Japanese Consumption Tax: Preparing for new Qualified Invoicing Issuer Rules, effective from October 1, 2023

November 2022

In brief

The Japanese government introduced a new Qualified Invoice System ('QIS') to Japan's Consumption Tax ('JCT') regime in its 2016 Tax Reform. As discussed in our previous newsletter on this topic, the new QIS system will come into effect from October 1, 2023.[1] Under the QIS, a JCT taxpayer (a 'taxpayer', who files JCT tax returns and pays or get a refund of JCT), can in principle only take an input JCT credit if such taxpayer receives a 'qualified invoice' from a seller that is registered as both (i) a JCT taxpayer and (ii) a qualified invoice issuer ('QII'). Effectively, the new system will require sellers to include their QII number in invoices for a purchaser receiving such invoice to be able to take an input credit for the JCT in that invoice. The requirement is similar to that of a seller to include its VAT number in an invoice in the European context.

The new rules contain various implementation-related measures, including details of the QII registration requirements, a description of the information that must be included in a qualified invoice, requirements for the purchaser to be able to take an input tax credit, etc. The 2016 Tax Reform also provided several transitional measures, including transitional rules regarding invoice retention, that are effective until September 30, 2023.

Note that a QII number is not issued automatically; rather, a party must apply to the tax office to receive one. The tax office will require some time to process an application once received from a taxpayer and, thus, in terms of timing, the NTA has indicated that a business operator (either an individual or a corporation) should submit the QII application to the relevant local tax office no later than March 31, 2023, to ensure they are registered as a QII by the October 1, 2023 effective date of the law. Beyond merely receiving a new QII number, the QII system may necessitate taxpayers making certain changes to their internal systems and work processes to ensure proper compliance with the rules. It is thus highly recommended that taxpayers understand not only the current rules, but also the transitional provisions and the rules coming into effect going forward to ensure there is time to amend accounting software, implement new internal work processes, or properly train relevant personnel in light of the rules if necessary.

This Alert summarizes key issues to consider for both vendors and purchasers in advance of the effective date of the QIS.

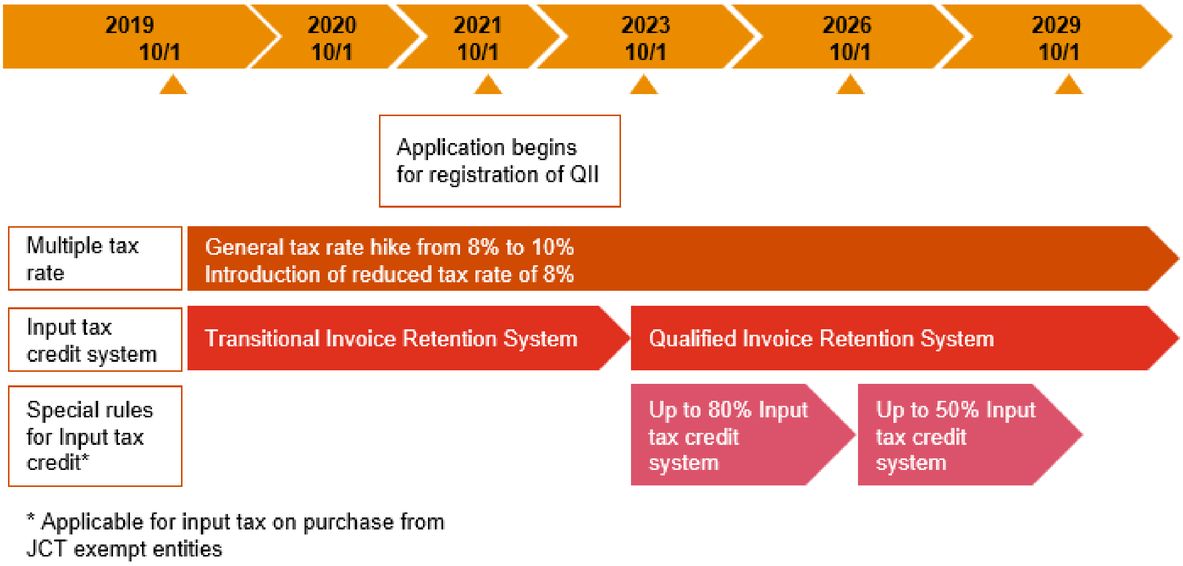
[1] 'Japanese Consumption Tax: Complexities in Light of Multiple Tax Rates and New Invoicing, Bookkeeping, and Registration Requirements' Issue 151, November 2019

