

Issuance of Memecoins and Legal and Tax Issues

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Summary of this Article

I. Overview of Memecoin

- Memecoins are tokens based on internet memes (as their “content” or “theme”), and their prices fluctuate greatly depending on the popularity and influence of the community. There are many memecoins, including Dogecoin and TRUMP Token.

Dogecoin (DOGE)



PEPE



TRUMP



モナコイン (MONA)



- Overseas, platforms such as pump.fun have emerged that make it easy to issue memecoins, and they are becoming more and more prominent.
- The benefits of memecoins include the democratization of Web3 and an easier experience using tokens.
- On the other hand, the risks of memecoins include the large number of speculative and fraudulent projects. Issuers are expected to operate in a transparent manner, while buyers must conduct careful research.

II. Memecoins and Japanese Law

- When issuing memecoins, which are considered "cryptoassets," strict regulations are imposed, whether the issuer sells them themselves (ICO) or lists them on a cryptoasset exchange (IEO). Note that there are already memecoins listed in Japan, such as Monacoin, Dogecoin, SHIB, and PEPE.
- In order to issue memecoins as tokens without payment capabilities so that they do not fall under the category of "cryptoassets," measures must be taken, such as (1) prohibiting their use as a means of payment, and (2) limiting the number of issued tokens to 1 million or less, or the sales price to JPY 1,000 or more.
- In addition to cryptoassets, financial regulations are imposed on the issuance of memecoins, which fall under the category of electronic record transfer rights, prepaid payment instruments, and electronic payment instruments.
- When considering the legal regulations for memecoins, the "Guidelines for NFT Business" issued by the Japan Cryptoasset Business Association, a general

incorporated association, provides an explanation of the legal regulations for NFTs.¹ as it will be very helpful.

- By designing memecoins that do not fall under the category of cryptoassets, or by designing them so that they do not fall under financial regulations even if they do fall under the category of cryptoassets, it may be possible to issue memecoins in Japan without being subject to strict financial regulations. Examples of the former method include (1) membership points/fan tokens, and (2) so-called NFTs (however, they do not need to be individually unique, and as mentioned above, they must meet the conditions of less than 1 million or a unit price of JPY 1,000 or more), while examples of the latter method include (3) reward-based tokens and (4) free-to-distribute tokens.
- In addition to the issue of financial regulations, when issuing and selling memecoins in Japan, care must be taken to avoid violating various regulations such as the Specified Commercial Transactions Act, the Criminal Code, and the Act against Unjustifiable Premiums and Misleading Representations.

III. Income and corporate tax treatment of Memecoins

- Gains and losses on the transfer of memecoins are subject to corporate tax for corporations and income tax for individuals.
- In principle, memecoins, which are cryptoassets held by corporations, are subject to year-end market valuation taxation (some are exempt due to the tax reforms of 2023 and 2024), but memecoins, which are NFTs, are not subject to year-end market valuation taxation.

IV. Summary

- In Japan, when issuing and selling memecoins that are subject to financial regulations, it is unavoidable that a great deal of cost and effort is required to comply with the regulations.
- In particular, agile sales of large memecoins like TRUMP Token are not easy under current regulations.
- However, if the issuance does not involve sales (such as distribution as a reward or free distribution) or if the token does not have the ability to be used as a means of payment or to provide dividends, it may not be subject to financial regulations.
- Therefore, there is ample room to consider ways to issue and operate memecoins while minimizing the burden of regulatory compliance.

Overview of Memecoins

1. Introduction

(1) What is a Memecoin? / Aim of this article

Memecoins are tokens created primarily based on internet memes (popular topics or jokes). Compared to regular cryptoassets (such as Bitcoin and Ethereum), their value fluctuates significantly based on community enthusiasm and social media buzz, rather than on

¹ <https://www.fsa.go.jp/common/law/guide/kaisya/16.pdf>

technological innovation or practicality.

Memecoins have experienced booms and busts since the emergence of Dogecoin in 2013, at the dawn of virtual currencies. However, with the emergence of new AI-powered memecoins, such as the emergence of memecoin creation platforms like pump.fun in 2024, frequent mentions of Dogecoin by Elon Musk, and the issuance of the memecoin "TRUMP Token" by US President Donald Trump himself in 2025, memecoins are experiencing a surge in popularity overseas.

On the other hand, due to strict regulations on cryptoassets in Japan, the memecoin market is not as active as it is overseas. However, they have a certain presence in the community token field, and we have received inquiries about the potential of memecoins, which led us to write this article.

(2) Specific examples of Memecoins

Some of the most well-known examples of memecoins include:

Coin	Publication year	Blockchain	Key Features
Dogecoin (DOGE)	2013	Original	The origin of memecoins. Its symbol is a Japanese Shiba Inu named Kabosu-chan. Elon Musk has often mentioned it, and it has been heavily influenced by him. DOGE, the abbreviation for the US Department of Government Efficiency, is taken from this coin.
Shiba Inu (SHIB)	2020	Ethereum	It was created in August 2020 by an anonymous developer, Ryoshi. It was touted as a Dogecoin killer and grew rapidly in 2021. It is part of the Dogecoin boom. It became a hot topic when Ethereum founder Vitalik Buterin held 50% of the supply and donated approximately JPY 6.7 trillion worth of SHIB to India's COVID-19 relief fund.
Bonk (BONK)	2022	Solana	Popular memecoin on Solana is making waves with airdrop.
PEPE (PEPE)	2023	Ethereum	A meme featuring a frog character from the cartoon "Boys Club." Prices skyrocketed in a short period of time.
Ai16z	2024	Solana	One of the tokens that combines AI and memes. Web3 AI Agent brand. From the end of 2024 to January 2025, the price rose more than 100 times in about three months (it has now fallen significantly). It became a hot topic in Japan.
TRUMP	2024	Solana	The memecoin named after President Donald Trump soared after Trump announced its release on the official X platform.
Test (TST)	2025	BNB Chain	A token created by the BNB Chain team, which has become a hot topic due to speculation about its relationship with Binance founder Changpeng Zhao (CZ).
Central	2025	Solana	The Central African Republic's official memecoin will

African			be issued on February 10, 2025. President Touadera described it as "an experiment designed to show how something as simple as a meme can unite people, support the development of a nation, and put the Central African Republic on the world stage in a unique way."
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(3) Examples of Memecoin issuing Platforms

In 2024, a memecoin issuing platform called pump.fun appeared overseas, and its arrival also contributed to the memecoin boom. pump.fun is a platform on the Solana blockchain that allows anyone to easily create and launch memecoins (currently also compatible with Ethereum Layer 2 networks such as Base and Blast in addition to Solana), and users can issue and sell new tokens with a simple procedure.

