



Overview of Japanese consumption tax

Consumption Tax Compliance in case of Commodity Futures Contracts
by Foreign Entrepreneurs

August 1, 2023

Japan Exchange Group, Inc.

This paper document was prepared by Japan Exchange Group, Inc. under the supervision of Ernst & Young Tax Co. This paper provides an overview of Japanese consumption tax treatment when foreign entrepreneurs that fall into the foreign business operators under the Japanese consumption tax law perform settlements by physical delivery under Commodity Futures Contracts. This paper includes the overview of the of Japanese consumption tax mechanism, taxable person, taxable transactions, calculation of tax due, registration of qualified invoice issuer, appointment of tax agent, tax returns filing and payment procedure, etc.

Note this paper is intended to explain and describe plainly and does not purport to be a comprehensive description of all tax considerations that may be relevant to foreign entrepreneurs. In addition, this paper is prepared in accordance with relevant tax laws and other effective authorities at the time of its delivery. Any subsequent changes in such laws may significantly alter tax treatment expressed in this paper.

Japan Exchange Group, Inc. shall not be responsible for any loss whatsoever sustained arising from the content of this paper. Readers should consult their own tax advisors with respect to the tax consequences to them of of Japanese consumption tax treatment.

All rights pertaining to this paper belong to Japan Exchange Group, Inc., and may not be copied, processed, or edited for any purpose without permission.

DISCLAIMER: This translation may be used for reference purposes only. This English version is not an official translation of the original Japanese version. Certain parts of the translation may have been edited to accommodate differences in writing style and expression between English and Japanese. In cases where any differences including, but not limited to, those differences above occur between the English version and the original Japanese version, the Japanese version shall prevail. This translation is subject to change without notice. Tokyo Stock Exchange, Inc. shall accept no responsibility or liability for damage or loss caused by any error, inaccuracy, misunderstanding, or changes with regard to this translation.

Table of contents

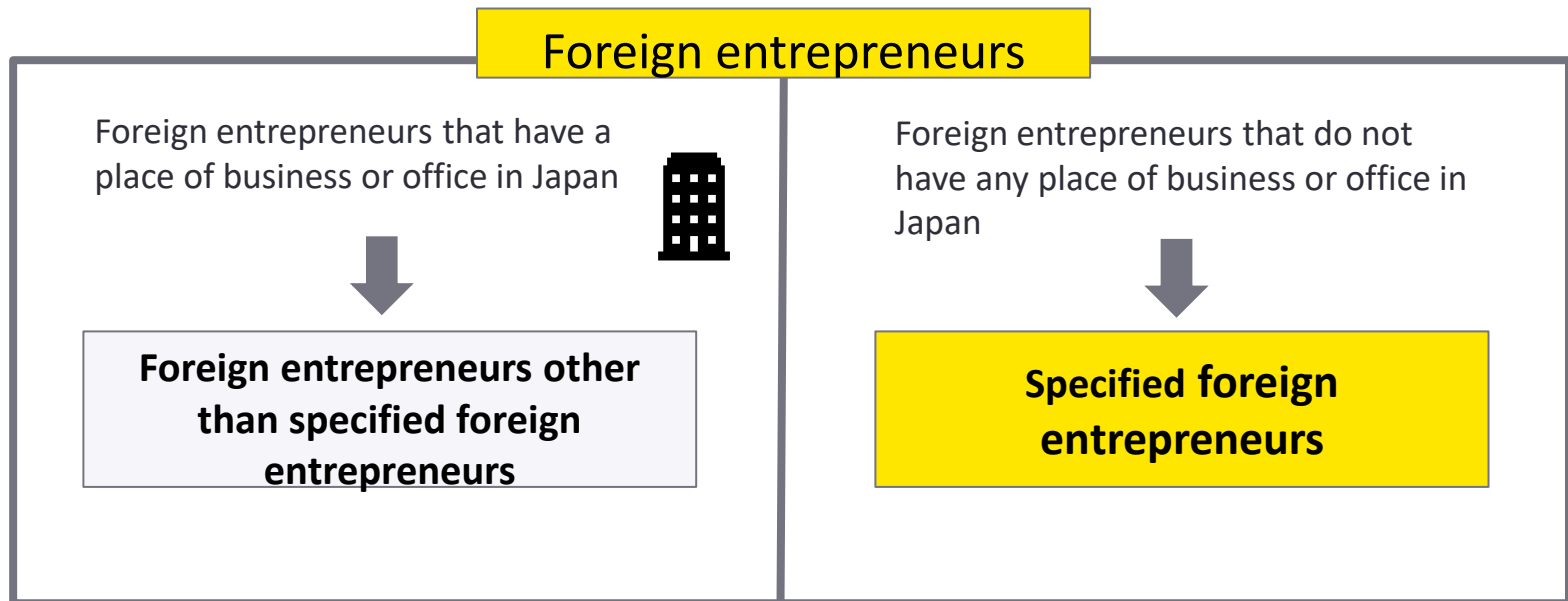
- Introduction..... 4
- 1. How should foreign entrepreneurs correspond..... 6
- 2. Appointment of tax representative and tax agent.....10
- 3. Registration and obligations of qualified invoice issuer.....13
 - ▶ Application for registration as a qualified invoice issuer
 - ▶ What should be addressed when conducting taxable transactions
 - ▶ Issuance of the qualified invoice
 - ▶ Retention of the qualified invoice
- 4. Japanese consumption tax returns filing and tax payment.....23
 - ▶ Japanese consumption tax returns filing for taxable person
 - ▶ Consumption tax calculation
 - ▶ Mechanism of Japanese consumption tax
 - ▶ Consumption tax on sales
 - ▶ Deductible input Japanese consumption tax
 - ▶ Interim tax return / payment
 - ▶ How and where to file Japanese consumption tax returns
- 5. Appendixes..... 33
- 6. Points to note..... 40

Introduction

- Under Japanese Consumption Tax Law (“JCTL”), a transfer and lending of asset and provision of service in Japan are subject to Japanese consumption tax (“JCT”) and are result in the obligation to pay JCT, even if it is conducted by foreign person who does not have an address in Japan and foreign corporation which does not have an office in Japan.
 - JCT treatment relative to Commodity Futures Contracts (that underlying assets are precious metals, rubber, and agricultural products etc.) are generally as follows:
 - ▶ Commodity Futures Contracts (cash settlement) are out-of-scope of Japanese consumption tax
 - ▶ Commodity Futures Contracts (physical settlement) are taxable transactions when the delivery place of physical assets is in Japan (*)
 - (*) When the delivery place of physical assets is out of Japan, Commodity Futures Contracts are out-of-scope of Japanese consumption tax.
 - ▶ Furthermore, in conjunction with the introduction of a qualified invoice-based method (so-called invoice system) from 1 October 2023 under JCTL, Osaka Exchange, Inc. (“OSE”) and Tokyo Commodity Exchange, Inc. (“TOCOM”) have revised the delivery rules for Commodity Futures Contracts (physical settlement) with delivery place in Japan.
 - ▶ Limit delivery sellers to qualified invoice issuer (“QII”).
 - ▶ OSE and TOCOM will issue qualified invoices as intermediaries of seller.
- Related newsletter
- ▶ <https://www.jpx.co.jp/english/rules-participants/public-comment/detail/d08/b5b4pj000004ywtn-att/b5b4pj000004ywwm.pdf>
 - ▶ <https://www.jpx.co.jp/english/derivatives/delivery-points/invoice/index.html>
- ▶ Based on the above background, this paper is intended to promote an understanding of the JCT system for foreign entrepreneurs and the parties involved and to smooth the settlement by physical delivery under Commodity Futures Contracts (physical settlement).

Introduction

- ▶ In this paper, in line with the definition of JCTL, foreign person who does not have an address in Japan and foreign corporation are defined as "foreign entrepreneurs". And foreign entrepreneurs that do not have a place of business or office related to the transfer and lending of assets and provision of services performed in Japan are defined as "specified foreign entrepreneurs".
- ▶ Note, this paper is designed for foreign entrepreneurs and specified foreign entrepreneurs that perform the transfer and lending of assets and provision of services (i.e., the transaction in-scope-of JCTL) in Japan.





How should foreign
entrepreneurs correspond

How should foreign entrepreneurs correspond

- ▶ When a foreign entrepreneur conducts transactions subject to JCT in Japan, including Commodity Futures Contracts (physical settlement), it is generally required to register as a QII and file a JCT return. The general steps required are summarized below in chronological order. Note, the procedure required may differ depending on the taxable period selected by the foreign entrepreneur and the size of the transaction.
- ▶ QII is obliged to file JCT returns and pay JCT in Japan.

