The New Qualified Invoice System in Japan - Effective From 1 October 2023: Requirements and Best Practice

Executive Summary

October 2023

mazars

Table of contents

A

Key Aspects of the new Qualified Invoice System - Effective from 1 October 2023

A. Key Aspects of the new Qualified Invoice System - Effective from 1 October 2023

Concept and implications (1/2)

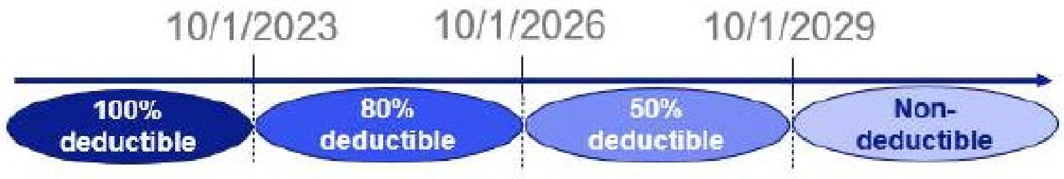
- Japan has implemented a **Qualified Invoice System** for claiming input consumption tax credits.
- A **Taxpayer**, i.e., a foreign or domestic business filing consumption tax returns in Japan, is required to receive and retain a **Qualified Invoice** for **claiming input consumption tax credits** in a purchase transaction.
- The new system requires businesses to register as a so-called **Qualified Invoice Issuer** (in the following referred to as **'QII'**) to be allowed to issue **Qualified Invoices**.
- A key point of the new invoice system is that **any business registered as a QII** in Japan **will assume the Taxpayer status** and will thus be obligated to file a consumption tax return, even if the business had been exempted before, related to the special rules for small and medium-sized enterprises.
- To become a QII it is necessary to register with the relevant tax office of the **National Tax Agency Japan ('NTA')**.
- Upon registration as a QII the NTA will issue a **Registration Number** to be shown on the Qualified Invoice.
- The Qualified Invoice is a document requiring the **seller to include specified information**. If the invoice is not issued in line with the regulations the buyer may be unable to claim the input tax credit.
- **If a foreign business without an office in Japan** is registered as a QII it is required to appoint a Tax Agent in Japan. The Tax Agent's role is to file the consumption tax return and to handle the payment of consumption tax on behalf of the foreign Taxpayer.