At pump.fun, users can create their own memecoins by connecting their wallets and entering basic information such as the token name and symbol. The selling price of the created tokens is determined by a bonding curve model, whereby the price rises as demand increases and falls as supply increases.

Features of pump.fun

Features	Contents	Risk
Easy token creation	→Anyone can create a memecoin with just a few clicks. →No programming or development skills required. →Can be brought to market in a short time.	Since anyone can create one, there is a possibility that fraudulent projects will increase.
Revitalizing the memecoin market	→Memecoins created by pump.fun tend to become popular on social media (especially X/Twitter). →They tend to create new trends.	→Once the boom is over, it tends to fall sharply and lacks sustainability. →There are many projects that are not practical.

As mentioned above, pump.fun has attracted attention, but on the other hand, it is selling securities without obtaining the necessary registration under the U.S. Securities Act, and is the subject of a class action lawsuit for violating the U.S. Securities Act.² The US law firms Burwick Law and Wolf Popper LLP have demanded that pump.fun immediately remove tokens, alleging that pump.fun has created and distributed tokens (e.g., DOGSHIT2) that use the firm's name and logo without permission, thereby infringing on the firm's intellectual property rights³. There are also significant legal risks.

² CoinDesk Japan: "Memecoin Issuance Platform Pump.Fun Named Defendant in Class Action Lawsuit for Securities Law Violations" <https://www.coindeskjapan.com/274092/>

³ Cointelegraph: "Law Firm Demands Pump.Fun Remove Over 200 Memecoins Using Its IP"

Examples of Publishing Platforms other than pump.fun

name	Overview	Features
Memelandia ⁴	A memecoin issuance platform launched by The Open Network (TON), a blockchain developed by Telegram.	It offers a platform called "Lair Launchpad" that allows users to easily launch and trade their own memecoins.
Sato Pum ⁵	A memecoin issuing platform and DEX using the EVM chain.	Compared to pump.fun, it is said to have a unique design that makes it easier to issue memecoins with a small amount of capital.
Memecoing Solution ⁶	A no-code platform for creating memecoin projects on the BNB chain.	You can choose from nine different Memecoin launchpads that best suit your project's purpose and theme.

(4) Current status of Memecoin issuance in Japan

In Japan, as will be discussed later, there are strict regulations regarding cryptoasset exchange businesses, and the issuance and sale of memecoins such as TRUMP Token and ai16z Coin are subject to strict legal regulations, making it challenging.

However, since tokens that do not have payment or dividend capabilities (such as NFTs) are easy to issue and sell, projects such as the ones below have been created, centered around community tokens (the authors have not investigated the compliance of each project with laws and regulations, etc.).

Examples of Memecoins issued in Japan

Name	Overview	Features
Monacoin	This memecoin was first developed in Japan in December 2013. It is based on the ASCII art of the cat "Mona."	→ Uses the PoW method derived from Litecoin. → At the time of its issuance, there were no cryptoasset regulations in Japan. → It has been widely accepted in the Japanese cryptoasset community and has a track record of being used for tipping and online games. → It is currently listed on various exchanges in Japan.
Gachiho Token	A memecoin issued by well-known	→ A token with the theme of "Gachiho (long-term holding)." → Its purpose is to share value within the community

<https://cointelegraph.com/news/burwick-law-cease-and-desist-pump-fun-tokens-ip>

⁴ COINPOST: "TON Launches 'Memelandia,' a Decentralized Platform to Promote Memecoins"
<https://coinpost.jp/?p=563908>

⁵ Cointelegraph Japan: "Sato Pump" New Memecoin Issuance Platform Released
<https://jp.cointelegraph.com/news/satopump-new-memecoin-issuance-platform-released>

⁶ New Economy: "BNB Chain Launches No-Code Platform for Memecoin Project Creation"
<https://www.neweconomy.jp/posts/446189>

	blogger Ikehaya on "FiNANCiE."	and for entertainment rather than practicality. → It is thought to have been issued as an NFT.
NYANMARU Coin	A memecoin based on Nyanmaru, the original character of Maruhan, a major player in the pachinko industry.	→GFA Inc. announced that it is supporting the listing of NYANMARU Coin on the exchange. ⁷ → Takafumi Horie (Horiemon) is in charge of PR and marketing → It is listed on an overseas exchange, and it is assumed that it will be classified as a cryptoasset that will not be sold to Japanese residents.→ There is no specific roadmap at this time.

(5) Benefits and risks of using Memecoins

Memecoins are tokens that reflect internet jokes or specific cultures and are characterized by their tendency to gain community support. However, many of them emphasize topicality and speculation over practicality, and it is important to note that their prices fluctuate greatly and there is a risk of fraud.

Benefits of Memecoins

Merit	Content
Strengthening the community	Projects that have a background in meme culture tend to have a strong, united fan base and are more likely to be supported
Can be issued at low cost	Since it can be sold for a small amount, it is easy to reach the general public
Introduction to Web3	It provides an opportunity for users with little investment experience to issue their own coins and experience how the blockchain works
It's easy to get attention in a short space of time	There is a possibility that its value will rise rapidly due to the influence of social media and influencers.

