



# Tax Environment In Japan And Korea

## What's Trending In Tax Audits And Dispute Resolution

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*Facilitated by:*

Mr Ryutaro Oka, Mr Luke Tanner,  
Mr Jangwoon John Kwak and Ms Seonhye Kim

### KEY TAKEAWAYS

- The National Tax Agency in Japan increasingly employs sophisticated digital tools to scrutinise intellectual property transactions, valuations of intangible assets, and pricing arrangements.
- Audits in Korea must strictly adhere to statutory procedures. Non-compliant audits constitute an abuse of authority, thereby providing taxpayers with legal safeguards.
- The National Tax Service in Korea has been emphasising permanent establishment to assert taxable presence for foreign entities, especially in the digital economy and cross-border services.

**I**n the dynamic landscape of international tax, staying updated on the latest trends in tax audits and dispute resolution is essential for professionals navigating cross-border transactions.

Based on a recent seminar organised by the [Singapore Chartered Tax Professionals](#) and facilitated by Ryutaro Oka, Partner, and Luke Tanner, Partner, Baker McKenzie (Gaikokuho Joint Enterprise); Jangwoon John Kwak, Partner, and Seonhye Kim, Senior Associate, Baker McKenzie & KL Partners Joint Venture Law Firm, this article explores the current trends in tax audits and dispute resolution in Japan and Korea.

By understanding the dispute resolution landscape in these two advanced Asian economies, Singapore tax professionals can better anticipate challenges, leverage best practices, and enhance their strategic approach to managing tax risks in the Asia-Pacific region.

### Recent Trends in Japan

#### KEY FOCUS AREAS

According to the statistics released by the National Tax Agency (NTA), the number of tax audits in Japan has broadly remained fairly stable over the past years. However, the tax revenue collected per audit has seen a notable increase, particularly in international tax and transfer pricing. This indicates the Japanese tax authorities may be focusing on maximising revenue from these complex and high-value areas.

Cross-border transactions, such as service payments and withholding tax, are often targeted by the Japanese tax authorities for audit. Similarly, the Japanese Controlled Foreign Corporation (CFC) regime is also a key focus area. Under the CFC regime, Japanese parent companies are required to include the income of their low-taxed foreign subsidiaries in their taxable income. Due to its complexity, the CFC regime can trigger significant tax liabilities for taxpayers undergoing certain corporate events, such as changes in ownership structure.

Transfer pricing remains a priority for tax audits in Japan, with issues such as intangible property transactions and losses being significant areas of contention. The NTA increasingly employs sophisticated digital tools to identify issues for audit, which may include valuations of intangible assets, and complex pricing arrangements involving profit splits. Notably, transfer pricing audits in Japan are often conducted separately from regular corporate income tax audits.

On the indirect tax side, the number of foreign companies required to pay Japanese Consumption Tax (JCT) is increasing, which may strain the NTA's ability to monitor filings. The NTA also has heightened concerns about fraudulent JCT refund claims, and businesses submitting large refund claims may be subject to rigorous verification of invoices and transaction data.

Separately, it is also observed that the NTA has been focusing on cases that attract public attention to create a deterrent effect. Uncontacted entities – those that have never been audited since establishment – are also increasingly targeted.

## **DIGITISATION OF THE NATIONAL TAX AGENCY**

Audits conducted by the Japanese tax authorities are transitioning from traditional, in-person, paper-based tax audits to digital audits. Audit meetings are beginning to be conducted via digital platforms like Microsoft Teams, with secure file exchanges facilitated through email or the Japanese government cloud.

## ***Recent Trends in Korea***

### **TAX POLICY UNDER THE CURRENT ADMINISTRATION**

Korea is undergoing progressive tax reforms and redistribution. Tax incentives are being expanded to promote strategic industries, such as semiconductors and batteries, as well as domestic production. To fund these initiatives, legislation amendments, including a one-percentage-point increase in the marginal corporate income tax rate for each tax base bracket, have been introduced, alongside strengthened tax enforcement.

Taxpayers can opt for digital audits, and from September 2025, the NTA will gradually allow the option of digital audits over traditional paper-based processes in more cases.

The NTA is also expanding its use of the Kokuzei Sogo Kanri (KSK) system, a comprehensive tax management system. New audits are increasingly data-driven, leveraging KSK outputs to identify audit targets based on risk assessments.

