

Japan Tax Bulletin

Consumption tax credits for residential rental building purchases

September 2020

In order to improve the consumption tax credit system for purchases of residential rental buildings, the two adjustments below have been in force since April 2020.

1. Restriction of the purchase tax credit for residential rental buildings

When enterprises purchase domestic residential rental buildings except those buildings which are clearly not for residential purposes¹, and which is an expensive specific asset² or a self-constructed expensive asset³, a consumption tax credit for the consumption tax paid on the purchase of these assets cannot be claimed.

If the building can be split reasonably into premises for residential and non-residential use, a consumption tax credit can be taken for the consumption tax on the portion of the purchase price relating to the non-residential use area, as before.

This revision applies to the purchase of residential rental buildings after October 1, 2020. However it does not apply to the purchase residential rental buildings brought into use after October 1, 2020 where the purchase is based on a contract which was signed before March 31 2020.

2. Adjustment of consumption tax credit for purchases of residential rental buildings

When an enterprise purchases residential rental buildings which meet the criteria for restriction above, it is required to adjust the purchase tax credit as follows:

- (1) If the enterprise owns residential rental buildings until its third year's taxable period⁴ and during this time the enterprise rents out the buildings for taxable transactions⁵

during a certain period⁶.

Consumption tax as calculated using the following formula needs to be added to the consumption tax purchase credit for the third year's taxable period.

Consumption tax on purchase of the residential rental assets	×	The amount of (A) relating to taxable transactions
		(A) Total amount of rental income from residential rental buildings during the "certain period"

- (2) If the enterprise sells the residential rental buildings to a third party during a certain period.

Consumption tax calculated as follows needs to be added to the purchase credit tax for the taxable period containing the date of sale of residential rental assets.

Consumption tax on purchase of the residential rental assets	×	The amount of (B) relating to taxable transactions	+	(C)
		(B) Total amount of income from residential rental buildings during the "certain period for sale of taxable assets" ⁷	+	(C) Total income from sale of residential rental buildings

¹ For example, the condition of the premises and equipment precludes residential use.

² Expensive specific asset (Kogaku tokutei-shisan): Building held as stock or a certain fixed asset whose purchase cost is over JPY10 million (excluding consumption tax).

³ Self-constructed expensive asset (Chosei-taisho ziko-kensetsu kogaku-shisan): Self-constructed assets (buildings) whose purchase amount is over JPY10 million (excluding consumption tax) in total including building under construction held as stock based on a contract with a third party.

⁴ Third year's taxable period: the taxable period which contains the date three years after the first day of the taxable period in which the residential rental building was purchased.

⁵ Taxable transactions mean rental transactions excluding the non-taxable rental of homes.

⁶ Certain period (Chosei-kikan): The period from the date of purchase of the residential rental buildings to the end of the third year's taxable period.

⁷ Certain period of sale of taxable assets (Kazeijoto-tou chosei-kikan): The period from the date of purchase of the residential rental buildings to the date of sale of the residential rental buildings.