

Reverse charge mechanism

Among taxable purchases made domestically, "Provision of B2B electronic services" and "Provision of specified services" rendered by foreign businesses, are called "Specified taxable purchases," and the "specified taxable purchases" are subject to filing tax returns under a reverse charge mechanism.

Businesses whose taxable sales rate is less than 95% are required to file tax returns through the reverse charge mechanism in the case of filing tax returns under the standard taxation during a taxable period that "specified taxable purchases" take place in.

- *1. Even for businesses that file tax returns under the standard taxation, it will be deemed for the time being that specified taxable purchases were not made in a taxable period in which the taxable sales rate is 95% or more or in which the simplified tax system is adopted. Since tax-exempt businesses are also exempt from the obligation to pay consumption tax on specified taxable purchases, it is not required to file tax returns through the reverse charge mechanism.
- *2. Both "Provision of B2B electronic services" and "Provision of specified services," rendered by foreign businesses, which are tax-exempt, fall under "specified taxable purchases."

What are provision of electronic services?

"Provision of electronic services" means the provision of services via electronic and telecommunication networks (e.g. the internet), such as distribution of e-books, music and advertisements.

Since the criterion for determining whether the provision of services is a domestic transaction that is subject to consumption taxation (criterion for determining either domestic or foreign transactions) is the "address, etc. of the service recipients," the "provision of electronic services" is subject to taxation in principle regardless of being provided domestically or from overseas if such services are provided to those who have a domestic address, etc.

In respect of the "Provision of B2B electronic services" by foreign businesses, domestic businesses that receive the relevant services are required to file tax returns and pay the tax (the reverse charge mechanism).

What are provision of specific services?

The "Provision of specified services" means the provision of services of entertainment, sports, etc. that foreign businesses conduct domestically and that the relevant foreign businesses offer to other businesses.

In respect of the "Provision of specified services," businesses that receive the relevant services are required to file tax returns and pay the tax (the reverse charge mechanism).

For details, please access the website of the National Tax Agency (<https://www.nta.go.jp>) to see various brochures, Q&A, etc. that post "About the tax implication of consumption tax related to the cross-border provision of services." If you wish to know how to fill in a return form for the reverse charge mechanism, please see "Procedures for preparing a return (where there are specified taxable purchases)" in "Guide to Prepare Consumption and Local Consumption Taxes Return Form (General Form)" for corporations.

Restriction, etc. on purchase tax credit pertaining to acquisition of residential rental building

Restriction on purchase tax credit pertaining to acquisition of residential rental building

The amount of tax on taxable purchase, etc. for residential rental building performed by a business in Japan is not to be subject to purchase tax credit (hereinafter referred to as "restriction on purchase tax credit pertaining to acquisition of residential rental building").

This provision is applied to the amount of tax on taxable purchase, etc. of residential rental building performed on or after October 1, 2020. However, it is not applied to taxable purchase, etc. of residential rental building performed on or after October 1, 2020 based on the contract which was executed by March 31, 2020.

"Residential rental building"

"Residential rental building" means a building other than buildings which are obviously not used for lease of residential houses, which falls under high-value specified assets*1 or self-constructed high-value assets subject to adjustment*2. Buildings which are obviously not used for lease of residential houses mean that it is objectively apparent that those buildings are not used for lease of residential houses from the conditions of the structure, facilities, etc. of the building. For example, buildings which are obviously not used for lease of residential houses judging from the conditions of facilities, etc. of the building, such as a building of which all portions are used as a store, fall under.

- *1. High-value specified assets mean inventory assets or fixed assets subject to adjustment of which amount of payment consideration for taxable purchase, etc. (excluding tax) is 10 million yen or more for one transaction unit.
- *2. Self-constructed high-value assets subject to adjustment mean such inventory assets that construction, etc. have been performed by a business operator based on the contract with another person or as inventory assets of the business, and the accumulation of the amount, etc. equivalent to 100/110 of the amount of payment consideration for taxable purchase required for such construction, etc. has reached 10 million yen or more.

Adjustment of the amount of consumption tax for acquisition of residential rental building

In cases where "residential rental building" to which "restriction on purchase tax credit pertaining to acquisition of residential rental building" has been applied is used for taxable rent (use for lease other than lease of a residential house deemed non-taxable) within a certain period thereafter, or where it is transferred to another person within a certain period, the amount of purchase tax credit was determined to be adjusted (see P24).

For details, please read the leaflet, "Information on the Revision of the Consumption Tax Act (April 2020)" (in Japanese) posted on the website of the National Tax Agency (<https://www.nta.go.jp>).