constant number that is climbing. In addition, in terms of over-the-counter foreign exchange margin trading, the number of domestic trading accounts as of June 2011, when a bill to reform the tax system from tax on aggregate income to self-assessed separate taxation was passed by the plenary session of the House of Councilors, was about 3.61 million[14]. We recognize that the number of clients is an important metric when discussing tax system reforms for crypto assets, and we believe that the number of users has reached a certain threshold of acceptability.

[10] https://bitcoin.org/bitcoin.pdf
[11] CoinMarketCap https://coinmarketcap.com/
[12] .DIGITAL 2022: GLOBAL OVERVIEW REPORT (released January 26, 2022) https://datareportal.com/reports/digital-2022-global-overview-report
[13] Statistical data from the Japan Virtual and Crypto Assets Exchange Association (released on August 2, 2022) https://jvcea.or.jp/cms/wp-content/themes/jvcea/images/pdf/statistics/202206-KOUKAI-01-FINAL.pdf
[14] Statistical data from The Financial Futures Association of Japan (released on May 31, 2022) https://www.ffaj.or.jp/wp-content/uploads/2022/05/otc_fx_margin_volume_j.xls

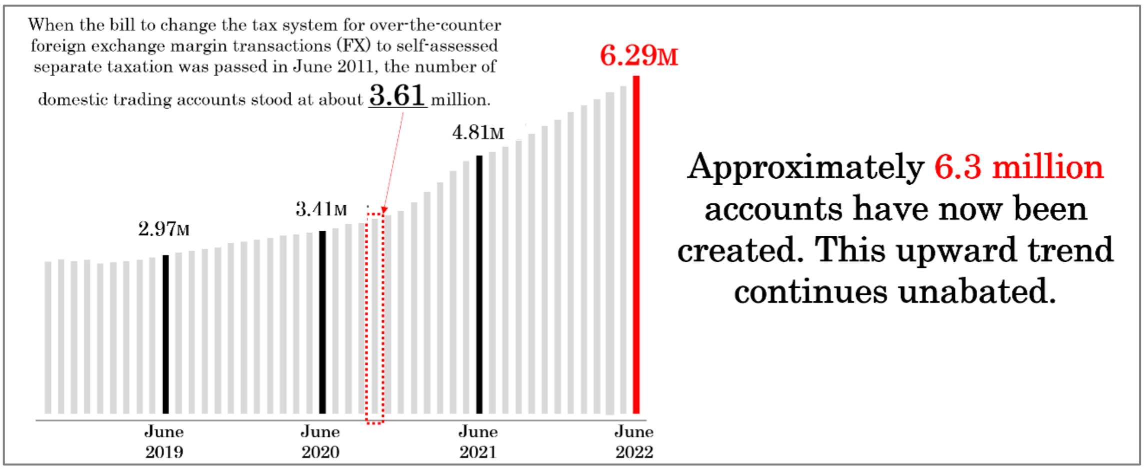

Figure 1. Number of crypto asset accounts in Japan (includes overlap)

Other use cases for crypto assets include as legal tender: El Salvador legalized Bitcoin as legal tender in September 2021, and was followed by the Central African Republic in April 2022. In response to the invasion by Russia, Ukraine has seen new forms of international support drawing on the advantages of crypto assets, such as accepting donations denominated in Bitcoin and Ethereum, with funds pledged totaling about 10B JPY[15]. This is but a handful of use cases for crypto assets, with many more steadily growing by the day.

2.2. Trends around blockchain

In October 2019, China announced plans to make blockchain, which is the core technology around which crypto assets are built, a key spoke in its national strategy. The United States, the United Kingdom, Germany, and India have also expressed intent to promote blockchain as a national strategy, with countries around the world actively seeking to take the initiative in the blockchain and web3 industries.

In Japan, the Action Plan of the Growth Strategy[16], decided by the cabinet in June 2021, noted the "use of new digital technologies such as blockchain," positioning this as a spoke in Japan's national strategy. This was followed by a statement in the so-called "Honebuto no Hoshin" ("big-boned" or core policy) which was decided by the cabinet in June 2022, which says: "We will proceed with consideration of environmental improvements aimed at promoting Web 3.0...based on blockchain technology."

