Tax Reform Request for Crypto Assets
(FY2024)

July 28th, 2023

Japan Blockchain Association

Tax Reform Proposal for Crypto Assets (FY2024)

Introduction

The world has been closely watching the concept of web3[1], a new digital economic sphere in which autonomous users are directly connected to each other on a decentralized network based on blockchain technology, without depending on a specific platform. web3 is also thought of as a next generation internet. It is a once every 30 years innovation that has come after the IT revolution and has the potential to drive economic growth in Japan and around the world.

On the other hand, Japan's web3 related businesses are beginning to fall behind the rest of the world due to the heavy tax burden and vague rules for crypto assets defined in the revised Funds Settlement Law and crypto asset derivatives defined in the Financial Instruments and Exchange Law (hereinafter collectively referred to as "crypto assets"). The percentage of budding entrepreneurs in Japan is very low compared to other countries. Many of these limited entrepreneurs are focusing on web3, but talented web3 personnel are becoming discouraged by the Japanese business environment and continue to leave the country.

In the borderless web3 era, there is a high possibility that using crypto assets that do not depend on a specific country will become the mainstream for payments, and in order to improve the environment for the promotion of web3, it is most important to review the Japanese crypto asset tax system, which is disadvantageous compared to the global standard. Under such circumstances, the cabinet approved the elimination of year-end market value tax for crypto asset issuers in the 2023 tax reform on the 23rd of December 2023, and it is highly praiseworthy from an international competitiveness perspective that one of the themes pointed out as a problem in the tax system related to web3 has been reviewed.

However, the reality of the web3 industry applying blockchain technology in the early days of the market changes drastically every day, and there are still discrepancies between the application of the technology by recent entities and the tax system.

[1] Referred to as "web3" in this document. However, the referenced documents use the notation "Web 3.0".

We, the Japan Blockchain Association (hereinafter referred to as "JBA"[2]), have continued our liaison activities on taxing crypto assets and various institutional designs as an organization formed by renaming the Japan Value Recording Business Association, the predecessor of JBA, which was founded in September 2014. It is probably the oldest existing web3/blockchain-related organization in the world. In the area of tax, it has achieved some results like requesting that crypto assets be exempt from consumption tax and achieving tax system reforms. Recently, JBA board members and advisors have increasingly moved their business overseas to conduct web3 business, and they strongly feel that the arrival of the web3 era is a great opportunity for Japan, but there is also the risk of turning a lost 30 years into the lost 50 years. As a national strategy, we strongly hope that the tax reform for crypto assets will be implemented this year as well, so that Japan can once more lead the world in the web3 era, as it did in 2017 when it was the leading country for crypto assets.

[2] 174 member firms (as of June 30, 2023) https://jba-web.jp/aboutus#overview

Requests for Tax on Crypto Assets

Request 1: the elimination of year-end tax on unrealized profits for corporations holding crypto assets issued to third parties

Eliminate the year-end unrealized gains tax on crypto assets other than for those held for short-term trading purposes by companies that have acquired crypto assets issued by third parties, and replace the year-end market value tax on these assets with a book value assessment. Eliminate the year-end unrealized gains tax on third-party-issued tokens, which is a factor in the current high barriers to entry for domestic capital enterprises in the blockchain industry, to encourage new web3 industry participants and promote an environment where domestic companies can operate web3 businesses.

Request 2: the introduction separate tax for tax returns and loss carry-forward deduction

The method of taxing profits on crypto asset transactions by individuals should be changed from comprehensive tax to separate tax on declaration, at a flat rate of 20%. Furthermore, the taxpayer shall be allowed to carry the losses forward for three years from the year following the year in which the losses are incurred and deduct them from the amount of income related to crypto assets in the following year and thereafter. The same approach should be applied to crypto asset derivative transactions. Additionally, as it is difficult for crypto asset exchangers to obtain the acquisition price of crypto assets for their customers who frequently transfer these assets between overseas and domestic companies, we request that there be a separate tax for declarations instead of separate withholding taxes.

Request 3: the elimination of tax for crypto asset exchanges

When individuals trade crypto assets, they are subject to income tax on the gains generated every time a trade takes place. In the borderless web3 era, exchanging crypto assets is likely to become mainstream in economics, and calculating the tax involved becomes very complex due to the wide range of transactions that happen and the types of crypto assets traded, which significantly hinders the convenience factor inherent in crypto assets. Therefore, the tax on the trading crypto assets should be eliminated.

Innovative services brought about by new technologies, like blockchain technology-based crypto assets, NFT[3], and DeFi[4], have the potential to overthrow the principles and ideas that conventional legal framework and various systems are based on. So, we seek active discussion from industry, government, and academia, without being tied down by existing frameworks, in examining environmental improvements for the promoting web3, and we request that work begin first on crypto asset tax reform, which we believe is of the utmost importance.

[3] Non-Fungible Token

[4] Decentralized Finance

1. The purpose of this request

The Basic Policies for Economic and Fiscal Management and Reform policy, approved by the cabinet on the 16th of June 2023, clearly states that "the government will improve the environment for the utilization of web3 tokens and the revitalization of the content industry, and will take necessary measures to expand the base of players and ideas," and web3 continues to be positioned in Japan's national strategy for economic growth. This request is a part of web3's national strategy for Japan's economic growth. This letter requests a review of tax on crypto assets, which is the biggest hurdle for companies operating web3 businesses in Japan and a disincentive for the public to actively own and use crypto assets.