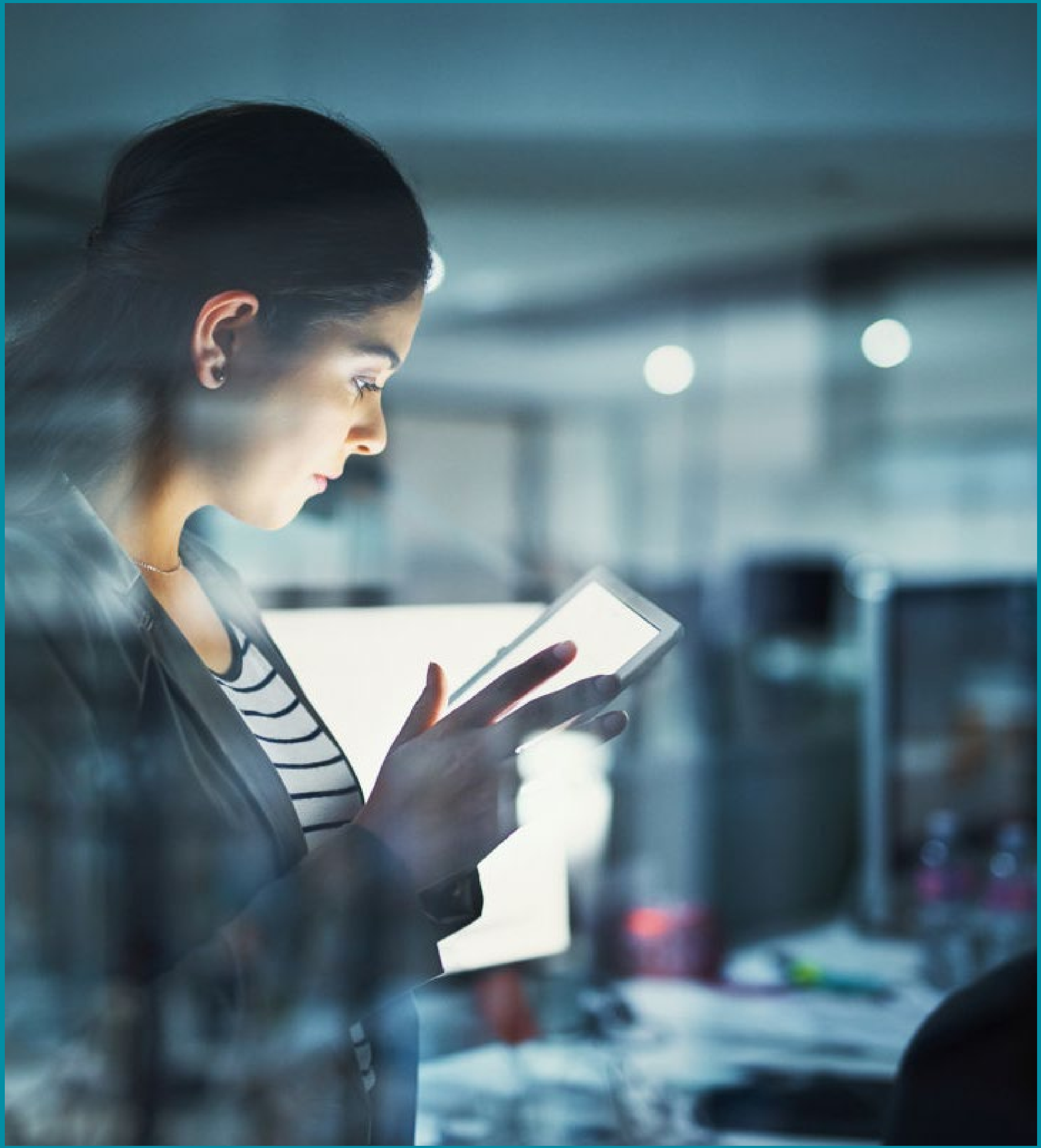
A. Key Aspects of the new Qualified Invoice System - Effective from 1 October 2023

Concept and implications (2/2)

- A business **selling to consumers in Japan** may refrain from registering as a QII, because the consumer cannot claim any consumption tax credits, thus a Qualified Invoice is not needed.
- Likewise, if a business in Japan **sells goods or services only** to a foreign business in an **export type transaction from Japan** a zero-tax rate may apply. In this case the registration as a QII may not be needed, because there is no consumption tax to be claimed by the foreign buyer.
- Along with the new Qualified Invoice System transitional measures have been implemented. They will allow a buyer to **partially claim input tax credits** after 1 October 2023 at declining rates until 30 September 2029, **even if the seller is not registered as a QII**. Based on these measures the following percentages of input tax credits can be claimed:

  - 1 Oct. 2023 – 30 Sep. 2026: **80%** of input consumption tax creditable
  - 1 Oct. 2026 – 30 Sep. 2029: **50%** of input consumption tax creditable





B

The new Qualified Invoice System: Points of Attention

B. The new Qualified Invoice System: Points of Attention

1. From the viewpoint of the seller

Responsibilities of a Qualified Invoice Issuer (QII)

- It is **not mandatory to register as a QII**, and accordingly the status of a QII is not issued automatically. The registration as a QII is a **discretionary decision** by the business and requires the filing of an application with the competent tax office.

  However, if the seller is not a registered business it cannot issue Qualified Invoices. Accordingly, a business customer cannot claim the consumption tax as input tax credit, resulting in an increase in the cost of the transaction. Therefore, it can be assumed that in the ordinary course of business any **seller will be expected by its business customers to register as a QII**.
- In principle **only a Taxpayer** (i.e., a registered business required to file consumption tax returns in Japan by law or by election) can apply for the registration as a QII. However, **as a transitional measure until 30 September 2029** the application for both the Taxpayer and QII status can be submitted in one step. In this case the Taxpayer status becomes effective from the date of the registration as QII, and taxable transactions need to be considered in the consumption tax return only from this date.
- A QII has the **obligation to issue correct Qualified Invoices** to its customers for a taxable transaction. In case the QII cannot issue invoices correctly in line with the requirements the customer is at risk of losing the input tax credit or some portion of it. To keep a good business relationship with the customer it is therefore recommended to establish a monitoring process to ensure the issuance of correct invoices, and to provide corrected invoices if an error has been detected internally or by the customer.
- For businesses **conducting cross-border transactions by providing so-called 'electronic services**' conducted via the internet special attention is required to analyze the taxability of the electronic services. If the cross-border transaction is taxable in Japan, for example because it is conducted with **both businesses and consumers** for the same type of transaction, the registration as a QII may be advisable.