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[15] Nihon Keizai Shimbun (July 12, 2022) https://www.nikkei.com/article/DGKKZO62517710R10C22A7FF8000/
[16] Cabinet Office web site https://www.cas.go.jp/jp/seisaku/seicho/pdf/ap2021.pdf

Country	Overview
China	• Announced in October 2019 plans to use blockchain as part of national strategy • Trialing use of a digital renminbi
South Korea	• Announced a blockchain technology promotion strategy as part of national strategy in June 2020 • Aiming to build a distributed ID (DID) integrated public platform by 2022
Australia	• Announced in October 2020 plans to use blockchain as part of national strategy • Designated the wine, banking, and finance industries as main priority sectors
India	• Announced in January 2021 plans to use blockchain as part of national strategy • Aiming for use in the finance, medical, insurance, and administrative services domains, and in smart cities
United States	• An executive order concerning digital assets was issued in March 2022. • Announced intent to lead the world in this area Promoting legislation, pilot projects, and sandbox initiatives at the state level
United Kingdom	• Government announced in April 2022 its intent to become a global hub for crypto asset technology and investment • Proactive approach, such as through government demonstrating use cases for public use of blockchain
Germany	• Announced in September 2019 plans to use blockchain as part of national strategy • Designated digital identity and securities as main priority sectors
Nigeria	• Nigeria has the largest population and economy in Africa. Africa is also making forays into blockchain • Government presented guidelines and a framework for turning blockchain into a national strategy in October 2020

Figure 2: Trends in governments using blockchain as a spoke in national strategy

2.3. Outflow of human resources overseas

As stated in 2.1 and 2.2 above, crypto assets in Japan have increasingly become mainstream. Countries around the world have expressed intent to promote blockchain, yet Japanese web3 entrepreneurs have moved their bases of operations to countries like Singapore, Dubai, and elsewhere. If this trend is left unattended, Japan's top-tier talent will leave for destinations overseas, and the basis of Japan's innovation in the web3 era will be lost, leading to a brain drain.

The tax system around Japanese crypto assets is cited as one of the reasons why Japanese web3 entrepreneurs are relocating overseas. Given this, in order for Japan to attract excellent human resources from around the world and lead the globe in the web3 era, a revamp of the tax system as concerns crypto assets is needed. Furthermore, according to a report[17] released by Coincub, a crypto asset analysis firm, Japan's crypto asset ranking in the world as of Q3 2022 was 27th out of 56 countries surveyed, falling in the middle. While Japan was rated highly in terms of regulatory aspects and monetary policy, ratings of the crypto asset tax system were low.

[17] Coincub Q3 2022 Global Crypto Ranking: Germany tops, USA drops in the latest report
https://coincub.com/ranking/q3-2022-global-crypto-ranking
Coincub Coincub annual crypto tax ranking 2022
https://coincub.com/ranking/coincub-annual-crypto-tax-ranking-2022/

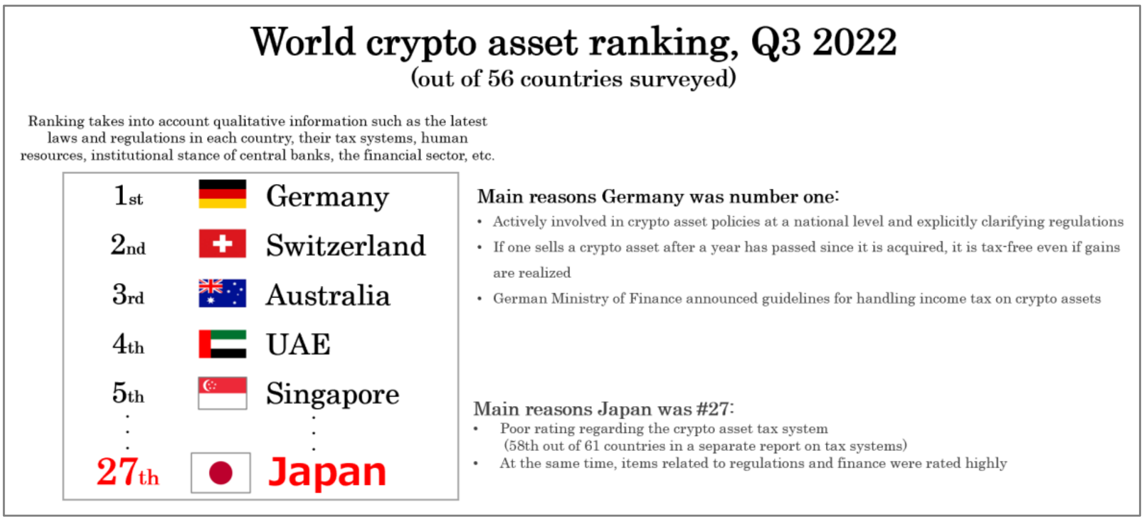

Figure 3: World crypto asset ranking

As a point of reference, just some of the projects launched by Japanese entrepreneurs that have moved their bases of operations overseas are as follows.

Astar Network (public blockchain), Cega (structured bonds), Consensus Base (system development and consulting), Emoote (venture capital), Oasys (blockchain for videogames), UnUniFi Protocol (NFT-Fi), UXD Protocol (algorithmic stablecoin), etc.

3. Questionnaire results

3.1. Overview

JBA conducted a questionnaire to ascertain conditions around crypto assets as concerns their retention, usage, and tax filings, seeking to gauge the impact tax system reforms would have on future crypto asset investment. The questionnaire was conducted from July 22nd, 2022 (Friday) to August 2nd, 2022 (Tuesday), and 945 responses were obtained.

