

Japan Tax & Legal Inbound Newsletter

Qualified invoice system for consumption tax purposes to be introduced in 2023

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Background

As from 1 October 2023, the Japanese consumption tax (JCT) regime will be subject to a new invoicing system: the qualified invoice system, that will require additional information to be included on the invoice and is similar to the system used by countries that impose value added tax and goods and services tax.

Overview of current JCT invoicing requirements

Currently, there is generally no requirement for Japanese businesses to state the JCT rate or amount on their tax invoices. JCT taxpayers are not obliged to use tax invoices to calculate the JCT input amount; rather, the JCT amount is determined based on the businesses' books and records.

This method of calculating JCT was practically possible until the introduction of the multiple JCT rate system as from 1 October 2019, when the standard JCT rate increased from 8% to 10% and the 8% rate was retained as a reduced rate applicable to most food and beverages, and certain print newspaper subscriptions. A 0% rate also may apply in certain circumstances (e.g., to export transactions). A rate-classified invoice system applies for the period 1 October 2019 through 30 September 2023 as a transitional measure until the qualified invoice system is introduced, under which JCT taxpayers may differentiate on invoices between 8% and 10% items and state the total consideration for each rate. The imposition of different rates has resulted in some JCT taxpayers incorrectly accounting for JCT input tax on account of not being able to rely on a tax invoice stating the correct JCT rate and amount.

Overview of qualified invoice system

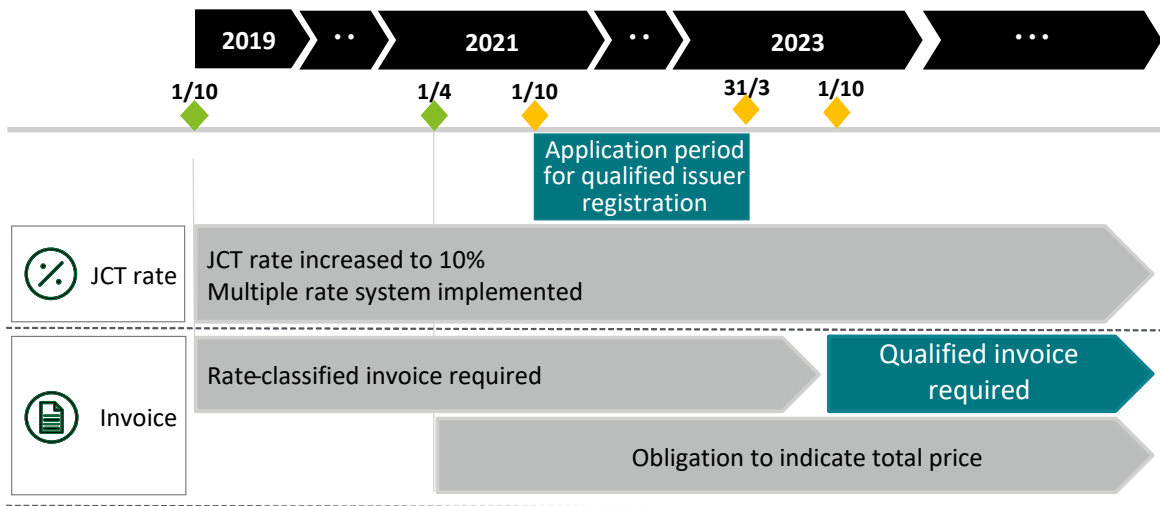
Under the new system, a JCT taxpayer will be required to retain a qualified invoice issued by a registered invoice issuer in order to be eligible to claim an input credit. Applications to be a registered invoice issuer may be submitted to the appropriate National Tax Office between 1 October 2021 and 31 March 2023. Once approved, a registrant must provide qualified invoices to customers who are JCT taxpayers and retain copies of the invoices. Nonregistered businesses cannot issue qualified invoices. Once successfully registered, businesses will be able to view their registration numbers on the National Tax Agency's website.

Information required on a tax invoice

The following table summarizes the requirements applicable to tax invoices under the current system and under the qualified invoice system as from 1 October 2023.

Prior to 1 October 2023	As from 1 October 2023
Supplier's name	Supplier's name and registration number
Date of transaction	Date of transaction
Description of goods or services (separate identification required for transactions subject to the reduced JCT rates)	Description of goods or services (separate identification required for transactions subject to the reduced JCT rates)
Invoice amount	Invoice amount (JCT inclusive or exclusive) for each JCT rate and the relevant JCT rate
Customer's name	Customer's name

Overview of relevant dates



Business opportunities

As from 1 October 2023, JCT taxpayers broadly only will be allowed to recover input JCT where a qualified invoice has been issued. JCT taxpayers who purchase goods and/or services from a JCT exempt enterprise, i.e., a company that is not required to file a JCT return or remit any output JCT, will need to review their supply chains and identify any potential transactions for which input JCT may not be recoverable.

Under the current rules, a JCT taxpayer can treat amounts paid in a taxable transaction to a supplier that is a JCT exempt enterprise as inclusive of JCT and recover “deemed” input JCT in its JCT return. However, under the new qualified invoice system, a JCT exempt enterprise cannot issue a qualified invoice; therefore, the deemed input JCT that currently is deductible may become a real cost to the JCT taxpayer. Transitional rules will be implemented to allow businesses to recover a certain percentage of deemed input tax even after 1 October 2023 but businesses should start assessing any taxable transactions they have with JCT exempt enterprises to ensure that any risk of JCT leakage is mitigated.



Deloitte's View

While Japanese businesses have had to manage JCT rate increases in the past, the introduction of the qualified invoice system may have wide-ranging business implications for some companies. There is a risk that businesses underestimate the scale of the work involved in either implementing or adapting IT systems or renewing business contracts because they mistakenly assume that this is a tax issue and not a business transformation issue. Some businesses may, for example, require IT enhancements and upgrades to meet the invoicing requirements; others may need to renegotiate contract terms with third parties.

Businesses should ensure that they make the optimum use of the time remaining prior to the introduction of qualified invoices to assess which of their activities will be affected by the changes and ensure that appropriate steps are taken to be ready by 1 October 2023.

Related Service

Japanese Consumption Tax: Qualified Invoice System

Deloitte Tohmatsu's wide range of experiences and skills allow to provide tailored support for your smooth transition to the new invoice system.

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