【First Fiscal Year】

		Ref. page	
Advance Preparation	Appointment of the tax representative	P11	Required for specified foreign entrepreneurs
	Appointment of tax agent & Submission of “Notification of Tax Agent for Consumption Tax”	P11	Required for specified foreign entrepreneurs
	Submission of “Application Form for Registration as a Qualified Invoice Issuer” (“QII Application”)	P14	With this registration, you are obliged to file JCT returns and pay JCT
	Optional		
	<ul style="list-style-type: none"> • To shorten the taxable period, submit the “Notification of Choosing/Changing Application for Special Provisions on Taxable Period for Consumption Tax” (applicable from the first fiscal year) • If you wish to use the simplified tax system, submit the “Report on the Selection of the Simplified Tax System for Consumption Tax” (applicable from the first year). 	P24 P29	
During the period	After registering as a JCT taxable person, a record of transaction information and preservation of invoices are required	P17,21-22	
	Issuance of qualified invoices Regarding the physical settlement, OSE and TOCOM will issue qualified invoices and fungible documents to the trading parties (buyer, seller) through the trading participants as an intermediary. Foreign entrepreneurs do not require to issue qualified invoices.	P18-20	Calculation of JCT declaration amount is necessary. Also, a copy must be provided to the tax authorities upon request.
After the fiscal period	Filing of JCT return Payment of the annual JCT due	P23-32	

How should foreign entrepreneurs correspond

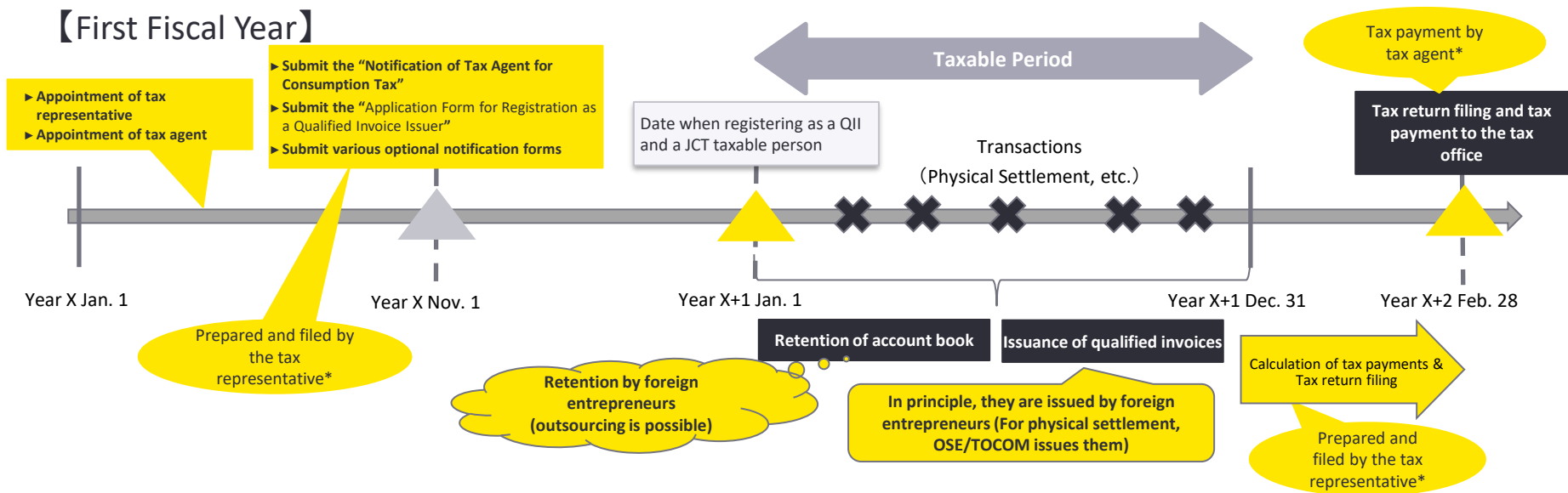
【Second fiscal year and thereafter】

		Ref. page
	Optional <ul style="list-style-type: none"> • To shorten the taxable period, submit the “Notification of Choosing/Changing Application for Special Provisions on Taxable Period for Consumption Tax” (effective from the following taxable period of the taxable period you filed the notification) • If you wish to use the simplified tax system, submit the “Report on the Selection of the Simplified Tax System for Consumption Tax” (effective from the following taxable period of the taxable period you filed the notification) 	P24 P29
	After registering as a JCT taxable person, the record of transaction information and preservation of invoices are required.	P17,21-22
	Filing of interim JCT returns /Payment of interim tax (Normally, only the interim payment is due, and no tax return is required to be filed.)	P31
	Filing of JCT return Payment of the annual JCT due	P23-32

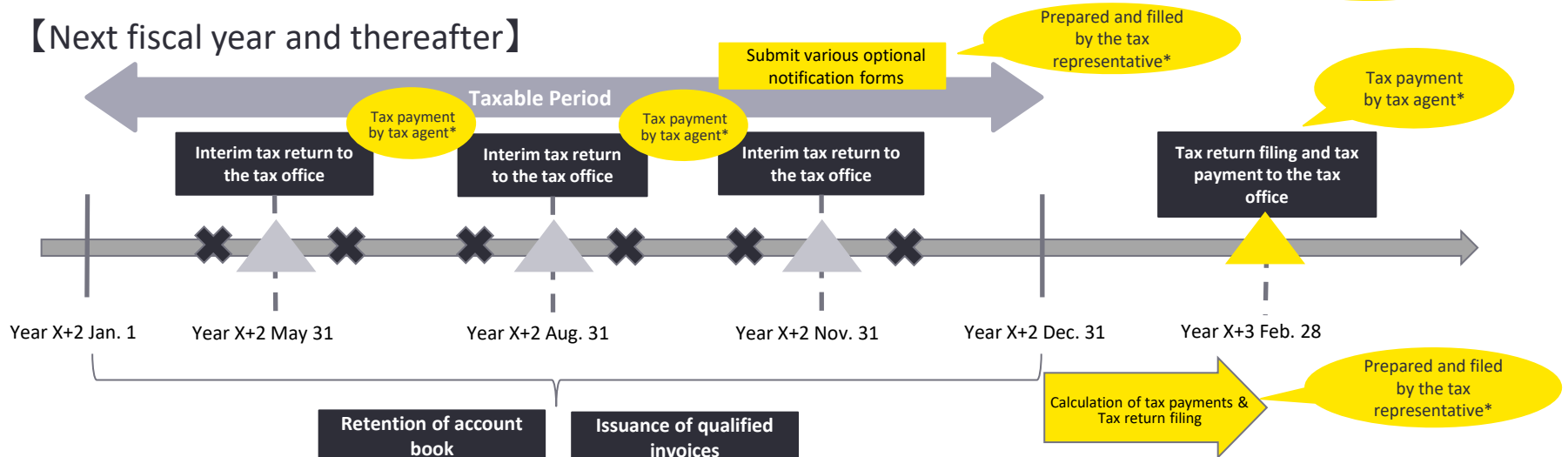
How should foreign entrepreneurs correspond

Schedule Images

【First Fiscal Year】



【Next fiscal year and thereafter】



*The descriptions of tax representative and tax agent are limited to cases in which they have been appointed.

2

Appointment of tax
representative and tax agent

Appointment of tax representative and tax agent (1)

- ▶ When a specified foreign entrepreneur becomes a QII, it is required under JCTL to appoint a tax representative and a tax agent, as well as to submit the prescribed documents.
- ▶ The same person may serve as both a tax representative and a tax agent, and this is often the practice case.

	Appointment of a tax representative	Appointment of a tax agent
Foreign entrepreneurs other than specified foreign entrepreneurs (Have an office in Japan)	<ul style="list-style-type: none"> ▶ Appointment is not mandatory 	<ul style="list-style-type: none"> ▶ Appointment is not mandatory <ul style="list-style-type: none"> ▶ However, the appointment and notification are obligatory in cases where a company currently has an office in Japan but will eventually abolish it, for example, when the company no longer has an office in Japan.
Specified foreign entrepreneurs (Do not have an office in Japan)	<ul style="list-style-type: none"> ▶ Appointment is mandatory <ul style="list-style-type: none"> ▶ Submission of Power of Attorney is mandatory 	<ul style="list-style-type: none"> ▶ Appointment is mandatory <ul style="list-style-type: none"> ▶ Submission of the “Notification of Tax Agent for Consumption Tax” is mandatory*

*The notification of a tax agent and the application for registration as a qualified invoice issuer are two separate procedures, but in practice they can be done at the same time.

Appointment of tax representative and tax agent (2)

Tax Representative

- ▶ A tax representative (i.e., a representative who files tax returns to the tax authorities or makes claims or statements in response to investigations by the tax authorities) prepares tax documents and provides tax consultation.
- ▶ The information of the tax representative is notified to the competent tax office via QII Application or Power of Attorney to be attached to the tax return. Normally, the “Power of Attorney” is prepared by the tax representative together with the QII Application and other documents.
- ▶ A person who acts as a tax representative must be a licensed tax accountant (including a licensed tax accountant corporation or a lawyer who is engaged in the business of a licensed tax accountant). No person other than licensed tax accountants should be requested to work on tax representation, preparation of tax documents, tax consultation, and other related services, whether paid or unpaid.