3.2. Use of unregistered crypto asset exchanges

In order to provide exchange services between crypto assets and fiat currency in Japan, an operator must register a crypto asset exchange business. This is a regulation introduced from the viewpoint of protecting user deposits and as part of money laundering countermeasures. However, in this questionnaire, 77.1% of respondents reported using unregistered crypto asset exchanges (calculated by subtracting the 205 persons who reported not using overseas exchanges from a total of 896 responses, for a total of 691). In a questionnaire asking to what extent respondents would move crypto assets into Japanese exchanges if a uniform self-assessed taxation rate of 20% were levied, 481 respondents (53.7%) stated they would move their assets.

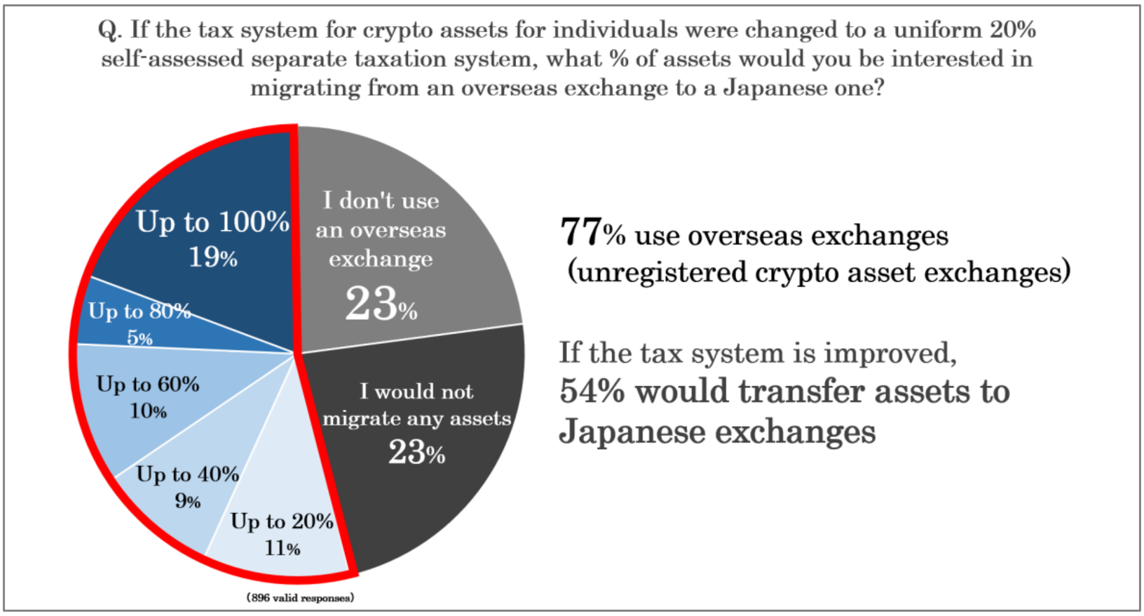

Figure 4: JBA Questionnaire Results 1

3.3. Status of tax return filings

In a questionnaire on tax returns filings, there were 35 respondents (3.9%) who stated that they had "gains of ¥200,000 or higher, but did not file a return."