The Risks of Memecoins

risk	Content
The intensity of volatility	Memecoins can experience large price increases in short periods of time, but they can also experience sudden drops.

⁷ GFA Inc. January 15, 2025, "Notice Regarding Cryptoasset Listing Support Business"

https://www.gfa.co.jp/gfa_wp/wp-content/uploads/2025/01/%E6%9A%97%E5%8F%B7%E8%B3%87%E7%94%A3%E3%81%AE%E4%B8%8A%E5%A0%B4%E6%94%AF%E6%8F%B4%E4%BA%8B%E6%A5%AD%E9%96%8B%E5%A7%8B%E3%81%AB%E9%96%A2%E3%81%99%E3%82%8B%E3%81%8A%E7%9F%A5%E3%82%89%E3%81%9B%EF%BD%9E%E7%AC%AC%EF%BC%91%E5%BC%BE%E3%81%AF%E3%80%8CNYANMARU-Coin%EF%BC%88NYAN%E3%80%8D%E3%81%AE%E4%B8%8A%E5%A0%B4%E6%94%AF%E6%8F%B4%E3%82%92%E6%B1%BA%E5%AE%9A%EF%BC%81%EF%BD%9E.pdf

	Their prices are highly speculative and do not guarantee lasting value.
The dangers of fraud and rug pulling	Many memecoins are created by anonymous development teams, and there are many instances of rug-pull, where developers sell off large amounts of tokens and then abandon the project. There are also tokens that are intended as scams from the start.
Possible Ponzi scheme	Some tokens grow unsustainably by using funds from new investors to pay dividends to existing investors. Memecoins staking and token reward systems that promise high returns may have Ponzi-like elements.
Low liquidity	Some memecoins have low liquidity on exchanges, which can cause their prices to drop significantly during mass sales. If an exchange decides to delist them, they may lose a lot of value.
Lack of practicality and difficulty in long-term growth	Most memecoins have no specific use case, their price is dependent on community enthusiasm and trends, and without further development, they cannot be expected to have long-term value.
Regulatory Risk	Memecoin platforms are increasingly coming under regulatory scrutiny and risk being deemed unregistered securities, which could lead to restrictions on trading in some countries where cryptoassets are heavily regulated.

(6) Precautions and measures for issuers and consumers

As mentioned above, memecoins have their benefits, but they also carry various risks. Therefore, memecoin issuers operating as legitimate businesses should take the following measures before conducting transactions in order to gain consumer trust, and consumers should take the following measures to avoid being victimized by fraudulent projects.

- Countermeasures for publishers:
 - Collaborate with real services such as games to make the app practical.
 - Present a transparent roadmap and provide regular progress reports.
 - Avoid excessive marketing and focus on long-term trust.
- Countermeasures for consumers:
 - Don't be fooled by short-term price fluctuations or social media hype, and carefully analyze the reliability of the project.
 - Check the white paper and don't invest in projects that don't have substance.
 - Diversify your assets and don't invest all your money in memecoins.

II. Memecoins and Japanese Law

1. Regulations for issuing Memecoins as Cryptoassets

Currently, many memecoins issued overseas are considered "cryptoassets" under the Payment Services Act in Japan, and their sale and handling are subject to legal regulations. Below is an overview of cryptoassets and the regulations regarding their handling. Please refer to the attached document for details regarding the definition of cryptoassets and regulations on cryptoasset exchange businesses.

(1) Regulations under the Payment Services Act

In summary, cryptoassets are tokens issued on a blockchain that can be used by unspecified parties as payment for goods or services and can be bought and sold between unspecified parties (Article 2, Paragraph 14 of the Payment Services Act). The business of buying and selling cryptoassets or acting as an intermediary therefor constitutes a cryptoasset exchange business (Article 2, Paragraph 15 of the Act), and requires compliance with various regulations under the Payment Services Act, including registration with the Prime Minister (Article 63-2 of the Act), the obligation to disclose certain information when advertising (Article 63-9-2 of the Act), and the obligation to separately manage users' deposited assets (Article 63-11 of the Act).

(2) Other regulations

Other laws and regulations also impose various regulations regarding cryptoasset trading. First, the Financial Instruments and Exchange Act requires registration as a Type 1 Financial Instruments Business (Article 28) in order to engage in cryptoasset derivatives trading as a business and also regulates advertising and solicitation (Articles 37 and 38) and the obligation to maintain a capital adequacy ratio (Article 46). Furthermore, false representations, spreading of rumors, and market manipulation regarding cryptoasset spot trading and derivatives trading are prohibited (Articles 185-22 to 185-24). Furthermore, the Act on Prevention of Transfer of Criminal Proceeds also imposes restrictions, such as requiring cryptoasset exchange operators to conduct customer identification (KYC) for certain transactions (Article 4 of the Criminal Proceeds Act).

(3) Regulations regarding ICOs and IEOs

When issuing memecoins as cryptoassets, there are two possible scenarios: the issuer may sell the cryptoasset themselves (ICO: Initial Coin Offering), or the issuer may list the cryptoasset on a cryptoasset exchange and entrust the sale to them (IEO: Initial Exchange Offering).

In the case of an ICO, the issuer will be buying and selling the cryptoasset, so the issuer itself will be subject to regulations for the cryptoasset exchange business. In the case of an IEO, in addition to being inspected by the exchange, the issuer must also pass inspections by the Japan Virtual and Crypto Assets Exchange Association (JVCEA) and the Financial Services Agency (FSA).

As such, whether the issuer sells a memecoin, which is a cryptoasset, themselves (ICO) or lists it on a cryptoasset exchange (IEO), heavy regulations will be imposed.

2. How to issue and sell memecoins in a way that does not fall under the category of cryptoasset or cryptoasset exchange business

As mentioned above, when issuing and selling memecoins as cryptoassets, various regulations related to cryptoassets must be cleared.

However, by considering ways to design and issue memecoins in a way that does not fall under the category of cryptoassets, or to issue and operate memecoins in a way that does not fall under the category of a cryptoasset exchange business, it may be possible to issue them while avoiding the costs of complying with strict regulations.

