Basic knowledge

Explains things we would like you to know before filing your final return.

Basic knowledge
Preparation
Procedures
Completing your return
Calculation
Local consumption tax calculation
Enter the value in the return form (Page 1 and Page 2)
Other items
Filing and paying
Income tax adjustment
Rough draft return form

Those who must file final returns

Sole proprietors who at any stage fall under either of the following categories are required to file the Consumption and Local Consumption Taxes Final Return for 2023. The final return for consumption and local consumption taxes is filed in one final return form.

(1) For a registered business issuer of qualified invoice
(2) Sole proprietor which had taxable sales amounting to more than 10 million yen during the base period (2021), (see following figure) or
(3) Sole proprietor which do not fall under category (1) above but have submitted the “Report on the Selection of Taxable Proprietor Status for Consumption tax”
(4) Sole proprietor which do not fall under category (1) and (2) above and whose taxable sales for a specified period (the period from January 1, 2022 through June 30, 2022) exceeds 10 million yen. Alternatively, the criteria of 10 million yen for a specified period can be judged by using the total amount of salary and related payments instead

January 1st to December 31st, 2021 (base period) → **January 1st to December 31st, 2022** → **January 1st to December 31st, 2023 (taxable period)**

Taxable sales exceeding ¥10,000,000 → **Taxable Person**

Note

If you fall under either (1)-(4), you need to file the final return for 2023, even if the amount of taxable sales during 2023 were 10 million yen or less.
If your amount of taxable sales during 2021 were 10 million yen or less and you did not submit the "Report on the Selection of Taxable Proprietor Status for Consumption Tax” in advance and when not falling under category (1) or (4) above, you are a Tax-exempt business and are not allowed to file a final return even in the case when you made capital investment during 2023 and a tax refund is expected if you file the final return.
For details, please refer to the “Overview of consumption tax,” (in Japanese) etc. posted on the website of the National Tax Agency.

* In case you become a taxable person midway of a year after the registration as a business issuer of qualified invoice, you will be required to submit a tax return for the taxable transactions executed during the period as a taxable person (for instance, if you become a taxable person from October 1, 2023, the target period will be from October 1, 2023, to December 31, 2023).
In this case, please see the special corner for the invoice system on the website of the National Tax Agency, for the calculation method of consumption tax and how to fill in a tax return.

Important terms

Base period
Benchmark period for determining whether or not the Sole proprietors is a Taxable person or a Tax -exempt business and if the simplified tax system can be applied.
The base period for Sole proprietors is the second proceeding year before the taxable period.

Taxable period
Base of time used for calculating the amount of consumption and local consumption taxes payable.
In principle, the taxable period for Sole proprietors is from January 1st to December 31st.

Taxable sales
Sum of the amount of sales relating to transactions subject to consumption tax (excluding consumption and local consumption taxes) and the amount of Tax-exempt sales such as those relating to export transactions.
Those with returns, discounts or rebates should be deducted from the sum of these amounts (excluding consumption and local consumption taxes).
In the case of Tax-exempt business in 2021, the consumption tax is not included in the sales. In this case, the sales (except for Non-taxable sales) would be the taxable sales amount for 2021. (Do not exclude for tax)

Amount of consumption and local consumption taxes payable

Consumption Tax rate

Classification	Standard tax rate	Reduced tax rate
Consumption Tax rate	7.8%	6.24%
Local Consumption Tax rate	2.2% (22/78 of the amount of Consumption Tax)	1.76% (22/78 of the amount of Consumption Tax)
Total	10.0%	8.0%

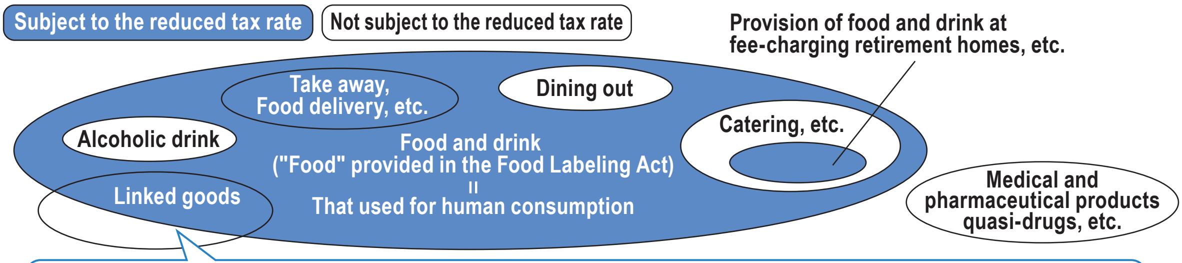
Reduced tax rate system for consumption tax