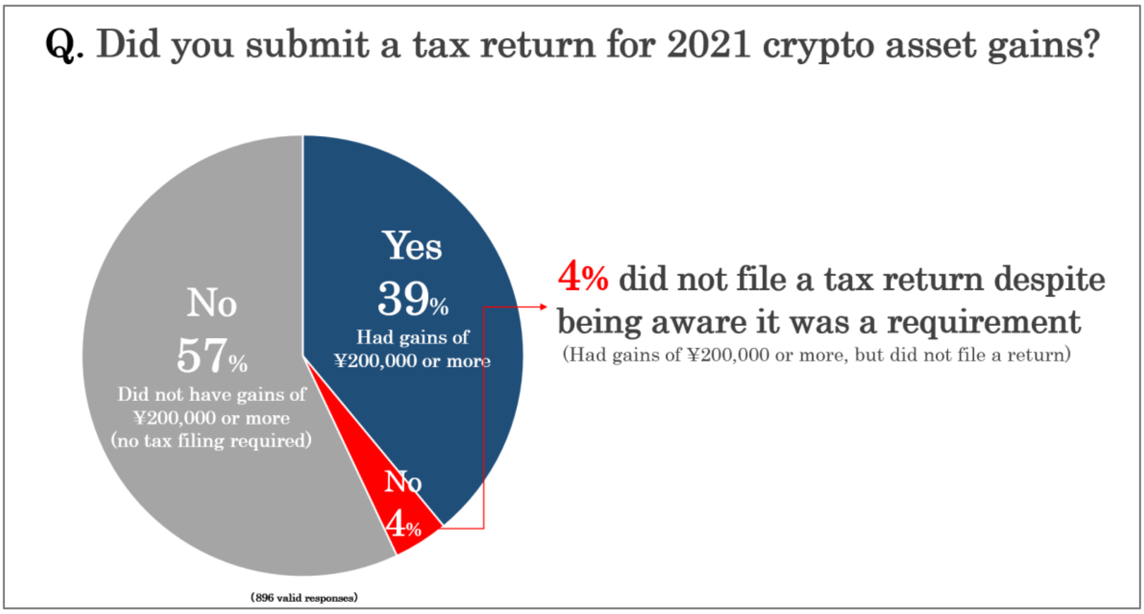

Figure 5: JBA Questionnaire Results 2

While some responses involved not knowing the calculation method to use when filing a tax return or not knowing that a tax return was necessary, there were indeed several results indicating that people deliberately chose not to file (items 2, 4, 5, 6 and in Fig. 6).

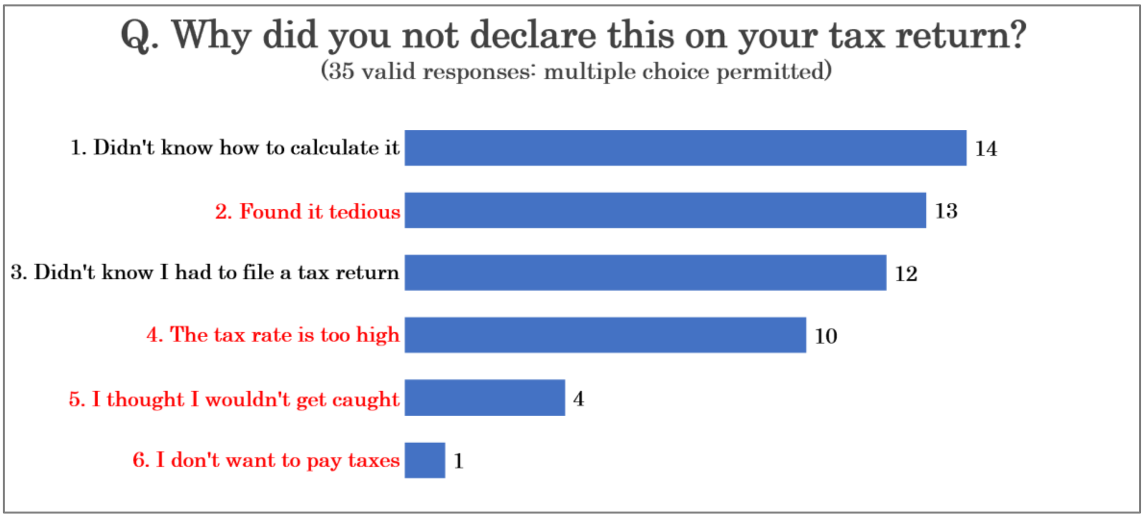

Figure 6: JBA Questionnaire Results 3

3.4. Impact on investment

When we conducted a questionnaire on the extent to which people would invest in crypto assets if there were a uniform tax rate of 20% for self-assessed declarations, only 106 (11.8%) answered that they would "not increase the amount,", while 790 (88.1%) responded that they would increase their amount of investment in crypto assets. Of these, there were 341 responses (38.1%) stating that they wanted to increase their investment amount by 2x or more.