Specific methods are explained below.

(1) Design of memecoins that are not cryptoassets

Financial Services Agency's Guidelines for Cryptoasset Exchange Businesses (hereinafter referred to as the "Cryptoasset Guidelines")⁸ into consideration, it may be possible to issue and sell memecoins without being subject to cryptoasset regulations by implementing one of the following measures ① to ③.

countermeasure	Specific examples
① Prohibiting its use as a means of payment and restricting its price and supply	• The prohibition of use as a payment method will be clearly stated in the terms and conditions, product descriptions, etc., or the system will be designed so that it cannot be used as a payment method. - and • Set the minimum trading unit price of memecoins at JPY 1,000 or more, or limit the issuance quantity to 1 million or less, taking into account the possibility of divisibility.
② Restrict use by unspecified persons in any way other than ①	• Makes it impossible to transfer between unspecified people through the network. • The issuer limits the stores that can be used as a payment method through contracts, etc. • The issuer manages the stores, etc. that can be used as a payment method.
③ Restrictions on exchange with Type 1 cryptoassets	• Restrictions will be imposed to prevent exchange with Type 1 cryptoassets.

The Cryptoasset Guidelines state that whether or not something qualifies as a cryptoasset will ultimately be determined on a case-by-case basis, but provide the following criteria (excerpts):

Excerpt from the Cryptoasset Guidelines

① When determining whether a cryptoasset qualifies as a Type 1 cryptoasset that "can be used by unspecified persons to pay for goods and services," the following points are considered:

⁸ Cryptoasset Guidelines I-1-1 Pages 5-6

<https://www.fsa.go.jp/common/law/guide/kaisya/16.pdf>

(a) Does it have a mechanism that allows it to be transferred between unspecified persons via a network such as a blockchain?

(b) Are there any contracts between the issuer and stores, etc. that limit the stores, etc. that can use the cryptoasset to pay for goods and services?

(c) Does the issuer have control over the stores, etc. that can use the cryptoasset?

Furthermore, cryptoassets that are considered to be merely goods, etc. that can be purchased or sold using legal tender or cryptoassets according to accepted social standards, do not meet the requirement of "can be used by unspecified persons to pay for goods and services."

a) The issuer, etc. has made it clear that they do not intend for the cryptoasset to be used to pay for goods and services to unspecified persons (for example, the issuer's or handling business's terms and conditions or product description explicitly state that it cannot be used as a payment method, or the system is designed so that it cannot be used as a payment method).

b) Taking into consideration the price, quantity, technical characteristics, specifications, etc. of the property value in question, there are limited elements that can be used to pay for goods, etc. to unspecified persons. For example, it has one of the following characteristics:

► The price per minimum transaction unit is too high for use as a normal means of payment (for example, tokens priced at JPY 1,000 or more are considered to have a "price per minimum transaction unit that is too high for use as a normal means of payment"⁹).

► The amount obtained by dividing the issue quantity by the minimum trading unit (the amount of issuance taking into account the possibility of division) is limited (for example, if it is less than 1 million, it can be considered "limited"¹⁰). However, even if the above conditions (i) and (ii) are met, cryptoassets may meet the same requirements if they are used not only for goods that can be purchased or sold using legal tender or cryptoassets, but also for payment of the purchase price of goods, etc. at retailers' physical stores, e-commerce sites, or apps, and are actually used to pay for goods, etc. to unspecified parties.

② Regarding the applicability of Type 2 cryptoassets, the following points should be considered when determining whether they can be "mutually exchanged with the items listed in the previous item with unspecified parties as counterparties."

(a) Does a system exist that allows transfer between unspecified parties through a network such as a blockchain?

(b) Can they be exchanged with Type 1 cryptoassets without issuer restrictions?

(c) Is there an exchange market for Type 1 cryptoassets?

(d) Does the cryptoasset have the same economic function as the cryptoasset, not just for goods, rights, etc. that can be purchased or sold using Type 1 cryptoassets.

③ Regarding the applicability of Type 2 cryptoassets, the above concept of ① also applies when determining whether they "have the same economic function as Type 1 cryptoassets, not just as goods or rights that can be purchased or sold using Type 1 cryptoassets."

⁹ Financial Services Agency, March 24, 2023, Public Comment Response No. 19
<https://www.fsa.go.jp/news/r4/sonota/20230324-2/1.pdf>

¹⁰ Financial Services Agency, March 24, 2023, Public Comment Response No. 20
<https://www.fsa.go.jp/news/r4/sonota/20230324-2/1.pdf>

(2) Handling of Memecoins that do not fall under the category of Cryptoasset Exchange Business

Even if you issue a memecoin that falls under the category of cryptoasset, as long as you handle cryptoasset in a way that does not fall under the category of cryptoasset exchange business, such as buying, selling, exchanging, or managing other people's cryptoasset, you can do so without being subject to the regulations of cryptoasset exchange business. For example, the following transactions are not subject to the regulations of cryptoasset exchange business:

- Free distribution of cryptoasset
- Distribution of cryptoasset as a reward
- Lending of cryptoasset

3. Other Financial Regulations

Even if a memecoin is designed not to be a cryptoasset, if it violates other financial regulations, the issuer of the memecoin will be subject to heavy obligations. To avoid such a situation, it is necessary to carefully consider whether the coin is designed to avoid the application of the following financial regulations.

(1) Electronic Record Transfer Rights (Financial Instruments and Exchange Act)

If business profits based on sales revenues of memecoins are distributed to purchasers of memecoins, the memecoins will be deemed to be tokens representing "collective investment scheme interests" (Article 2, Paragraph 2, Item 5 of the Financial Instruments and Exchange Act), and may fall under the category of electronic record transfer rights (Article 2, Paragraph 3 of the same Act).