B. The new Qualified Invoice System: Points of Attention

2. From the viewpoint of the buyer

Recommended measures to secure the input consumption tax credit

With the implementation of the Qualified Invoice System, it is the **responsibility of the buyer to collect and preserve** all required documents and information in the accounting books. If the collected information does not meet the requirements the input tax credit may be denied in a tax audit. Accordingly, the following is recommended:

- **Confirm the registration status** of the QII by referring to the relevant website of the NTA.
- **Confirm the correctness** of the Qualified Invoice.
- Obtain and **retain the Qualified Invoice** for purchase transactions and **record certain information** in the accounting books in line with the requirements.
- **Identify exemptions** to the requirements for obtaining a Qualified Invoice.
- Manage the supply chain to **identify the QII status of sellers** and update the status in the master data of each seller.
- **Review and update internal processes** to capture QII related information early and efficiently.
- **Review and update the consumption tax codes** in the accounting system, to generate the data required for preparing the consumption tax return.
- **Update** internal guidelines and processes.

C

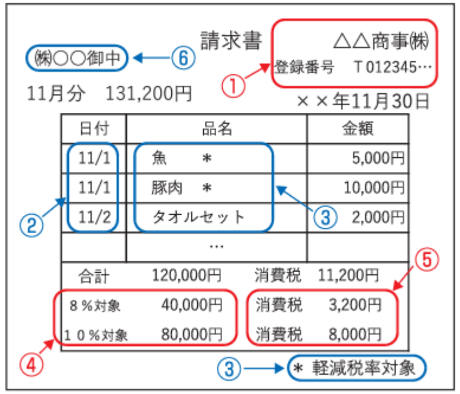
The Qualified Invoice – Key Requirements, Simplifications and Exemptions

C. The Qualified Invoice – Key Requirements, Simplifications and Exemptions

1. Form and content requirements (1/3)

Formal requirements for a Qualified Invoice: Substance over form (1/2)

- The Qualified Invoice needs to include all the items (1) to (6) referred to in the table below. The items printed in red letters below are new compared to the previous form. The new items are the **Registration Number**, the relevant tax rate together with the **total billing amount aggregated per tax rate** and the **consumption tax amount** by tax rate.
- There is **no prescribed template or designated name** to be used for the Qualified Invoice. Accordingly, it could be referred to as invoice, billing, bill, receipt, delivery note, etc.
- It is also not a requirement to provide all the necessary information in one document, a **set of related documents** will also be acceptable.
- The Qualified Invoice need not be issued in Japanese, accordingly **other languages** can be used.



[Entry Items]

① Name or title of the qualified invoice issuer and registration number
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

* For transactions related to retail business, restaurant business, taxi business, etc., where sales are made to an unspecified number of counterparts, the "qualified simplified invoice" with simplified entry items may be issued.

Source: https://www.nta.go.jp/english/taxes/consumption_tax/pdf/2021/simplified_15.pdf

C. The Qualified Invoice – Key Requirements, Simplifications and Exemptions

1. Form and content requirements (2/3)

Formal requirements for a Qualified Invoice: Substance over form (2/2)

- If the Qualified Invoice is not issued in JPY but in a foreign currency the **consumption tax amount per tax rate needs to be stated in JPY** in addition to the amount in foreign currency. The JPY equivalent is to be converted by using the **TTM rate of the transaction date**.
- If the **Qualified Invoice contains an error**, the buyer should communicate the error to the seller and request a **corrected invoice**. If the seller will not respond by sending a corrected invoice the buyer has the possibility to send a **'Purchase Order Notice'** with the updated information to the seller **asking the seller to confirm the content**. The Purchase Order Notice can be sent to the seller by email by attaching a document or by including the Purchase Order Notice in the email body. In the communication with the seller the buyer can include a message saying for example "this Purchase Order Notice will be assumed to be confirmed by the seller if the seller does not contact the buyer within [time frame to be specified] for correcting the Purchase Order".

