RESEARCH NOTE 2

International Comparison of Property Taxes (Real Estate Tax Systems)

Related to Charitable Trusts

June 21, 2026

1. Purpose and Background of the Study

In revitalizing Japan's non-profit sector, public interest corporations and charitable trusts play a major role as receiving vehicles for private funds. In May 2024, alongside amendments to the Act on Authorization of Public Interest Incorporated Associations and Public Interest Incorporated Foundations, a new Charitable Trust Act was passed and came into effect on April 1, 2026. Both laws were passed together in the same session of the National Diet. The establishment of the Charitable Trust Act aligns with the direction of the public interest corporation reform presented by the Cabinet Office expert panel (Expert Panel on the Ideal Public Interest Corporation System for a New Era, 2023). It was developed to match the public interest corporation system by relaxing trustee requirements and transitioning to unified supervision by administrative agencies (Ministry of Finance, 2023).

However, critics point out that systemic gaps still remain regarding local taxes related to real estate ownership, particularly property taxes (Fixed Asset Tax). Section 348, Paragraph 2 of the current Local Tax Act provides tax exemptions for real estate directly used by public interest corporations for their public-benefit purposes. However, "charitable trusts (trust property)" are not explicitly included in a comprehensive manner within that section's exemption list.

This research note investigates and compares how charitable trusts are treated regarding property tax (local taxes and property taxes related to holding real estate) in three major developed countries: the United Kingdom, the United States, and Canada. The purpose of this study is to objectively analyze how other countries treat corporate forms versus trust forms, and how they support public interest activities involving real estate, to provide helpful insights for future discussions on local tax reform in Japan.

2. Japan's Current System and the Need for Reform

Property tax in Japan is a municipal tax (a metropolitan tax in Tokyo's 23 wards) levied on anyone who owns land, buildings, or depreciable assets as of January 1 each year (Ministry of Internal Affairs and Communications, 2025). Section 348, Paragraph 2 of the Local Tax Act states that real estate "directly used for specific purpose activities or public-benefit activities" by social welfare corporations, school corporations, and public interest incorporated associations/foundations is exempt from property tax. However, this tax exemption for public interest corporations is not all-inclusive; it is strictly limited to real estate directly used for purposes specifically itemized in each clause of that paragraph, such as kindergartens, libraries, museums, dormitories, healthcare training facilities, or certain academic research facilities (an itemized list).

On the other hand, regarding the charitable trust system, the 2026 legal reform relaxed trustee requirements and strengthened governance structures, shifting to a mechanism that guarantees public benefit and reliability on par with public interest corporations. However, regarding tax incentives (the scope of tax exemptions) for real estate included as trust property or directly used for the operations of a charitable trust, a comprehensive application equivalent to that of public interest corporations has not been fully established.

For this reason, even when conducting the exact same public interest activities, differences in tax treatment arise simply due to legal form—whether it is "owned and used by a public interest corporation" or "used as trust property under a charitable trust." From the perspective that this difference can hold back the flexible use of private funds, there is a call to amend the Local Tax Act (expanding the scope of Section 348, Paragraph 2) to bring the two systems into alignment.

3. Handling of Charitable Trusts and Local Real Estate Taxes in Other Countries

This section provides an overview of specific legal systems in major developed countries, looking at how local taxes (property taxes and non-residential property taxes) are set for real estate owned and used by charitable organizations and charitable trusts.

3.1 United Kingdom System

The local tax system in the UK clearly separates tax frameworks based on how real estate is used. While residential properties are subject to "Domestic Rates" (Council Tax: equivalent to personal local residency taxes), non-residential properties used for business or commercial purposes are subject to a local tax called "Business Rates" (Non-Domestic Rates)[1]. In England and Wales, the primary legal basis for Business Rates is the Local Government Finance Act 1988.

(1) Mandatory Relief for Charities: Under Section 43(5) and (6) of the Local Government Finance Act 1988, local governments are legally required to reduce tax amounts by 80% for real estate occupied by a qualified charity (public benefit organization) or its trustees (trustees of a charitable trust) if the property is "wholly or mainly used for charitable purposes."

(2) Discretionary Relief by Local Authorities: Furthermore, under Section 47 of the same Act (Section 47: Discretionary relief), local authorities (Local Authority) have the power to grant additional tax reductions for the remaining 20% at their own discretion. Some local governments, such as the city of Birmingham, adopt a policy where applications from charities receiving mandatory relief are generally granted the remaining 20% as well, making the property effectively 100% tax-exempt[2] (Birmingham City Council, 2024). However, it is important to note that how this discretionary relief is applied varies widely among local governments. Some point out that the actual average discretionary relief awarded is only a few percent (Lexology, 2023), meaning 100% tax exemption is not guaranteed uniformly across the UK.