The cabinet's decision on the 23rd of December 2023 to get rid of the year-end mark-to-market tax on crypto asset issuers in the 2023 tax reform has been recognized both domestically and internationally as an indication that Japan is constantly considering the design of a system suitable for the web3 industry. Creating an environment suitable for web3 as a new industry and achieving international industrial competitiveness should greatly contribute to the medium and long-term growth of the Japanese economy. To this end, we believe it is very important to implement the tax reforms recommended in this request.

2. The Current Status of Crypto Assets and Blockchain

2.1. Crypto Asset Trends

In October 2008, Satoshi Nakamoto published an article online called Bitcoin: A Peer-to-Peer Electronic Cash System[5], in which he described the birth of Bitcoin as a new form of payment based on encrypted proofs, rather than centralized trust by financial institutions. Bitcoin was born. In the 15 years since, the total market value of crypto assets, including Bitcoin, at one point exceeded 300 trillion yen[6] (as of November 2021), and crypto assets are actively traded around the world. The global average crypto asset ownership rate for internet users aged 16-64 is 11.9%[7], while in Japan the rate is below average at 5.0%.

Data for the United States, the United Kingdom, Germany, South Korea, and Singapore show 13.8%, 9.4%, 9.0%, 13.3%, and 15.3% respectively, suggesting that crypto asset penetration in Japan is far below other developed countries.

However, statistics[8] from the Japan Virtual and Crypto assets Exchange Association (JVCEA) indicate that the number of users of trading accounts of crypto asset exchangers in Japan is steadily rising, especially from around 2019, with as many as 6.8 million accounts opened by April 2023, and a certain number of Japanese citizens have invested in crypto assets.

As of June 2011, when the Upper House passed a law changing the tax system for over-the-counter foreign exchange margin trading from a general tax system to a separate tax system, the number of trading accounts in Japan was approximately 3.61 million[9]. We recognize that the number of customers is important when discussing tax reform for crypto assets, and we believe that the number of users has reached a certain scale.

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[5] https://bitcoin.org/bitcoin.pdf

[6] CoinMarketCap https://coinmarketcap.com/ja/charts/

[7] DIGITAL 2023: GLOBAL OVERVIEW REPORT https://datareportal.com/reports/digital-2023-deep-dive-blockchains-roadblocks?utm_source=Global_Digital_Reports&utm_medium=Partner_Article&utm_campaign=Digital_2023

[8] JVCEA statistical data (released in June 2023) https://jvcea.or.jp/cms/wp-content/themes/jvcea/images/pdf/statistics/202304-KOUKAI-01-FINAL.pdf

[9] FFAJ statistical data (released in May 2022) https://www.ffaj.or.jp/wp-content/uploads/2022/05/otc_fx_margin_volume_j.xls

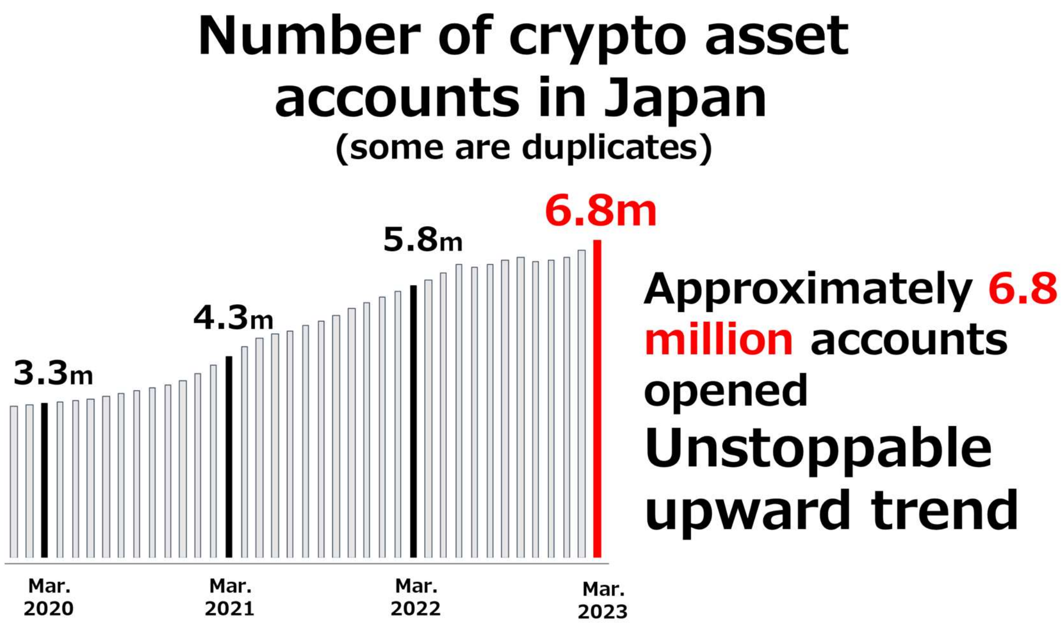

Figure 1: The Number of Crypto Asset Accounts in Japan

2.2. Outflow of Human Resources to Foreign Countries

As noted in 2.1 above, while crypto assets have made some progress in Japan, Japanese web3 entrepreneurs are moving their bases to the Singapore, Dubai, and elsewhere. If this trend is left unaddressed, Japan's talented brainpower will be lost abroad, and the foundation for Japanese innovation in web3 will be lost and hollowed out.

