

# Outline of Consumption Taxation on Cross-border Supplies of Services

Tokyo Regional Taxation Bureau, April 2022

## I. Taxation scheme for “provision of electronic services”

We regard services provided via electronic and telecommunication networks (e.g., internet) such as the provision of e-books, music, and advertisements as “provision of electronic services.” When provision of electronic services is provided by a foreign business, a taxation scheme is decided depending on the service provided either being the “provision of B2B electronic services” or the “provision of B2C electronic services” as follows:

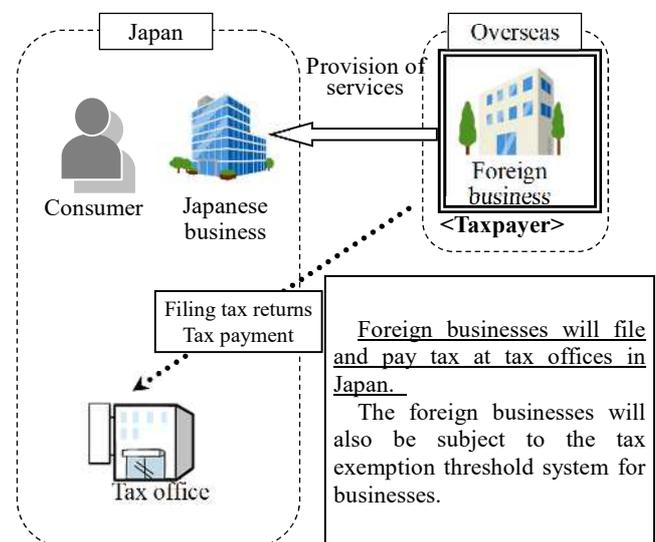
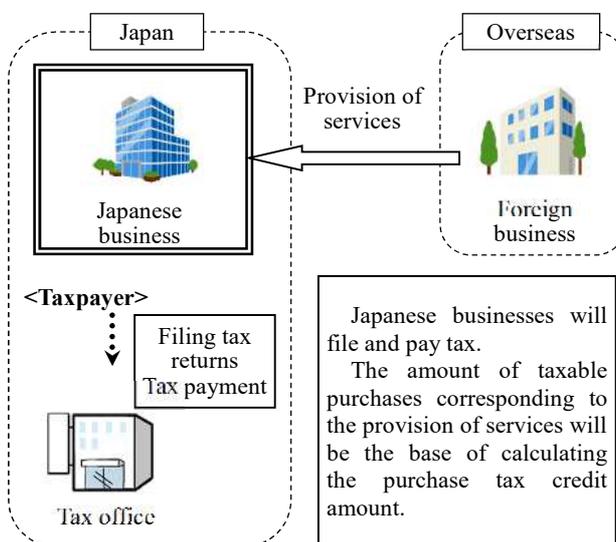
### Taxation scheme for the provision of B2B electronic services (Reverse charge mechanism)

Regarding the “provision of B2B electronic services” conducted by a foreign business, a Japanese business receiving the services provided is liable to file and pay tax in this scheme.  
(An example of transactions: advertising services).

\* Provision of services that normally are limited to businesses, considering the nature of the services, or the terms and conditions relating to the provision of the services are classified as the “provision of B2B electronic services.”

### Taxation scheme for the provision of B2C electronic services (The scheme in which foreign businesses file and pay tax)

Among “provision of electronic services” conducted by a foreign business any transactions other than the “provision of B2B electronic services” obligate foreign businesses to file and pay tax in this scheme.  
(An example of transactions: provision of e-books and music)



