



Financial Services Tax Group

News Letter

March 2004

The response of financial institutions to *Total price indication method* under the new *Consumption Tax Law*

From 1 April 2004, consumption taxpayers are required to indicate the total price, including consumption tax, on their prices, including advertisements and other marketing materials in accordance with the 2003 tax reforms. This is to ensure that consumers are provided with the total price including consumption tax in advance of purchase.

In this Newsletter, we outline the requirements that financial institutions must comply with when indicating prices on their company brochures or advertisements to their general customers. We also address the compliance obligations when disclosing commission rates for security transaction fees.

Price disclosure requirements on company brochures or advertisements to general customers of financial institutions

The *Total price indication method* must be applied to all marketing materials when consumption taxpayers indicate the prices to general consumers in advance of purchase. For example, if banks indicate their transfer commission fees or ATM commission fees on their company brochures or newspaper adds to general customers, or if securities companies show their service fees on the Internet, they must apply the *Total price indication method*.

Commission rate indicated for security transaction fees

Security transaction fees are often calculated by multiplying the transaction amount by the commission rate, i.e., “transaction amount × %”. Although such a commission rate does not indicate the exact security transaction fees, the *Total price indication method* applies since this commission rate represents the price. Accordingly, this commission rate needs to include consumption tax.

Where there is a rounding error between the indicated total price, including consumption tax, and the actual amount payable

When preparing transaction statements after April 1, 2004, if financial institutions use a system that calculates consumption taxes based on a price excluding consumption tax, there may be a difference between the indicated total price, including the consumption tax, and the actual amount payable due to rounding errors. This scenario does not contravene the *Consumption Tax Law*. However, it may cause a misconception regarding the final price charged to customers and may be an infringement of the *Act against Unjustifiable Premiums and Misleading Representations (Premiums and Representations Act)*. Accordingly, the actual amount payable should be noted in marketing material to customers so that any rounding error between the total price, including consumption tax, and the actual amount payable is brought to their attention.

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This Financial News Letter is provided for general guidance only, and does not constitute the provision of advice of any kind. Before making any decision or taking any action, you should consult your usual PwC contact with all the pertinent facts relevant to your particular situation.

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