Japanese web3 entrepreneurs cite Japan's crypto asset tax system as one of the reasons for moving abroad. In order for Japan to attract talented people from around the world and lead the world in the web3 era, the tax system for crypto assets needs to be looked at again.

According to a report[10] published by Coin cub, a crypto asset analysis company, Japan's crypto asset ranking in the world as of the fourth quarter of 2022 is 15th out of 64 countries analyzed. While Japan was ranked 2nd for financial factors (out of 64 countries), regulatory (5th), and human resources (15th), it was ranked low for crypto asset tax (55th).

[10] Coincub Global Crypto Ranking: - Q4 2022 https://coincub.com/ranking-update2.pdf

Prepared by JBA based in Q4 of 2022-coin cub Global Crypto Ranking

Figure 2: Global Crypto Asset Ranking

3. Survey Results

3.1. Overview

The JBA did a survey to understand the current condition of crypto asset ownership, management, and tax awareness, and to consider the impact on crypto asset investment if reform of the tax system reform is implemented. The survey was carried out from the 16th of June 2023 (Friday) to the 23rd of July 2023 (Friday), and received 1,358 responses, far more than last year's which had 945. The survey asked several questions necessary for tax reform, all of which were able to gather in opinions needed for future tax reform.

3.2. Annual Income Distribution

The survey on the distribution of annual income among crypto asset holders gained the following 1,358 responses.

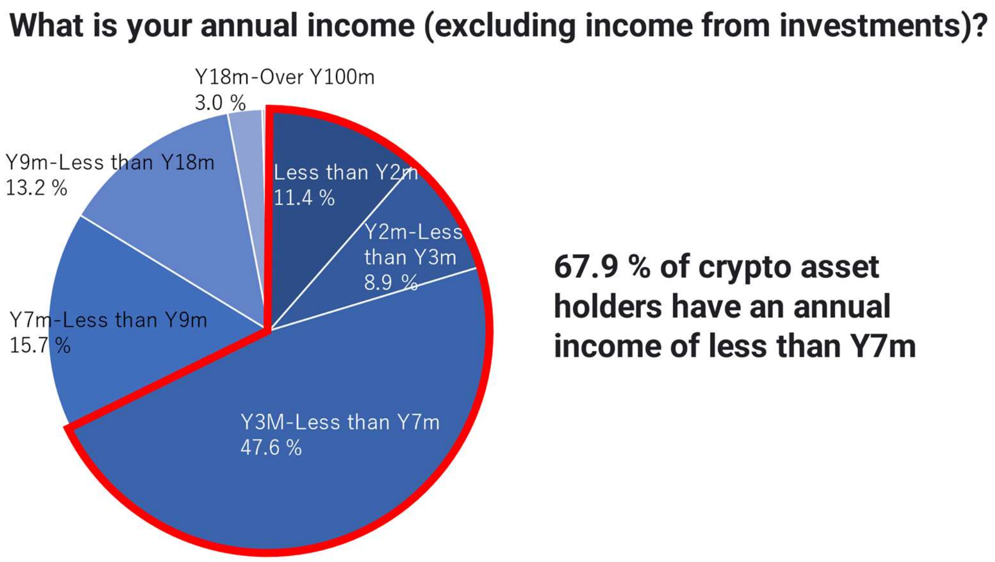

Figure 3. JBA Survey Results (1)

3.3. The Current Status of Realized Gains and Losses on Crypto Assets

The realized gains/losses on crypto assets held by respondents are below. There were 1,358 responses.

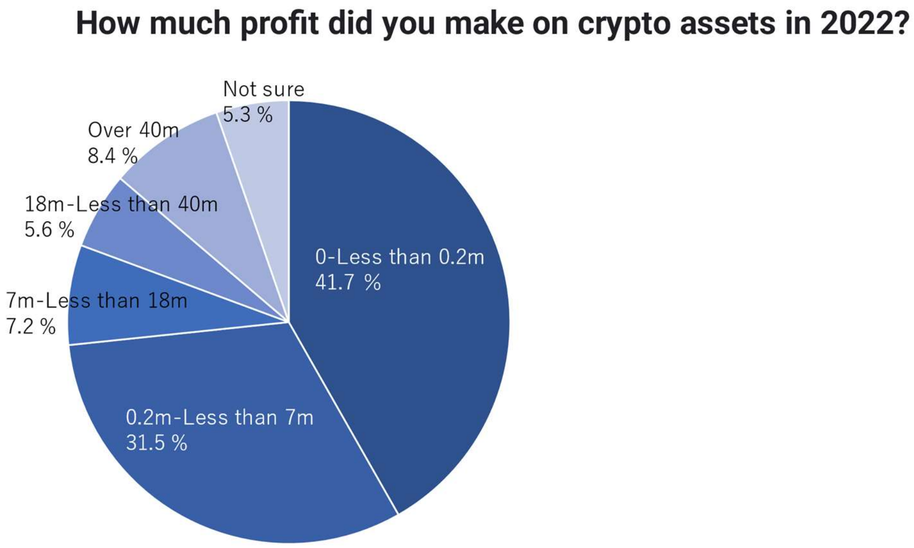

Figure 4: JBA Survey Results (2)

