

Update on new JCT platform taxation rules

June 2024

In brief

[Initially proposed in December 2023](#), new platform taxation rules will shift the reporting responsibility for Japanese consumption tax ('JCT') for inbound B2C-type electronically supplied services ('ESS') from the foreign providers of the ESS to certain platform operators, with the effective date of **1 April 2025**. The rules were formally passed into law in March 2024 by way of update to the Consumption Tax Act (the 'Act'), with additional guidance provided under the Consumption Tax Basic Circular ('the Circular').

While the update to the Act does provide the basic framework for the new reporting responsibility, some points remain to be clarified, such as the exact scope of platforms subject to the rules. It is expected that further details will be released via guidelines by the National Tax Agency ('NTA').

This newsletter provides a summary of the platform taxation rules provided under the amendments to the Act.

In detail

1. The rules as provided under amendments to the Act

The new platform taxation rules are formally provided under new Article 15-2 of the Act. A summary of the legislation is as follows.

Definition of digital 'platform'

Where ESS are provided by a foreign enterprise through a 'digital platform', and the consideration for the ESS is received through an enterprise providing such digital platform ('platform operator'), the said platform operator shall be deemed to be the party supplying the ESS, provided it is a 'specified platform operator'.

Article 15-2 provides the definition of a 'digital platform', specifically identifying the following criteria:

- The platform is constructed through computer-based information processing and is intended for use by a large number of unspecified persons
- The platform is offered through telecommunication lines to a large number of unspecified persons by displaying information related to ESS as a regular practice
- The platform is used by persons (other than the platform provider) to provide ESS through such platform

A platform operator would be subject to the new rules only if the consideration for the ESS is 'received through' such platform operator. The exact scope of this requirement is unclear and should be subject to further guidance from the NTA (e.g. what if the payment is processed by another entity in the same group as the platform operator).

Timeline for designation as a specified platform operator

A platform operator will be considered a 'specified platform operator' if the total consideration it receives for ESS provided by foreign enterprises exceeds JPY 5 billion (inclusive of the JCT amount) in a tax period. When the JPY 5 billion threshold is surpassed, the platform operator must submit a notification to the local

tax office by the due date of that platform operator's JCT return (i.e., generally two months after the period end). Notwithstanding any failure to submit the required notification, the NTA may make the designation for a platform operator who has surpassed the threshold based on their own investigation. The effective date of the designation should generally be the first date of the month that falls six months after the due date for submitting the notification (e.g., for a due date of 28 February, the effective date would be 1 September).

After the designation is made, the NTA shall promptly notify the specified platform operator of its designation and will publicly disclose the name of the specified platform operator. The specified platform operator is then required to notify the foreign enterprises providing the ESS through its platform of the fact that it is subject to platform taxation and the effective date of designation.

As a special rule for the first year of implementation, platform operators who surpassed the threshold in the period that includes 1 April 2024 (or the tax period preceding such tax period if such tax period ends on or after 1 August 2024) must submit the notification by 30 September 2024. For platform operators that have filed a notification by 30 September 2024, it is expected that the NTA will make designations and publicly disclose their details by 31 December 2024. Thereafter, the effective date of the designation for such specified platform operators shall be 1 April 2025.

The Article provides further guidance on the required procedures for changes in the specified platform operator's information, as well as for revocation of the designation.

JCT returns of specified platform operators

The specified platform operator will be required to include in its periodic JCT returns the total amount of consideration to which platform taxation applies (in addition to its own taxable transactions). A detailed breakdown of the top 50 foreign service providers, including name, address and consideration amount, is also to be attached to the tax return.

2. The further guidance as provided under the Circular

As noted above, the NTA has also released additional guidance on the platform taxation rules under the Circular, as well as more informal explanatory leaflets, including leaflets in English.

In particular, Article 5-8-8 of the Circular provides that the determination of whether a supplier of ESS shall be deemed to be a foreign enterprise should be based on objective and reasonable criteria, for example, by the location of the head office as indicated in the underlying contract to use the platform.

Article 5-8-9 of the Circular clarifies that for the purposes of determining whether the JPY 5 billion threshold is surpassed, the consideration for the platform operator's own services provided through its platform should not be included.

In a separate leaflet issued by the NTA, it was stated that if a specified platform operator is also registered as a qualified invoice issuer, then it is obligated to issue qualified invoices for the provision of ESS by foreign enterprises. ESS providers themselves, even if registered as a qualified invoice issuer, are not required to issue qualified invoices for the services deemed to be provided by specified platform operators.

The takeaway

Although the Circular has provided some additional context to the rules set out in the amended Act, some practical implications of the platform taxation rules remain unclear. It is expected that the NTA will release guidance in the form of a Q&A soon. Platform operators and foreign enterprises supplying ESS alike should continue to monitor developments in this area.

In any event, platform operators and foreign suppliers of ESS should now begin preparations to determine the potential impact of the rules and how to best comply with any obligations going forward. Particularly for platform operators, consideration should be given not only to potential tax impacts, but also required IT implementations and communication with stakeholders.

Let's talk

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

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