In this case, the following regulations of the Financial Instruments and Exchange Act will apply:

- Disclosure regulations of the Financial Instruments and Exchange Act will apply at the time of issuance (Article 3, Paragraph 3, Item 2 of the same Act)
- Registration as a financial instruments business operator is required for sales (Article 29 of the same Act)
- Other regulations related to various financial instruments business operators will apply

(2) Regulations on prepaid payment instruments (Payment Services Act)

If a memecoin is issued in exchange for money, the amount is recorded on a server, etc., and it can be used as a means of payment to a party designated by the issuer, it may be considered a "prepaid payment instrument" under the Payment Services Act (Article 3, Paragraph 1 of the same Act).

In this case, the following regulations of the Payment Services Act apply:

- If the unused balance of memecoins sold by the issuer exceeds JPY 10 million at the end of March or September, notification is required (Private type: Payment Services Act Articles 5 and 14, Paragraph 1, Payment Services Act Enforcement Order Article 6)
- If it can also be used by third parties, registration is required (Third-party type: Article 7).

(3) Regulations on electronic payment methods (Banking Act, Payment Services Act)

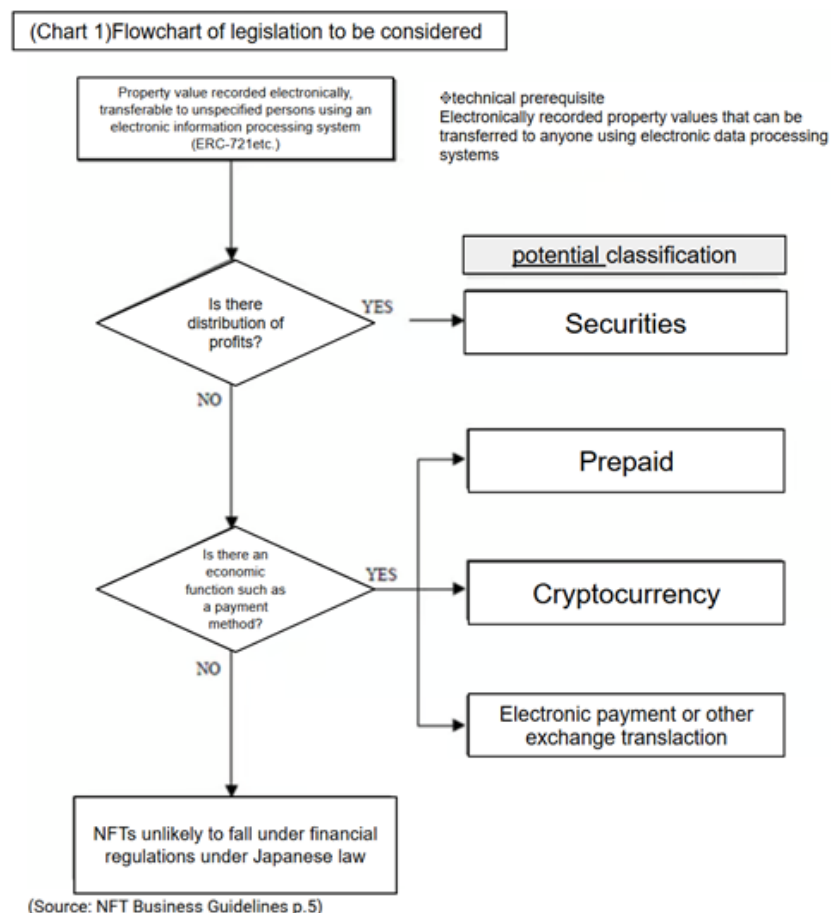
If the value of a memecoin is linked to legal tender and the issuer promises redemption at face

value, it may be considered an electronic payment instrument (Article 2, Paragraph 5 of the Payment Services Act).

In this case, the following regulations related to the Banking Act or the Payment Services Act apply:

- The issuer must have a banking license (Article 4, Paragraph 1 of the Banking Act) or be registered as a funds transfer business operator (Article 37 of the Payment Services Act).
- If buying, selling, intermediating, or managing electronic payment instruments, registration as an electronic payment instrument trading business (Article 2, Paragraph 10 of the same Act) or registration as an electronic payment instrument trading business (Article 62-3 of the same Act) is required.

In addition, the "Guidelines for NFT Business" issued by the Japan Cryptoasset Business Association, a general incorporated association,¹¹ has organized the following flowchart for considering legal regulations for NFTs. This flowchart is also very useful when considering legal regulations for memecoins:



¹¹ https://cryptoasset-association.org/cms2017/wp-content/uploads/2024/08/JCBA_NFTguideline_v3.pdf

4. A Realistic non-financial Regulatory Business Model that Complies with Japanese law

The following are tentative proposals for realistic memecoin issuance models that can circumvent the financial regulations of Japan described above. However, these are merely examples, and it is likely that various designs for memecoins that can be issued without being subject to the financial regulations listed in Section II, items 1 to 3 above, can be considered.

(1) Cases where the token is issued as a non-cryptoasset.

- Meme coins could be issued as rewards for e-commerce sites and fan services. This could boost consumer purchasing power and encourage fan engagement.

Example:

- ▶ Free points given to purchasers on e-commerce sites that can be used for discounts on products on the site
- ▶ Fan tokens for artists and idols
- ▶ Fan tokens linked to the activities of individuals such as communities and influencers
- ▶ Sold as access rights to content exclusive to holders or as one of the bonus goods

- Issuance as an NFT

It is conceivable that memecoins could be issued as so-called NFTs (however, they do not need to be individually unique, and they must meet certain conditions to be deemed ineligible for payment, such as a quantity of less than 1 million or a unit price of JPY 1,000 or more). For example, if memecoins were linked to digital assets, memecoin holders could gain a sense of ownership of the digital assets, making it easier to trade digital assets on the secondary market and potentially allowing for royalties to be returned to creators when they are resold.

Examples:

- ▶ Memecoins linked to digital art or music
- ▶ Memecoins linked to in-game items, characters, or lands.

