

Japan Tax & Legal Inbound Newsletter

Changes to the taxation of online platforms proposed

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Introduction

On 1 April 2025, Japan intends to introduce changes to the taxation of online platforms, as announced by the Ministry of Finance in the 2024 tax reform proposals. The draft law was submitted to parliament on 2 February 2024.

As the digital platform economy has boomed in recent years, online platforms have increasingly been acting as intermediaries between foreign suppliers of digital services and end consumers. In Japan, the growth of the digital market is so strong that in-app sales are expected to surpass JPY 5 trillion in 2024. This sales channel is the preferred method for foreign digital services providers entering the Japanese consumer market for the first time.

Under the current Japanese consumption tax (JCT) rules, the underlying foreign suppliers of digital services are generally obliged to collect and remit any JCT on their transactions to the Japanese tax authority (the National Tax Agency (NTA)). However, many underlying foreign suppliers are unaware of their obligations regarding JCT, and even when they recognize the requirements, it can be difficult in practice for them to become JCT taxpayers and to comply with their JCT responsibilities. The result is a perceived inequality in the application of JCT, which the proposed new platform taxation rules aim to redress.

Platform taxation

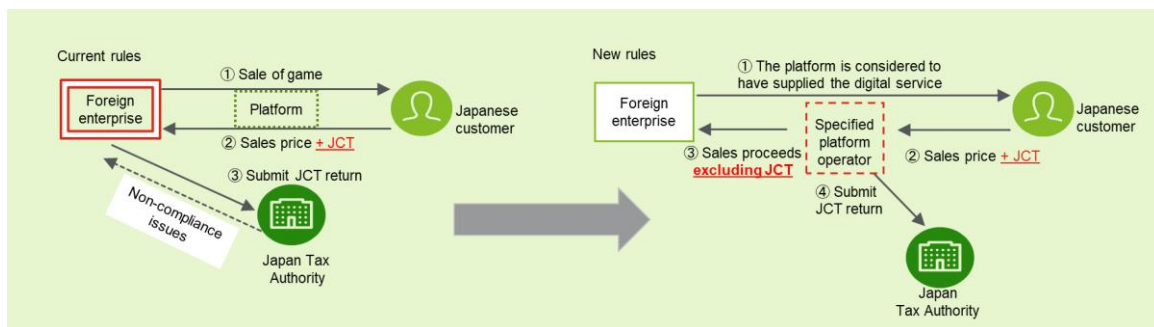
1. Overview

Under the new rules, the provision of business-to-consumer (B2C) digital services by a foreign business via a digital platform, for which consideration is received through a platform operator designated as such by the commissioner of the NTA (a “specified platform operator”) would be considered to be the provision of services by that specified platform operator.

Other jurisdictions that have introduced platform taxation have adopted the “deemed supplier” model, under which the platform operator is deemed to have purchased the service from the underlying service provider and is required to collect and remit indirect tax on the deemed onward supply to a final customer. This approach would also be adopted in Japan; however, the draft law does not mention how the platform operators must treat the deemed input JCT on the purchase side. It is likely that they would not be required to recognize deemed purchases of digital services from the underlying service provider.

Specified platform operators would only be required to charge and remit JCT on B2C digital services provided by foreign suppliers via the platform. Business-to-business (B2B) digital services provided by a foreign supplier, even if made via a specified platform operator, would continue to be treated as nontaxable, and accounted for under the reverse charge mechanism by the recipient.

The following diagram illustrates the current and proposed new rules:



2. Designation as a specified platform operator

If the total sales by all underlying foreign service providers through an online platform (“facilitated sales”) exceed JPY 5 billion in the last tax period ending on or before 31 July 2024, the platform operator would have to submit a notification to the commissioner of the NTA by 30 September 2024. The platform would then be designated as a specified platform operator by 31 December 2024, with an effective date of 1 April 2025, which is the date on which a specified platform operator must start collecting and remitting JCT on facilitated sales. If a platform operator’s tax period is shorter than 12 months, the facilitated sales amount must be pro-rated and the 12-month equivalent amount calculated. For subsequent tax periods, platform operators would have to assess whether their facilitated sales exceed JPY 5 billion in the tax period and notify the NTA before the filing deadline of their relevant JCT return, which is usually two months after the end of the tax period. The designation would take effect six months after the notification submission deadline.

3. Obligations imposed on specified platform operators

A list of all designated specified platform operators would be published by the NTA. Specified platform operators would be required to notify foreign digital service suppliers of their status.

Only those facilitated sales on which the specified platform operator collects the consideration from the customer are in scope for the new rules, regardless of how payment is actually made (i.e., credit card, direct debit, etc.).

Once a specified platform operator has been designated as such, it would remain so unless its facilitated sales fall below JPY 5 billion for three consecutive tax periods.



Key points:

- Platform operators should assess their status based on their facilitated sales amounts in the last tax period ending on or before 31 July 2024, to determine whether they are likely to be designated as a specified platform operator. If the threshold is exceeded, a notification should be submitted to the NTA by 30 September 2024.
- If the threshold is exceeded in a subsequent tax period, the platform operator would be required to submit the notification by the submission deadline for the JCT return for the tax period (i.e., two months after the end of the tax period).
- Generally, the designation would take effect six months after submission of the notification; however, if the designation is made by 31 December 2024, it would be effective as from 1 April 2025.
- Platform operators would be obliged to remit JCT on their own sales as well as facilitated sales. They also would be required to disclose the underlying foreign supplier’s information in the JCT return.
- To prevent platform operators from restructuring to avoid being designated as a specified platform operator, special measures for mergers and demergers are proposed.

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