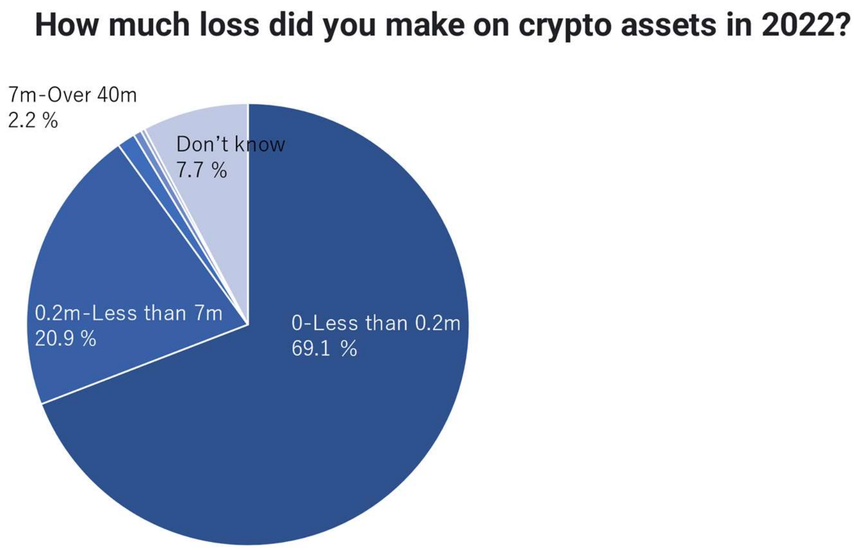

Figure 5. JBA Survey Result (3)

In addition, for the above question (confirmed profit), there was an extra follow up question for those who answered "don't know," given below. There were 148 responses.

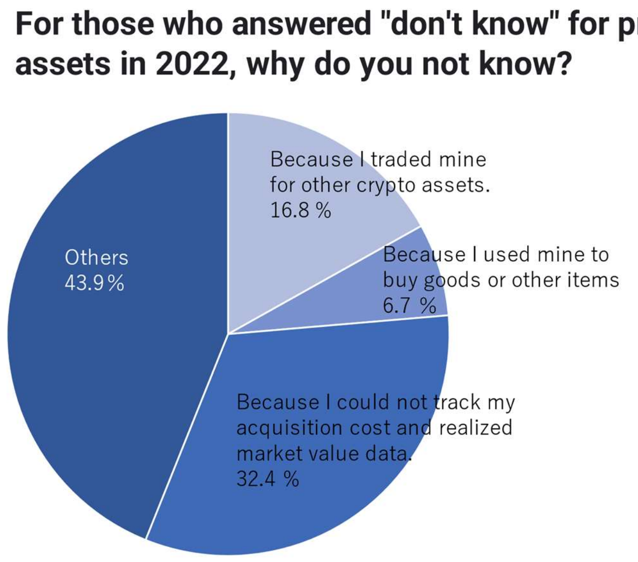

Figure 6: JBA Survey Results (4)

3.4. Opinions on Separate Declaration Tax

The majority of respondents were overwhelmingly in favor of a flat 20% separate declaration tax, as shown below.

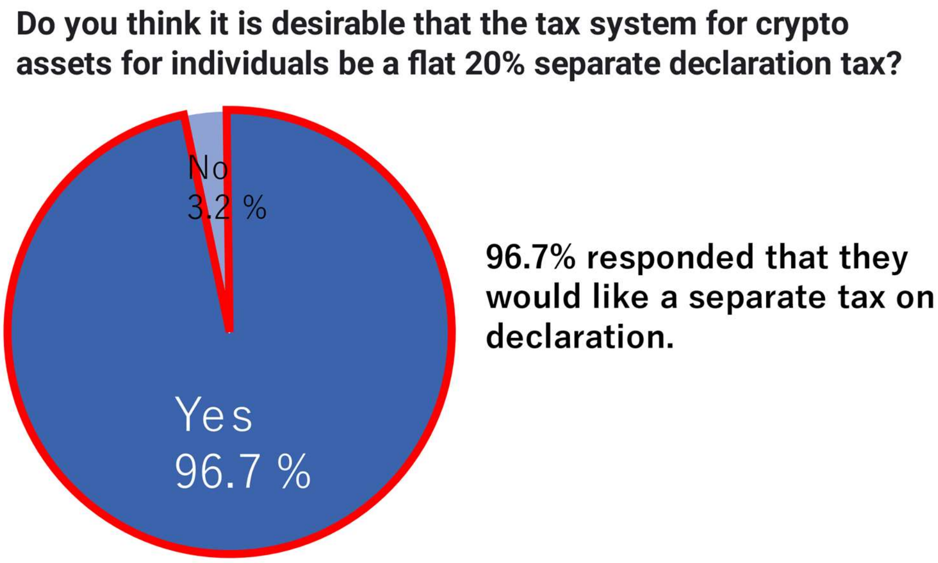

Figure 7: JBA Survey Results (5)

3.5. Impact on Investments

Furthermore, when asked about the impact of a separate flat 20% tax on the amount of crypto assets invested, only 135 respondents (9.9%, 106 (11.8%) last year) answered that they would not increase the amount they had invested in crypto assets, while 1,223 respondents (90.1%; 90 (88.1%) last year) answered that they would increase the amount of their crypto assets investments. Of these, 596 (43.9%, compared to 341 (38.1%) last year) indicated that they would like to more than double their investment.