  A copy of the "Purchase Order Notice" and records of the correspondence with the seller should be retained by the buyer as evidence that an error has been identified and that a due process has been applied, i.e. to request an updated invoice or the acknowledgement of the Purchase Order.

C. The Qualified Invoice – Key Requirements, Simplifications and Exemptions

1. Form and content requirements (3/3)

Special attention: The transaction date in the Qualified Invoice

- The transaction date refers, in principle, to the delivery date of goods and services. In a base-case scenario the transaction date refers to the date when the **sales transaction has been completed**, i.e., when the seller has transferred the goods or completed the service. However, in the **following cases special attention** for identifying the transaction date is required:

  - The **services are continuously provided** during the relevant billing period without a specified start or end date. In this case the transaction date will refer to the month of service rather than a specific date, for example 'October 2023'.
  - The **rendering of services is billed in arrears**, for example an invoice is issued in November 2023 for services provided in the prior month. In this case the transaction date needs to refer to the prior month, say October 2023, while the invoice itself is issued in the following month, say on 30 November 2023.
  - The invoicing of services is **performed in advance for a services period exceeding one month**. Here it is required to state the services period as the transaction date. For example, a rental fee is billed in October 2023 for six months in advance. In this case the transaction date will be 'October 2023 to March 2024'.
  - The **goods and services are billed in advance**. Accordingly, the transaction date will refer to the month in which the goods and services will be delivered.
  - The goods and services are billed in advance, however, **the delivery date is not yet known**. In this case it is not possible to state the transaction date on the invoice, **resulting in a 'blank'** transaction date. **Thus, a Qualified Invoice has not been issued**, and the seller needs to issue a Qualified Invoice after the delivery date is known.

C. The Qualified Invoice – Key Requirements, Simplifications and Exemptions

2. Simplifications and exempt transactions (1/2)

Possible deviations from the standard format of a Qualified Invoice

- The following modifications concerning the format of the Qualified Invoice can be applied without compromising its effectiveness for claiming input tax credits:

  - **Simplified Invoice:** For certain types of businesses, it is difficult or impossible in practice to identify the counterparty in the sales transaction. Accordingly, it is not required to provide the name of the buyer. This exemption is applicable for the following businesses: retail, restaurants, taxi, travel agents, ad-hoc photography, and parking.
  - **Purchase Order Notice:** The buyer initiates a purchase transaction and issues a purchase order notice which can function as a Qualified Invoice, provided that all the required information is stated on the document.
  - **Offsetting Transactions:** Where both parties act as a seller and a buyer in related transactions, it is possible to show the offsetting transactions in one Qualified Invoice.
  - **Qualified Credit Note:** In case the sales amount is adjusted due to the return of goods, providing discounts, rebates or due to other adjustments, it is in principle a requirement to issue a credit note for adjusting the original Qualified Invoice. However, if the adjusting amount is less than JPY 10,000, the issuance of a Qualified Credit Note can be omitted.
  - **Reimbursement Transactions:** In case a party different from the Taxpayer (for example an employee) incurs an expense on behalf of the Taxpayer, the name of the Taxpayer is often not stated on the related invoice, thus the condition for claiming the input tax credit is not met. However, if the other party (for example the employee) issues a ‘reimbursement report’ and provides such a report to the Taxpayer together with the Qualified Invoices received from the seller, the Taxpayer will be able to claim the input tax credit.

C. The Qualified Invoice – Key Requirements, Simplifications and Exemptions

2. Simplifications and exempt transactions (2/2)

Exempt transactions for which a Qualified Invoice is not required

- For the following services or allowances the Taxpayer **need not receive a Qualified Invoice** but can claim the full amount of input tax credits:

  - **Transportation of passengers** on the public transportation system for a fee of less than JPY 30,000, incl. Japanese Consumption Tax.
  - The purchase of goods **from vending machines** and services related to ATMs for a fee of less than JPY 30,000, incl. Japanese Consumption Tax.
  - **Postal and freight services** delivered to a post box for which the only fee is the postage stamps.
  - **Travel and other expenses incurred by and reimbursed to the employees** (i.e., transportation expenses related to the business travel, accommodation, per diem, and commuting allowance) which are deemed 'normal and necessary' as part of performing the tasks as an employee.

- The above rules can be applied provided that certain **transactional information will be recorded** in the accounting books.