### Key points

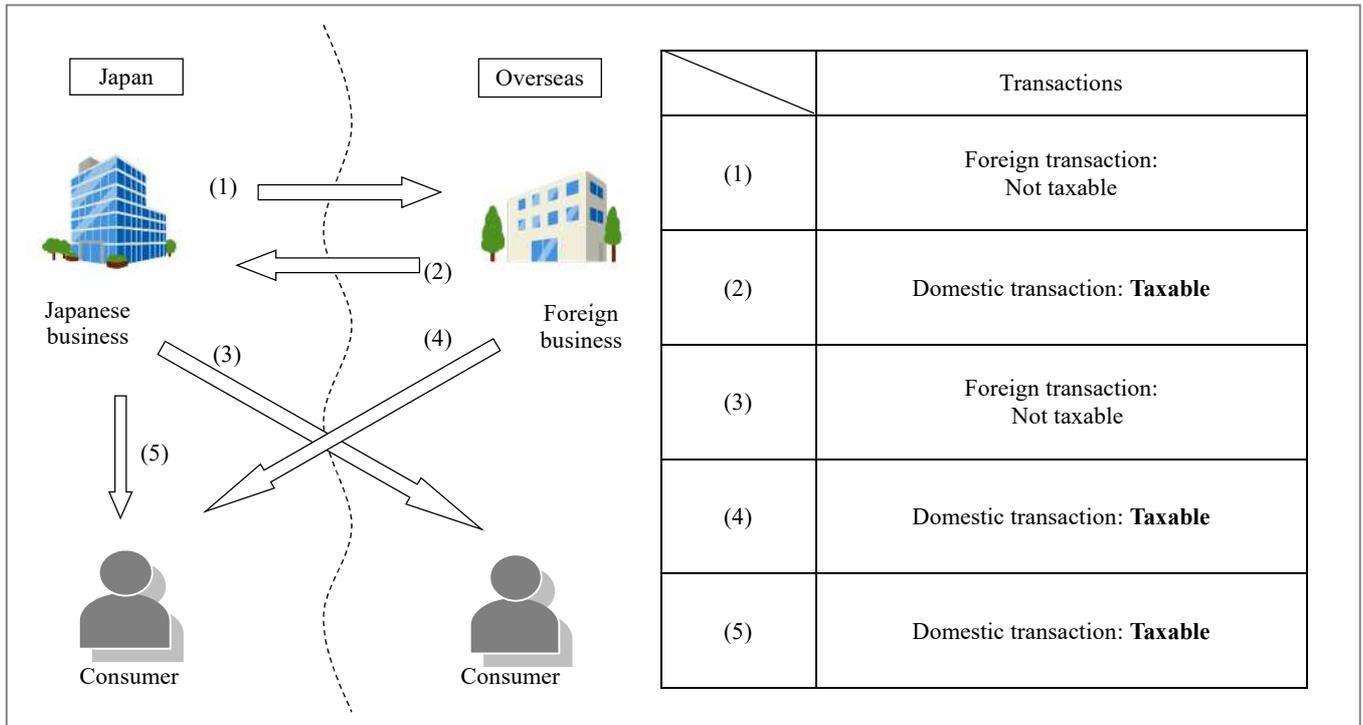
A foreign business providing B2B electronic services for a Japanese business is required to indicate beforehand that the service recipient will be liable to file and pay consumption tax (that the transaction is subject to tax filing under the reverse charge mechanism) when providing the services.

For the “provision of B2C electronic services,” the foreign business providing the services is required to file and pay tax.

## II. A criterion for determining either domestic or foreign transactions with regard to provision of electronic services

A criterion for determining whether the place of supply in a transaction is conducted in Japan, whereby consumption tax is to be imposed (criterion for determining either domestic or foreign transactions), is “address of the service recipients (address or domicile for individuals and location of a head office or a principal office for corporations).”

The taxation scheme for provision of electronic services by service providers and recipients is as follows:



### Key points

- Whether transactions are domestic or foreign is determined if the address of the electronic service recipient is in Japan.
- Whether the address is in Japan shall be determined based on objective and reasonable criteria, for instance by comparing the location of the address presented by a customer via internet with “country of issue” information in a credit card by which a customer settles payment. As such, the location of address is determined by reasonable and objective methods in accordance with the nature of each transaction.

## III. Tax return prepared by a business “providing B2C electronic services”

When a foreign business provides B2C electronic services, the foreign service provider is liable to file and pay tax.

### <Reference>

#### Exemption threshold for businesses

In principle, a business with taxable sales not exceeding 10 million yen in the base period for the taxable period is exempt from consumption tax obligation.

For example, if a foreign business provides electronic services only, its taxable sales would be the sales amount associated with B2C electronic services for provided within Japan.

The taxable sales do not include sales associated with the provision of B2B electronic services.

## IV. Notification of a Tax Representative

A sole proprietor without an address or domicile in Japan and a corporation without a head office or an office in Japan are required to appoint a Tax Representative to deal with submission of tax returns and notification documents, and tax payment.

### <Reference>

#### **Outline of “Designated Tax Representative”**

In addition to the conventional “tax representative” system, a new “**designated tax representative**” system has been established by the tax reform in 2021. Under the designated tax representative system, when a taxpayer who has not spontaneously filed a notification of a tax representative meets certain requirements such as failure to submit a notification of tax representative even after receiving requests from the jurisdictional tax authority to appoint a tax representative and submit a notification, the tax authority is entitled to designate a certain person who has a domicile or residence in Japan (“**domestic facilitator**”) as a tax representative of that taxpayer.

The provision concerning the designated tax representative becomes effective from January 1, 2022.