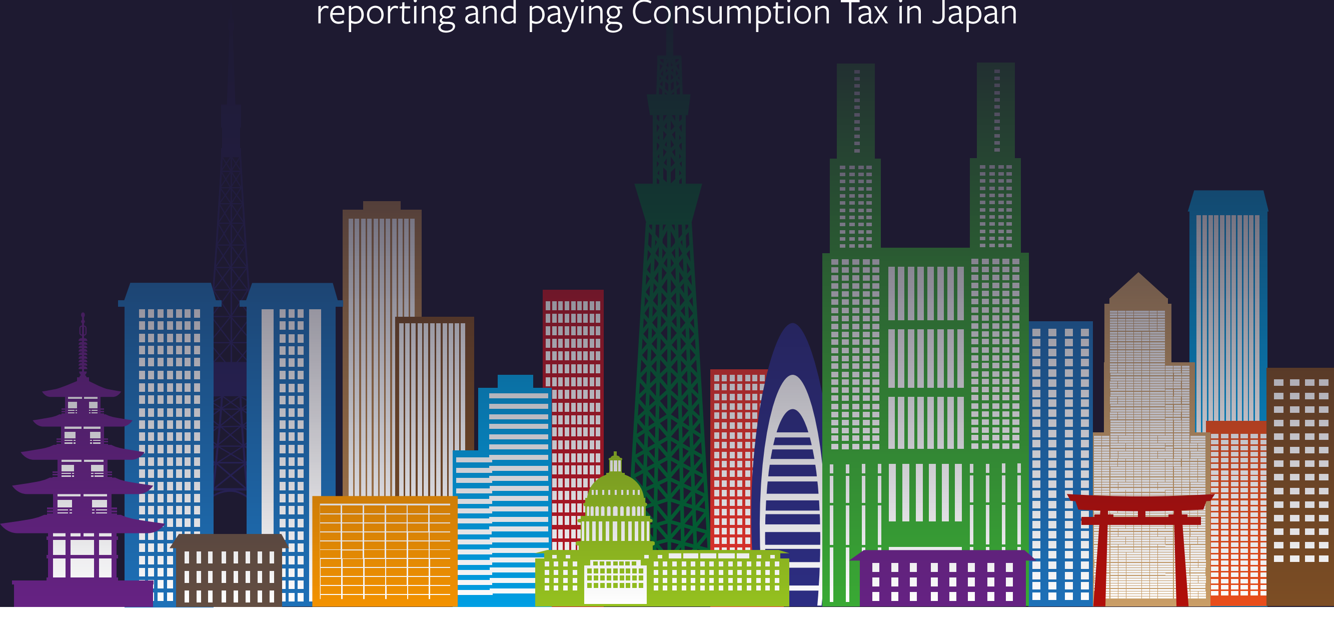
April 2022

Japan CT

A tax professional's essential guide to calculating, reporting and paying Consumption Tax in Japan



Introducing CT in Japan...

Consumption Tax (CT) is Japan's largest and most valuable indirect tax, generating over YEN 21 trillion ($180 billion) in 2021.

It was originally introduced in the country in 1989 and is its most frequently used indirect tax; applied to the majority of goods and services traded.

Japan's CT regime shares many core similarities with the European Union's VAT system, such as requiring re-calculation and payments to be made to the relevant tax authority at each transaction point throughout a sales chain.

Any business with turnover that exceeds YEN 10 million is required to register for CT. This figure is taken from the base year of two years prior to the tax year.

Should start-up capital of more than YEN 10 million exist, immediate compliance with Japan's tax laws is required.

As the world's third-largest economy, Japan is a common trading destination for businesses across the world, so complying with its various rules and regulations is essential. We hope you enjoy our guide to CT in the country!

What CT rates apply?

Japan has a standard rate of 10%, as well as a range of other rates that businesses can apply:

- 10% — Standard: e.g. most goods and services
- 8% — Reduced: e.g. food stuffs
- 0% — Zero: e.g. exports and certain services to non-residents

Should you register?

Foreign businesses that provide goods and/or services in Japan are likely to be required to register for Consumption Tax. With this comes an obligation to meet certain regulations, such as submitting regular tax returns and pay any tax due to the Japanese tax office.

Three common scenarios in which your organisation will be required to register for Consumption Tax are:

- Where goods are delivered within Japan
- If the foreign business imports goods in Japan
- Supplies of services, e.g. entertainment, consulting

Exemptions

A number of goods and services are exempt from CT in Japan, including:

- Sale/lease of land
- Loans and guarantees
- Elderly welfare
- School tuition
- Medical treatments

Invoices

Once a business is registered for CT in Japan it must maintain records for all amounts it has claimed. All valid tax invoices must include the following details:

1. Full name of the supplier.
2. Date of the transaction.
3. Description of the goods or services sold.
4. Total amount charged on taxable transaction.
5. Full name of the person the goods or services have been supplied to.

Japan FAQs

Is voluntary registration allowed?

Yes, businesses can voluntarily register for CT but must immiediately nominate a fiscal representative.

How often must CT returns be submitted?

An annual tax return is expected from all businesses within two months of the end of the fiscal period. Interim returns (and payments) may also be required if the tax due exceeds certain thresholds.

Can a foreign business recover tax if it is not registered?