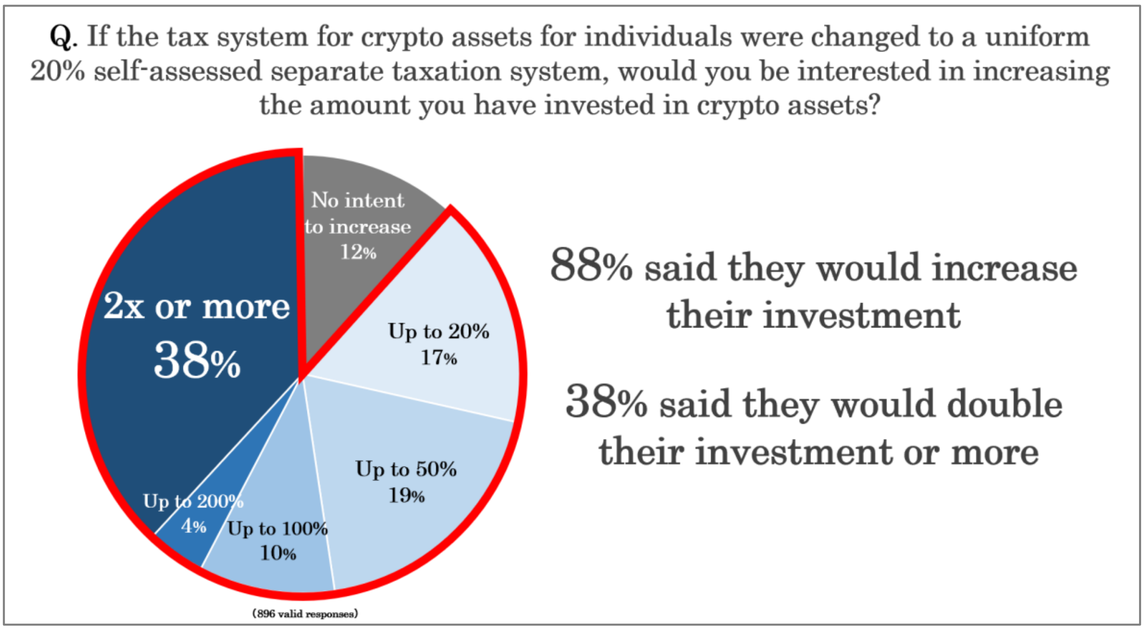

Figure 7: JBA Questionnaire Results 4

3.5. Impact on tax revenue

This petition seeks for taxation of income from crypto asset trading to be changed from tax on aggregate income to self-assessed separate taxation with a uniform rate of 20%. We believe that if these requests are implemented, there would be an increase in users of Japanese crypto asset exchanges, an increase in the amount invested in crypto assets, an increase in realized gains, and other benefits that would contribute to tax revenue. We expect that any reduced tax revenue as a result would be limited in scale, or in some cases would even increase. We plan to conduct ongoing investigations into what impact this would have on tax revenue.

4. Request details

4.1. Elimination of accounting year-end income tax on corporations that issue and hold crypto assets

4.1.1. Current situation and issues

Crypto assets are classified as short-term trading instruments under Article 61.2 of the Corporation Tax Act, with the valuation of short-term trading instruments being the fair value method. This method is being applied to crypto assets, which do not aim to obtain profits using short-term price fluctuations.

Generally speaking, web3 firms (web3 startups, companies in need of financing, funds, etc.) indicate in their white papers and pitch materials a certain token allocation to participants in token economics projects. If accounting year-end unrealized gains from crypto assets held by web3 firms are taxed at market value, those firms would be forced to sell crypto assets they hold in order to raise the funds to meet those tax obligations, rendering it impossible to provide the token allocations they previously indicated to participants in token economics systems and leading to a loss of credibility. Since crypto asset issuers themselves will be under bearish pressure, in order for web3 companies to be internationally competitive, they are forced to start businesses in other countries where there is no taxation on accounting year-end unrealized capital gains. For Japan to turn around this perceived disadvantage compared to foreign countries with no such tax on unrealized capital gains and foster a climate for web3, we must do away with accounting year-end tax on unrealized capital gains on crypto asset issuing corporations and instead utilize the book value.

It is also worth noting that in recent years, some blockchains have migrated from using proof-of-work (PoW) to proof-of-stake (PoS) in their consensus algorithms. This aims to achieve a blockchain that takes users more into consideration, such as by speeding up processing speed and reducing fees, while being more considerate of the global environment by curbing power consumption.

In PoS, the authority to generate and approve new blocks is determined according to the amount of crypto assets held by a user, so validators, which hold a certain threshold of crypto assets and serve to verify and approve transactions, play an important role in that ecosystem. Also, some crypto assets implement systems to approve new software updates through voting to improve blockchain governance.

In this way, even though crypto assets held by validators do not aim to obtain profits using short-term price fluctuations, they are still classified as short-term trading instruments by law, and taxation according to the fair value method is applied, a factor that inhibits players from taking part as validators.

Despite the fact that investment money from around the world is flowing into the web3 space and large-scale funds are being created one after another, it is still difficult to create funds in Japan due to the following reasons, depriving web3 firms of fundraising opportunities and taking away investment opportunities for major companies supporting the web2 ecosystem who want to venture into web3.

- Limited partnerships acting as combined funds are limited to investment in securities and are not permitted to invest in crypto assets or crypto asset derivatives.
- Accounting standards for crypto assets are not in place, so the inability to receive audit reports from audit firms prevents showing transparency in accounting, in turn inhibiting raising investment.

Regarding these issues, in addition to proposals[18] for regulatory reform being made by Fukuoka City at the National Strategic Special Zone Meeting, they were also taken up as a matter of policy in the "Trajectories for economic and industrial policy under a turbulent economy[19]" report, so some initiatives aimed at improving the situation can be seen.

This in itself is a welcome development, but even if these issues are resolved, there is no fundamental change to the fact that crypto assets held by funds are assessed using the fair value method at the end of the accounting year, and the constituent corporations that form the fund are subject to taxation, forcing them to sell off crypto assets in order to pay these tax obligations. So, this development alone is not enough to stave the outflow of Japanese web3 companies to sites overseas.

