

Japan Tax Bulletin

Domestic transactions under the consumption tax law

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Consumption tax is the equivalent of VAT in Japan and is imposed on business transactions involving the transfer of assets or provision of services in Japan for consideration. As only domestic transactions are subject to consumption tax, there are the rules to determine whether or not a transaction is a domestic transaction.

1. *Transfer or lease of assets*

For assets that are transferred or leased, the physical location of the asset determines whether or not the transaction is a domestic transaction. If the asset location cannot be identified, the deemed location rules provided by Article 6(1) of the Consumption Tax Law Enforcement Ordinance (“CTLEO”) apply as follows.

1.1 Registered Vessels

The location of the official agency which registers the vessels is deemed to be the place where the vessel is located. In cases where the vessel is registered in two or more countries, if one of the official registration agencies is in Japan then the transaction is deemed a domestic transaction. In cases where non-Japanese vessels are transferred or leased by residents or where Japanese vessels are transferred or leased by non-residents, the residence, main office, or principal place of business of the lessor is deemed to be the place where the asset is located.

1.2 Unregistered vessels

The residence, main office, or principal place of business of the lessor is deemed to be the place where the asset is located.

1.3 Aircraft

The official agency which registers the aircraft is deemed to be the place where the asset is located. In cases where the aircraft is not registered, the location of the asset is deemed to be the office of the transferor or the lessor, through which the business of sale or leasing is conducted.

1.4 Mining rights or mine lease rights, stone-quarrying rights, and other rights for the quarrying or excavation of earth and rocks

The mining concession area, mine lease area, or stone quarrying area covered by quarrying or excavation rights is deemed to be the place where the asset is located.

1.5 Patents, utility model rights, design rights, trademarks, circuit arrangement use rights and plant breeder's rights
The location of the official agency that registers these rights is deemed to be the place where the asset is located. In cases where the same right is registered in two or more countries, the place of the transferor's or lessor's residence is deemed to be the place where the asset is located.

1.6 Public facilities management rights

The location of the public facilities is deemed to be the place where the asset is located.

1.7 Copyrights (including publishing rights, quasi-copyrights, and other rights of a similar nature) or production formulas using special technology or others of similar nature (know-how)

The transferor's or lessor's residence is deemed to be the place where the asset is located.

1.8 Goodwill, fishing rights, or right of entry into a fishing ground

The location of business entities doing business in connection with those rights is deemed to be the place where the asset is located.

1.9 For the assets shown in (i) through (v) below, the deemed location is as follows:

(i) Securities (securities provided for in Clause 1, Article 2 of the Financial Instruments Transaction Law (excluding shares of golf club memberships).

The place where the securities certificates is located.

(ii) Registered national government bonds and other bonds (national government bonds, local government bonds, and corporate bonds (including bonds issued under special laws by juridical persons other than corporations) registered under the provision of the Law Concerning National Government Bonds and the Corporate Bond Registration Law and foreign bonds of a similar nature) and foreign bonds of a similar nature).

The place where the official agency that registers these bonds is located.

(iii) Equity interests of investors in corporations.

The place where the head office or the principal office of the corporation concerned is located.

(iv) Loans, deposits, accounts receivable and other monetary claims (excluding those shown in (v) below and including monetary claims pertaining to negotiable certificates of deposit and commercial papers).

The place where the office of the creditor concerned conducting the transfer is located.



(v) Shares of golf club memberships and monetary claims pertaining to deposits with golf clubs or other facilities. The place where the golf club or other facilities is located.

1.10 Assets other than above of which the place of location cannot be identified.

The asset's location is deemed to be the office through which the entity engaging in the transfer or leasing of these assets conducts such business.

2. *Provision of services*

The location of services is determined with reference to the place where the services are performed. Where the place of performance cannot be identified, the deemed place of performance rules provided by Article 6(2) of CTLEO are applied as follows.

- 2.1 Transportation of passengers or cargo conducted internationally Where either of the place of departure, shipment, destination of the passengers, or cargo is in Japan, the transaction deemed to be a domestic transaction.
- 2.2 Communication conducted within Japan and internationally
If either of the place of dispatch or reception is in Japan then the transaction is deemed a domestic transaction.
- 2.3 Mail services conducted within Japan and internationally, etc. If either of the place of forwarding or delivery is in Japan, then the transaction is deemed a domestic transaction.
- 2.4 Insurance
The place of performance is deemed to be the office of the entity (engaged in the business of insurance but excluding those who act as agents in the conclusion of insurance contracts) that concludes the insurance contracts.

2.5 Provision of research, planning, projection, consultation, supervision, or examination services with professional knowledge in specialized fields of science and technology in connection with the construction or production of manufacturing or other facilities
The place where most of the materials needed for the construction or production of the manufacturing facilities are procured is deemed to be the place where the service is performed. Manufacturing or facilities include:

- Buildings (including attached facilities) or structures;
- Facilities for mining and manufacturing production, electric power generation and transmission, railways, roads, port facilities, and other transportation services or fishery production;
- Facilities for the transformation and distribution of electrical current, the storage and supply of gas, the storage of oil, communications and broadcasting, water service for industrial use, water supply and sewerage systems, waste water disposal stations (including facilities of a similar nature), agricultural productions and forestry production; and
- Vessels, railway vehicles and aircraft.

2.6 Provision of services other than those listed above conducted within Japan and provided internationally where the place of performance cannot be identified;
The service is deemed to be performed at the office of those entities engaged in the provision of such services.

3. *Cross border digital services*

Digital services are the provision of copyrighted articles (including the license of copyrighted articles) and other services via telecommunication lines.

The place of performance is deemed to be the place of residence or domicile of the recipients.

Contact us for any enquiry on our services;

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