D

Claiming Input Tax Credits and Practical Aspects

D. Claiming Input Tax Credits and Practical Aspects

1. Transitional measures for transactions without a Qualified Invoice

Easing the impact on non-registered small and medium-sized businesses

- In case a Taxpayer cannot obtain a Qualified Invoice and if the transaction is not exempted it is in principle not possible to claim an input tax credit. Therefore, a buyer may want to refrain from doing business with non-registered small and medium-sized businesses.
- However, for easing the potential adverse impact from the new invoice system **on non-registered** businesses the buyer will still be able **to claim a portion of the input tax credit** as part of a transitional rule, even if a Qualified Invoice can not be obtained. The initial percentage to be claimed will amount to 80%, decreasing to 50% over the following time frame:
  - **1 Oct. 2023 – 30 Sep. 2026: 80%** of input consumption tax creditable
  - **1 Oct. 2026 – 30 Sep. 2029: 50%** of input consumption tax creditable
- This transitional rule can be applied under the condition that certain **transactional information will be recorded** in the accounting books of the Taxpayer.
- This system does not apply to a seller who is registered as a QII. **Such a seller is expected to issue** a Qualified Invoice instead.

D. Claiming input tax credits and practical aspects

2. Accounting treatment of non-creditable input tax

How to record costs arising from non-creditable input tax in the accounting books

- The non creditable portion of input consumption tax **increases the cost in a purchase transaction**, i.e., it increases the acquisition costs of an asset recorded in the B/S, or it **increases the expenses** recorded in the P&L.
- There are two methods for recording the non-creditable consumption tax:
  - (A) Recording the non-creditable consumption tax portion **together with the asset or expense item** it belongs to, or
  - (B) Separating the non-creditable consumption tax portion from the underlying purchase item and showing the amount in a **separate line item in the P&L** such as ‘Miscellaneous expenses related to tax’.
- However, method (B) may require the **performance of adjusting journal entries at the yearend** in case the non-creditable consumption tax is related to assets (e.g., fixed assets or inventory) or non-deductible expenses (e.g., entertainment expenses), otherwise the expenses calculated in the corporate income return would be too high.
- To avoid the risk of missing such adjusting entries at the yearend, it is recommended to use the journal entry method (A) referred to above in relation to **assets** (i.e., fixed assets or inventory), i.e., **recording the non-creditable input tax together with the asset items it belongs to**. However, **for expenses** it may be more efficient to record them first in the separate line item in the P&L per the method (B) above, and to screen these expenses at the yearend for items which need to be adjusted for corporate income tax purposes.

D. Claiming Input Tax Credits and Practical Aspects
3. Updating the tax codes in the accounting system

Setting up two new consumption tax codes

- With the new Qualified Invoice System, the **consumption tax return format has been updated**. It will be required to **separately identify transactions with** qualified and non-qualified invoice issuers starting from 1 October 2023. Accordingly, it is recommended to **add the following two consumption tax codes** by tax rate in the accounting system:

  - Transactions with QIIs by tax rate, i.e., 10% or 8%
  - Transactions with Non-QIIs by tax rate, i.e., 10% or 8%

- Additionally, and if supported by the accounting system, it may be beneficial to reflect the QII status in the vendor's master data for **automated journal entry processing** of the QII-status information.

D. Claiming Input Tax Credits and Practical Aspects

4. How to calculate consumption tax under the new Invoice System

Two alternative methods for calculating consumption taxes for filing purposes

- For filing the consumption tax return at the yearend, the **following two methods** for calculating the consumption tax can be applied:
  - **(A) Accumulation Method**: Adding up the respective consumption tax amounts as shown on the Qualified Invoice
  - **(B) Dividing Method**: Adding up the total amounts of taxable sales and the total amount of taxable purchases by tax rate, including the consumption tax, and dividing the totals by the respective tax rate.
- It is assumed that for a business **with a high volume of transactions** during the fiscal year the total consumption tax amount resulting from method (A) **will be lower than** the amount from method (B), due to rounding impacts.
- The Accumulation Method, however, **may result in wrong yearend amounts**, in case the business uses an automated calculation of consumption tax via tax codes, as these figures may differ from the amounts shown on the Qualified Invoice. In this case the Accumulation Method **would not be applicable**.
- Accordingly, from a practical point of view, the **Dividing Method is recommended alternative method** to be used for calculating consumption tax at the yearend.
- In principle it is possible to select either method (A) or (B) for calculating output and input consumption tax, however, in case method (A) is used for the output tax **the same method needs to be applied** for the input tax.
- A further adjustment for calculating annual consumption taxes is required for transactions invoiced in advance or issued for a longer period, where the **billing happens in a certain fiscal year, but the services are rendered in a different fiscal year**. In these cases, the billing items not referring to the current fiscal year need to be deferred to the other fiscal year for both accounting purposes and for calculating consumption taxes. In other words, consumption tax is related to the fiscal year in which the goods are supplied or the services are rendered.