Tax Agent

- ▶ A tax agent is a person who handles administrative work related to national tax on behalf of foreign entrepreneurs, and is responsible for submitting tax returns, processing tax payments, and receiving documents sent by the tax authorities.
- ▶ To appoint a tax agent, it is necessary to submit the “Notification of Tax Agent for Consumption Tax” to the tax office with jurisdiction over the place for tax payment.
- ▶ The tax agent can be either a corporation or an individual.



Registration and obligations of qualified invoice issuer

Register as a qualified invoice issuer

- ▶ For delivery and settlement of commodity futures transactions with delivery place in Japan on or after October 1, 2023, the seller (the selling customer in the case of brokerage transactions, or the selling trading participant in the case of proprietary transactions) will be limited to a QII.
- ▶ To be registered* as a QII, you must submit QII Application.

Application for registration as a QII

The place for submission

- ▶ Apply to the Japanese tax office (The place to submit is selected by the foreign entrepreneur)

The deadline for submission

- ▶ To be registered from 1 October 2023, QII Application should be submitted by 30 September 2023**.
- ▶ An entrepreneur can also submit QII Application after 1 October 2023.
- ▶ By the transitional measures for JCT-exempted person, when a person applies for registration during the taxable period that includes the dates from 1 October 2023 to 30 September 2029, the person can indicate the desired registration date (from 15 days after the date of submission) described in QII Application and submission of "Report on the Selection of Taxable Proprietor Status for Consumption Tax" is not required (refer to page 37).

The submission form

- ▶ The template is published on the National Tax Agency ("NTA") website and a format for foreign entrepreneurs is also available: ([0020009-098_05.pdf \(nta.go.jp\)](#))

Required attachments

- ▶ A copy of the articles of incorporation and company information will be required.
- ▶ If you are a foreign entrepreneur that does not have an office (a specified foreign entrepreneur), **you will also be required to attach the "Power of Attorney" of the tax representative.**
- ▶ In cases where there is an obligation to appoint a tax agent, such as in the case of a specified foreign entrepreneur, the notification must have been completed.

Information disclosure of QII

- ▶ The information of QII (e.g., name and registration number of the enterprise, registration date, etc.) will be published on the NTA website.
- ▶ The tax authorities will issue the registration number (T+13 digits) to the registered JCT taxable person.

Obligations of QII (After 2023/10/1)

- ▶ Need to issue qualified invoices with a registered business number and other information to the counterparty
- ▶ Need to retain a copy of the qualified invoice issued

*Registration may be revoked if, for example, a violation of laws and regulations is found.

**Please refer to the next page if you are JCT-exempted person.

Application for registration as a QII

Application requirements for registration

- ▶ The registration is possible only for a JCT taxable person.
- ▶ Therefore, to apply for registration as a QII, a foreign entrepreneur that is JCT-exempted person must become a JCT taxable person (obliged to file and pay JCT) .

Principle: Only JCT taxable person can be registered

- ▶ Since a JCT-exempted person (see page 35) does not meet the requirements, the JCT-exempted person is required to apply for registration as a QII after becoming a JCT taxable person.

Special rule: JCT-exempted person can be registered in certain case

- ▶ When a JCT-exempted person becomes a QII by the transitional measures for JCT-exempted person (in this case, the person becomes a taxable person from the desired registration date).



In this case, JCT-exempted person must submit a QII Application with desired registration date, no later than 15 days prior to the desired registration date.

Note, those who submit an QII Application by 30 September 2023 will also be allowed to become QII from 1 October 2023.

- ▶ When a JCT-exempted person becomes a JCT taxable person from the next taxable period because the taxable sales in the base period exceed JPY 10 million.
- ▶ When a JCT-exempted person submits the “Report on the Selection of Taxable Proprietor Status for Consumption Tax” and opt to become a JCT taxable person.



In these cases, QII Application must be submitted no later than 15 days prior to the end of previous fiscal year of the taxable period in which an entrepreneur will be a JCT taxable person.

- ▶ When a person who starts newly established business * intends to be registered as a QII from the first day of the taxable period to which the business start date belongs.



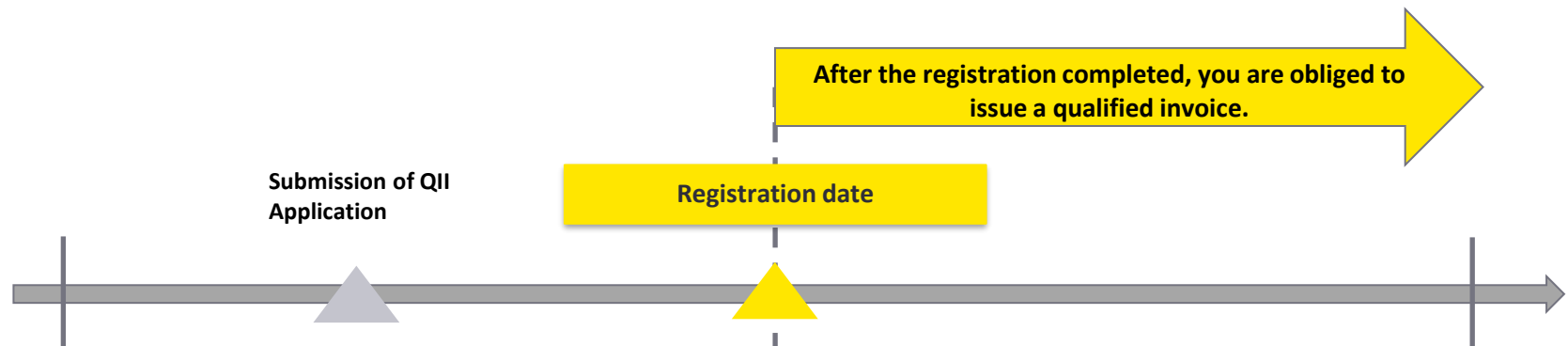
In this case, by submitting QII Application together with the “Report on the Selection of Taxable Proprietor Status for Consumption Tax” by the last day of the taxable period to which the start date belongs, it will be considered as the registered QII issuer from the first day of the taxable period.

* An entrepreneur that newly starts a business in Japan, or an entrepreneur that engaged in only foreign transactions and newly starts a business related to the transfer of taxable assets, etc. in Japan are included.

Application for registration as a QII

Date of becoming a QII

- ▶ Regardless of the date of notification of the registration number, an applicant will become a QII from the date when registered on the registration list.
- ▶ For taxable transactions after this registration date, a qualified invoice must be issued at the request of the counterparty who is the JCT taxable person.
- ▶ In the case where QII Application is submitted by 30 September 2023 and the applicant is registered as a QII on 1 October 2023, the obligation to issue a qualified invoice will begin on 1 October 2023.



【Registration Number】

- ▶ After the submission of QII Application, a notification of the registration number will be sent out after the completion of the administrative procedures by the tax authorities (received by the tax agent if the applicant is a specified foreign entrepreneur). The registration number can be confirmed by this notice and NTA homepage.
- ▶ The registration number consists of (1) "T" + corporate number (13-digit number) for corporations with a corporate number at the time of registration, (2) "T" + 13-digit number for corporations without a corporate number at the time of registration, and (3) "T" + 13-digit number (not my number) for individual businesses.

NTA HP Confirmation of registration as a QII: <https://www.invoice-kohyo.nta.go.jp/>

Composition of registration number: <https://www.invoice-kohyo.nta.go.jp/about-toroku/index.html>

*Note that the above website is in Japanese.

What should be addressed when conducting taxable transactions

Seller's response

- ▶ As a QII, the seller is obligated to issue (page 18) to the buyer (counterparty) a qualified invoice that includes the registration number, etc., and retain a copy of the invoice (page 21-22).
- ▶ In the case of physical settlement, OSE / TOCOM issues a qualified invoice on behalf of the seller and provides it to the buyer. In addition, OSE / TOCOM will provide the seller with a statement of accounts instead of a copy of the qualified invoice. (page 19-20)

Buyer's response

- ▶ To qualify for the deduction of taxable purchases when filing JCT returns, the buyer must preserve books and qualified invoices (page 21-22) that record the fact that taxable purchases were made. If a JCT taxable person does not save the book that records the facts of taxable purchases and the invoices of them, the input JCT deduction will be not applicable in the JCT return.

