Grant Thornton

Japan Tax Bulletin

Navigating the Challenges of Japan's New Invoicing System

December 2023

The implementation of Japan's new VAT invoicing system on October 1, 2023, has caused significant disruptions, particularly for Tax-Exemption Businesses. In this analysis, we will focus on the impact of the Invoicing System on general VAT taxpayers, with a particular emphasis on foreign enterprises. The complexities surrounding foreign currency transactions and invoicing regulations present unique challenges that demand a thorough understanding of the new system.

1. *The New Invoicing System*

The Invoicing System marks a fundamental shift in consumption tax practices. For foreign enterprises, especially those engaging in foreign currency transactions, adherence to specific guidelines is imperative. While foreign languages and currencies are generally accepted on invoices, certain key elements, such as consumption tax amounts, must be converted into Japanese yen.

2. *Impact on General VAT Taxpayers*

The inability to issue invoices directly impacts VAT taxpayers. The challenges arise from the requirement to issue invoices in compliance with the new system, affecting businesses' revenue streams. The nuances of calculating consumption tax amounts in foreign currency transactions further complicate matters for enterprises, both domestic and foreign.

3. *Importance of Transition Period*

Recognizing the intricacies of the transition period is crucial for businesses adapting to the Invoicing System. The period from October 1, 2023, to September 30, 2029, provides a phased approach to implementing the new system. During this time, businesses can avail themselves of a graduated scale for input tax deductions, offering a measure of relief as they navigate the complexities of the Invoicing System.

4. *How to Navigate the Invoicing System*

a. *Foreign Language and Currency Invoices*

In the context of foreign enterprises, invoices issued in foreign languages or currencies are generally accepted. However, crucial details like "tax amounts categorized by different tax rates" must be converted into Japanese yen.

b. *Methods for Yen Conversion in Consumption Tax Calculation*

Several methods exist for converting consumption tax amounts into Japanese yen. Businesses can choose from options such as converting the total consideration (excluding tax) into yen before calculating the consumption tax or calculating the consumption tax in foreign currency first and then converting the total amount into yen. Flexibility in selecting the most suitable conversion method is provided to accommodate various business practices.

c. *Exchange Rates for Yen Conversion*

Exchange rates for converting assets' transfer prices and payment consideration for taxable purchases are generally based on the telegraphic transfer middle rate (TTM). While exceptions exist, with the telegraphic buying rate (TTB) and selling rate (TTS) accepted under specific conditions, businesses may encounter discrepancies in rates used by sellers and buyers. Careful consideration is required to determine the applicable rate for input tax calculations.

d. *Handling Invoices without Registration Numbers*

Businesses receiving invoices without registration numbers can still claim input tax deductions if they confirm the intent of the invoicing entity to register. Retaining documentation, such as subsequently provided invoices or registration number notifications, is essential for compliance.

5. *Embrace the Change, Secure Your Future!*

In conclusion, the introduction of Japan's Invoicing System poses substantial challenges for VAT taxpayers, particularly foreign enterprises. Navigating the complexities of foreign currency transactions, invoicing requirements, and adapting to the new regulations demand strategic planning and meticulous attention to detail. While the transition period offers some relief, businesses must proactively address these challenges to minimize the impact on their operations. As the Invoicing System becomes an integral part of Japan's consumption tax framework, staying informed and adopting suitable reporting models are paramount for sustained compliance and success in the evolving tax landscape.