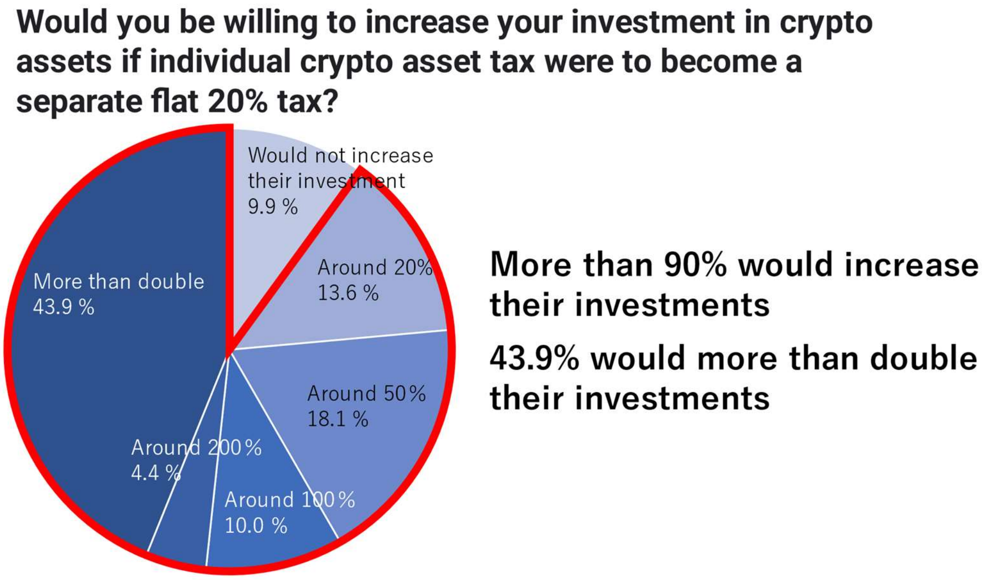

Figure 8: JBA Survey Results (6)

3.6. Impact on Tax Revenue

We request, among other things, that the tax on profits from crypto asset trading be changed from general tax to a separate tax, and that the tax rate be uniformly set at 20%. This is based on the results of a survey that showed the implementation of this request would have an impact on a wide range of income brackets in Japan. By reducing the administrative burden of complicated calculations on tax returns, this tax reform would increase the number of crypto asset users, increase the amount of investment in crypto assets, increase the amount of profit ascertained, and improve proper tax reporting, which will contribute to tax revenues, and so limit the impact on tax revenues. The impact on tax revenues may be limited or even increase in some cases. We would like to conduct ongoing research on the impact on tax revenues.

4. Request Details

4.1. Elimination of year-end unrealized gains tax for companies which have third-party issued crypto assets

4.1.1. Current Status and Issues

Article 61.2 of the Corporate Tax Law classifies crypto assets that fall under market crypto assets as short-term trading instruments, and stipulates that short-term trading instruments, shall be valued using the mark-to-market method. This operation would also apply to crypto assets that are not intended to profit from short-term price fluctuations.

Recently, web3 companies (companies that develop businesses using blockchain technology or funds that invest in them) do not acquire tokens for speculative or short-term gains from trading, but are acquiring and holding tokens for medium to long-term business development based on blockchain technology. JBA's interview survey has revealed that such companies are acquiring and holding tokens not to acquire speculative or short-term trading margins, but to conduct medium to long-term business development based on blockchain technology. Since tokens necessary for the above business development are not held for speculative or short-term trading purposes, it is not expected that the tokens would be sold and used as a source of tax payment for the sake of business continuity in the event that market value tax is imposed at the end of the fiscal year. The current tax system, which may impede business objectives, is currently a major obstacle to the national strategy of growing web3 business.

If tokens had to be sold to pay tax by web3 companies, who aim to create a common economic zone using the tokens, this would create selling pressure on the tokens, resulting in a decline in their market value due to tax factors (rather than a decline in their market value due to healthy business competition), As a result, the growth process of the economic zone utilizing the tokens may come to a halt.

This situation is one of the reasons why web3 companies, which could become an important pillar of the Japanese economy in the future, are forced to start their business in other countries where there is no year-end market value tax in order to survive international competition. This makes it difficult to create a strong domestic token economy, create new web3 businesses, and strengthen the economic zone for tokens already issued.