E

Simplified Calculation of Consumption Tax Liability for SMEs and NewCos

E. Simplified Calculation of Consumption Tax Liability for SMEs and NewCos

1. Special 20% rule as a transitional measure

Simplified calculation method of annual consumption tax for newly registered QIIs

Tax-exempt small and medium sized enterprises (**‘SMEs’**) will loose their tax-exempt status after registering as a QII and will have to file consumption tax returns going forward. Therefore, **to ease the impact on SMEs from registering as a QII**, the following transitional rule has been implemented:

- The annual consumption tax amount is not calculated as a balance of output and input taxes but **by using a flat rate of 20%,** to be applied to the output consumption tax amount.
- Accordingly, it is **not needed to collect any evidence** of creditable purchase transactions in line with the Qualified Invoice System.
- The special rule is **economically beneficial** for businesses with a ratio of taxable purchases in relation to taxable sales of less than 80%.
- The rule is applicable to SMEs and newly established companies (**‘NewCos’**). For this rule SMEs are defined as businesses with taxable sales of JPY 10 million or less in the base period, i.e., two fiscal years prior to the current fiscal year, or the specified period, i.e., the first six months of the previous fiscal year. **For NewCos the rules are available for the first one or two fiscal years**, due to the lack of a base period, unless the share capital exceeds the amount of JPY 10 million.
- The transitional rule is available for fiscal years **including the periods from October 2023 to September 2026**, without the need to file a prior notification to the tax office. This transitional rule can be applied **in a flexible manner at the time the tax return is filed**, after assessing if it is economically beneficial.

E. Simplified Calculation of Consumption Tax Liability for SMEs and NewCos

2. General simplification rule by type of industry (1/2)

Simplified calculation method of annual consumption tax for QIIs and non-QIIs (1/2)

As a standard measure, certain small and medium-sized businesses (‘SMEs’) **can apply a simplified method** for calculating the annual consumption tax liability. This rule is equally applicable for businesses **with or without QII-status** and is applied as follows:

- The annual consumption tax amount is not calculated as a balance of output and input taxes but by using a **flat rate of between 40% and 90%** applied to the output consumption tax amount, the rate depending on the type of industry. Please refer to the following slide for on overview of the rates by industry.
- Accordingly, it is **not needed to collect any evidence of creditable purchase transactions** in line with the Qualified Invoice System.
- This rule is **economically beneficial for businesses** where the actual ratio of taxable purchases is lower than the fixed ratio provided by law per the type of industry.
- The rule is applicable to both SMEs and newly established companies (‘NewCos’). For this rule SMEs are defined as businesses with taxable sales of JPY 50 million or less in the base period (i.e., two fiscal years prior to the current fiscal year). **For NewCos the rules are available for the first two fiscal years**, due to the lack of a base period, and **regardless of the amount of share capital**.
- The transitional rule is only available if applied for with the competent tax office **prior to the start of the applicable fiscal year,** and it must be applied for a minimum of two years. For that reason, it is recommended to **estimate the economic benefit of the special rule** by estimating taxable and non-taxable sales for a period of two years.

