

Japan Tax Bulletin

2019 consumption tax rate changes and other related reforms

April 2019

From October 1, 2019, the consumption tax rate will increase to 10% from 8%. A new reduced rate of 8% will apply to foodstuffs and newspapers issued twice weekly or more often under a periodical subscription. In relation to the consumption tax rate change, there are some related administrative changes. The tax rates consist of national tax and local tax and the allocation between national tax and local tax is as follows:

	Current rate	Standard rate from October 1, 2019	Reduced rate from October 1, 2019
National	6.3%	7.8%	6.24%
Local	1.7%	2.2%	1.76%
Total	8.0%	10.0%	8.0%

1. *Reduced tax rate for foodstuffs and newspapers*

The reduced tax rate of 8% is applicable to foodstuffs and newspapers. Foodstuffs are those provided for in the Food Labeling Act. Alcoholic drinks and food served at places where there is equipment for drinking and eating, like restaurants or by catering, are excluded.

Where foodstuffs and other items are provided together, the reduced tax rate is applicable to the entire amount if foodstuffs represent more than 2/3 of the amount and the total amount is JPY 10,000 or less.

Newspapers are those where articles on facts in society such as politics, economics, societies or culture and are provided under a periodical subscription agreement and issued twice or more per week.

2. *Record keeping and invoices*

In order to claim an input tax deduction, maintenance of books on taxable purchases and invoices is required as before. For books on taxable purchases, it must be stated that purchases are at the reduced tax rate where the reduced tax rate is applicable. For invoices, reduced rate items must be indicated as such, and the total consumption amount should show the reduced rate and standard rate totals separately. This is called a separately-stated invoice. This record keeping and invoice requirement is applicable to taxable purchases from October 1, 2019 to September 30, 2023.

From October 1, 2023, the credit invoice method is employed for input tax deduction. Maintenance of books on taxable purchase and qualified tax invoices issued by taxable enterprise. Taxable enterprises are required to register its taxable status with the tax authority to issue qualified tax invoices.

3. *Calculation of tax payable*

3.1 Segmented record keeping

The tax payable of a taxable enterprise is calculated as the total output tax during a tax period – the total input tax during a tax period.

National consumption tax payable = consumption tax amount on taxable sales (output tax) – consumption tax on taxable purchase (input tax).

Local consumption tax payable = National consumption tax payable x 22/78

	Calculation method	
	October 1, 2019 to September 30, 2023	From October 1, 2023 onwards
Output tax	(Total taxable sales at standard rate (including consumption tax amount) x 100/110 x 7.8/100) + (total taxable sales at reduced rate (including consumption tax amount) x 100/108 x 6.24/100)	Principle (Total taxable sales at standard rate (including consumption tax amount) x 100/110 x 7.8/100) + (total taxable sales at reduced rate (including consumption tax amount) x 100/108 x 6.24/100)
		Exception Total consumption tax amounts in qualified tax invoices x 78/100
Input tax	(Total taxable purchases at standard rate (including consumption tax amount) x 100/110 x 7.8/100) + (total taxable purchases at reduced rate (including consumption tax amount) x 100/108 x 6.24/100) + consumption tax amount on receipts of foreign cargo out of bonded area.	Principle Total consumption tax amounts on taxable purchases in qualified tax invoices x 78/100 + consumption tax amount on receipts of foreign cargo out of bonded area.
		Exception (Total taxable purchases at standard rate (including consumption tax amount) x 100/110 x 7.8/100) + (total taxable purchase at reduced rate (including consumption tax amount) x 100/108 x 6.24/100) + consumption tax amount on receipts of foreign cargo out of bonded area.

In order to calculate tax payable correctly, a taxable enterprise is required to keep records for standard rate transactions and reduced rate transactions separately.

3.2 Special rules for Small and Medium-Sized Enterprises (SMEs)

Special rules will be introduced in order to reduce the burden of keeping separate records for standard rate transactions and reduced rate transactions for SMEs.

An SME is an enterprise with taxable sales during its base period (the tax period two years prior to the current tax period) of JPY50 million or less.

- (i) Special rules for calculating output tax
 - (a) An SME will be allowed to calculate its reduced rate taxable sales by multiplying its total taxable sales by a fixed ratio.
 - (b) For SMEs engaged in wholesale or retail and that are able to keep records of standard rate purchases and reduced rate purchases separately, the fixed ratio can be the reduced rate taxable purchases/total taxable purchases
 - (c) Alternatively, an SME is allowed to use the reduced rate taxable sales amount/total taxable sales amount, for any consecutive 10 business days during a tax period, as the fixed ratio.
 - (d) SME who is unable to calculate the fixed ratio using (b) or (c), 50% may be used as the fixed ratio.
- (ii) Special rules for calculating input tax
 - (a) An SME will also be allowed to calculate reduced rate taxable purchases by multiplying its total taxable purchases by a fixed ratio.
 - (b) SMEs in wholesale or retail that are able to keep records of standard rate sales and reduced rate sales separately, can use the reduced rate taxable sales/total taxable sales ratio as the multiplier.
 - (e) Deemed purchase ratios under simplified reporting
Using deemed purchase ratios under simplified reporting, which is currently available, continues to be available if an election is made.

The special rules on input and output tax are applicable from October 1, 2019 to September 30, 2023. If any tax period of a taxable enterprise straddles this period, the special rules are not applicable to the dates outside of these bounds.

4. Taxable purchase from exempt enterprises

Currently, a taxable enterprise can claim input tax deductions for purchases from exempt enterprises as long as such purchases are taxable in nature. After the qualified tax invoice system is implemented, the input tax deduction for purchases from exempt enterprises is only allowed at the percentages and rates in the following table:

Period	Percentage
From October 1, 2023 to September 30, 2026	80%
From October 1, 2026 to September 30, 2029	50%
After September 30, 2029	0%

5. *Transitional measures for tax rate changes*

There are some transitional measures with respect to the change from 8% to 10%.

5.1 Passenger fares etc.

The 8% rate is applicable to passenger fares or entrance fees for theaters, museums, racecourses and amusement parks after September 30, 2019 as long as the consideration is received from April 1, 2014 to September 30, 2019.

5.2 Electricity charges etc.

The 8% tax rate is applicable to electricity charges, gas charges, water charges, water charges, telephone charges under continuous contracts if the rights to receive fees are fixed from October 1, 2019 to October 31, 2019.

5.3 Contracted works

The 8% tax rate is applicable to deliveries of contracted works after September 30, 2019 if the contracts were entered into from October 1, 2013 to March 31, 2019.

5.4 Lease of assets

The 8% tax rate is applicable to leases of assets after September 30, 2019 if the assets have been leased from on or before October 1, 2019 under contracts entered into from October 1, 2013 to March 31, 2019.



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