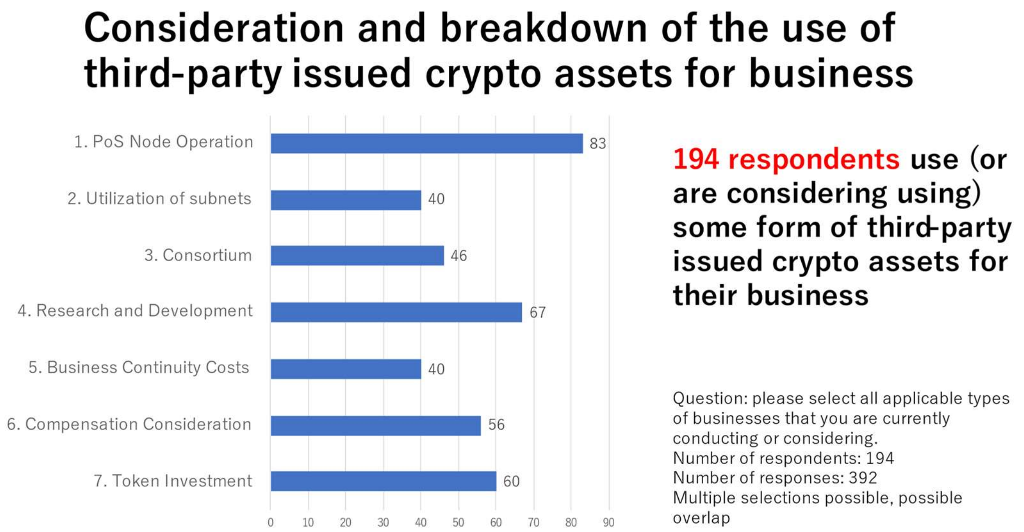

Figure 9: Consideration of utilizing third-party crypto assets for business and its breakdown

4.1.2. Request

The tax method for crypto assets other than for short-term trading purposes held by corporations that have acquired third-party issued crypto assets should be changed from tax based on their market value at the end of the fiscal year to tax based on their book value. The following types of business purposes require holding of third-party crypto assets other than self-issuance, so we would like to propose a categorization of the purpose of holding such assets. This amendment will solve the problem that is currently a major barrier to entry into the web3 business, and will prevent the outflow of web3 personnel outside of Japan and promote the revitalization of the web3 business in Japan.

Types of Third-Party Issued Crypto Assets to be Used in Business

No.	Type	Overview	Discussion Point	Number of companies※
1	PoS Node Operation	Proof of Stake network maintenance and security improvement	when choosing validators, candidates are concerned about the burden of market value tax due to token holdings (for PoS), and candidates do not find them attractive.	83
2	Use of Subnets	Diversion of existing network subnets to web3 business	Some layer 1 blockchains have the capability to build their own blockchain for each business or project, called a subnet (typical example: AVALANCHE). One of the requirements for launching such a subnet is the possession of a native token of the main net chain, whereby case the operator launching the subnet must possess a certain amount of tokens (crypto assets). The tokens will be held for the duration of the subnet, and cannot be sold off. Therefore, it can be said that the tokens are held for business purposes rather than for investment purposes.	40

No.	Type	Overview	Discussion Point	Number of companies※
3	Token-based Consortium (Token allocation for joint business)	Creation of an economic zone using the same token by multiple companies.	For example, when implementing a company-issued token in a blockchain game, it could be difficult to account for it or aim for an IPO (there are almost no audit firms that will accept a company-issued token), and so, by collaborating with other companies, the limited-issue tokens issued by other companies are implemented in the blockchain game. In such cases, becoming a major holder of the limited-issue tokens is essential to stabilize the price of the tokens and increase their price through marketing activities, but if the limited-issue tokens are held at the end of the fiscal year and year-end valuation tax is assessed, taxes must be paid in Japanese yen, so their Japanese yen reserves will disappear and the company could easily be forced into bankruptcy and find itself in a very difficult cash flow situation.	46
4	Research and Development	The purchase and holding of various crypto assets for the purpose of developing blockchain-related services	In developing blockchain-related services, it is necessary to purchase and hold various crypto assets for the purpose of research and development, in addition to gas expenses, and tax risks arise with respect to such holdings.	67

No.	Type	Overview	Discussion Point	Number of companies※
5	Expenses Required for Business Continuity	In addition to using crypto assets for sales of developed products and services, gas costs will also be incurred on a constant basis.	Blockchain development costs and project sales are paid for by crypto assets. Continuous holdings are desirable to avoid price declines, but carry tax risks. The cash flow strategy of purchasing stablecoin at low prices is not feasible. 40	40
6	Necessary Expenses for Compensation	Crypto assets are expected to be used as incentive compensation and as a way of paying salaries in the future.	Among tokens issued by other companies that are acquired through business activities, tokens issued by other companies, especially those related to blockchain games, may be given or transferred to executives, direct employees, or outsourcing contractors as incentive compensation with the permission of the issuing company. In order to make use of incentive compensation flexibly, it is necessary to hold these tokens issued by other companies for a given period of time, but if such tokens are held at the end of the fiscal year and subject to year-end valuation tax, taxes may be incurred, and the incentive compensation may be of limited duration and continuously useful to the company. It is difficult to design compensation that is useful to the company on an ongoing basis.	56
7	Token Investment	CVC investments in operating companies	In some cases, operating companies take part in the initial round of web3 projects as part of a CVC investment. In this case, in addition to equity investment in the issuer, they may also get tokens, all of which have in common that they are expected to be held from the beginning over the medium and long term.	60

