

Reverse charge mechanism

When a foreign business provides “provision of business-to-business(B2B) electronic services” and “provision of specific services”, a Japanese business receiving said services from the foreign business is liable to file returns and pay taxes. (so called a “Reverse charge mechanism”)

Tax filing using the Reverse charge mechanism

“Provision of B2B electronic services” and “provision of specific services” by foreign businesses in Japan is regarded as “specific taxable purchase,” which should be subject to tax filing using the Reverse charge mechanism.

1. Business required to file tax returns using the Reverse charge mechanism

A business to meet all the following three conditions is required to use the mechanism: (1) it has received “provision of B2B electronic services” “provision of specific services” for the taxable period for filing; (2) it files its tax return for the taxable period within the general tax system; and (3) its taxable sales ratio is less than 95%.

2. Filing method, etc. using the Reverse charge mechanism

The amount of tax base, etc. for tax filing using the Reverse charge mechanism are stated as below.

(1) The amount of tax base for the taxable period

The total of: the amount of transfer value of taxable assets, etc. transferred by the Japanese business itself; and the amount of payment value of specific taxable purchases. This total amount shall be the tax base amount for the taxable period. (Round down the amount to the nearest ¥1,000.)

(2) The amount of consumption tax subject to deductible tax on purchase

The total of: the amount of payment value of taxable purchases excluding specific taxable purchases multiplied by 6.3/108; and the amount of specific taxable purchases multiplied by 6.3/100. This total amount shall be the amount of consumption tax subject to deductible tax on purchases.

Note

To businesses with the taxable sales ratio of 95% or more and businesses subject to the simplified taxation system, a transitional measure will be applied for the time being, i.e. the consumption tax law will be applied to such businesses, as if they did not receive “provision of B2B electronic services”. When filing consumption tax returns, therefore, they are not included in the tax base or taxable purchases. The relevant businesses are not required to file returns using the Reverse charge mechanism, either.

<How to prepare a tax return form for the business with specific taxable purchases>

The following explains how to prepare a return form for a business with the taxable sales ratio under 95% and posting specific taxable purchases, using the following example. (We will use the return form, the Appended Table [Breakdown statement of tax base amount, etc. of business posting specific taxable purchases], and the Schedule 2.)

I. To classify sales amount to taxable sales amount, etc.

Sales for the taxable period (from January 1 to December 31, 2017) should be classified into taxable sales, Tax-exempt sales and Non-taxable sales and the amount should be added up by each category of sales.

In the case where any specific taxable purchases are posted, the tax base amount equals to the total amount of payment value for specific taxable purchases. Taxable purchases, therefore, should be classified into specific taxable purchases and other purchases and the amount should be totaled by each purchase category.

Example: Otsuno Store

The following is the results of Otsuno Store for 2017. There is no transaction to which the old tax rate (3% or 4%) should be applied.

1. Sales for the taxable period	(unit: ¥)
(1) Taxable sales (tax included)	54,000,000
(2) Non-taxable sales	24,000,000
2. Taxable purchases for the taxable period (tax included)	32,400,000
(Breakdown) Amount required only for taxable sales	21,600,000
Amount required only for Non-taxable sales	7,560,000
Amount required for both taxable and Non-taxable sales	3,240,000
3. Specific taxable purchases for the taxable period	800,000
(Breakdown) Amount required for both taxable and Non-taxable sales	800,000

In Column B of Table for calculating taxable transaction amount (Table a), the amount including payment value for specific taxable purchases should be entered. The amount of specific taxable purchases in Column B is transferred to Column ③ of Appended Table of the return form and to Column ⑩ of Schedule 2.

What are provision of electronic services?

“Provision of electronic services” means services via electronic and telecommunication networks (e.g. internet) such as the provision of e-books, music and advertisement.

“Provision of B2B electronic services” means 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.

What are provision of specific services?

“Provision of specific services” means, among such services provided by foreign businesses to other businesses in Japan as theatrical plays, those the foreign businesses provide.

課税取引金額計算表 (計算書別添)

取引内容	A		B	
	金額	税率	金額	税率
課税取引				
非課税取引				
特定課税取引				
合計				

※ 特定課税取引とは、外国事業者から提供を受ける電子サービス及び特定サービスに該当する取引を指します。

II. How to prepare the return form

1. Calculate Column ① in the return form

Prepare Appended Table first, as Column ① of the return form is transferred from Column ① of Appended Table.

◇ Preparation of Appended Table of the return form

(1) Column② of Appended Table

Enter the taxable sales amount (tax included) multiplied by 100/108.

$$¥54,000,000 \text{ (taxable sales amount (tax included))} \times 100/108 = ¥50,000,000$$

(2) Column③ of Appended Table

Enter the amount of payment value for specific taxable purchases.

In the Example, the amount is ¥800,000.

(3) Column① of Appended Table

Add up the amount in (1) and (2) above and enter the total value rounding down to the nearest ¥1,000.

$$¥50,000,000 + ¥800,000 = ¥50,800,000$$

(Note) If applying an accounting method that directly deducts any returns, discounts or any other charges relating to sales from the amount of sales, the amount after deduction should be the base for calculation.

(4) Column "Breakdown of ② and ③" of Appended Table

Enter the amount of the transfer value of taxable assets, etc., the amount of the payment value of specific taxable purchases and their total amount in the respective column for each applicable rate of either "3%," "4%" or "6.3%."