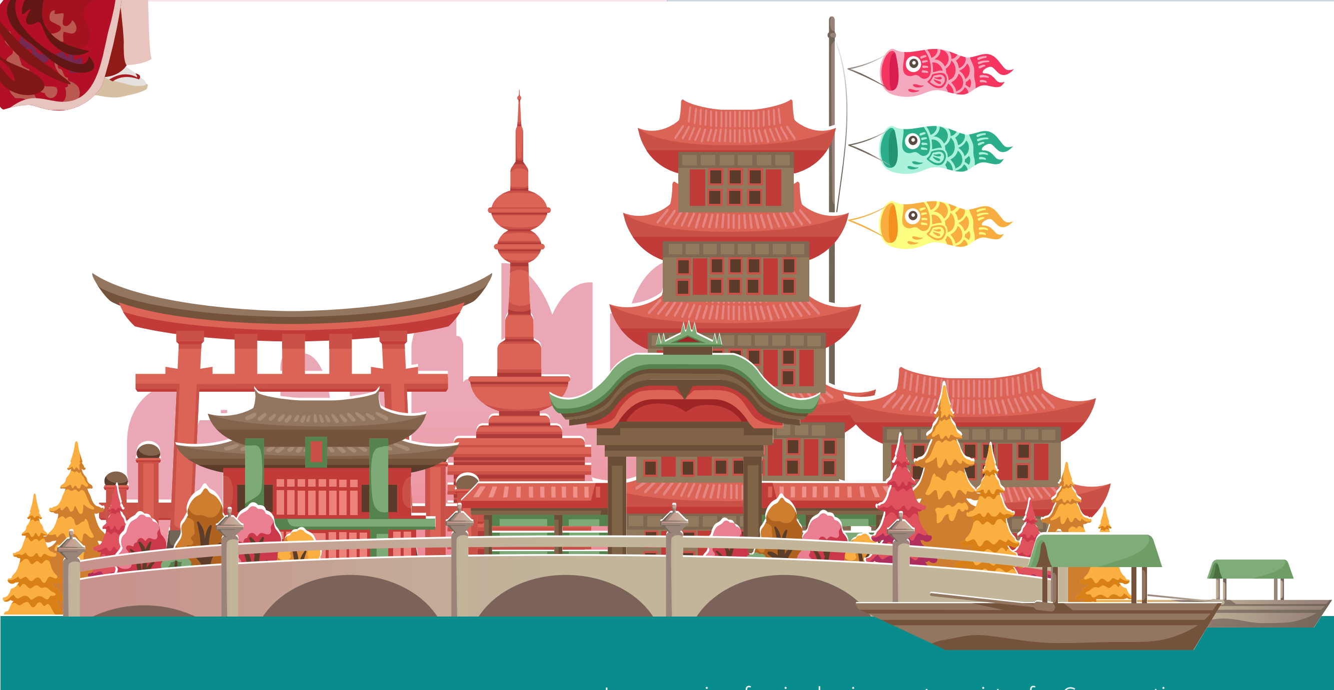
No, although there is an option to restrict the amount of creditable input tax.

Does Japan operate a reverse charge?

For most businesses, the answer is no. Currently the reverse charge mechanism applies only to B2B digitally supplied services by a foreign company to domestic businesses.

Do any other indirect taxes apply in Japan?

Yes, there are several, including Tobacco Tax, Gasoline Tax, Liquor Tax and Special Tobacco Tax.



DID YOU KNOW...

Japan requires foreign businesses to register for Consumption Tax through a local tax representative.

Tax on digital services

- E-books
- Movies
- Streaming music
- Cloud software
- Websites
- Online ads

Digital products are classified as those that are stored, delivered and used in an electronic format and are typically received by consumers via email, download or a website.

In October 2015, Japan started to levy CT on digital services for the first time.

To apply the correct tax, first you'll need to determine that the place of supply is indeed Japan. This is usually done by collecting evidence from customers in the form of an address or credit card details.

Once a business has charged and collected CT on digital services, it will have to file CT returns and pay the tax authority the amount it owes - in the same way it would for any other good or service.

What's coming next?

From 1st October 2023, a new e-invoicing system will come into effect in Japan. Businesses will be required to produce and retain e-invoices for input tax credit purposes.

A four-year transition period building towards the new e-invoicing requirements is currently underway. The Transitional Invoice Rentention System applies for the duration of the transition period until it is replaced by the new Qualified Invoicing System. Under the transitional rules, businesses must include the sales amount and the applicable tax rate on every invoice.

Once the new system is introduced, qualified invoices created by businesses should be maintained to allow them to claim credits for consumption taxes paid. Companies (other than those that are exempt) will be required to file an application with the relevant tax office to secure accreditation that allows them to issue qualified invoices including essential details.

Current system No invoice-based method	New system Qualified invoice-based method
Accounting book	Accounting book
Document issued by seller	Qualified invoice (paper); Qualified invoice (e-invoice)

The expert's view...

Many of the fundamental features of Consumption Tax in Japan will not look unfamiliar to tax professionals in most parts of the world. After all, the country's CT regime shares many similarities with VAT in the European Union.

But in recent years, Japan has started to leverage CT as a strategic tool; first by raising its standard rate to 10% in 2019 in an attempt to tackle national debt and subsequently by clamping down on fraud and inaccuracies within reporting by phasing in the introduction of mandatory e-invoicing.

With this in mind, it's more important than ever for businesses to ensure complete accuracy in every transaction. Failure to do so could result in a tax gap and the potential for prosecution in the coming years.

It's also essential that tax professionals brush up on the country's CT rules for digital services, which slightly differ from those in some other major markets.

Simply, if your business has turnover of more than YEN 10 million (about $80,000), you are liable for complying with the plethora of rates, rules and regulations that come with trading in Japan.

At Innovate Tax, we've worked with many large multinationals to provide the automated tools they require to ensure a smooth, seamless and reliable route from CT determination to calculation, reporting and ultimately submitting perfect returns that protect them from any risk.

If you're interested in how we can help your business get to grips with CT in Japan, do not hesitate to contact us.

Katie Summerville
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