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[18] Materials submitted by Fukuoka City for the 30th Fukuoka-Kitakyushu National Strategic Special Zone Meeting https://www.chisou.go.jp/tiiki/kokusentoc/220531goudoukuikikaigi/shiryou3.pdf
[19] Ministry of Economy, Trade and Industry: Trajectories for economic and industrial policy under a turbulent economy https://www.meti.go.jp/press/2022/07/20220715003/20220715003-a.pdf

Given these reasons, valuating crypto assets (other than those for short-term trading purposes) held by corporations, irrespective the issuer, based on the book value and abolishing tax on unrealized gains at the end of the accounting year would encourage major companies supporting the web2 ecosystem to enter the web3 space, such as by investing in funds and underwriting PoS validators. This would create more financing options for web3 companies and operators and support their growth, which would perforce be the "environmental improvements aimed at promoting Web 3.0" described in the Basic Policy for Economic and Financial Management and Reform 2022, (the so-called "Honebuto no Hoshin" ("big-boned" or core policy).

In addition, crypto assets stipulated in Article 61 of the Corporation Tax Act are defined as "cryptographic assets as set forth in the Payment Services Act (2009 Act No. 59), Article 2, Clause 5," with no provisions made for crypto asset derivatives as stipulated in the Financial Instruments and Exchange Act. We hope to see future debate and discussion around handling of crypto asset derivatives.

4.1.2. Requests

Use book value of crypto assets (other than those intended for short-term trading purposes) held by corporations that issue or acquire crypto assets, instead of taxation based on market value at the end of a given accounting year. In particular, abolish the accounting year-end unrealized capital gains tax on tokens issued in-house, which is a factor driving many companies out of Japan. This would in turn stop the brain drain of web3 talent overseas, and rapidly shore up a climate in Japan where web3 businesses can thrive.

4.1.3. Legal amendments

According to Article 61.3 of the Corporation Tax Act, securities are classified according to their purpose of holding, and "marketable securities for trading purposes" are assessed based on the fair value method, while "securities held to maturity," "subsidiary shares and affiliate company shares," and "other marketable securities" are calculated using the book value.

On the other hand, even when crypto assets are not intended for short-term trading, they are classified as short-term trading instruments, and market value is applied when there is an active market. This does not align with classification methods for securities, so it would be more equitable for crypto assets to follow the way taxation methods for securities are classified according to the purpose of holding said assets.

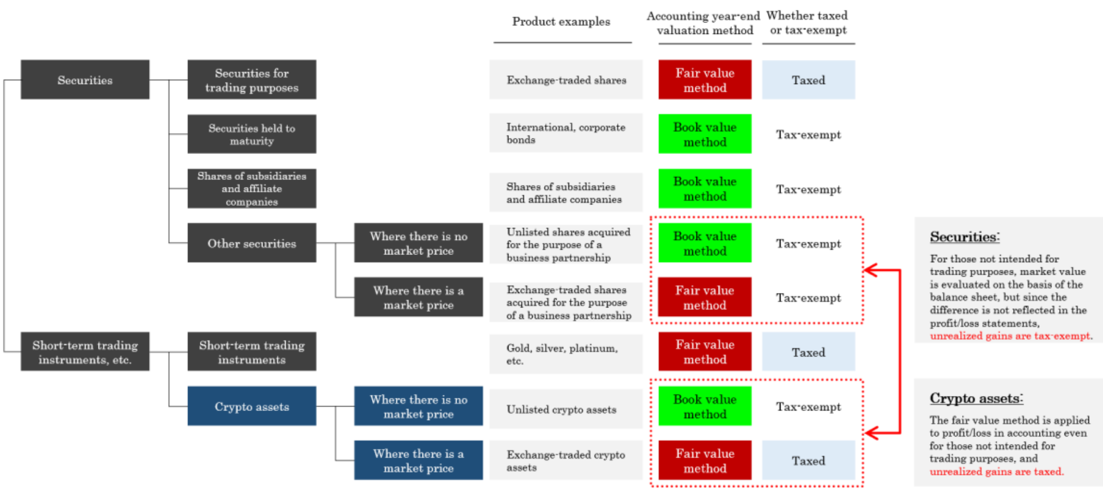
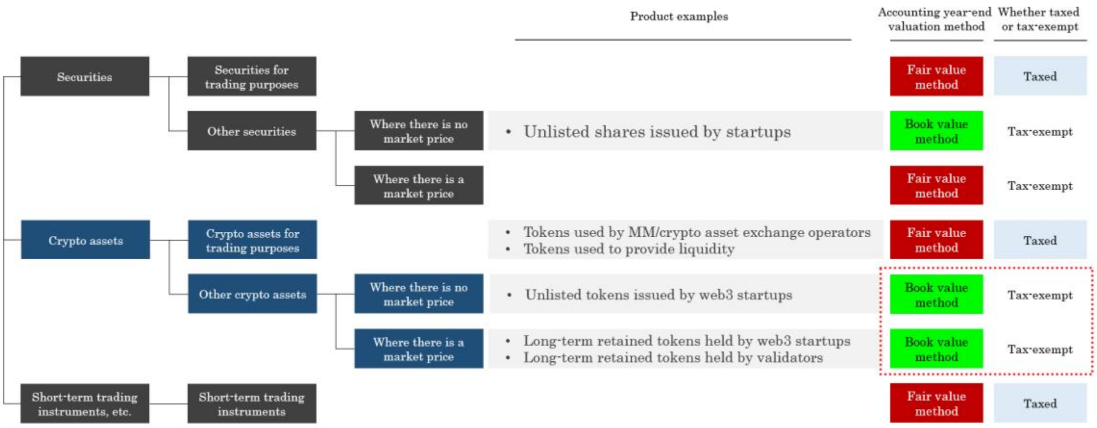