No.	Type	Overview	Discussion Point	Number of companies※
8	Other	Other businesses not covered above.	The principal portion of the investment is locked for a given period of time by contractual clauses or smart contractual mechanisms, so that there will not be a taxable relationship with price fluctuations. It is for the business to make an economic decision to choose which means of interest generation they want to compensate for the inflationary diminution in value of the principal portion, but at least in the case of these choices, as long as the business has not chosen the economic behavior of acquiring profits through short-term trading, it does not fall under tax on unrealized gains and losses.	-
			Tokens representing rights to gold or other physical commodities may also come under the category of crypto assets under Japan's Funds Settlement Law. In view of the purpose of using tokens as a way of settlement, tax of unrealized gains/losses at the end of the period before they are used for settlement may be an hindrance in achieving that purpose. As one of the cases where the purpose is not to make marginal gains from short-term trading, it can be said that unrealized gains/losses should be exempt from tax.	-

*These are the results of a questionnaire survey and do not represent an exhaustive picture of the current situation.

4.2. Separate Declaration and Carry Forward Deductions

4.2.1. The Current Status and Issues

Currently, profits generated from trading crypto assets are classified as miscellaneous income and are taxed together with other income as a lump-sum. The maximum tax rate is approximately 55% together with income tax and residents' tax, and crypto assets are not allowed to carry forward deductions for losses, which are allowed for other financial instruments.

Crypto assets have often been viewed as speculative, but in recent years, the Tax Treatment of NFTs[11], published in January 2023, has shown progress in the tax treatment of NFTs, and there are high expectations for the expansion of the economic zone on the web3 due to NFTs' compatibility with Japan's abundant content power. The web3 is not something that can be established by individual elements such as NFTs and DAOs[12], but can be realized by functioning as an integrated ecosystem, and crypto assets are the most important assets within that economic sphere.

Although crypto assets are currently categorized under the Funds Settlement Law, looking back to the past, "over-the-counter" foreign exchange FX transactions were subject to the same general tax as current crypto assets, but the change to separate tax encouraged the momentum "from savings to investment", and it is possible that transactions in crypto assets will also be subject to separate tax. We hope that transactions in crypto assets will also be subject to separate tax. The maturation of the crypto asset market will be the foundation for the establishment of web3 companies.

The web3 trend is similar of the early days of the internet, and it is difficult to see how the future will develop. However, there is no doubt that the next era after the one in which a few giant companies dominate the market is approaching, and it is up to society how to respond. So Japan does not to fall behind, it is necessary to support web3 engineers and startups, and in fact, these projects require a large amount of money. Raising these funds through crypto assets puts investors at a tax disadvantage. The comprehensive tax system has become a barrier to entry for individual investors. It is important for the development of the web3 environment and the realization of a virtuous economic cycle that growth capital supplied by households through holding of crypto assets goes to web3 firms to promote economic growth, and the fruits of that growth promote households' asset formation.

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[11] National Tax Agency JAPAN Tax Treatment of NFT (Information)
https://www.nta.go.jp/law/joho-zeikaishaku/shotoku/shinkoku/0022012-080.pdf

[12] Decentralized Autonomous Organization

Thus, the establishment of rules for the wider public acceptance of crypto assets will contribute to the development of Japanese industry through the increase in the number of web3 companies, the development and deployment of new services, and the accompanying increase in employment. Therefore, it is vital to revise the tax rates currently imposed on crypto assets and make them at least at the same level as those on other financial instruments.

The current harsh tax system not only discourages individuals from investing in crypto assets and prevents a virtuous cycle, but also encourages the use of foreign crypto asset exchanges that are not registered as crypto asset traders in Japan, leading to an outflow of assets.

4.2.2. Requests

The method of tax on profits of crypto asset transactions by individuals should be changed from general tax of miscellaneous income to separate tax on declared income, with a flat tax rate of around 20%. Additionally, the taxpayer should be allowed to carry over losses for three years from the year following the year in which the losses are incurred and deduct them from the amount of income related to crypto assets from the following year onward. Crypto asset derivative transactions should be treated in the same manner.

Since it is difficult for crypto asset traders, who frequently transfer crypto assets between overseas and domestic vendors, to obtain the acquisition price of the crypto assets of their customers, we request that tax be separate for declared income instead of a separate withholding tax.

4.3. Eliminating Tax on Crypto Assets at the Time of Exchange

4.3.1. Current Status and Issues

Under current income tax law, when a crypto asset is exchanged for another (crypto to crypto), it is considered as though one crypto asset was used to purchase another, and income tax is imposed on the profit generated from the transfer. Under the Income Tax Law, as stated in National Tax Agency Tax Answer No. 3105[13], "Transfer means any act of transferring owned assets, whether gratuitous or paid, and thus includes not only ordinary sales and purchases but also exchanges, auctions, public sales, payment in kind, distribution

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[13] National Tax Agency Japan, Assets subject to transfer income and taxation method https://www.nta.go.jp/taxes/shiraberu/taxanswer/joto/3105.htm

of property, expropriation, and contributions-in-kind to corporations." As stated, an "exchange" of assets is considered to be a transfer of assets.