Issuance of qualified invoices

Overview

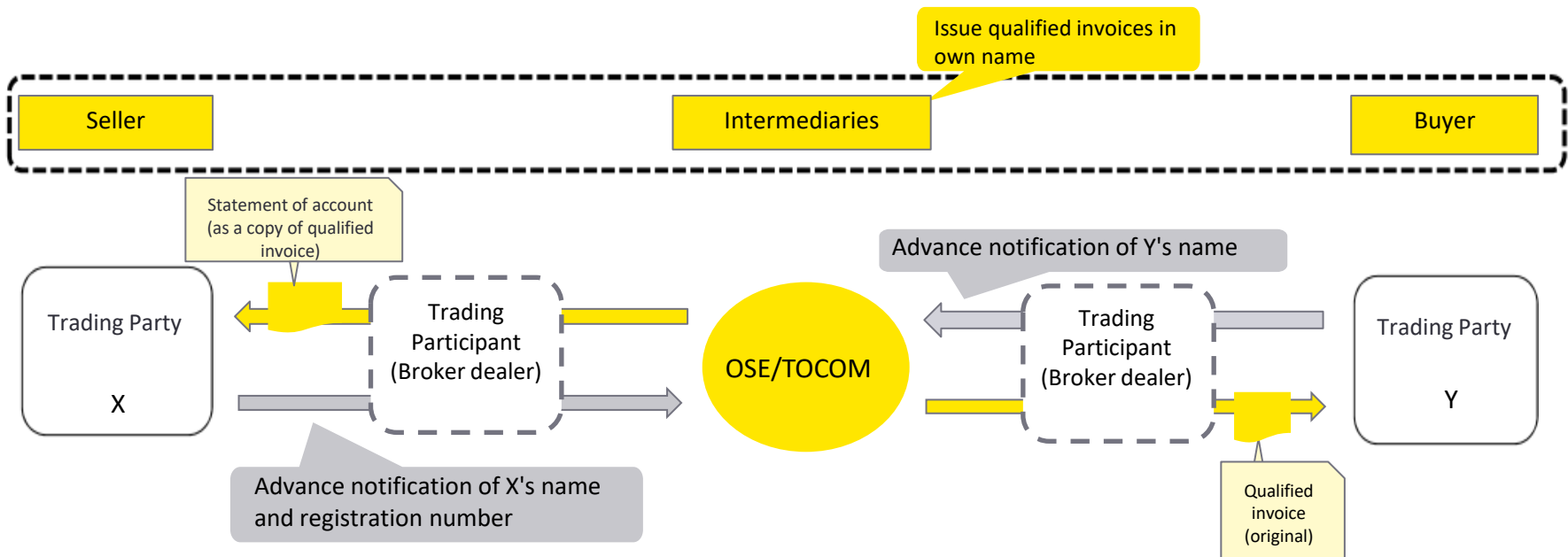
What is the qualified invoice?	<ul style="list-style-type: none">• The qualified invoice refers to a document in which the seller communicates to the buyer the exact applicable tax rate, consumption tax amount, etc.
Format	<ul style="list-style-type: none">• Documents that meet the requirements (invoices, receipts, etc.) are accepted regardless of the format.
Issuer	<ul style="list-style-type: none">• Seller will be obliged to issue a qualified invoice to the buyer. (For physical settlement, OSE / TOCOM will issue qualified invoices and fungible documents to the trading parties. Details will be described later.)• Only QII can issue qualified invoices.
Requirements	<ul style="list-style-type: none">• The requirements of the qualified invoice are stipulated by law, and details will be described later.
Amendments	<ul style="list-style-type: none">• The seller must issue a qualified invoice with the amendments.
Retention	<ul style="list-style-type: none">• A copy of the qualified invoice should be retained for 7 years. <p><small>*For physical settlement, instead of a copy of the qualified invoice, OSE / TOCOM will prepare and provide to the seller a statement of accounts that omits information about the buyer from the qualified Invoice, which should be retained.</small></p>

Issuance of qualified invoices

Special rule for sales through an intermediary

Intermediaries of sales transactions can issue the qualified invoice.

- ▶ In the case of consignment sales where transactions are conducted through an intermediary, the seller is obliged to issue the qualified invoice in principle. However, if the following requirements are met, the consignee (intermediary) can issue qualified invoices on behalf of the seller.
 - ▶ Both the seller and the intermediary are QIIs.
 - ▶ The seller notifies the intermediary before the transaction that the seller is registered as a QII.
- ▶ Regarding the physical settlement, OSE / TOCOM that is an intermediary will issue qualified invoice to the buyer through the trading participants of the buyer and will provide statement of account (as a copy of qualified invoice) to the seller through the trading participants of the seller as an intermediary.



Issuance of qualified invoices

Format of qualified invoice (Required items to be included)

- ▶ The specific requirements to be included in the qualified invoice are as follows. In addition to the “registration number” of the qualified invoice issuer, the “applicable consumption tax rate” and “consumption tax amount categorized by tax rate” must be stated.

<Entry Items>

- ① Name or title of the qualified invoice issuer and **registration number of qualified invoice issuer**
- ② Transaction date
- ③ Transaction details (indicating that the item is subject to reduced tax rate)
- ④ Compensation amount totaled separately by tax rate
(Excluding or including tax) and **applicable tax rate**
- ⑤ **Consumption tax amount categorized by tax rate**
- ⑥ Name or title of the business operator against whom the invoice is issued

<Description example>

請求書 No.210612-A0010-0001
(Invoice) 2023年10月31日

●●(受方委託者)御中 ① 株式会社●●取引所
登録番号TXXXXXXXXXXXXXX

2023年10月限 請求金額 2,841,803円 (税込)

日付 Date	品名 Product	単価(受渡値段) Unit price	数量(g) Quantity	枚数 Volume	税抜金額(円) Total excluding tax (Yen)
23/10/31	銀	83.0	31,126	1	2,583,458
備考	A倉庫・Bビル、9999東99999、99999999				

④ 8%対象 0円 消費税 0円
⑤ 10%対象 2,583,458円 消費税 258,345円
※は、軽減税率対象 ③

The red text indicates additional rules due to the introduction of the invoice system.

About rounding

- If there is consumption tax amount of less than 1 yen which is generated in the "consumption tax amount categorized by tax rate", it is necessary to round down once for each tax rate.

Retention of the qualified invoice

Overview

- ▶ After the introduction of the invoice system, each party of transactions that is JCT taxable person must retain the following documents or electronic data.
 - ▶ Seller: A copy or electronic data of the qualified invoice issued
 - ▶ Buyer: Original or electronic data of the qualified invoice received
- ▶ 2 months + 7 years from the day after the end date of the taxable period to which the issue date (receipt date) belongs.
- ▶ The retention method differs depending on the issuance method of the qualified invoice.

Seller

- ▶ For paper issuance: Retain a copy of the issued paper
- ▶ For electronic data: Satisfy the following requirements and save the data (see details on the next page)
 - Taking measures such as attachment of time stamps to prevent tampering
 - Preparation of system related documents
 - Installation of readable devices (computers, displays, etc.)
 - Developing search function (Except for certain cases such as being able to respond to requests from NTA to download electronic transaction data)

Buyer

- ▶ For paper issuance: Save the original paper received
- ▶ For electronic data: Satisfy the following requirements and save the data (see details on the next page)
 - Taking measures such as attachment of time stamps to prevent tampering
 - Preparation of system overview documents
 - Installation of readable devices (computers, displays, etc.)
 - Developing search function (Except for certain cases such as being able to respond to requests from NTA to download electronic transaction data)

※In the case of physical settlement, OSE/TOCOM issues a qualified invoice to the buyer and provides statement of account as a copy of the invoice to the seller, which must be retained.

Requirements for storage of electronic data

- ▶ If qualified invoices are exchanged only electronically, there are two possible methods.
 - ▶ Print out the electronic data and retain the hardcopy (however, not applicable after 2024)
 - ▶ Retain the electronic data as it is (it is necessary to meet the following requirements)
 - ▶ Since electronic data preservation must meet the two requirements of "authenticity requirement" and "visibility requirement", it is desirable to consider consulting with a specialized advisor in advance when saving qualified invoices as electronic data.

Authenticity	Take one of the following measures	
	①	Exchange transaction information after the time stamp is attached
	②	After exchanging transaction information, attach the time stamp immediately and make it possible to identify the person who saves the data or his/her supervisor*. <i>*After 1 January 2024, the requirement to identify the person who saves the data or his/her supervisor will be abolished.</i>
	③	Use a system that can confirm the history of correction or deletion of the items described in the qualified invoice or use a storage system that cannot correct or delete the items described.
Visibility	④	Prepare paperwork rules regarding the prevention of corrections and deletions for which there is no justifiable reason and operate under those rules.
	①	A computer, a program, a display, a printer, and an operation manual for these should be installed in the storage location so that the screen/document can be output promptly in an orderly format and a clear state.
	②	Provide an overview of the computer processing system
	③	Provide a search function <i>(Except for certain cases such as being able to respond to requests from NTA to download electronic transaction data)</i>



Japanese consumption tax returns filing and tax payment

Japanese consumption tax returns filing for taxable person

- ▶ A qualified invoice issuer becomes a JCT taxable person from the commencement date of its registration.
- ▶ Once a company becomes a taxable enterprise, it is obligated to pay JCT and, in principle, is liable to file the JCT return for each taxable period.