In detail

1. Overview of the QIS and related amendments under the 2016 Tax Reform

The JCT- related measures in the 2016 Tax Reform include: (i) the QIS, effective October 1, 2023, (ii) multiple tax rate system effective October 1, 2019, (iii) 'Transitional Invoice Retention System', effective until September 30, 2023, (v) special rules regarding eligibility for an input tax credit when making purchases from JCT exempt entities, and (iv) changes to the calculation method for input and output tax, applicable to small and medium-sized corporations. A general timeline of the new JCT rules is shown below.

Under the QIS rules, a taxpayer can in principle only take an input JCT credit if that taxpayer receives a qualified invoice from a seller that is registered as a QII, and only a business operator that is a JCT taxpayer can register as a QII.[2] A QII vendor is in principle obliged to issue and deliver a qualified invoice[3] to a purchaser and retain a copy of the qualified invoice. The qualified invoice can be delivered in paper format or electronically.



Under the QIS rules, a taxpayer is required to comply with relevant bookkeeping rules and to retain a qualified invoice to be eligible for an input tax credit. There are special 'grandfathering' rules, however, that will allow a taxpayer to take a partial input tax credit even when making purchases from JCT exempt entities, who do not issue qualified invoices. These grandfathering rules will be effective until September 30, 2029.

[2] At a high level, under currently effective rules, an enterprise is only required to register as a taxpayer if it had taxable sales in Japan beyond JPY 10M in the 'base period' (the tax period two years prior) or had taxable sales or paid salary to employees in Japan of more than JPY 10M in the 'specified period' (the first six months of the previous fiscal year). A detailed discussion of these "small business exemption" rules is beyond the scope of this alert but, in practice, there are many sellers in Japan who are not taxpayers in light of these thresholds. Those sellers would be ineligible to register as a QII without first / concurrently voluntarily registering as a consumption taxpayer.

[3] There are certain types of transactions where a qualified invoice is not required in order to take an input credit. Examples of such transactions include postage, public transport costs (less than 30,000 yen), and the purchase of products through a vending machine (less than 30,000 yen).

2. Registration as a QII

As discussed, vendors must register with the NTA to receive a QII number. The tax office began accepting applications from October 1, 2021, and the tax authorities have indicated that vendors who apply no later than March 31, 2023 should be able to receive their QII number by the October 1, 2023 effective date of the new law.

As noted, only a taxpayer can apply for a QII number. An entity that is currently JCT exempt (see discussion in note 2) should first become a taxable entity by filing the taxable entity application and then file the QII application. Under currently effective transitional rules, however, a JCT exempt entity can become both a taxpayer and a QII with only a single application during the period from October 1, 2023 to September 30, 2029.

Under Japan's 2022 Tax Reform, it was clarified that a foreign corporation or a non-resident must appoint a tax agent and notify the relevant local tax office of such appointment, in order for the foreign enterprise's QII application to be accepted. The tax office may also revoke a non-resident's QII registration if the local tax office becomes aware of the fact that the registrant did not file a notice of appointment of a tax agent.

The NTA (Japan's National Tax Agency) publishes a list of QII registered entities on its website. The list shows the name of registered entity, the location of its head office, the entity's registration number, and the date of the registration. Registrants can be searched by the registration number on the website.[4] A taxpayer that receives a qualified invoice should confirm that the vendor is correctly registered via the website before taking the input credit.