(3) Equality Between Trusts and Corporations: Under UK law, as long as an organization meets the requirements of a charity, no legal discrimination or gap exists in Business Rates relief—whether the organization is formed as a corporation like a "Company Limited by Guarantee" or as trust property managed by a trustee of a "Charitable Trust". The system evaluates eligibility strictly based on the "actual use of the property for charitable purposes".

3.2 United States System

Property tax in the United States is a typical local tax levied by local governments such as counties and cities under authority delegated by state law.

(1) "Exclusive Use" Standard for Public Benefit: Under provisions of each state's constitution and tax code (such as

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[1]Business Rates and Domestic Rates: These are local tax categories in the UK (United Kingdom) aimed at real estate. In official legal terms, they are called "Non-Domestic Rates" and "Domestic Rates".
Business Rates (Non-Domestic Rates) are local taxes levied on commercial and business real estate such as offices, shops, factories, and warehouses, serving a role similar to Japan's "Property Tax (Commercial)" and "Business Office Tax". A key feature is that, as a general rule, the tax obligation falls not on the owner, but on the person actually using or occupying the property (such as a tenant).
Domestic Rates are local taxes levied on residential real estate like standard houses and apartments. Currently operating under the name "Council Tax" in England and other areas, this tax combines features of Japan's "Personal Residency Tax" and "Property Tax (Residential)".

[2]Discretionary Relief Policy Examples: Depending on the local government, considering an organization's contribution to the local community and its effect in lowering the local authority's own welfare costs, there are operational examples where charities receiving mandatory relief (80%) can apply for and generally receive an exemption for the remaining 20%, resulting in a 100% tax reduction.
For example, the "Business rates discretionary relief policy" set by the Birmingham City Council states that registered charities receiving mandatory relief (80%) can apply for discretionary relief for the remaining 20% of the bill (Birmingham City Council, 2024). However, because these operations depend on each local authority's financial condition and policies, 100% relief is not guaranteed uniformly across the entire country.

the Texas Tax Code or the California Revenue and Taxation Code), real estate that is "exclusively used" for religious, educational, or public benefit purposes qualifies for a property tax exemption.

(2) Neutrality Toward Legal Forms: While having tax-exempt status under Section 501(c)(3) of the Internal Revenue Code (IRC) is often a prerequisite for applying for a state-level exemption, whether the organization is structured as a non-profit corporation or as a charitable trust does not create a difference in eligibility for property tax exemption (California State Board of Equalization, 2004; Texas Comptroller of Public Accounts, 2024). Even if legal ownership of the real estate is in the name of a trust's trustee (as trust property), as long as the real estate is directly and exclusively used for approved public benefit activities, the tax-exempt status applies in the same way as property owned by a corporation[3].

3.3 Canada System

Property tax in Canada is also a local tax assessed and collected by local municipalities based on provincial laws (such as Ontario's Municipal Act).

(1) Exemption and Rebate Systems for Registered Charities: For real estate owned or occupied by a "Registered Charity" approved by the Canada Revenue Agency (CRA) under the federal Income Tax Act, local governments provide property tax exemptions or tax rebates[4]. For example, in the city of Toronto, Ontario, under its own local law (Section 329 of the City of Toronto Act, 2006), if a registered charity owns or occupies commercial or industrial property as a tenant, a program is mandated to uniformly refund (rebate) at least 40% of the property taxes paid (City of Toronto, 2025). On the other hand, some local governments, such as the Halifax Regional Municipality in Nova Scotia, operate unique support programs through local bylaws that offer up to a 100% tax exemption following individual reviews for registered charities conducting specific social welfare, educational, or cultural activities (Halifax Regional Municipality, 2024).

(2) Application to Trust Property and Trustees (Inclusion of Trust Structures): The CRA's tax-exempt designation for a "registered charity" applies not only to corporate organizations, but also to public and private foundations structured as trusts (Public/Private Foundations). Based on principles of common law, the legal entity subject to property tax assessment or exemption is the "Trustee" who holds legal title to the trust property. However, as long as the real estate is "trust property" directly used for the activities of a registered charity, it is not excluded from local tax incentives or rebates. In other words, local reduction and rebate systems apply equally to trust property managed by a trustee, just as they do to real estate owned by corporations.

3.4 Summary — International Comparison Table

Table 1 provides an overview comparing how local taxes on real estate (such as property taxes) used for non-profit and social contribution activities are handled in each country discussed above.