Submission of JCT return

- ▶ Taxable enterprises are obliged to calculate the amount of consumption tax due (refund) for each taxable period by themselves, prepare a tax return, and submit it to the tax authorities. JCT payable by the foreign entrepreneurs is paid to the selected tax office.

【Submission deadline】

- Corporations: must file a JCT return and pay the amount of tax due within **2 months** from the last day of the taxable period.
- Individuals: must file a JCT return and pay the amount of tax due by **March 31** of the following year.

Generally, the calculation of JCT and the preparation of tax returns are commissioned to a tax representative.

JCT payment

- ▶ Taxable entrepreneurs are obliged to submit JCT returns and pay to the tax authorities if there is a final amount to be paid. JCT payable by the foreign entrepreneurs is paid to the selected tax office.

Taxable period

- ▶ Principle:
 - ▶ Individuals: January 1st to December 31st
 - ▶ Corporations: A fiscal year
- ▶ Special provisions: Shortening the taxable period (refer to page 39)
 - ▶ JCT taxable person can choose shortening the taxable period to a monthly or quarterly basis.
 - ▶ To apply this special provisions, it is necessary to submit the "Notification of Choosing/Changing Application for Special Provisions on Taxable Period for Consumption Tax" to the head of the jurisdiction tax office.

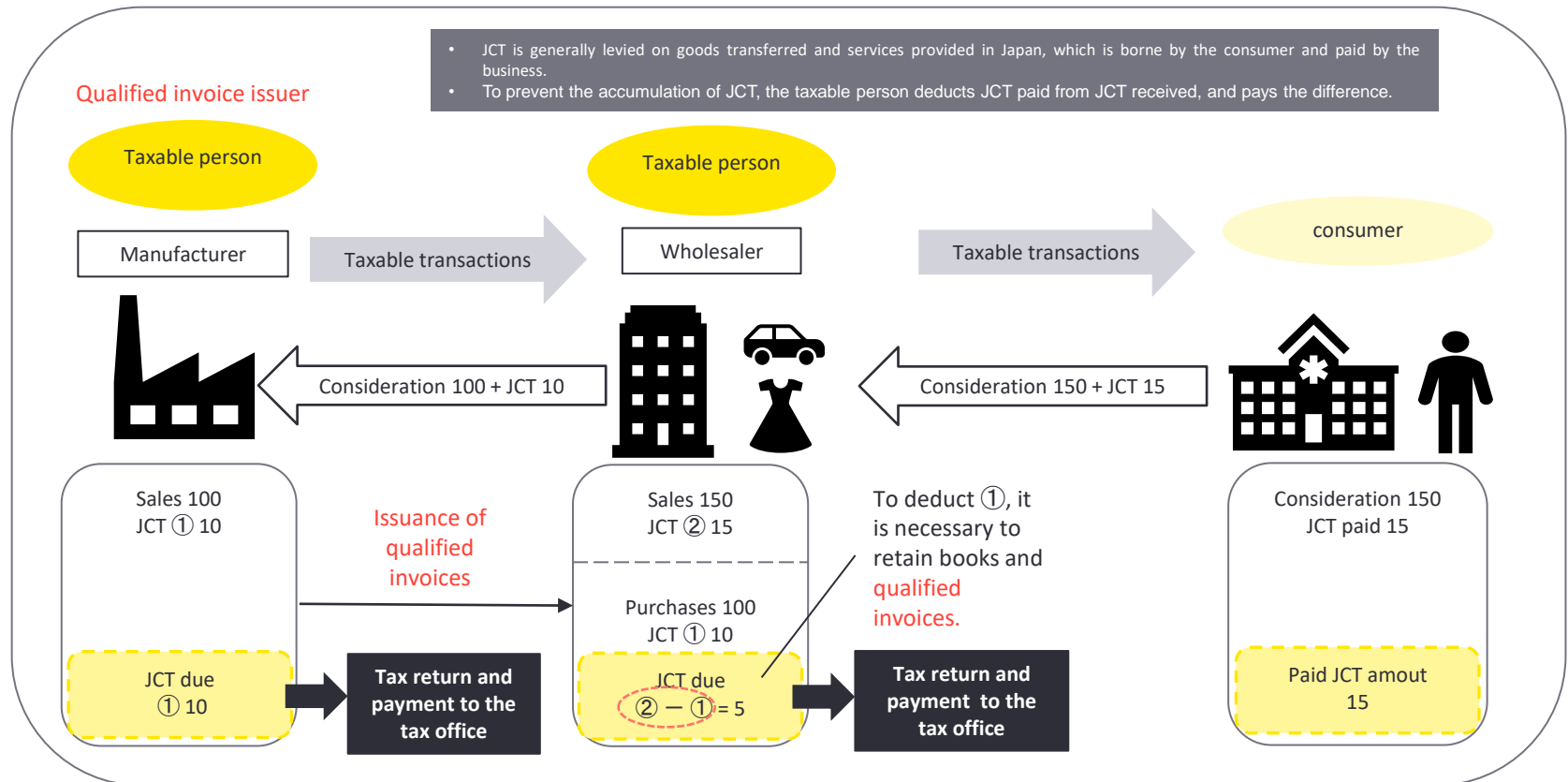
Generally, the administration of tax payments or receipt of refunds is entrusted to a tax agent.

Consumption tax calculation

Mechanism of Japanese consumption tax

- JCT payment due with the final tax return is calculated by deducting JCT on taxable purchases from JCT on taxable sales and deducting the interim payment amount.

$$\begin{array}{rclclcl} \text{Output JCT amount} & & \text{minus} & & \text{Input JCT amount} & & \text{minus} & & \text{Interim tax payment} & = & \text{JCT due} \\ (\text{JCT on sales}) & & - & & (\text{JCT on purchase}) & & - & & & & \end{array}$$



Consumption tax calculation

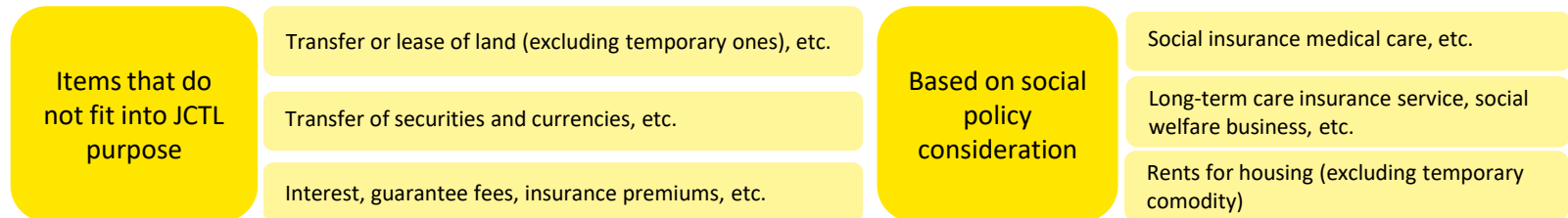
Consumption tax on sales

JCT amount on taxable sales

- The JCT amount for the tax base (taxable sales) is calculated by the number of sales related to the transfer of taxable assets during the taxable period (tax excluded) multiplied by the consumption tax rate.
 - ▶ In the case of Commodity Futures Contracts (physical settlement), the settlement amount based on delivery price (= final settlement price x quantity) is taxable sales amount and the output JCT amount is calculated based on this.

① Transfer of taxable assets

- ▶ JCT is levied on the transfer and lending of assets and provision of services, specified purchases, and taxable cargo received from the bonded area, which business operators conduct in Japan for business purposes.
 - ▶ When a commodity futures transaction is terminated through settlement for difference, the above taxation requirements do not apply because there is no transfer of physical commodity. On the other hand, if the transaction is terminated through delivery settlement, the above taxation requirements are met and JCT is imposed on the delivery price.
- ▶ In addition, certain transactions, such as followings, are exempt from taxation (they do not fall under the category of transfer of taxable assets, etc.).



② JCT tax rate

- ▶ Standard tax rate* • • • 10% (Consumption tax rate 7.8%, Local consumption tax rate 2.2%)
- ▶ Reduced tax rate • • • 8% (Consumption tax rate 6.24%, Local consumption tax rate 1.76%)

*The standard tax rate is applied to the purchase and sale of rubber.

Consumption tax calculation

Deductible input JCT

▶ Input JCT amount (deductible JCT amount) shall be calculated by one of the following methods.

