

Japan: Inbound Tax Alert

Postponement of Japanese Consumption Tax Rate Increase – Measures and Action Items

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In Brief

On 24 August 2016, the Japanese Cabinet office approved a proposal that summarized an announcement made by Prime Minister Shinzo Abe in June 2016 regarding a delay in the second planned increase of the Japanese Consumption Tax (JCT) rate from 8% to 10%. A related bill was submitted to the Diet on 26 September 2016 and is expected to be passed in November 2016. The delay will push back the planned rate increase from 1 April 2017 to 1 October 2019 and it is expected that the introduction of the new invoice method will be delayed as well. The announcement also made clear that transitional measures will not be available for entities unless the entity qualifies as a small or medium-sized enterprise (SME)¹. Based on the contents of the current proposal and, depending on the type of company, certain actions will be required.

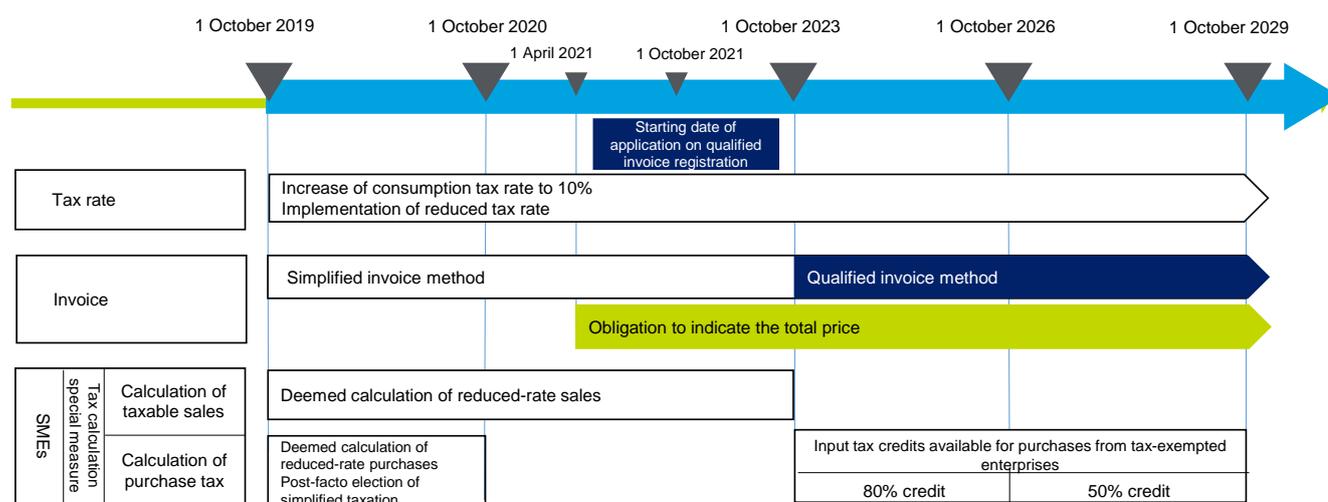
Tax Measures and Timetable

The proposal contains a new timetable for the implementation of JCT measures, as noted below:

Related Tax Measures

- 1) Increase in the standard JCT rate to 10%
- 2) Introduction of a reduced tax rate of 8%
- 3) Introduction of a temporary simplified invoice method
- 4) Introduction of a qualified invoice method (e.g. similar to an EU VAT invoice, which shows the amount of consideration and the amount of JCT separately per JCT rate)
- 5) Introduction of special tax calculation measures for SMEs

Implementation Timetable



¹ For purposes of qualifying for JCT transitional measures, SMEs are enterprises whose taxable sales for the base period (accounting period two years before the current accounting period for a corporation) are JPY 50 million or less.

Future Actions

The increase in the JCT rate, the introduction of a reduced JCT rate, and the introduction of a qualified invoice method will have a significant impact on taxation, and may necessitate changes to the business process for sales and purchases, business management systems, accounting systems, etc. Companies should start reviewing at an early stage areas that likely will be affected by the new JCT system and consider steps to prepare for the changes. The following is a list of action items that may need to be accomplished:

Action Items for Taxation

- Understand the effect of the new JCT systems on related departments
- Categorize transactions subject to the standard JCT rate (10%) and the reduced rate (8%)
- Consult directly with the tax authority or tax specialists if classification is unclear
- Review transactions subject to the transitional measures related to the increase in the JCT from 8% to 10% or the introduction of the 8% reduced rate
- Review the processes for the preparation of JCT returns and determine the tax calculation method
- Review internal procedures for the proper issuance and acceptance of simplified and qualified invoices
- Assess whether bookkeeping requirements under the new JCT system are met so that an input tax credit will be available
- File an application as a registered issuer of qualified invoices
- Specifically for SMEs:
 - Review whether the special measures are applicable for certain taxation periods on or after 1 October 2019 (an estimation will need to be made on taxable sales for the base period for each accounting year in advance)
 - Review which special measure will be most effective, if applicable
 - File an application for the simplified taxation method, if applicable

Action Items for Business

- Review the effect on businesses as a result of the JCT increase or because the company is unable to apply an input tax credit from JCT-exempt enterprises;
- Conduct a trial calculation on the impact of various costs, including systems renewal costs
- Review and determine business policy and changes to business processes
- Review pricing arrangements and conduct negotiations on pricing with customers
- Arrange details and the format of invoice data, as well as order entry and order placement
- Since it will be necessary to indicate the total price, review price setting and descriptions on price tags, while taking into consideration the timetable and market competition
- For JCT-exempt enterprises, review measures by taking relationships with customers into account and conduct trial calculations on the related effects, and consider whether to apply as a registered issuer of qualified invoices

Action Items for Systems

- Understand the effect on Enterprise Resource Planning (ERP) systems due to the introduction of a 10% standard rate and an 8% reduced rate, as well as the shift to a qualified invoice method
- Determine the systems renewal policy and schedule (particularly with customer-linked systems)
- Work on the renewal of accounting systems, register systems, format of invoices, etc.
- Draft systems manuals and conduct relevant employee training



Deloitte's View

These tax measures introduce unprecedented complexity within the JCT regime, and successful implementation will require adequate preparation and action from a tax, business, and systems perspective.

Since numerous companies will be conducting systems reviews and renewals at the same time, it is expected that there may be some delay in the process of implementation of changes to the systems due to a shortage of available labor so companies should start reviewing their systems as soon as practical.

If systems are linked with customers, additional time for testing may be required. It is recommended that enterprises undergoing these processes formulate a planning schedule at an early date

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