In the borderless web3 era, the exchange of crypto assets that do not rely on legal tender is likely to become mainstream, and the kinds of transactions that will take place and the types of crypto assets that will be traded will vary enormously. Consequently, tax calculations will be required every time profit is earned when crypto assets are traded, which will be extremely complicated and may hinder the inherent convenience of crypto assets.

In an international comparison of tax methods for trading of crypto assets, within the G7 the France has eliminated this tax, citing the number and complexity of transactions that occur in a short period of time as the reason.

Category	Country	Presence of Tax	Description
G7+α	Canada	Yes	Capital Gains Tax
	Japan	Yes	miscellaneous income
	France	No	
	Germany	Yes	Solidarity Tax
	Italy	Yes	Substitutive Tax
	United Kingdom	Yes	Capital Gains Tax
	United States	Yes	Capital Gains Tax
	India	Yes	Capital Gains Tax
Crypto-Friendly and others	Portugal	No (Yes in the future)	
	Luxembourg	Yes	Capital Gains Tax
	Switzerland	No	Conditional (taxed if not a private investor)
	Hong Kong	No	Conditional (Must be asset-based, taxable if applicable to short-term trades)
	Singapore	No	Capital Gains Tax
	Dubai	No	Capital Gains Tax

Figure 10: International Comparison of Tax on Crypto to Crypto (as of July 2023)

The transfer of crypto assets is exempt from consumption tax as "similar to a means of payment" under a 2017 tax reform[14]. If the characterization of crypto assets as a means of payment is to be emphasized, it is considered sufficient to tax crypto assets when they are actually used as a means of payment (e.g., when crypto assets are exchanged for legal tender such as Japanese yen or used to purchase goods), and it could be reasonable to eliminate the tax on exchanging one crypto asset for another.

[14] National Tax Agency Japan, Tax-exempt transactions
https://www.nta.go.jp/taxes/shiraberu/taxanswer/shohi/6201.htm

In addition, exchanges between foreign currencies are currently taxed. However, there are very few cases where foreign currencies are exchanged without involving Japanese yen. For example, since foreign exchange is a settlement of exchange differences, it is in effect just a transaction that generates a profit or loss in Japanese yen. There could also be a case where a person travels the world and exchanges currencies, but it would be a small transaction in terms of scale. Moving abroad and exchanging foreign currency as a result of the move is not subject to tax. There could be cases where a foreign currency deposit in Japan is further exchanged for a foreign currency, but most foreign currency deposits handled by many banks are usually exchanged for foreign currency and yen.

So, tax on exchanging foreign currencies and tax on trading crypto assets have completely different probabilities of occurring. Crypto asset for crypto asset trades occur frequently. In particular, there are cases in which a transaction is made with the intention of exchanging crypto-assets, but a transaction is unintentionally made over a third crypto asset in order to exchange that pair of crypto assets in a transaction. Since this fact is not known without examining the transaction, there is often no awareness that this third crypto asset is being traded. If all of these transactions were to qualify as taxable, it would increase the complexity and create a disincentive for crypto asset transactions.

4.3.2. Requests

When individuals exchange one crypto asset for another, they are subject to income tax on the gains generated every time the trade takes place. In the borderless web3 era of payments, the exchange of crypto assets is likely to become the mainstream in the economy, and tax calculations will become extremely complicated due to the wide variety of transactions that occur and the types of crypto assets exchanged, which significantly hinders the convenience inherent in crypto assets. Therefore, the tax on the exchange of crypto assets should be eliminated.

Conclusion

This report summarizes the JBA's three requests for tax reform regarding crypto assets, a very important element for the realization of Japan's national strategy to promote web3.

As indicated in the National Tax Agency's 20th of June 2023 notice[15], the JBA appreciates that the business environment has been steadily improving over the past year, as shown by the easing of year-end market value assessment tax on self-issued crypto assets. However, in light of the environment surrounding the web3 industry, which continues to change at rapid pace and is subject to fierce international competition, and in light of the fact that the web3 promotion strategy and the startup support that plays a role in this strategy have been set forth in the national growth strategy, further tax easing is necessary for Japan to lead the world in the web3 industry.

Although it is unlikely that all three requests will be realized in the tax reform of fiscal 2024, we sincerely hope that they will continue to be considered in that case as well.

In this fiscal year's request, we received many examples of crypto asset use and tax issues in such cases from JBA member companies, and this has enabled us to discuss the issues with a higher degree of granularity. Using these materials, the JBA will continue to make efforts to contribute to the government's "new capitalism" by removing barriers to the emergence of new industries through the web3 revolution, while the government, businesses, and related industry associations unite and examine various types of cases.

Finally, we would like to express our gratitude once again to our customers who love web3, crypto assets (virtual currency), and blockchain, to those who filled out the survey, and to all government officials.

[15] National Tax Agency Japan, Partial Revision of Basic Notification of Corporate Tax, etc. (Notification of Interpretation of Laws and Regulations)
https://www.nta.go.jp/law/tsutatsu/kihon/hojin/kaisei/2306xx/index.htm