Figure 8: Comparison of current tax classification differences between crypto assets and securities

The amended Corporation Tax Act could have verbiage added to it regarding the purpose of acquisition of a given crypto asset such that those instruments not intended for trading purposes are tax-exempt, which would allow for a book value calculation of crypto assets other than those for short-term trading.



MM: a method where market makers indicate intent to both buy and sell, enabling buying and selling by investors.

Figure 9. Crypto asset taxation categories based on intended purpose of retained assets (proposed amendment)

This amendment to the Corporation Tax Act, Article 61.2, could be structured as follows (red text represents additions) to make it compatible with the above.

Amendment to Article 61.2 of the Corporation Tax Act

In the case where a domestic corporation holds any short-term commodities **"intended for short-term trading purposes"** (for crypto assets, limited to those stipulated by government ordinance as having an active market; applies mutatis mutandis through clause 4 below) as of the end of a business year, the valuation at that time (referred to in the subsequent clause as "market valuation") shall be calculated using the fair value method (refers to a method of calculating the valuation of a given commodity, instrument, or trading name category or class (collectively in this clause, "Class") held at the end of a given fiscal year by using the computation method stipulated by government ordinance for instruments of that same Class.).

2. For the valuation of short-term trading products other than those stipulated in clause 1 above, the term-end book price shall be used.

4.2. Self-assessed separate taxation and carryforward deduction

4.2.1. Current situation and issues

Currently, gains realized from trading crypto assets stipulated in the amended Payment Services Act and crypto asset derivatives stipulated in the Financial Instruments and Exchange Act (collectively, "crypto assets") are, as a general rule, classified as miscellaneous income, and are lumped together with other income in tax on aggregate income. The maximum tax rate, together with income tax and resident tax, is about 55%, and carryforward deductions for losses recognized for other financial products are not recognized for crypto assets.

Thus far, crypto assets tend to be seen as speculative, but in recent years, there has been growing interest in NFTs for their economic potential and regional revitalization through web3 due to their compatibility with Japan's abundant local content industries. DAOs are drawing attention for their potential to serve as an alternative to corporations. web3 does not function solely through individual elements like NFTs and DAOs, but rather as an integrated ecosystem, with crypto assets playing the most important function within that economy.

It is our hope the government's advocation of "from savings to investment" would go beyond just traditional stocks and bonds. In order to create a climate fostering web3 and trigger a positive economic feedback loop, it is essential that, through holding crypto assets, growth capital drawn from household finances in turn promotes economic growth by flowing into web3 companies, and the results of that growth promote household asset formation.

In this way, creating policy such that crypto assets can be more widely accepted by the public would contribute to the development of Japan's industries through an increase in web3 companies, development and creation of new services, and concomitant job creation. To that end, it is essential to revise the tax rate currently imposed on crypto assets to be at least equivalent to that applied to other financial instruments.

The strict taxation system currently in place not only inhibits investing in crypto assets by individuals and prevents a positive feedback loop, but it also promotes the use of overseas crypto asset exchanges that are not registered as crypto asset exchanges in Japan, leading to an outflow of assets.

4.2.2. Requests

Change the taxation method for gains from crypto asset transactions from a tax on aggregate income to self-assessed separate taxation, and set the tax rate uniformly to 20%. Moreover, allow for losses realized in a given year to be carried over for three years starting from the year following the year in which the losses were incurred, deducting them from crypto asset income for the following year onwards. In addition, apply the same treatment to crypto asset derivative instruments. Furthermore, since it is difficult for crypto asset exchange operators, which frequently transfer crypto assets between overseas and domestic operators, to ascertain the trade price of the customer's crypto assets, we request that a scheme for self-assessed separate taxation be implemented, rather than separate withholding tax at the source.

4.3. Repeal of taxation when exchanging crypto assets

4.3.1. Current situation and issues

Under the current Income Tax Act, when a crypto asset is exchanged for another crypto asset (Crypto to Crypto), it is treated as though one crypto asset was purchased using the other crypto asset, and income tax is levied on profits generated from that transfer. Under the Income Tax Act, as stated in the National Tax Agency Tax Answer No. 3105[20] below, the "exchange" of assets is considered a transfer or assignment of assets.