(2) Cases where Cryptoassets are not subject to financial regulations

- One possible method is to distribute reward-based token memecoins as rewards for specific actions. This is compatible with social media and video streaming sites, and is expected to increase buzz, lead to an expansion of users, and revitalize the community. In this case, even if memecoins qualify as cryptoassets, they do not involve the buying, selling, or exchange of cryptoassets, so they are not subject to regulations for cryptoasset exchange businesses.

Examples:

- ▶ Engagement rewards for social media and video streaming services (awarded according to "likes," "comments," "shares," etc.)
- ▶ Login rewards and play rewards within blockchain games

- One possible method is to distribute memecoins for free to promote a free-of-charge token project or to consumers who meet certain conditions. By using them as a marketing measure, you can increase awareness of the project and expand the community.

Even in this case, even if memecoins are considered cryptoassets, they do not involve the buying, selling, or exchanging of cryptoassets, so they are not subject to the regulations for cryptoasset exchange businesses.

Examples:

- ▶ Event-related airdrop campaigns
- ▶ New registration bonuses

5. Points to note about memecoins that have cleared financial regulations

Even if you issue a memecoin in a way that does not violate financial regulations, it does not mean that you can sell it freely. For example, you need to be careful not to violate the following laws and regulations.

(1) Specified Commercial Transactions Act

When selling memecoins over the internet, the following regulations are applied under the Specified Commercial Transactions Act:

- Obligation to display advertisements (Article 11 of the Specified Commercial Transactions Act)
- Prohibition of exaggerated advertising, etc. (Article 12 of the Specified Commercial Transactions Act)
- Prohibition of email advertising to unsolicited persons (Article 12-3 of the Specified Commercial Transactions Act)
- Prohibition of false advertising (Article 13-2 of the Specified Commercial Transactions Act)
- Prohibition of breach of contract due to contract termination (Article 14, Paragraph 1, Item 1 of the Specified Commercial Transactions Act)
- Prohibition of soliciting applications against the customer's will (Article 14, Paragraph 1, Item 2 of the Specified Commercial Transactions Act) etc.

(2) Gambling crime (criminal law)

When selling memecoins through methods such as "gacha"(process of receiving random items, of which the content is unknown in exchange for in-game currency) or "package sales," which provide random quantities or types of tokens, there is a possibility that gambling crimes (Articles 185 and 186 of the Penal Code) may be committed.

- If there is a possibility that the purchaser may suffer economic loss, there is a risk that it will be considered gambling.
- Guidelines jointly published by JCBA, JCBI, JBA, BCCC, and C-SEP state the careful design is required with reference to this.¹²

(3) Regulations on Premiums (Act on Unjustifiable Premiums and Misleading Representations)

¹² Guidelines for Randomized Sales of NFTs (October 12, 2022)" <https://cryptoasset-association.org/cms2017/wp-content/uploads/2022/10/GuidelinesforRandomizedNFTSales.pdf>

When offering memecoins as a special gift (bonus) to purchasers of goods or services, please be aware that the following restrictions on premiums and misrepresentations under the Act on Unjustifiable Premiums and Misleading Representations must be observed:¹³

→ When offering prizes based on the randomness of a lottery or the merits of specific actions (general prizes), the amount of memecoins that can be offered

▶ Maximum per person: 20 times the transaction price or JPY 100,000, whichever is lower.

▶ Total amount: Up to 2% of the total estimated sales related to the prize.

→ When offering prizes to everyone (general prizes), the amount of memecoins that can be offered

▶ Maximum per person: JPY 200 or 2/10 of the transaction price, whichever is higher.

III. Income and corporate tax treatment of memecoins

If you transfer your memecoins, it is likely that individuals will be subject to income tax and corporations will be subject to corporate tax, as follows:

1. When memecoins qualify as cryptoassets

(1) Corporate tax treatment

When a corporation transfers memecoins (cryptoassets), the transfer profit or loss, calculated by deducting the transfer costs from the transfer price, will be included in the amount of income for the business year in which the transfer contract was made and will be subject to corporate tax (Corporate Tax Act, Article 61, Paragraph 1).

- The basic corporate tax rate is approximately 23.2% (reduced rates are available for small and medium-sized corporations). Including resident tax, the maximum rate is around 35%.
- End-of-period fair value valuation tax: Cryptoassets with active markets (as defined by government ordinance) must be valued at fair value at the end of the period. Valuation gains and losses are included in the amount of profits or losses subject to corporate tax.
- Impact of tax reform: (i) As a result of the tax reform in 2023, cryptoassets issued by a person that meet certain requirements, such as having transfer restrictions and becoming trust property, are exempt from year-end valuation tax as "specific self-issued cryptoassets" (Article 61, Paragraph 2, Item 1, Sub-item (b) of the Tax Act), and (ii) as a result of the tax reform in 2024, cryptoassets that meet certain requirements, such as having transfer restrictions and becoming trust property and having undergone the JCVEA's public notification procedures, are "specific cryptoassets with transfer restrictions" and can choose the cost method in addition to the fair value method for year-end valuation (Article 61, Paragraph 2, Item 1, Sub-item (a) and Item 2 of the Tax Act).

¹³ Consumer Affairs Agency, "Outline of Premium Regulations"

https://www.caa.go.jp/policies/policy/representation/fair_labeling/premium_regulation/

(2) Income Tax Treatment (Individuals)

When an individual transfers Memecoins, the transfer profit or loss, which is the transfer price minus the transfer cost, is generally considered miscellaneous income (or business income in some cases) and is subject to income tax as follows (Article 35 and Article 36, Paragraph 1 of the Income Tax Act).¹⁴

- Income tax rate: Progressive tax (5% to 45%) + local tax (10%) = possible tax burden of up to 55%.
- Comprehensive taxation: Income is added together with other income to determine the amount of tax.

2. When memecoins qualify as NFTs

(1) Corporate tax treatment

When a corporation transfers an NFT, any gain or loss on the transfer is subject to corporate tax (Corporate Tax Act, Article 22, Paragraph 2). In addition, unlike cryptoassets, NFTs are generally not subject to year-end market valuation tax.