Items subject to the reduced tax rate

① Food and drink excluding alcoholic drink and dining out

② Newspapers issued more than twice a week or more (restricted to those by subscriptions)

Scope of food and drink subject to the reduced tax rate



Such assets indicate food and assets as in food being linked beforehand such as confectionaries with toys and those with price concerning linked goods only.
Only when the tax-exclusive price is 10,000 yen or less, and the price of food accounts for two thirds or more, the entire product will be subject to the reduced the tax rate(case other than the above will not be subject to the reduced tax rate).

Ordinary payable consumption taxes calculation method

Consumption taxes on taxable sales during the taxable period (①) − Consumption taxes on taxable purchases during the taxable period (②) = Payable consumption taxes

① = [Taxable sales (standard tax rate applicable)(tax included)] × $\left(\frac{7.8}{110}\right)$

+ [Taxable sales (reduced tax rate applicable)(tax included)] × $\left(\frac{6.24}{108}\right)$

② = [Taxable purchases (standard tax rate applicable)(tax included)] × $\left(\frac{7.8}{110}\right)$

+ [Taxable purchases (reduced tax rate applicable)(tax included)] × $\left(\frac{6.24}{108}\right)$

Payable local consumption taxes calculation method

Payable consumption taxes × Rate of local consumption tax $\left(\frac{22}{78}\right)$ = Payable local consumption taxes

Important terms

Taxable sales
Please refer to “What are taxable sales?” (P4 to P5).

Taxable purchases
Please refer to “What are taxable purchases?” (P5).

Calculation of payable consumption taxes

The payable consumption taxes are consumption taxes on taxable sales minus the consumption taxes on taxable purchases.
As a rule, a refund is received when the consumption taxes on taxable purchases exceeds the consumption taxes on taxable sales.

Difference between Consumption/ Local Consumption Taxes and Income Tax

Consumption and local consumption tax calculation
The payable consumption taxes must be calculated based on taxable sales and taxable purchases for the taxpayer's entire business without regard to income category. The payable amount of local consumption tax must be calculated based on the payable consumption taxes.

Income tax calculation
If a Sole proprietor earns two or more categories of income from among businesses, real estate, and forestry income, the income tax levied based on the income calculated for each category.

What are taxable sales?

Taxable sales refer to transactions that satisfy all 4 of the following conditions.

1. Effectuated in Japan
2. Effectuated by a business for business purposes
3. Effectuated for a compensation
4. Effectuated by the transfer or lease of assets or by the provision of services

Consumption and local consumption taxes are levied on taxable sales.

For example, machinery rental fees and proceeds from the sale of machinery, buildings and other business assets are also included in taxable sales in addition to such things as proceeds, from the sale of products, goods, contract work and services.

Note The following transactions are not applicable to taxable sales.

In considering the inherent nature of taxation, there are certain items that should not be taxed such as interest income, proceeds from the sale or leasing of land (including leaseholds) or proceeds from the sale of commodity vouchers (merchandise coupons, beer coupons). Also, there are certain business activities considered unsuitable for taxation from a public policy perspective such as the income of doctors derived from social insurance medical fees. These are excluded from taxable sales and labeled as "non-taxable transactions".
Also, because such things as insurance benefits and consumption tax refunds are not income received from the transfer or lease of assets or from the provision of services, they are not subject to consumption tax and labeled "untaxable transactions".

The following are examples of taxable sales in consumption tax within the income derived from business, real estate and capital gains.

Taxable portion of business income

Most business income is classified as taxable sales.
However, the revenue from social insurance medical fees earned by doctors, the revenue earned by obstetricians or midwives for deliveries and proceeds from the sale of commodity vouchers such as merchandise or beer coupons are excluded from taxation and therefore not classified as taxable sales.
Assets from inventory consumed by Sole proprietors for personal use is treated as taxable sales based on the prevailing market values for those items. However, a value that is above the purchase price and 50% or more of the prevailing market value (70% for income tax purposes) can be assigned for those items with respect to taxable sales.