- ① Full deduction
- ② Other than ① (in principle): Method of deducting the amount calculated as the portion corresponding to taxable sales (“Itemized method” or “Proportional method”)
- ③ Other than ② (Simple method): Simplified tax system
- ④ Special measure introduced by 2023 Tax Reform (Transitional measures for small-scale enterprises): This measure allows JCT payable to be set 20% of output JCT amount

① Full deduction

If the taxable sales amount during the taxable period is JPY 500 million or less and the taxable sales ratio* exceeds 95 % :The full amount of JCT paid related to the business conducted is deductible in the calculation of the amount of the tax return.

$$(*) \text{ Taxable sales ratio} = \frac{\text{Amount of the transfer value of taxable assets, etc. in Japan during the taxable period (tax excluded)}}{\text{Amount of the transfer value of assets, etc. in Japan during the taxable period (tax excluded)}}$$

Consumption tax calculation

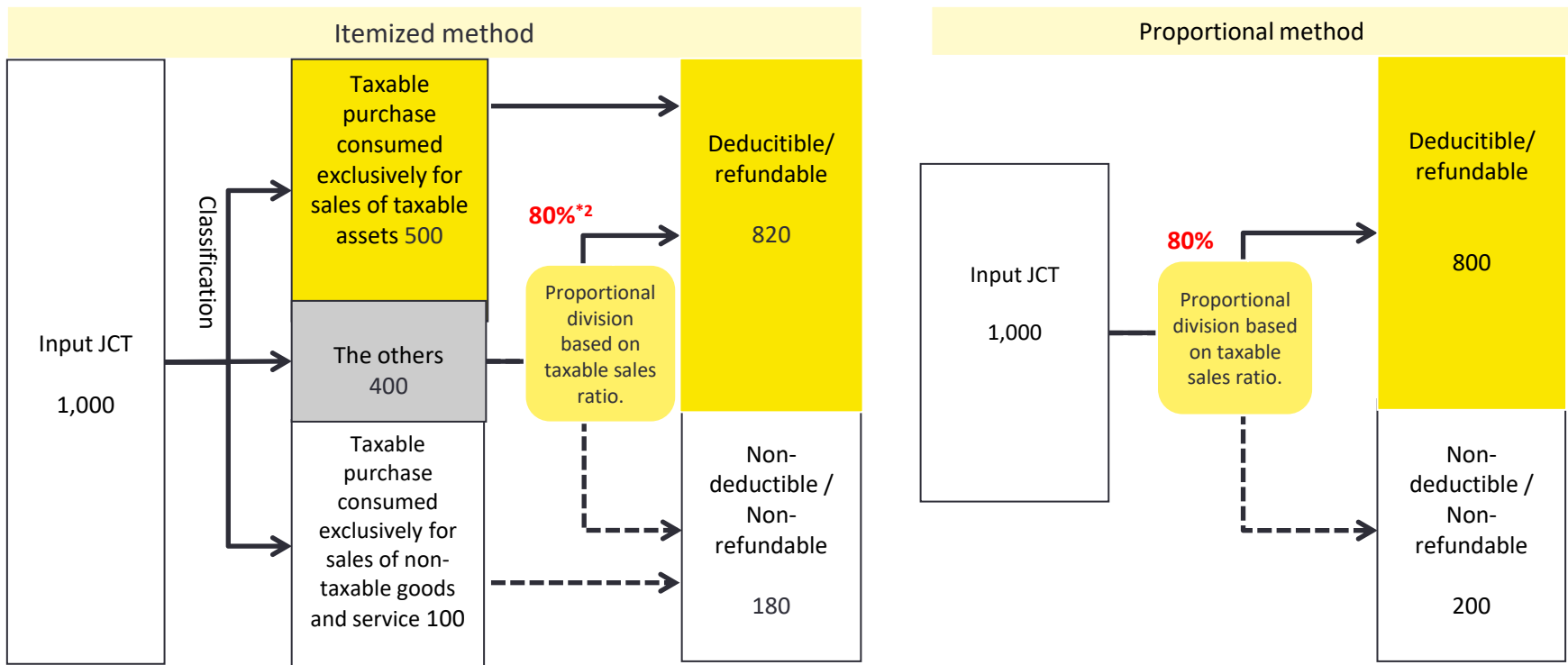
Deductible input JCT (continued)

② Itemized method & Proportional method

- ▶ Itemized method: Taxable purchases required only for taxable sales are deducted in full, and taxable purchases required for both taxable and non-taxable sales are deducted by multiplying the taxable sales ratio.
 - ▶ (formula) Total amount of taxable sales + (Total amount of tax on common sales x Percentage of taxable sales)
- ▶ Proportional method: Tax deduction is calculated by multiplying the total taxable purchases by the percentage of taxable sales.
 - ▶ (formula) The total amount of taxable sales x Percentage of taxable sales

If the sales earned by a foreign business in Japan are only taxable sales related to delivery and settlement, the full amounts of taxable purchases is deductible regardless of whether the itemized method or the proportional method is used.

Image of itemized method and proportional method *1



*1 Please consult with tax advisors for the detailed calculation method.

*2 80% = $\frac{\text{Taxable sales } 80}{\text{Taxable sales } 80 + \text{Exempt sales ("Hikazei") } 20}$

Consumption tax calculation

Deductible input JCT (continued)

③ Simplified tax system

- ▶ JCT taxable person that had taxable sales of JPY 50 million or less in the base period can opt to apply a simplified tax system instead of the basic calculation methods.
- ▶ To opt for the simplified tax system, JCT taxable person needs to submit the “Report on the Selection of the Simplified Tax System for Consumption Tax” to the head of the jurisdiction tax office.
- ▶ The simplified tax system does not require complicated calculations such as the basic calculation methods (Itemized method / Proportional method). The JCT due is calculated based on the output JCT amount and certain deemed rate determined according to the business division.

Deductible input JCT amount =

(Output JCT amount – JCT amount relating to the amount of refund of sales) × Deemed purchase rate

Business Type	Business division	Deemed purchase rate
Type 1	Wholesale business	90%
Type 2	Retail, agriculture / forestry / fishing (limited to businesses related to the transfer of food and drink)	80%
Type 3	Agriculture / forestry / fisheries (excluding businesses related to the transfer of food and drink), mining, construction, manufacturing, electricity, gas, heat supply and water services	70%
Type 4	Businesses that do not fall under either Types 1 to 3, 5 or 6. Restaurant industry.	60%
Type 5	Transportation and communication industry, financial and insurance service providers, and other services (excluding those corresponding to restaurant industry)	50%
Type 6	Real estate business	40%

*In principle, the business classification should be determined by the business itself. In general, the business classification of delivery and settlement is considered to fall under Type 4 business, but please consult with a tax specialist, etc. when making an actual judgment.

Consumption tax calculation

Deductible input JCT (continued)

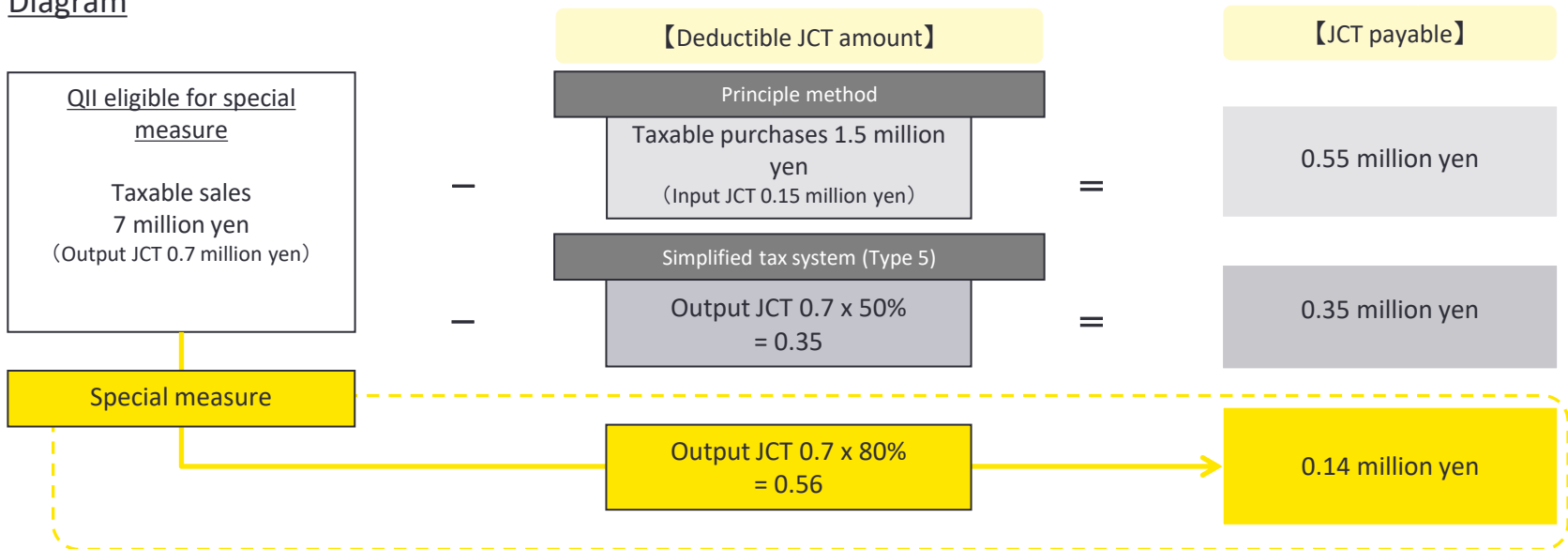
④ Special measure

- ▶ In the event JCT-exempted person selects to be a QII during the tax period which includes the date between 1 October 2023 and 30 September 2026, the person (QII eligible for special measure) will be allowed to apply special measure*. Note, the special measure is not possible to apply in the shortened taxable period.