(2) Income Tax Treatment (Individuals)

When an individual transfers an NFT representing digital art and realizes a gain or loss on the transfer after deducting the transfer costs from the transfer price, the income tax classification will differ depending on the method as follows:¹⁵

Form of sale	Income classification
Transferring your own issued NFT to a third party (primary distribution)	In principle, miscellaneous income (or business income in some cases)
Reselling purchased NFTs (secondary distribution)	In principle, it is considered capital gain. *If the ownership period is more than five years, it is considered long-term capital gains, and the taxable amount is reduced by half (Article 22, Paragraph 2, Item 2 of the Income Tax Act).

IV. Summary

In Japan, issuing and selling memecoins subject to financial regulations inevitably requires significant costs and effort to comply with the regulations.

In particular, agile sales of large-scale memecoins like TRUMP Token are difficult under current regulations.

However, tokens that are issued without sales (e.g., distribution as a reward or free distribution) or that do not have payment or dividend capabilities may be able to be issued and sold without

¹⁴ National Tax Agency, "Information on the Tax Treatment of Cryptoassets" (December 20, 2024) https://www.nta.go.jp/publication/pamph/pdf/virtual_currency_faq_03.pdf

¹⁵ National Tax Agency, "Information on the Tax Treatment of NFTs" (January 13, 2023) <https://www.nta.go.jp/law/joho-zeikaishaku/shotoku/shinkoku/0022012-080.pdf>

being subject to financial regulations. Therefore, there is ample room to explore ways to issue and operate memecoins while minimizing the burden of regulatory compliance.

While memecoins face various challenges, the existence of a community is an important element for cryptoassets and Web3.

For example, tokens based on healthy communities, such as Monacoin, could play a role in the development of Web3.

While legal and tax issues are complex, issuing healthy community tokens while complying with appropriate regulations could be a meaningful initiative for the development of Web3 in Japan.

[Attachment] Regulations on cryptoasset trading

1. Overview of Laws and Regulations

(1) Regulations on cryptoasset transactions under the Payment Services Act

① Definition of cryptoasset

Article 2, Paragraph 14 of the Payment Services Act defines cryptoassets as follows:

In this Act, "cryptoassets" refers to the following. However, this does not include those that indicate rights as provided for in Article 29-2, Paragraph 1, Item 8 of the Financial Instruments and Exchange Act: (i) Property value (limited to those recorded electronically on electronic devices or other objects, excluding Japanese currency and foreign currency, currency-denominated assets, and electronic payment instruments (excluding those that fall under currency-denominated assets)) that can be used to pay for goods, etc., or services, and that can be purchased and sold to unspecified parties, and that can be transferred using electronic data processing systems; (ii) Property value that can be exchanged for those listed in the preceding item to unspecified parties, and that can be transferred using electronic data processing systems.

Based on the above provisions, cryptoassets primarily fall under the following criteria:

- (a) It can be used to purchase or rent goods or to pay for the provision of services (payment instrument).
- (b) It has property value in the form of being recorded on the blockchain (property).
- (c) It can be used for unspecified persons and can be used to purchase and sell unspecified items (unspecified).
- (d) It does not fall under Japanese currency, foreign currency, currency-denominated assets, or electronic payment instruments.
- (e) It does not display the rights stipulated in Article 29-2, Paragraph 1, Item 8 of the Financial Instruments and Exchange Act (it is not a security token).

② Regulations regarding the handling of Cryptoassets

Conducting any of the following cryptoasset-related activities as a business constitutes a cryptoasset exchange business (Article 2, Paragraph 15 of the Payment Services Act) and requires registration with the Prime Minister (Article 63-2 of the same Act) and compliance with various regulations on activities under the Payment Services Act.

Target business	Specific actions
① Buying and selling, and exchanging with other cryptoassets	Cryptoasset exchanges and other businesses that buy, sell, or exchange cryptoassets themselves.
② Intermediation, agency or representation of ①	Cryptoasset exchanges (platforms that match users to buy, sell, or exchange cryptoassets), purchasing cryptoassets for others, etc.
③ Financial management activities related to ① or ②	For example, receiving deposits of money from users for cryptoasset trading at cryptoasset sales offices and exchanges.
④ Custody services (management services)	Services such as storing other people's cryptoassets (wallet services).

Regarding ④ above, the interpretation of custody services that are subject to regulation is as follows:¹⁶, for example, if a wallet service provider holds the private keys for transferring cryptoassets of users who use the app, it may be subject to regulation, but if it does not hold the private keys of users' cryptoassets, it will generally not be subject to regulation.

(2) Restrictions on various activities under the Financial Instruments and Exchange Act

The Financial Instruments and Exchange Act also stipulates the following regulations related to cryptoassets:

① Regulation of derivatives transactions

Derivative transactions (futures, options, etc.) using cryptoassets as underlying assets are considered "over-the-counter derivative transactions" under the Financial Instruments and Exchange Act and require registration as a Type 1 Financial Instruments Business (Article 28 of the Financial Instruments and Exchange Act), and various regulations also apply.

② Other regulations

- Regulation of advertising and solicitation (Articles 37 and 38 of the Financial Instruments and Exchange Act)
- Obligation to maintain capital adequacy ratio (Article 46 of the Financial Instruments and Exchange Act)
- Prohibited acts (false representation, spreading rumors, market manipulation, etc.) (Articles 185-22 to 24 of the Financial Instruments and Exchange Act)

(3) Money laundering regulations, advertising regulations, etc.

① Anti-money laundering (AML)

As specified business operators under the Act on Prevention of Transfer of Criminal Proceeds (Article 2, Paragraph 2, Item 32 of the Act), cryptoasset exchange operators are obligated to conduct KYC (Know Your Customer) and prepare and preserve verification records to prevent money laundering when conducting the following transactions (covered transactions) (Articles 4 and 6 of the Act).

