

Japan Tax Bulletin

Qualified invoice system Q&A Part 2

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The Consumption Tax Law was introduced in 1989. Consumption tax (“JCT”) is a value-added tax, where a taxable enterprise pays the difference between the output taxes it collects and input taxes it pays 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 1 October 2023, the input tax credit is only allowed for taxable purchases that pertain to qualified invoices issued by registered qualified invoice issuing enterprises with some transition rules. The following is an extract from a Q&A regarding the new input tax credit requirements for tax-exempt enterprises in particular, under the Qualified Invoicing System and the transitional provisions by National Tax Agency.

1. *Can a business enterprise registered as a business issuer of a qualified invoice be exempted from making JCT payments if the taxable sales during the base period are less than JPY10 million?*

Generally, a business enterprise is exempt from making JCT payments if its taxable sales during its base period do not exceed JPY10 million. Whereas, a business enterprise registered as an issuer of qualified invoices will not be exempt from making JCT payments even if the amount of taxable sales during the base period is less than JPY10 million. Therefore, a business enterprise registered as a business enterprises registered as issuer of qualified invoices will not be exempt from making JCT payments after its registration.

2. *The transitional provisions for taxable purchases from a tax-exempt enterprise*

As a general rule, taxable purchases made from parties other than business enterprises registered as issuers of the qualified invoices, such as tax-exempt businesses and consumers, are not eligible for an input tax credit for consumption tax on purchases.

However, for a certain period, a transitional measure has been established under which a certain percentage of the amount equivalent to the consumption tax on purchases from the tax-exempt enterprise can be deducted as input tax, subject to certain requirements.

This period and amount of deduction are as follows:

01/10/2023~30/09/2026	80% of the original amount of taxable purchase
01/10/2026~30/09/2029	50% of the original amount of taxable purchase

Please note that there is a specific requirement for the books and invoices retention as follows, if any enterprises wishes to use the transitional provision.

I). Books

- (i) Name of supplier of taxable purchase;
- (ii) Date of taxable purchase;
- (iii) Details of the assets and service related to the taxable purchase and note of being a taxable purchase related to the transitional provision; and
- (iv) The amount of the taxable purchase.

In terms of (iii), the National Tax Agency allows either of the following notation methods:

- A) The method of noting “80% of the original amount of taxable purchase” or “taxable purchase from tax-exempt enterprise” for each transaction; or
- B) The method of noting using specific symbols such as “※” “☆” and separately noting “th333gis symbol means 80% of the original amount of taxable purchase”.

II). Invoices

- (i) Name of the invoice issuer;
- (ii) Date of transfer of taxable assets;
- (iii) Details of the assets or services pertaining to the transfer of taxable assets (in case of the transfer of taxable assets subject to a reduced tax rate, there is a need for this note);
- (iv) Each total amount of the tax-inclusive value of taxable assets grouped by tax rate;
- (v) Name of the recipient;

If the issuer of the invoice does not record the details for iii) or iv) on the invoice, then the recipient can put a note of the details of iii) and iv) on the invoice by themselves and then retain it

Also, the recipient can add notes and retain the invoices if they are provided electronically and clearly in a well-ordered format.

3. *The application due date for the qualified invoice system*

An enterprise that wants to be a business enterprise registered as an issuer of qualified invoices has to file an “Application for registration as an issuer of qualified invoices” (hereinafter “Application”) and the filing due date is 31 March 2023 in principle.

Whereas, a tax-exempt enterprise also has to file the “Notification of Taxable Enterprise Status for Consumption Tax” and become a taxable enterprise. A tax-exempt enterprise can be registered as an issuer of qualified invoices from 1 October 2023 to 30 September 2029 even if this tax-exempt enterprise does not have to file the “Notification of Taxable Enterprise Status for Consumption Tax”.

If the enterprise experiences difficulties and does not file the “Application” by 31 March 2023, the enterprise can file Application together with an explanation of the difficulties in filing duly it by 30 September 2023. In this case, the enterprise will be registered as an issuer of qualified invoices on 1 October 2023.

4. *When a tax-exempt enterprise files an Application between 1 October 2023 and 30 September 2024.*

If a tax-exempt enterprise files an Application between 1 October 2023 and 30 September 2024, there is a transitional provision that this enterprise is a taxable enterprise from the registration date. Therefore, the tax-exempt enterprise that uses this transitional provision does not have to file a “Notification of Taxable Enterprise Status for Consumption Tax” because it will automatically become a taxable enterprise from the registration date. Please note that a business enterprise registered as an issuer of qualified invoices by this transactional provision has to file a consumption tax return for the tax period year including the registration date even if the taxable sales of the base period are less than JPY10 million.

If the tax period including the registration date using this transitional provision does not include 1 October 2023, the exempt enterprise filing an Application will not be able to be a tax-exempt enterprise from the next tax period to the tax period including the registration date, to the tax period when the day two years have passed after the date of registration is in.

If a tax-exempt enterprise files an Application during a tax period when this transitional provision is not applicable, the enterprise has to file a “Notification of Taxable Enterprise Status for Consumption Tax” and become a taxable enterprise. Please note that a tax-exempt enterprise that wants to be registered as an issuer of qualified invoices from the first day of a particular tax period, has to file the Application by the date one month prior to the first day of the tax period.