* Special measure allows JCT payable to be set 20% of output JCT amount (i.e., JCT payable shall be Output JCT minus 80% of output JCT).

- ▶ No prior procedures are required. It is possible to apply by adding a note to the effect that special measures are applied to the JCT return.
- ▶ For each taxable period, JCT taxable person can choose whether or not to apply special measures.

Diagram



Interim tax return / payment

- JCT taxable person is obliged to file and pay the interim tax return if the taxable period exceeds 3 months.
- Interim filing method
 - Interim tax returns are filed by one of the following methods.

① Interim tax return based on the actual JCT amount in the immediately previous taxable period

▶ Number of interim tax returns and payments

JCT amount for preceding taxable period	480,000 yen or less	More than 480,000 yen	More than 4 million yen	More than 48 million yen
Number of interim tax returns and payments	Voluntary basis (once a year)	Once a year	3 times a year	11 times a year

*Please consult with the tax advisor for the detailed information regarding the calculation of interim tax payment due.

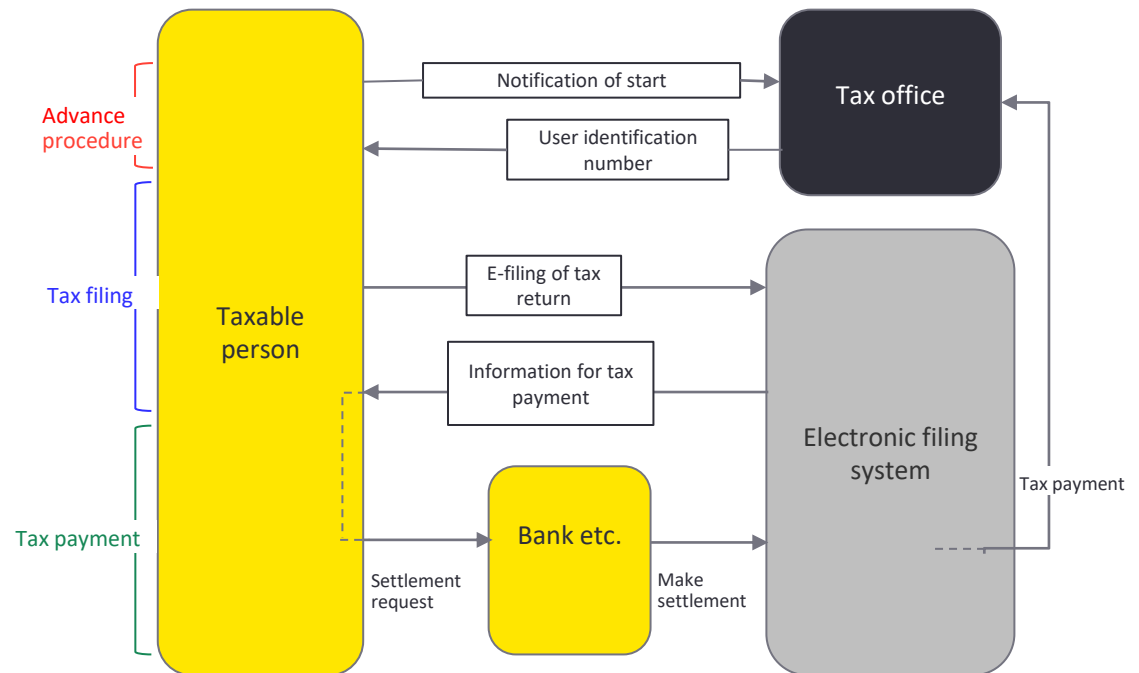
▶ Tax return filing is voluntary (Upon paying, the interim tax return is deemed to have been filed).

② Interim tax return based on the provisional settlement of accounts

- Taxpayers can also file an interim return and pay tax based on the provisional settlement of the account for the applicable period for interim returns (the interim tax payment due is calculated in the same method as the final tax return: refer to page 23 and the following pages).
 - When a JCT taxable person that applied for the simplified tax system submits an interim tax return based on the provisional settlement of accounts, the tax amount to be paid should be calculated by the simplified tax system.
 - Tax return filing is needed.
- JCT payment deadline
 - In principle, within two months from the day following the last day of the period subject to interim filing. Please contact the tax specialist for detailed information.

How and where to file Japanese consumption tax returns

- ▶ JCT return should be submitted to the head of the jurisdiction tax office by the deadline via e-Tax system or in paper form.
- ▶ When submitting by electronic filing method, the taxpayer should submit a notification of start of e-filing in advance and obtain the e-tax filing number (called user identification number).
- ▶ It is also possible to use an electronic tax payment method linked to the e-Tax system for tax payment.



5

Appendixes

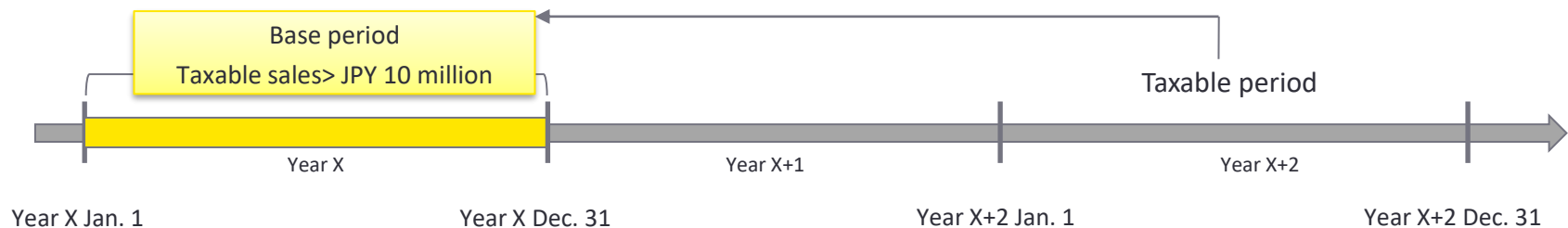
JCT taxable person (taxpayer)

JCT taxable person

- ▶ A JCT taxable person which is an entrepreneur (individual business operator or corporation including non-residents and foreign corporations), in principle, is obliged to file the final JCT return and pay JCT for each taxable period.
- ▶ An entrepreneur whose taxable sales exceed **JPY 10 million** in the “base period” becomes JCT taxable person.

	Taxable period	Base period
Individual	January 1st - December 31st	Two years ago
Corporation	Fiscal year	The second preceding business year before the “taxable period”

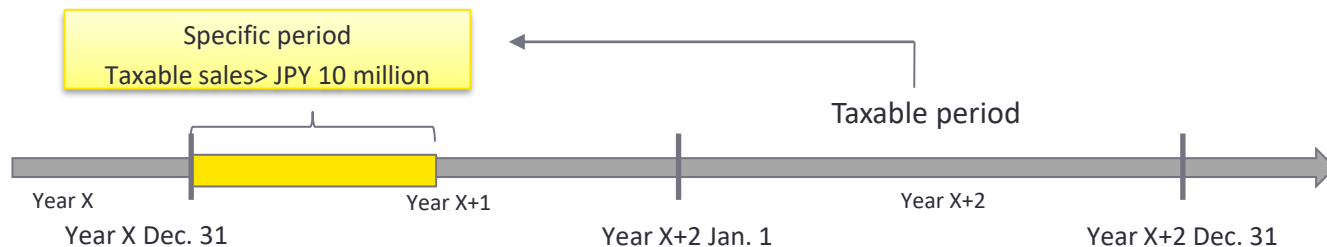
- ▶ Taxable Sales refer to the sum of the sales amounts that are subject to JCT (tax excluded) during the based period.
- ▶ If there is any amount of returns, discounts, or rebates, the sum of these amounts (tax excluded) should be deducted from the calculation of Taxable Sales.



JCT taxable person (taxpayer) (continued)

- ▶ Even if the taxable sales in the base period is JPY 10 million or less, entrepreneur whose taxable sales exceeds **JPY 10 million in the “specific period”** become JCT taxable person.

	Specific period
Individual	January 1st to June 30th of the previous year
Corporation	6 months after the start date of the previous fiscal year



- ▶ Instead of taxable sales in the specific period, it is also possible to use the total amount of salary paid by the entrepreneur in the specific period. If either the taxable sales in the specific period or the total amount of salary paid in the specific period is JPY 10 million or less, the entrepreneur can opt to be a JCT-exempted person.
- ▶ Even if the specific period is less than 6 months, it is not necessary to convert the taxable sales amount (or the amount of salary, etc.) to the equivalent amount for 6 months.
- ▶ Please consult with tax advisors for the details of determining whether you are a JCT taxable person or not because there are some exceptions.
- ▶ It is possible to opt to be a JCT taxable person status for JCT purposes voluntarily. Please see page 36, 37.