Taxable portion of real estate income

Real estate income such as from property rental fees, key money, surcharges and renewal charge (excluding income from the land rent (including leaseholds) and house rent) is classified as taxable sales.
As a rule, land rent is not taxable, however, fees for rental periods of less than 1 month and parking space rental fees are taxable.
The same is true for home rental fees, which are not taxable unless the rental period is less than 1 month.
When selling buildings for rent, the receipt of the purchase price is included in "Taxable portion of capital gains," as given below, even if you incur capital losses from the sale of the buildings.

Taxable portion of capital gains

Within the revenue from capital gains, any revenue derived from the sale of buildings, machinery, vehicles or other items used in business is classified as taxable sales.
In the same, when transferring the fixed assets used in business with some burdens as an onerous gift and contributing those assets in kind to corporations, the proceeds derived from those transactions are treated as taxable sales.
For example, proceeds from the sale of a vehicle used for deliveries (including funds received from trading in a used vehicle for the purchase of a new one; in case of a trade-in, the value of the trade) are considered as taxable sales. For such cases, the moment of the taxable sale is the entire amount of the sale, not the amount resulting from subtracting acquisition and transfer fees from the sale value.
However, proceeds from the sale of land (including leaseholds) are excluded from taxation and therefore not classified as taxable sales.

What are taxable purchases？

This refers to the transfer or lease of assets from another party to a business or to the services received by that business for business purposes. For example, taxable purchases include not only the procurement of products and goods for inventory but also the purchase of buildings, machinery or consumables for business purposes, repair expenses and fuel costs for delivery vehicles.
However, interest and discount fees, insurance premiums and the purchase or lease of land are non-taxable transactions and therefore not classified as taxable purchases. The payment of salaries and wages not subject to tax is also excluded from taxable purchases.
Purchasing goods for inventory and receiving services from consumers or operators of businesses not subject to consumption tax are also considered taxable purchases.
When purchasing depreciable assets, the entire amount expended is taxable for the year of purchase (for income tax purposes, only the amount of the depreciation allowance for the applicable year is a necessary expense).

Note

Payments of salaries and wages, including those paid to family employees, are not treated as taxable purchases, but employee travel allowance (the amount usually required for commuting) are taxable purchases.

What are non-taxable transactions?

The following are classified as non-taxable transactions.

Transactions not considered taxable

○ The transfer or lease of land
○ The transfer of securities or instruments of payment
○ Providing services remunerated in the form of interest on savings or bank deposits or in the form of insurance premiums
○ The transfer of postage stamps, revenue stamps, certificate stamps as well as merchandise coupons
○ Providing services involving specified work done by governmental entities or involving international postal money orders

Transactions based on social policy considerations

○ Social insurance medical fees
○ Providing services covered by nursing care insurance or the transfer of assets as part of social welfare services
○ Transfers of asset or provision of services related to midwifery
○ Providing services remunerated by burial or cremation fees
○ The sale or lease of articles used by the disabled
○ School tuitions
○ The transfer of educational books
○ The leasing of dwellings

What a tax exemption for exports, etc？

The following are classified as tax exemption for exports, etc.

① Sales or leasing of assets effected as exports from Japan.
② Sales and leasing to nonresidents of mining rights, copyrights etc.
③ The provision of services to nonresidents, except for
(a)Transportation of assets situated in Japan;
(b)Services related to food drinking in Japan;
④ Transfer of Tax-exempt assets at a tax-free shop.

On Page 46, criteria table for consumption tax application is shown, whereby each transaction could be basically judged whether it is taxable or not for consumption tax. Please use it in your operations.

Descriptions and storage of account books, invoices, etc. (from October 1, 2019 to September 30, 2023)

Business entities that make sales and purchases (expenses) of items subject to the reduced tax rate are required to add separate descriptions by tax rate to ones currently required when issuing invoices, etc. (separate accounting invoice) and making entries and other accounting treatments (separate accounting).
Taxable Person are required to store account books in compliance with classified accounting and invoices, etc. with classified descriptions in order to become eligible to tax credit for consumption tax on purchases (Separate accounting invoice-based method(Simplified System)).