3. Changes in Input Tax Credit Requirements

Under both the Transitional Invoice Retention System (effective up to September 30, 2023) and the QIS (effective from October 1, 2023) a taxpayer is required to comply with relevant bookkeeping and invoice retention requirements in order to be eligible for an input tax credit.

Under the Transitional Invoice Retention System, a taxpayer can obtain an input tax credit with respect to taxable purchases from any vendor, regardless of whether such vendor is a JCT taxable entity or a JCT exempt entity, if the taxpayer obtains a JCT compliant invoice.

After the introduction of the qualified invoice system (i.e., from 1 October 2023), in principle, an input tax credit cannot be claimed from any purchases from a JCT exempt enterprise or a consumer. (Certain general exceptions to the requirement to obtain an invoice to support an input tax credit are provided in note 3.) However, grandfathering rules allow partial input tax credit for the subsequent six years:

- 1 October 2023 – 30 September 2026: 80% of input tax creditable
- 1 October 2026 – 30 September 2029: 50% of input tax creditable

In order to apply such grandfathering rules, a taxpayer is required to retain an invoice which meets the requirements under the Transitional Invoice Retention System and also must make it clear in its books on a transaction-by-transaction basis that such rules are applied.

A summary of the applicable rules under the different regimes appears in the table below.[5]

	Transitional Invoice Retention System (effective through September 30, 2023)	Qualified Invoice System (from October 1, 2023)
Requirements for input tax credit	Proper bookkeeping and retention of invoice with specific description	Proper bookkeeping and retention of qualified invoice
Description in	1) Name of vendor	1) Name of vendor

[4] https://www.invoice-kohyo.nta.go.jp/

[5] Where a qualified invoice shows prices in a foreign currency, please see our July Newsletter describing new rules requiring the JCT amount in a qualified invoice to be shown in Japanese yen.

accounting records	2) Date of purchase 3) Details of goods or services provided **(specify reduced rate purchase)** 4) Consideration for purchase	2) Date of purchase 3) Details of goods or services provided (specify reduced rate purchase) 4) Consideration for purchase
Information required in invoice	1) Name of issuer 2) Date of transaction 3) Details of goods or services provided **(specify reduced rate transactions) *** 4) Consideration for transaction (JCT inclusive) **by tax rate*** 5) Name of customer *In the absence of these descriptions, it is permissible for purchaser to add in the invoice.	1) Name of issuer **and registration number** 2) Date of transaction 3) Details of goods or services provided (specify reduced rate transaction) 4) Consideration for transaction (exclusive or inclusive of JCT) broken down by **applicable tax rate** **5) Total consumption tax amount by tax rate (the JCT amount must be rounded on the total invoice JCT amount per tax rate, not item-by-item)** 6) Name of customer
Input tax credit on purchase from JCT exempt business or consumer	Creditable	80% creditable (October 1, 2023 through September 30, 2026) 50% creditable (October 1, 2026 through September 30, 2029) Not creditable on or after October 1, 2029
Vendor obligation	No obligation to issue an invoice	QII has obligation to issue a qualified invoice upon the request of purchaser (a taxpayer)

Please also note that under the new QIS rules, a QII is required to issue a credit note meeting certain requirements (i.e., Qualified Return Invoice) in the case of a return, discount, rebate etc.

The takeaway

In order to be prepared for the QIS rules, it will be critical for taxpayers to review their current accounting systems and internal processes, and to ensure their accounting personnel understand those rules. It is also important to timely register as a QII (registration by March 31, 2023, to meet the October 1, 2023 effective date).

Let's talk

For a deeper discussion of how this issue might affect your business, please contact:

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PwC Tax Japan has launched a new e-learning program called Tax Academy in October 2022, to support those wishing to develop their skills in the international tax field. For tax professionals outside Japan, the 'Introduction to Japanese taxes' series within Tax Academy provides a basic outline of the Japanese tax system, including corporate tax and consumption tax, and covers key points of international tax practice in English.

Please click here for details and to apply (charges apply):
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