

Japan Tax Bulletin

Preservation method of consumption tax

August 2021

From October 1, 2023, the qualified invoice preservation method (“invoice system”) will be introduced as a way of the purchase tax credit of the consumption tax to correspond to the multiple consumption tax rates. Under the method, the preservation of “qualified invoices” issued by “qualified invoice issuers” will be a requirement for the purchase tax credit.

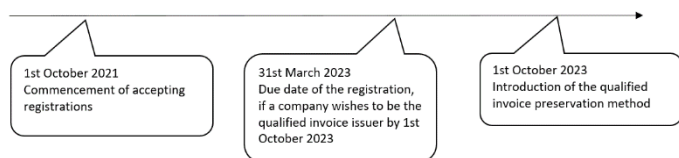
1. *Qualified invoice*

A qualified invoice is a “means for a seller to inform a buyer of the applicable consumption tax rates and the consumption tax amounts”, and is an invoice, a delivery note, a receipt or other similar documents describing certain items.

2. *Registration System for the issuer of the qualified invoice and the schedule of the registration*

Only a “qualified invoice issuer” can issue a qualified invoice. In order to become a qualified invoice issuer, an enterprise must submit an application for the registration to the tax office. If the company is a tax exempt entity, it cannot be registered as a qualified invoice issuer.

The application for the registration can be submitted from 1st October, 2021. If an enterprise wishes to be a qualified invoice issuer from 1st October 2023, the application has to be submitted by 31st March 2023 (if there are any difficulties, the deadline is extended to September 30, 2023).



3. *Obligations of the qualified invoice issuer (points to be noted for sellers)*

The qualified invoice issuer is obliged to deliver the qualified invoices upon the request of the purchasers, and to retain a copy of the delivered qualified invoices.

The six items below must be described in the qualified invoice (the underlined items are in addition to the current classified invoices preservation method)

- i. Name and registration number of the qualified invoice issuer
- ii. Date of transaction
- iii. Details of the transaction (mentioning that the transaction is subject to the reduced tax rate)
- iv. Total amount of consideration for each tax rate (excluding or including tax), and applicable tax rates
- v. Amount of consumption taxes, etc. (Fractions are available once for each tax rate per invoice)
- vi. Name of the entity to which the invoice is to be delivered

If there is an error in the qualified invoice, the qualified invoice issuer must issue a corrected qualified invoice.

The following acts are prohibited and penalties are imposed for violations.

- i. Delivering a document that may be misunderstood as a qualified invoice by an entity that is not registered as a qualified invoice issuer
- ii. The qualified invoice issuer delivers a qualified invoice with false information

4. *Requirements for the purchase tax credit (points to be noted for buyers)*

Under the qualified invoice preservation method, except in certain cases where it is difficult for the purchasers to receive qualified invoices, etc., the preservation of books describing certain information (same as the current classified invoices¹ preservation method) and of the qualified invoices, etc., are a requirement for the purchase tax credit. For such above difficult cases, it is allowed to receive a purchase tax credit by keeping only the books. The followings are cases where purchasers need not receive qualified invoices:

- carriage of passengers by ship, bus or train as public transportation (less than JPY 30,000),
- purchase from vending machines (less than JPY 30,000),
- taxable purchases which are considered to be normally necessary related to travel expenses, accommodation expenses, daily allowances for travel expenses, and commuting allowances, etc. paid to employees, etc.

¹ An invoice where items the standard rate is applied to and their amounts and items the reduced rate is applied to and their amounts are separately stated.

5. Registration procedures for a tax exempt entity

In order for a tax exempt entity to be registered as a qualified invoice issuer, it is necessary for them to submit the "Notification of election as a taxable entity for consumption tax" in addition to the application of the registration for a qualified invoice issuer. However, when an enterprise is registered as a qualified invoice issuer during a taxable period that includes October 1, 2023, there is a transitional measure that the company becomes a taxable entity from the date of registration (i.e. no need for the submission of the "Notification of election as a taxable entity for consumption tax"). After the registration, a company becomes a taxable entity and has to file the consumption tax return. The following illustrates an example for a company with a fiscal year ending in December.

- i. When the registration date is during the taxable period which includes 1st October 2023 (the transitional measure is applied) : The necessary application is the "Application for the registration"

FY December 2022	FY December 2023		FY December 2024
Tax exempt entity	Tax exempt entity	Qualified invoice issuer & Taxable entity	Qualified invoice issuer & Taxable entity

Due date of the Application of the registration:
31st May 2023

Registration date :
1st October 2023

- ii. When the registration date is after the taxable period which includes 1st October 2023 : The necessary applications are the "Notification of election as a taxable entity for consumption tax" and the "Application for the registration"

FY December 2022	FY December 2023	FY December 2024
Tax exempt entity	Tax exempt entity	Qualified invoice issuer & Taxable entity

Due date of the Application of the registration:
30th November 2023

Registration date :
1st January 2024

6. Transitional measures for taxable purchases from tax exempt entities

After the introduction of the qualified invoice preservation method on 1st October 2023, taxable purchases from suppliers other than the qualified invoice issuers (i.e. tax exempt entities and general consumers) will not be eligible for the tax purchase

However, when an enterprise retains invoices that contain the same information as the classified invoices, and books describing that the company applies to the transitional measure, a company

can claim a certain percentage of the purchase tax credit during a certain period as shown in the following table:

Period	Deductible amount
From 1 st October to 2023 to 30 th September 2026	80% of the purchase tax
From 1 st October to 2026 to 30 th September 2029	50% of the purchase tax

7. Note

Only a qualified invoice issuer can issue invoices with 10 % consumption tax on. Therefore, it is most likely that a tax-exempt entity elects a taxable entity status and qualified invoice issuer in order to continue transactions with current customers.

Please note that the current simplified taxation system² is still available. Thus, even if an enterprise chooses to become a qualified invoice issuer, it can still select the simplified taxation system to calculate purchase tax credit in the simplified way instead of calculating the purchase tax credit amount in a tax period based on the information included in qualified invoices it has received.

² Under the simplified taxation system, the purchase tax credit amount is calculated as a certain percentages of the tax amounts of taxable revenue for small enterprises.