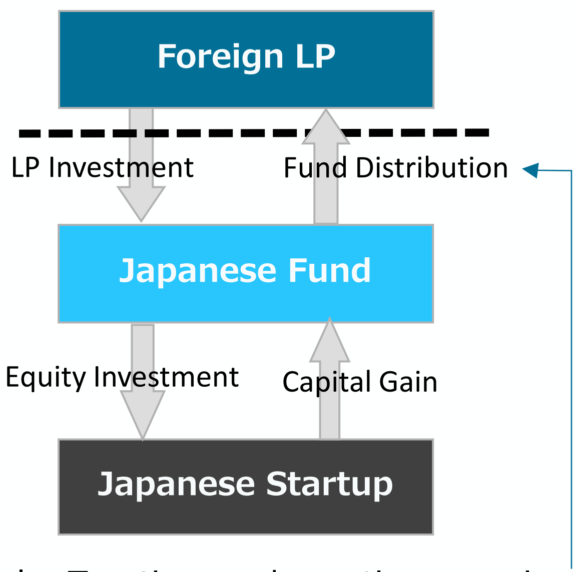
Revisions to special provisions for taxation of foreign partnership members

- In December 2025, **the Japanese government has decided to revise the special provisions for taxation of foreign partnership members** (commonly known as the “**PE Exemption**”), subject to legislative approval by the Diet.
- Generally, when foreign investors participate as limited partner (LP) in a fund that has a general partner (GP) in Japan, **domestic source income earned through the fund is subject to taxation**. However, this special provision provides that **no tax will be imposed**.
- Since this special provision has been pointed out as a barrier to investment in Japan, **necessary revisions will be made, including raising the permissible ownership ratio in the fund**.



Principle: Taxation on domestic source income
Special Provision: Exemption from taxation on domestic source income

The following relieving amendments regarding the application requirements of this special provision will be introduced.

Requirements	Details of the Amendments
①Investment Ratio	The upper limit of the investment ratio by a foreign LP in the fund **will be raised from less than 25% to less than 50%.** ※Only the fund that have a LPAC.
②Management and operation	The requirement that a LP does not engage in the management and operation of the fund will be revised to **exclude approval of conflict-of-interest.**
③Other income	The requirement that the LP does not have income attributable to permanent establishments other than income attributable to the business of the fund **will be abolished.**