- Conclusion of a contract for the continuous or repeated exchange of cryptoassets (Article 7, Paragraph 1, Item 1, (e) of the Enforcement Order of the Criminal Proceeds Act)
- Conclusion of a contract to manage cryptoassets (Article 7, Paragraph 1, Item 1, E of the Enforcement Order of the Act)
- Exchange or transfer of cryptoassets exceeding JPY 100,000 in value (Article 7, Paragraph 1, items (ix) and (x) of the Enforcement Order of the Act)

In addition, there are obligations to report suspicious transactions resulting from verification at the time of transaction (Article 8 of the Act on Prevention of Criminal Proceeds) and to

¹⁶ Cryptoasset Guidelines I-1-2-2③ <https://www.fsa.go.jp/common/law/guide/kaisya/16.pdf>

verify transactions when concluding a contract with a cryptoasset exchange company located abroad (Article 10-4 of the Act). Furthermore, there is an obligation to notify the other cryptoasset exchange company of the information of the sender and recipient when transferring cryptoasset (Travel Rule) (Article 10-5 of the Act).

②Advertising and marketing regulations, etc.

When cryptoasset exchange operators advertise on television, radio, the internet, etc., they are obligated to clearly state the following information (Article 63-9-2 of the Payment Services Act).

- Cryptoasset exchange company name and registration number
- Cryptoassets are not legal tender
- The characteristics of cryptoassets that are specified by Cabinet Office Ordinance as important factors that may affect users' decisions

③Other regulations

Cryptoasset exchange operators must comply with various regulations, including the obligation to take user protection measures such as providing information to users (Article 63-10 of the Payment Services Act) and the obligation to separately manage money, cryptoassets, and performance-guaranteed cryptoassets deposited by users (Article 63-11 of the same Act).

2. Regulations and Issues When Issuing Cryptoassets through ICOs and IEOs

When issuing cryptoassets to the general public, the main methods used are ICO (Initial Coin Offering) and IEO (Initial Exchange Offering). Below, we will explain the mechanisms behind each method, as well as domestic regulations and issues.

(1) When issuing as an ICO

① What is an ICO (Initial Coin Offering)?

Although there is no clear definition of ICO, it generally refers to the act of companies electronically issuing tokens to raise legal tender or cryptoassets from the public.¹⁷ For example, some companies sell utility tokens that can be used in their own Web3 services and use the proceeds for development.

② Regulations and issues

Tokens issued through ICOs are generally considered "cryptoassets" and are subject to the cryptoasset exchange regulations of the Payment Services Act (Article 2, Paragraph 15, Item 1 of the Payment Services Act; Cryptoasset Guidelines II-2-2-8-1).

ICOs reached their peak both domestically and internationally in 2017 and 2018, but in Japan, cryptoasset regulations were tightened following the Coincheck incident, and stricter regulations were imposed, so there have been no examples of ICOs since 2018.

¹⁷ Cryptoasset Guidelines II-2-2-8-1 <https://www.fsa.go.jp/common/law/guide/kaisya/16.pdf>

(2) If issuing as an IEO

① What is an IEO (Initial Exchange Offering)?

IEO (token sales via exchanges) is gaining attention as an alternative fundraising method to ICO.

IEO is a fundraising method in which a token exchange sells tokens on behalf of the token issuer. IEOs are conducted independently by cryptoasset exchanges registered as cryptoasset exchange businesses, and tokens are listed on the exchange after reviewing the tokens, issuers, and projects, making them more reliable than ICOs and less prone to fraud. In addition, token issuers themselves are not usually required to register as cryptoasset exchange businesses, as the exchange is responsible for all token sales activities based on their entrustment.¹⁸

② Regulations and issues

When conducting an IEO, cryptoasset exchanges must submit prior notification of any changes to the cryptoassets they handle in accordance with the Payment Services Act (Article 63-6, Paragraph 1 of the Payment Services Act). To do so, they must undergo review by the Japan Virtual and Crypto Assets Exchange Association (JVCEA), a self-regulatory organization, and the Financial Services Agency (FSA).

The JVCEA's Rules on the Sale of New Cryptoassets (hereinafter referred to as the "JVCEA Rules") impose the following obligations on cryptoasset exchanges that conduct IEOs:

- Examination of the project's eligibility and feasibility (Article 15, Paragraph 1, Item 1 of the JVCEA Regulations)
- Continuous disclosure of information at each stage of sales (at the start, end, and after completion) (Article 15, Paragraph 1, Item 2 of the same regulations)
- Establishment of a system to appropriately disclose the funds raised and new cryptoassets in financial statements (Article 15, Paragraph 1, Item 4 of the same regulations)
- Establishment of a system to prevent inappropriate solicitation and advertising (Article 15, Paragraph 1, Item 5 of the same regulations)
- Verification of the security of systems related to new cryptoassets (Article 17, Paragraph 1 of the same regulations)
- Explanation to and verification by the JVCEA (Article 18, Paragraph 3 of the same regulations).

After clearing the JVCEA's examination, the FSA will then examine the matter and officially submit a notification of change in the cryptoasset it handles. As such, while regulations are less stringent for IEOs than for ICOs, strict examination standards are still set for implementation, and it is important to note that these hurdles must be cleared.

Reservations

- The contents of this article have not been confirmed by the relevant authorities, and are

¹⁸ Cryptoasset Guidelines II-2-2-8-1 (Note 1)

<https://www.fsa.go.jp/common/law/guide/kaisya/16.pdf>

merely a statement of arguments that are reasonably considered legally. Furthermore, the contents of this article are merely the current views of the authors and are subject to change.

- This article does not recommend issuing or purchasing memecoins or using memecoin platforms. Furthermore, the authors have not investigated or made any guarantees regarding the legality, future prospects, or convenience of memecoins or memecoin platforms mentioned in this article.
- This article only describes general ideas regarding memecoins and does not provide legal or tax advice regarding specific cases. If you require specific legal or tax advice, please consult a professional.