[3] Requirements for 100% Property Tax Exemption in the US: To receive a 100% property tax exemption, generally the following three conditions must be met:
(1) The real estate must be directly used "exclusively" for public benefit purposes. For example, even if land is owned by an organization, if it is an unused vacant lot held for future project use, or if a portion of the building is rented out to a third party as standard office space for a fee, property taxes will be charged as usual on that portion.
(2) If a non-profit organization uses a portion of the property to run a profit-generating business unrelated to its core public benefit purpose (such as operating a commercial cafe open to the public or managing a parking lot), property taxes will not be exempted and will be charged on a proportional area basis (pro rata).
(3) The organization must submit documents proving its tax-exempt status and reports showing the actual use of the real estate to the local government assessor, receiving official approval for the exemption (such as approval for a Welfare Exemption).

[4] Features of Canada's Local Property Tax System: Property tax in Canada is not centrally managed or defined by the federal government; instead, local municipalities individually assess and collect it based on provincial laws (such as municipal acts). Because of this structure, exemptions are not automatically granted at 100% on a uniform national scale.
(1) While some municipalities, like the city of Toronto in Ontario, economically support charities through rebates equal to a minimum of 40% of paid taxes rather than exempting the tax itself, other municipalities, such as the Halifax Regional Municipality in Nova Scotia, operate unique support programs through local bylaws offering up to 100% tax exemptions after individual reviews.
(2) Although methods for reductions and rebates vary across local governments, a crucial common standard for receiving tax incentives is whether the non-profit organization or charitable fund (including trust property managed by a trustee) is officially designated as a "Registered Charity" by the Canada Revenue Agency (CRA) under the federal Income Tax Act.

Table 1: International Comparison of Local Real Estate Taxes (Property Tax, etc.)

Item	Japan	United Kingdom	United States	Canada
Tax Gap Between Trusts and Corporations	Difference exists	No difference	No difference	No difference
Basic Incentive / Exemption Rate	Public interest corporations: 100% tax-exempt (for directly used portion).	80% mandatory relief (Can be increased up to 100% at local authority discretion).	100% exemption in principle (When used exclusively for public benefit purposes).	Varies by municipality (Minimum 40% tax rebate, or up to 100% exemption, etc.).
Primary Criteria for Eligibility	Public interest status of corporation + Public-benefit use	Registered Charity status + Public-benefit use	Section 501(c)(3) tax-exempt status + Public-benefit use	Registered Charity status + Public-benefit use
Legal Entity When Applied to Trusts	(No comprehensive provisions)	Trustees (legal owners) and trust property are covered	Trustees (legal owners) and trust property are covered	Trustees (legal owners) and trust property are covered

4. Common Principles Gained from International Comparison

4.1 Principle of Neutrality Toward the Legal "Vehicle"

The most striking common feature among local real estate tax systems in other countries is that they do not care about the "vehicle"—the legal form of the organization (whether it is a non-profit corporation or a charitable trust)—when deciding tax incentive eligibility. As seen in the expression "Trustee for a charity" in the UK's Local Government Finance Act 1988, trust structures were built into the law from the beginning as a standard infrastructure for public benefit activities, alongside corporate structures. In this respect, foreign tax systems are designed to be neutral toward legal structures.

4.2 Emphasis on "Purpose" and "Actual Use"

As shown by examples in the UK, US, and Canada, the main focus of property tax exemption rules is placed on reality—"whether the real estate is truly used for public benefit and charitable purposes" (Exclusive Use / Wholly or mainly used)—rather than "who owns it". Instead of uniformly excluding an organization simply because it is a trust, a system is well established to individually evaluate what kind of public benefit project the land or building held as trust property is serving.

5. Conclusion

Through this study, it became clear that in major developed countries—the UK, US, and Canada—no essential gaps or distinctions are created between corporate forms and trust forms regarding local tax exemptions and reductions for real estate used in public benefit projects.

In Japan, the Charitable Trust Act that came into effect in April 2026 significantly updated the governance and oversight framework for charitable trusts, raising the reliability of both systems to the same level. Under this new system, a mechanism has been established for administrative agencies (such as the Cabinet Office Public Interest Commission) to monitor the actual management of trust property after the fact (Cabinet Office Public Interest Commission, 2025). This creates an environment where local tax authorities can objectively check and review whether real estate is directly used for public benefit projects through official administrative records and documents (such as annual business reports).

> Therefore, it is difficult to find a strong, logical reason to maintain a tax gap between public interest corporations and

charitable trusts. Comprehensively adding charitable trusts to the tax exemption scope under Section 348, Paragraph 2 of the Local Tax Act aligns with the international trend toward a "real estate tax system that is neutral toward legal forms". This is a policy approach worth considering to ensure fairness and neutrality in local taxation.

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