E. Simplified Calculation of Consumption Tax Liability for SMEs and NewCos

2. General simplification rule by type of industry (2/2)

Simplified calculation method of annual consumption tax for QIIs and non-QIIs (2/2)

The ratios for calculating annual consumption taxes per type of industry are as follows:

Type of Industry	Deemed Amount of Taxable Purchases as a Percentage of Taxable Sales
• Wholesale business	90%
• Retail trade, agriculture, forestry, and fishing (limited to businesses related to the sale of food and beverage)	80%
• Agriculture, forestry, fishing (excluding businesses related to the sale of food and beverage), construction, manufacturing, electricity, gas, heat supply and water supply	70%
• Other types of industries not falling into the categories 1)-3) and 5) to 6), i.e. typically the restaurant industry	60%
• Transportation and communication, financial and insurance, and service industries (excluding those falling under the category of the restaurant industry)	50%
• Real estate business	40%

Source: NTA, Circular No. 6509

F

Other Topics

F. Other Topics

1. Transitional rules for services billed before 1 October 2023

Special attention required for services billed before 1 October 2023 and ending thereafter

For services billed with a **start date before 1 October 2023 and ending after this date** the following transitional rules will apply:

- For the services portion related to the period from 1 October 2023 **the re-issuance of a Qualified Invoice** is in principle required.
- The **re-issuance of a Qualified Invoice can be omitted, however,** in case the original invoice issued before 1 October 2023 is compliant with the rules for a Qualified Invoice, other than the requirement for showing the Registration Number. In case the seller will register as a QII, it will be sufficient for the buyer to receive the Registration Number from the seller and to record it in the accounting books for the relevant purchased services, instead of requiring a re-issued Qualified Invoice.
- And in case the original invoice does not comply with other requirements of a Qualified Invoice, **the seller can provide the missing information together with the Registration Number** by a letter or email, without the need to re-issue a Qualified Invoice. Thus, the buyer can receive all relevant information equivalent to the content of a Qualified Invoice for the services period from 1 October 2023.
- In case the expense has already been recorded, in the full amount at the time of the payment before 1 October 2023 **without recording a deferred expense** (the so-called 'short-term prepaid expense') the re-issuance of a Qualified Invoice is not required.

F. Other Topics

2. The new electronic invoicing standard JP-PINT

New standard for an automated exchange of invoicing data

In the run-up to the implementation of the new Qualified Invoice System a new Japanese electronic invoicing standard **called JP-PINT has been released.** The development and implementation of the JP-PINT standard has been promoted by the accounting and the software industry as well as by government agencies in Japan, such as the Digital Agency. The key features of the e-invoicing standard are the following:

- JP-PINT can be applied by sellers and buyers **on a voluntary basis**.
- This Japanese e-invoicing standard **is based on an XML data format** and is derived from the international e-invoicing model PINT which in turn is based on the European standard ‘Peppol’.
- Applying the JP-PINT standard requires the seller and the buyer to **exchange the electronic invoices via a so-called ‘Peppol Access Point’**. **Only certified service providers** can offer the services of a ‘Peppol Access Point’.
- The benefits of applying the e-invoicing methods are:
  - ➢ All electronic invoicing data **is verified by the ‘Peppol Access Point’** and thus complies with the requirements of the Qualified Invoice System.
  - ➢ The buyer need not check the e-invoices for compliance and **can rely on the formalized** exchange process.
  - ➢ **Automated processing of the transactions** in the accounting system will be possible, if automated processing is supported by the relevant accounting system.
  - ➢ The **processing of banking transactions can be automated as well** because the relevant payee bank account information is included in the e-invoice format.

F. Other Topics
3. References

NTA guidelines and Tax Newsletter of Mazars in Japan

For more information and guidelines about the **Qualified Invoice System** please refer to the following information:

- **National Tax Agency Japan:**

  - Guidance in Japanese:
  https://www.nta.go.jp/tax/shiraberu/zeimokubetsu/shohi/keigenzeiritsu/pdf/0020006-027.pdf
  - Summary guidance in English:
  https://www.nta.go.jp/english/taxes/consumption_tax/pdf/2021/simplified_15.pdf
  - Searching for QII registration status (in Japanese):
  国税庁インボイス制度適格請求書発行事業者公表サイト (nta.go.jp))

- **Mazars in Japan Tax Newsletter, October 2023:**

  - The new Qualified Invoice System effective from 1 October 2023: Requirements and Best Practice

Contacts

Mazars in Japan

Akasaka Intercity 5F, 1-11-44 Akasaka,

Minato-ku, Tokyo, 107-0052, Japan

communication@mazars.jp

Juergen Dumont
Partner, Outsourcing
juergen.dumont@mazars.jp

Noboru Yokoyama
Partner, Head of Tax
noboru.yokoyama@mazars.jp

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