Grant Thornton

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Qualified invoice system Q&A

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The Consumption Tax Law was introduced in 1989. Consumption tax is VAT, where a taxable enterprise pays the difference between the output taxes it collected and input taxes it paid during a tax period. In order to claim an input tax credit on taxable purchases, the requirement has been to maintain books and ledgers on taxable purchases and retain evidence such as invoices. From October 1, 2023, the input tax credit is only allowed for taxable purchases that have qualified invoices issued by registered qualified invoice issuing enterprises with exceptional transition rules.
The following is part of a Q&A regarding the new input tax credit requirements under the Qualified Invoicing System released by National Tax Agency.

1. *Qualified Invoice*

(1) Items included in Qualified Invoice

(i) Name and registration number of the Qualified Invoice Issuer;
(ii) Date of transfer, etc. of taxable assets;
(iii) Details of the assets or services pertaining to the transfer of taxable assets (if the transfer of taxable assets is a transfer, etc. of assets subject to reduction, the details of the assets and the fact that it is a transfer, etc. of assets subject to reduction);
(iv) The total amount of the tax-exclusive value or tax-inclusive value of the transfer, etc. of taxable assets, broken down by tax rate, and the applicable tax rate; and
(v) The amount of consumption tax, etc. broken down by tax rate
(vi) Name of the business entity to which the qualified invoice is to be issued.

(2) Multiple documents

However, it is not necessary for only one document to include all of the items required for a qualified invoice. Where a couple of documents with clear inter-relationship such as an invoice and a delivery note cover the required items, it is possible to treat such documents together as a qualified invoice. Therefore, if an invoice alone is insufficient to cover required items for a qualified invoice, and a delivery note supplements the missing items, the obligation to deliver a qualified invoice can be fulfilled by delivering an invoice and a delivery note. For example, where an enterprise delivers a delivery note whenever it ships goods and issues an invoice monthly, delivery notes and the invoice together can be treated as a qualified invoice if they include all the required items together.

2. *Transactions exempt from the obligation to deliver a qualified invoice*

The following transactions are exempt from issuing a qualified invoice because of the nature of the businesses.

(i) Transportation of passengers with public transportation system(ship, bus, or rail) for which fare is less than JPY30,000;
(ii) Sales of fresh food products, etc. by shippers, etc. in wholesale markets;
(iii) Sales of agricultural, forestry, and fishery products by producers entrusted to agricultural cooperatives, fishery cooperatives, or forestry cooperatives, etc.;
(iv) Sales of goods through vending machines and automatic service machines for less than JPY30,000, etc.; and
(v) Postal and freight services for which the only consideration is postage stamps (limited to those delivered to mailboxes).

3. *Public Transportation Exception*

Public transportation in 2(i) above include the following:

(i) Carriage of passengers in General Passenger Liner Business, Freight Liner Business, Tramp business under Maritime Transportation Law (Carriage of passengers vessel);
(ii) Carriage of passengers in General passenger car transportation business under Road transportation law (Carriage of passengers by bus) (airport access buses, etc. and shared-ride buses operated by passengers with reservations, etc. are also included); and
(iii) Carriage of passengers in a Type 1&2 railway business under Railway Business Law, transportation business under Trajectory law Transportation of passengers by railroads and tracks (Carriage of passengers by railway or monorail, etc.).

Whether or not the transportation of passengers by public transportation is less than JPY30,000 is determined based on the tax-inclusive value of one transaction. Therefore, it is not to be determined by per item amount (one ticket) or monthly summary, etc. Therefore, a purchase of 4 tickets of JPY13,000 with the total amount is JPY52,000 does not satisfy the exception.

In addition, express fees and bed fees qualify for the exception as they are directly incidental to the carriage of passengers. However, admission fees and baggage fees do not qualify for the exception as they are not directly incidental to the carriage of passengers.

4. Requirements for input tax credit for taxable purchases

(1) What to do if there is an error on a qualified invoice

(i) Seller

If a qualified invoice, qualified simplified invoice, or qualified return invoice issued by a seller contains errors, the seller must issue a revised one to a buyer.

In addition, documents such as purchase statements prepared by a taxable enterprise as a purchaser, which were checked and confirmed by a qualified invoicing issuing enterprise as a seller are also required to be maintained for the purpose of claiming an input tax credit on taxable purchases. Where the seller has checked and confirmed corrected purchase statements, the seller does not have to issue another corrected qualified invoice, qualified simplified invoice, or qualified return invoice.

(ii) Buyer

If a qualified invoice or qualified simplified invoice issued by a taxable enterprise contains errors, the buyer is required to request the seller to correct them and issue corrected ones. The buyer is not allowed to make additions or corrections by itself.

In addition, documents such as purchase statements prepared by a taxable enterprise as a purchaser, which were checked and confirmed by a qualified invoicing issuing enterprise as a seller are also required to be maintained for the purpose of claiming an input tax credit on taxable purchases. As such, the buyer may correct the purchase statements and have them confirmed by the seller.

5. Preparation for registration (checklist)

In order for an enterprise to be a qualified invoice issuing enterprise, the enterprise must be registered as such. The followings are issues for consideration and attention:

(1) Seller side

- Check whether a seller is required by a purchaser to issue a qualified invoice for transactions in which the seller is involved.
- A qualified invoice can be an invoice, receipt, or any other name. It can also be provided in electronic form or delivered by handwritten form.
- A qualified invoice must include the registration number, applicable tax rate, and amount of consumption tax.
- If the consumption tax amount includes a fraction of less than JPY1 in an invoice, there are rules for handling fractions.
- An enterprise should inform its clients of the registration (registration number), what constitutes a qualified invoice, and how it is to be delivered, as necessary, and share the information with them.
- Retention of copies of qualified invoices is not limited to photocopies; electronic data, list format, journals, photocopied copies, etc. are also acceptable.
- If you have been a tax-exempt business, consider reviewing the prices of your goods and services after registration, taking into account the consumption tax.

(2) Buyer side

- In the case where the simplified taxation system is applied, retaining qualified invoices is not required.
- Except for special exceptions such as public transportation transactions under JPY30,000 the preservation of qualified invoices is required in principle even for one-time transactions and transactions of small amounts.
- It is important to have common understanding with suppliers as to what constitutes a qualified invoice.
- Consult with your suppliers on price revisions, etc., if necessary and consult on price revisions, etc.
- It is important to manage invoices separately by whether they have a registration number or not.
- In order to apply the transitional measures for taxable purchases from tax-exempt enterprises, it is necessary to keep separate invoices.
- If you wish to apply for special provisions that do not require the preservation of qualified invoices or transitional measures pertaining to taxable purchases from tax-exempt businesses, a statement to that effect is required.