Assignment here refers to any act of transferring owned assets, regardless of whether this is paid or free of charge, so in addition to normal trading, it also includes exchanges or swaps, auctions, public sales, payment in substitutes, distribution of property, expropriation, in-kind investment in corporations, etc.

In the coming era of borderless web3 payments, there is a high likelihood that exchanges between crypto assets that do not rely on fiat currency will become a mainstream aspect of the economy, and there would be a wide variety of transactions occurring and types of crypto assets being exchanged. Therefore, when gains are realized from these exchanges between crypto assets, the tax must be calculated every time, but this calculation can become extremely complicated and hinder the convenience that should be inherent in crypto assets.

When comparing taxation methods for exchanges of crypto assets at an international level, we find that France has abolished taxation within the G7 countries, the reason being the volume and complexity of transactions that occur in a short period of time.

[20] National Tax Agency: Assets subject to capital gains and method of taxation https://www.nta.go.jp/taxes/shiraberu/taxanswer/joto/3105.htm

Category	Country	Taxation	Details
G7+α	Canada	Yes	Capital Gain Tax
	Japan	Yes	Miscellaneous Income
	France	No	
	Germany	Yes	Solidarity Tax
	Italy	Yes	Substitutive Tax
	United Kingdom	Yes	Capital Gain Tax
	United States	Yes	Capital Gain Tax
	India	No (But will be in the future)	(Miscellaneous Income in the future)
Crypto-friendly countries/other countries	Portugal	No (But will be in the future)	
	Luxembourg	Yes	Capital Gain Tax
	Switzerland	No	Some conditions apply. Taxation applies if not a retail investor
	Hong Kong	No	Some conditions apply. Requires implied future cash return on the asset. Taxation applies if intended for short-term trading

Figure 10: International comparison of taxation methods for exchange of crypto assets (Crypto to Crypto)

The assignment of crypto assets was made exempt from consumption tax on the grounds that it "resembles a means of payment" under the 2017 tax system reforms, and the Ministry of Finance stated[21] that the purpose or thrust of said reforms was as follows.

> Given that cryptocurrency is positioned as a means of payment following amendments to the Payment Services Act and in view of tax provisions in foreign countries, cryptocurrency transactions shall be treated as exempt from consumption tax.
> *Applies to transactions carried out on or after July 1, 2017.

If its nature as a method of payment is to be emphasized, it would seem reasonable for tax to be levied when the crypto asset is actually used for payment (for example, if the crypto asset is exchanged for legal tender like Japanese yen or used for the purchase of goods), while it would in turn be reasonably justifiable to abolish taxation on exchanges between crypto assets.

The Basic Policy for Economic and Financial Management and Reform 2022 also states, "We will also consider improving the environment for the implementation of Web3.0 such as the use of NFT and DAO based on blockchain technology." In order to

[21] Ministry of Finance https://www.mof.go.jp/tax_policy/publication/brochure/zeisei17/03.htm#a05

cement Japan's competitive position in the international space as regards the promotion of web3, it is therefore critical to exempt trades between crypto assets from taxation.

4.3.2. Requests

When crypto assets are exchanged with each other, income tax is levied on profits generated each time they are exchanged. It is highly likely that the exchange of crypto assets will become the chief method used for borderless payments in the coming web3 economy, and given the wide variety of transactions that occur and the types of crypto assets to be exchanged, this makes tax calculation extremely complicated, which significantly hinders the convenience that should be inherent in crypto assets. In line with this, Japan should abolish the tax on exchanges between crypto assets.

Conclusion

In this petition, JBA made three requests concerning tax system reform for crypto assets, which are a critical element in the achievement of web3, a key spoke in Japan's national strategy. While we forecast that it is unlikely for all three requests to go into effect by the FY 2023 tax system reforms, it is our fervent hope that during that time and thereafter, our requests continue to be seriously considered.

The climate around web3 continues to change rapidly, and web3 business operators are facing numerous issues beyond the crypto asset tax system itself. In order for Japan to lead the world in the web3 industry, which faces fierce international competition, it is essential for the country, its business operators, relevant industry groups, and other stakeholders to unite and conduct continuous deliberations on these matters to resolve the issues going forward. Japan positioning web3 as part of its national strategy has led to many fruitful and active discussions within the industry, something for which we are very grateful. We ask that the government continues providing a forum for such discussions. JBA will continue to make efforts such that creating new industries through the coming web3 revolution in turn becomes an initiative that contributes to the "new capitalism" being advocated by the national government.

Lastly, we would like to express our gratitude to our customers, who are ardent supporters of web3, crypto assets (cryptocurrency), and blockchain, the respondents to our questionnaires, and the government officials with whom we work.