## **IMPORTANT CONSIDERATIONS FOR AUDIT STRATEGY**

When developing their audit strategy, taxpayers would be well advised to take into account the unique audit culture and practices in Japan. Tax audits are typically conducted every three to five years. Audits conducted by district tax offices (for small and medium-sized entities or SMEs) present different challenges compared to those conducted by regional tax bureaus (for large corporations with registered share capital of JPY100 million or more).

Japan does not recognise attorney-client privilege in the same manner as common law jurisdictions, potentially affecting taxpayer strategies during audits. When dealing with audit requests, taxpayers should consult with their legal advisors to understand their rights and obligations, particularly when the NTA requests access to IT systems, as auditors must generally specify the documents requested under the law.

Since the appointment of the current National Tax Service (NTS) commissioner in July 2025, the NTS has launched a high-profile audit targeting 27 companies and their representatives suspected of tax evasion through stock manipulation, false disclosures, and illegal succession of corporate control. The NTS is also planning to intensify audits of foreign multinational enterprises (MNEs), particularly those using cross-border structures to minimise tax liabilities.

## CLASSIFICATION OF TAX AUDIT

In Korea, the scope of taxpayers' obligations and defence strategies depends on whether an inquiry is classified as a tax audit or a non-tax audit. Essentially, tax audits impose legal obligation on the taxpayer to respond and are subject to appeal, while non-tax audits are informal inquiries (such as phone calls or requests for cooperation) which do not carry legal obligations to comply.

Audits in Korea must strictly adhere to statutory procedures. Non-compliant audits constitute an abuse of authority, thereby providing taxpayers with legal safeguards.

## USE OF ARTIFICIAL INTELLIGENCE (AI) AND INCREASED SCRUTINY

In recent years, the NTS has increasingly relied on artificial intelligence (AI) to carry out risk-based assessments to identify audit targets. Data collection is emphasised to support AI-driven audits, with an increased use of advanced forensic, digital investigations and even dawn raids to collect comprehensive data. The NTS also leverages Exchange of Information (EOI) with foreign tax authorities to scrutinise cross-border transactions and offshore entities.

Such heightened scrutiny increases tax risks for foreign MNEs, with some audits escalating to criminal prosecutions, particularly for VAT-related violations.

## KEY FOCUS AREAS

The NTS has been emphasising permanent establishment to assert taxable presence for foreign entities, especially in the digital economy and cross-border services. The NTS has also been recharacterising payments for digital assets (such as software and copyright) and service fees as royalties under the "substance over form" principle, triggering withholding tax obligations for Korean payers and potential liabilities for foreign recipients.

Similar to Japan, transfer pricing is also a key focus area for tax audits in Korea, with the recent focus on COVID-related adjustments. While taxpayers are permitted to use loss-making comparables for the COVID period under the Presidential Decree of International Tax Coordination Law, the NTS is now scrutinising misapplications of these relief measures. Sectors that demonstrated strong performance during the pandemic, such as luxury goods, technology, e-commerce, and semiconductors, are now being targeted for transfer pricing audits.

## Conclusion

The intensified tax audit scrutiny, the digital transformation, and the AI-driven enforcement in Japan and Korea underscore the need for robust documentation, proactive compliance, and strategic engagement with local advisors. By leveraging insights from these advanced Asian economies, Singapore professionals can effectively manage tax risks and optimise outcomes in the dynamic Asia-Pacific tax environment.

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## Facilitators

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**Mr Ryutaro Oka**

Partner  
Baker McKenzie (Gaikokuho Joint Enterprise)

Email: [Ryutaro.Oka@bakermckenzie.com](mailto:Ryutaro.Oka@bakermckenzie.com)



**Mr Luke Tanner**

Partner  
Baker McKenzie (Gaikokuho Joint Enterprise)

Email: [Luke.Tanner@bakermckenzie.com](mailto:Luke.Tanner@bakermckenzie.com)



**Mr Jangwoon John Kwak**

Partner  
Baker McKenzie & KL Partners Joint Venture Law Firm

Email: [John.Kwak@bakermckenziekorea.com](mailto:John.Kwak@bakermckenziekorea.com)



**Ms Seonhye Kim**

Senior Associate  
Baker McKenzie & KL Partners Joint Venture Law Firm

Email: [SeonHye.Kim@bakermckenziekorea.com](mailto:SeonHye.Kim@bakermckenziekorea.com)

This technical event commentary is written by SCTP's Tax Head, Accredited Tax Advisor (Income Tax) Felix Wong and Senior Tax Manager, Accredited Tax Practitioner (Income Tax & GST) Joseph Tan. For more insights, please visit <https://sctp.org.sg/Tax-Articles>.

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