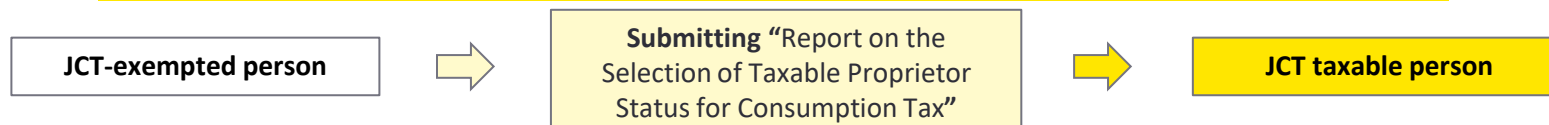
Report on the Selection of Taxable Proprietor Status for Consumption Tax (in principle)

Voluntary selection of JCT taxable person

- ▶ JCT-exempted person does not need to file JCT returns and pay JCT in Japan. However, even if the input JCT amount exceeds the output JCT amount, a JCT-exempted person cannot claim for JCT refund from Japanese tax authorities.



JCT-exempted person can opt to become a taxpayer for JCT purposes by submitting “Report on the Selection of Taxable Proprietor Status for Consumption Tax”

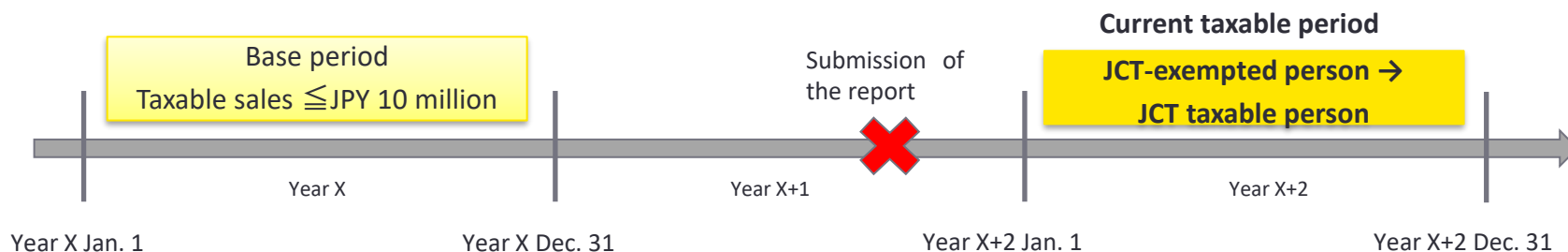


National Tax Agency HP : “Report on the Selection of Taxable Proprietor Status for Consumption Tax” Form: [1461_01.pdf \(nta.go.jp\)](https://www.nta.go.jp/1461_01.pdf)

- ▶ The effective date of “Report on the Selection of Taxable Proprietor Status for Consumption Tax”

It will take effect from the following taxable period of the taxable period to which the date of submission belongs.

However, if you start a business related to the JCT taxable transactions in Japan and submit the report during the said taxable period to which the start date belongs, the effect of the selection will be effective from the first day of the taxable period to which the submitted date belongs.



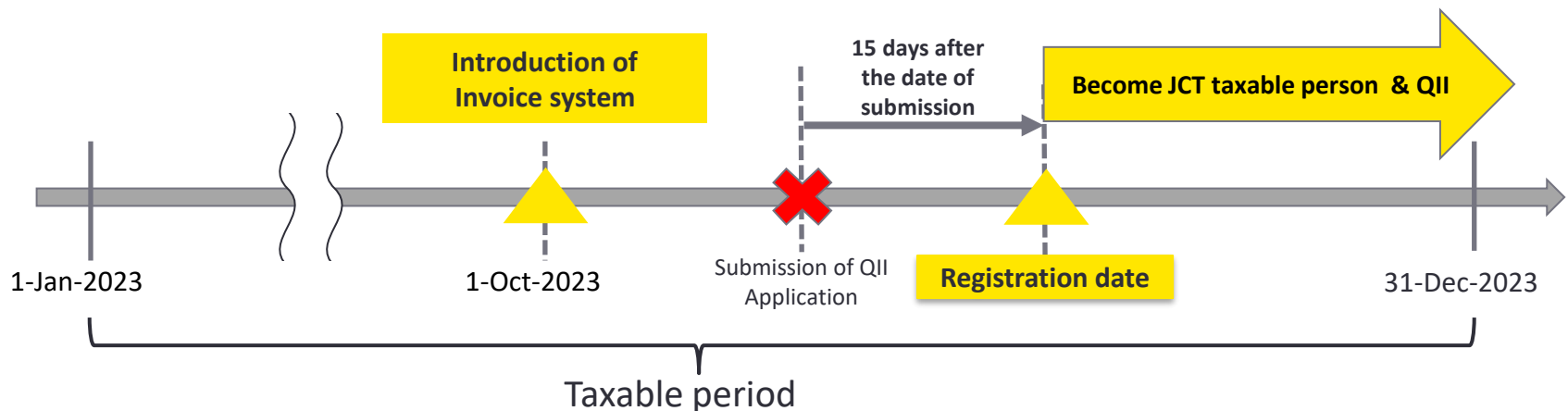
Report on the Selection of Taxable Proprietor Status for Consumption Tax (transitional measures)

Voluntary selection of JCT taxable person (special rule)

- ▶ By the transitional measures for JCT-exempted person, when a person applies for registration during the taxable period that includes the dates from 1 October 2023 to 30 September 2029, the person becomes a JCT taxable person from the desired registration date (from 15 days after the date of submission) described in QII Application*.
- ▶ In this case, it is only necessary to submit QII Application, and do not need to submit “Report on the Selection of Taxable Proprietor Status for Consumption Tax”.



National Tax Agency HP : QII Application [0020009-098_05.pdf \(nta.go.jp\)](https://www.nta.go.jp/0020009-098_05.pdf)



*Note, those who submit an QII Application by 30 September 2023 will also be allowed to become a JCT taxable person and QII from 1 October 2023.

Consumption tax return

I. Where to pay and file

JCT should be paid and JCT return should be filed to the following tax office.

Individuals	Corporations
For individual taxpayers who have an address in Japan: Pay to the tax office with jurisdiction over the address	For corporations that have a head office or main office in Japan: Pay to the tax office with jurisdiction over the location of the head office or main office
For individual taxpayers who do not have an address in Japan but has a place of residence: Pay to the tax office with jurisdiction over the place of residence	For corporations other than a domestic corporation that has an office in Japan: Pay to the tax office with jurisdiction over the location of the office.
For individual taxpayers who do not have an address and a place of residence in Japan but has a business office in Japan: Pay to the tax office with jurisdiction over the location of the business office	For foreign corporations that do not have offices in Japan: Pay to the tax office selected by the taxpayer
For non-residents who do not fall under any of the above: Pay to the tax office selected by the taxpayer	

II. JCT return filing deadline

- ▶ In principle
 - ▶ Corporations: must file a JCT return and pay the amount of tax due within **2 months** from the last day of the taxable period.
 - ▶ Individuals: must file a JCT return and pay the amount of tax due by **March 31** of the following year.
- ▶ Exceptions to the submission deadline
 - ▶ A corporation that qualifies for the exception to the extension of the due date of corporate tax returns may apply for the exception by submitting a "Report on the Extension of the Due Date for Filing a Consumption Tax Return" to the head of the jurisdiction tax office.

Consumption tax return (continued)

III. Taxable period

- ▶ Principle
 - ▶ Individuals: January 1st to December 31st
 - ▶ Corporations: A fiscal year

- ▶ Special provisions for shortening the taxable period
 - ▶ JCT taxable person can choose shortening the taxable period to a monthly or quarterly basis.
 - ▶ To apply this special provisions, it is necessary to submit the "Notification of Choosing/Changing Application for Special Provisions on Taxable Period for Consumption Tax" to the head of the jurisdiction tax office.
 - ▶ The notification will take effect after the first day of the period following the period to which the submission date belongs.
 - ▶ If JCT taxable person intends to stop this special provisions or abolish the business, it is necessary to submit the "Notification of Not Choosing Application of Special Provisions on Taxable Period for Consumption Tax" to the head of the jurisdiction tax office.
 - ▶ JCT taxable person to which this special provisions applies cannot submit "Notification of Not Choosing Application of Special Provisions on Taxable Period for Consumption Tax" until two years passed from the effective date of the special provisions for shortening the taxable period.

6

Points to note

Points to note

- ▶ The scope of taxation on income (income tax and corporate tax) is different from that of JCT. Filing a JCT return will not trigger your income tax filing obligation and taxation on your income in Japan.
- ▶ This article describes the JCT tax implication for foreign entrepreneurs in Japan. Please consult with a tax advisor, etc. regarding the existence of a permanent establishment and the JCT implication if you have a permanent establishment in Japan.