Ledgers	Invoice, etc.
① Name of the taxable purchase supplier ② Date, month and year ③ Transaction description (Indicating that the reduced tax rate items subject) ④ Price	① Name of the taxable purchase supplier ② Date, month and year ③ Transaction description (Indicating that the reduced tax rate items subject) ④ The tax-Included total amounts of items by tax rate ⑤ Name of the invoice recipient* *Business entities that trade with a large number of unspecified people, such as retail and restaurant business, may omit the descriptions of ⑤ in invoice that they issue.

(Note 1) The storage of account books with necessary descriptions alone can meet the requirements for tax credit for consumption tax on purchases if there are unavoidable reasons for not receiving invoices in transactions, such as small-amount transactions of less than 30,000 yen and purchases from automatic vending machines.
(Note 2) When invoice that are issued by suppliers have no descriptions that read " Items subject to the reduced tax rate " (of ③) or "④ The tax-included total amounts of items by tax rate," the business entities that received such invoice themselves may add descriptions concerning those matters alone, based on the fact of the relevant transaction.

Examples described of ledgers and invoices

請　求　書

㈱○○御中

XX年11月2日

（XX年11月２日取引分）

割り箸		550円
牛肉	※	5,400円
⋮		
合計		43,600円
	（ 10%対象	22,000円 ）
	（ 8%対象	21,600円 ）

※は軽減税率対象品目

㈱△△

総勘定元帳　（仕入れ）　㈱○○

XX年 月	日	摘要	借方	貸方
11	2	㈱△△　雑貨	22,000	
11	2	㈱△△　食料品 ※	21,600	
⋮	⋮	⋮	⋮	⋮

※は軽減税率対象品目

The tax-included amounts by tax rate

The tax-included amounts must be described after tallying items by tax rate (10% and 8%).

Indicating that the reduced tax rate items subject

- Marks, such as ※ and ☆, shall be described on items subject to the reduced tax rate.
- It is required to demonstrate clearly that the marks indicate items subject to the reduced tax rate.

[Invoice]
In addition to the above, there are, for instance, the following methods.
- Classify goods by tax rate and indicate that the classified goods are subject to the reduced tax rate in the same invoice.
- Issue separate invoices for goods by tax rate.

[Ledgers]
Set up a column for tax rate classification and describe "8%" or the tax rate code. These methods are acceptable too.

On October 1, 2023 onward, the qualified invoice-based method (the invoice system) became effective as a method to receive tax credit for consumption tax on purchases corresponding to multiple tax rates. Please refer to page 7 for details.

Special exception for calculating the sales tax amount for small and medium business entities

Difficult to small and medium business entities is possible to separate the sales by the tax rate, of the taxable period, in institutions from October 1, 2019 to September 30, 2023, a certain percentage of sales as a target sales of the reduced tax rate you can calculate the sales tax.
* Small and medium business entities are business entities whose taxable sales amount during a base period does not exceed 50 million yen.
* “Difficulties” in special circumstances represent cases in which tax rate-specific management failed regarding sales during the taxable period to which special treatment applies, where the level of difficulties remains unchanged.

① Special method of the reduced tax rate purchase ratio of retail, etc.

Small and medium business entities engaged in wholesale or retail industry can manage the taxation purchase for each tax rate multiplied by the proportion of taxable purchases required only to a sale is subject to the reduced tax rate as a percentage of taxable sales related to the business, to calculate the revenue to be reduced tax rate system, you can calculate the sales tax.

② Special method of the reduced tax rate sales ratio

By multiplying the percentage of the taxable sales are subject to the reduced rate of the tax same period as a percentage of taxable sales of 10 normal consecutive business days in taxable sales, to calculate the taxable sales that is the subject of the reduced tax rate, you can calculate the sales tax.
* 10 normal consecutive business days can be any given 10 consecutive business days when you conduct ordinary business within a period that you intend to adopt the relevant special exception.

③ Cases with difficulty in calculating the above ratio

Small and medium business entities that have difficulty in calculating the reduced sales rate and mainly transfer assets subject to the reduction may use a rate of 50/100.
* Business entities that mainly transfer assets subject to the reduction means business entities whose taxable sales subject to the reduced tax rate account is nearly 50% or more of taxable sales during the applicable period.

Taxable sales (tax included) subject to the reduced tax rate by calculation under the special exception.

Taxable sales (tax included)	×	①The reduced tax rate purchase ratio of retail, etc. ②The reduced tax rate sales ratio or ③50% (Cases with difficulty in calculating of ① or ②)	＝	Taxable sales are subject to the reduced tax rate(tax included)