

Qualified invoice issuer rules: New rules will require invoices in a foreign currency to show Japanese consumption tax amount in Japanese yen

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In brief

There are cases where taxpayers providing taxable supplies in Japan might issue invoices that show prices in a foreign currency. For example, the Japanese subsidiary of a US manufacturer may issue invoices to its Japanese customers in USD, for products that the Japanese subsidiary sells to those customers in Japan. Under current rules, a purchaser may use such a foreign currency invoice to support a Japanese Consumption Tax ('JCT') input credit in its JCT returns. The Japanese tax authorities have released an update to the official 'Q&A', however, in which they clarify that under the new Qualified Invoice Issuer ('QII') rules coming into effect from October 1, 2023, a taxpayer must show the JCT portion in a Qualified Invoice ('QI') in JPY, even if the transaction between buyer and seller is undertaken in a foreign currency. If the seller does not do so, the invoice will not be considered a proper QI. New rounding rules will also apply to QIs issued in a foreign currency.

In detail

1. QII Rules

As noted in our previous Japan Tax Update, new QII rules will come into effect in Japan from October 1, 2023.¹ Under the QII rules, a party can in principle only take an input JCT credit if that party receives a QI from a seller that is registered as both a QII and a JCT payer.

An invoice must contain certain information to qualify as a valid QI. Without such information, the purchaser will be unable to use the invoice to support an input tax credit. For example, the QI must contain the QII's QI number, the name of the seller, the amount of the goods or services purchased, the tax amount, etc.

Under currently effective JCT rules (that is, rules in effect prior to October 1, 2023), an invoice does not need to show the JCT amount in JPY, for a purchaser to use such invoice to support an input credit.

¹ PwC Japan Tax Update, 'Japanese Consumption Tax:Complexities in Light of Multiple Tax Rates and New Invoicing, Bookkeeping, and Registration Requirements'(November,2019)
<https://www.pwc.com/jp/en/taxnews/pdf/jtu-20191114-en-151.pdf>

2. New Guidance – QII Must Show JCT Amount in JPY

In April 2022, Japan's National Tax Agency ('NTA') revised the official QII Q&A, in which they sought to clarify certain questions regarding the QII rules.² One of the newly added questions involved a situation in which a seller undertook a transaction in USD.³ The seller noted that they translated the transaction proceeds to JPY in their books using the Telegraphic Transfer Middle ('TTM') rate, and they inquired how this should be reflected in a QI.

The NTA clarified in the Q&A that although the sales price of the goods and the tax amount may be shown in USD, the QI must also show the JCT amount in JPY. The seller should use the appropriate foreign exchange translation method (e.g., TTM, TTS, etc.), per regular JCT rules, to translate the JCT amount into JPY in the QI.⁴ If the seller does not show the JCT portion in JPY on the invoice, the invoice will not be considered a valid QI, and the purchaser may be unable to use the invoice to support an input credit on their JCT returns.

The requirement to show JCT amounts in JPY also affects the QI rounding rules. Under the new QI rules, the total tax amount is required to be shown as a whole number (in JPY) in the QI, after applying any rounding method chosen by the invoice issuer. It is not allowed to round tax amounts on a line-by-line basis in the QI. The NTA's Q&A gives several approaches on how to calculate and state the JPY-based total tax amount in a QI; as relevant to QIs issued in a foreign currency, one is not allowed to first round the JCT amount indicated in a foreign currency and then round again with regard to the JPY-based tax amount. The rounding of the tax amount must be made only once, at the JPY subtotal level.

On the purchaser's side, the purchaser is not bound to use the same foreign exchange conversion method used by the seller on the invoice, unless the purchaser has chosen the invoice-accumulation method. Thus, effectively, the purchaser may select a different method than that used by the seller on the invoice to calculate its annual JCT liability. For example, if the seller used TTM to translate the JCT amount in the QI to JPY, the purchaser is not bound to use the same TTM rate in calculating its own tax liability, assuming that the purchaser does not use the invoice-accumulation method to calculate its JCT liability. Rather, the purchaser can re-translate the JCT amount from USD to JPY using a translation method that the seller is eligible to use, per regular JCT rules.

Note that even if the purchaser ultimately re-translates the JCT amount into JPY using a different conversion method than that used by the seller in the invoice, the QII must in the first instance include the JCT amount in JPY (by the seller), or else the invoice will not be considered a QI.

The takeaway

This clarification by the NTA in the recent Q&A is relevant to both purchasers and sellers in Japan.

On the seller's side, it will be essential going forward for sellers to indicate the JCT portion on the QI in JPY applying an appropriate exchange rate and following applicable rounding rules, even if the seller has until this time issued invoices in a foreign currency. Sellers should ensure that their

² Shohizei no Shiire Zeigaku Kojo Seido ni Okeru Tekikaku Seikyusho Nado Hozon Hoshiki in Kansuru Q&A ('Q&A regarding Qualified Invoice System necessary for JCT Input Credits').

³ Q&A no. 56, <https://www.nta.go.jp/taxes/shiraberu/zeimokubetsu/shohi/keigenzeiritsu/pdf/qa/01-01.pdf#page=76>.

⁴ JCT Basic Circular 10-1-7.

systems are updated to allow the QI to be issued showing the tax amount in JPY and that tax amounts are rounded appropriately.

On the purchaser's side, taxpayers should be certain that the QIs they receive include the JCT portion in JPY and are rounded correctly.

Let's talk

For a deeper discussion of how this issue might affect your business, please contact:

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