Completing the Appended Table, transfer column ① of Appended Table to column ① of the return form and continue calculating the other columns of the tax return.

2. Calculate Column② in the return form

The tax base amount calculated in the above 1. should be multiplied by 6.3% to find the consumption tax amount.

$$¥50,800,000 \text{ (tax base)} \times 6.3\% = ¥3,200,400$$

3. Enter③ the amount of tax adjustment for excess deduction,④ the amount of deductible tax on purchases,⑮ the amount of the transfer value of taxable assets, etc. and ⑯the amount of the transfer value of assets, etc., of the return form

As each of the above columns is transferred from Schedule 2, prepare Schedule 2 in this step.

◇ Preparation of Schedule 2

(1) Column① of Schedule 2

Taxable sales (tax included)

$$¥54,000,000 \times 100/108 = ¥50,000,000$$

(Note) If applying an accounting method that directly deducts any returns, discounts or any other charges relating to sales from the amount of sales, the amount in ① shall be calculated, multiplying the amount after deduction by 100/108.

(2) Column⑥ of Schedule 2

Enter the amount to be included in the denominator of the formula for the taxable sales ratio calculation out of the amount of the transfer value of Non-taxable assets, etc. in Column ⑥.

In the Example, enter the Non-taxable sales amount, ¥24,000,000.

(Note) Attention should be paid when determining the amount to be included in the denominator of the taxable sales ratio, because there are cases some adjustments are necessary, e.g. the amount should be equivalent to 5% of the transfer value, in such cases as in transfer of specific securities (e.g. stocks) and transfer of loans, deposits, accounts payable and other monetary claims (excluding those obtained as the consideration from a transfer of assets).

(3) Column "Taxable sales ratio ④/⑦" of Schedule 2

$$= \frac{¥50,000,000 \text{ (taxable sales (tax excluded))}}{¥50,000,000 \text{ (taxable sales (tax excluded))} + ¥24,000,000 \text{ (Non-taxable sales)}}$$

$$= \frac{¥50,000,000 \text{ (column ④)}}{¥74,000,000 \text{ (column ⑦)}} = 67.567\dots\% < 95\% \quad \left(\begin{array}{l} * \text{ As the taxable sales ratio is under 95\%,} \\ \text{specific taxable purchases should be filed.} \end{array} \right)$$

(Note) Fractions of taxable sales ratio are, in principle, not processed, but are allowed to be rounded down at any decimal point.

Basic knowledge

Preparation

Procedures

Completing your return

Calculation

Local consumption
tax calculation

Other items

Filing using
Reverse charge
mechanism

Filing and paying

Income tax adjustment

Rough draft return form

(4) Column^⑧ of Schedule 2

Enter the amount of the payment value of taxable purchases for the taxable period after deducting such amount as the returned amount of the payment value of taxable purchases, etc. If the deductible amount is in excess, please contact the Tax office.

In the Example, the taxable purchase amount, ¥32,400,000, should be entered.

(Note) If applying an accounting method that directly deducts any returned amount of the payment value of taxable purchases, etc. from the amount of the payment value of purchases, the amount after deduction (tax included) should be entered.

(5) Column^⑨ of Schedule 2

The amount of taxable purchases (tax included)

¥32,400,000 (column ^⑧) × 6.3/108 = ¥1,890,000

(6) Column^⑩ of Schedule 2

Enter the amount of the payment value of specific taxable purchases for the taxable period after deducting such amount as the refunds etc. amount of the payment value of specific taxable purchase. If the deductible amount is in excess, please contact the Tax office.

In the Example, the specific taxable purchase amount, ¥800,000, should be entered.

(Note) If applying an accounting method that directly deducts any returned amount of the payment value of specific taxable purchases, etc. from the amount of the payment value of purchases, the amount after deduction should be entered.

(7) Column^⑪ of Schedule 2

The amount of specific taxable purchases

¥800,000 (column ^⑩) × 6.3/100 = ¥50,400

(8) Columns^⑫ to ^⑲ of Schedule 2

In the Example, as itemized method is selected, columns^⑫ to ^⑲ should be entered.

a. Column^⑫ of Schedule 2

Taxable purchases necessary only for taxable sales

¥21,600,000 × 6.3/108 = ¥1,260,000

b. Column^⑬ of Schedule 2

Taxable purchases necessary for both taxable and Non-taxable sales

¥3,240,000 × 6.3/108 = ¥189,000

Specific taxable purchase necessary for both taxable and Non-taxable sales

¥800,000 × 6.3/100 = ¥50,400

¥189,000 + ¥50,400 = ¥239,400

c. Column^⑭ of Schedule 2

¥1,260,000 + (¥239,400 × ¥50,000,000 (column ^④) / ¥74,000,000 (column ^⑦)) = ¥1,421,756

(9) Column^⑳ of Schedule 2

Calculate the amount of deductible tax on purchases, according to the shown formula.

(Note) If the calculation using the formula in Column^⑳ produces a negative figure, the whole amount should be entered in Column^㉑.

4. Column^⑨ or Column^⑧ of the return form, Column^⑪ or Column^⑫ of the return form

Enter referring to steps 21 to 24 in page 14 and 15.

5. Calculation of the amount of local consumption tax (Columns^⑰ to ^⑳ of the return form)

Enter referring to steps 26 to 31 in page 16 and 17.

6. Other items

Enter referring to other items in page 18.

Circle "Submission of Appended Table for specific taxable purchases" in "reference items."