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TAX UPDATE

BILLS TO POSTPONE CONSUMPTION TAX RATE INCREASE - PASSED

On 18 November 2016, the bills to postpone the consumption tax rate increase were passed by the Japanese Diet.

The bills were submitted to the extraordinary session of the Diet on 26 September 2016 as a consequence of an announcement by Prime Minister Shinzo Abe on 1 June 2016 that the consumption tax rate increase from 8 percent to 10 percent should be postponed by two and a half years to 1 October 2019.

The consumption tax rate was originally planned to increase from 5 percent to 8 percent on 1 April 2014 and from 8 percent to 10 percent on 1 October 2015. Although the increase from 5 percent to 8 percent was implemented as originally planned, the increase from 8 percent to 10 percent has been postponed for 4 years in total, as it had already been postponed by one and a half years before the second postponement under the above-mentioned bills.

We have set out below a brief summary of the main points of the bills.

I. Consumption Tax

1. Timing of the Consumption Tax Rate Increase and Other Related Measures

The timing of the consumption tax rate increase and other related measures was postponed by two and a half years as follows:

	Before amendment	After amendment
Consumption tax rate increase from 8% to 10%	1 April 2017	1 October 2019
Introduction of a multiple tax rate system (The reduced tax rate of 8% will be applied to sales of food/beverages and certain newspapers under subscription contracts)	1 April 2017	1 October 2019
Introduction of an invoicing system	1 April 2021	1 October 2023

2. Tax-Inclusive Price Labeling Rule

The tax-inclusive price labeling rule (requirements imposed on taxable persons to display tax-inclusive prices to unspecified and various persons) had been suspended from 1 October 2013 to 30 September 2018 under certain conditions, considering the administrative burden of suppliers (e.g. changing price tags twice). The end of such suspension period has now been extended by two and a half years to 31 March 2021.

3. Special Measures to Calculate Taxable Supplies/Purchases

Considering small and medium-sized taxpayers who have difficulty in identifying taxable supplies/purchases by tax rate before the introduction of an invoicing system, special measures have been set up to allow them to use simplified calculation methods. The applicable periods for such special measures have also been postponed by two and a half years.

Although special measures similar to the above have also been prepared for large taxpayers considering cases where it takes time to make appropriate changes to their operating systems, such measures were abolished since there should be sufficient time to change such operating systems due to the postponement of the introduction of a multiple tax rate system.

4. Special Measures for Taxable Purchases from Non-Registered Suppliers

After the introduction of an invoicing system, it is necessary to preserve tax-qualified invoices issued by registered suppliers in order to take tax credits in principle. However, taxable purchases made from non-registered suppliers for the following applicable periods will be partially creditable provided that accounting records and (non-tax qualified) invoices including certain items are preserved. The applicable periods for such special measures were also postponed by two and a half years.

Applicable periods		Amount subject to tax credits
Before amendment	After amendment	
from 1 April 2021 to 31 March 2024	from 1 October 2023 to 30 September 2026	80% of consumption tax equivalent on taxable purchases
from 1 April 2024 to 31 March 2027	from 1 October 2026 to 30 September 2029	50% of consumption tax equivalent on taxable purchases

II. Local Taxation for Companies

As local taxation for companies was scheduled to be amended when the consumption tax rate is increased, the timing of the amendments was postponed by two and a half years as follows:

	Before amendment	After amendment
Abolishment of special local corporation tax and Increase in business tax rates	Fiscal years beginning on or after 1 April 2017	Fiscal years beginning on or after 1 October 2019
Increase in local corporation tax rate and Decrease in prefectural and municipal tax rates	Fiscal years beginning on or after 1 April 2017	Fiscal years beginning on or after 1 October 2019

As the above amendments are to change the proportions between two kinds of tax (i.e. special local corporation tax vs. business tax, local corporation tax vs. prefectural and municipal tax), they should cause little impact on the total tax burden of corporate taxpayers.

The effective tax rates indicated below take into account the tax deductibility of special local corporation tax and business tax payments, and are calculated using the standard tax rates applied to a company whose stated capital is over JPY100 million. As can be seen, although the details of the calculations are different, there is no discrepancy in the effective tax rates.

《Before amendment》

	Fiscal years beginning in the periods indicated below		
	from 1 April 2016 to 31 March 2017	from 1 April 2017 to 31 March 2018	On or after 1 April 2018
Corporation tax	23.4%	23.4%	23.2%
Business tax	0.7%	3.6%	3.6%
Special local corporation tax	2.899% (0.7% x 414.2%)	-	-
Prefectural and municipal tax	3.019% (23.4% x 12.9%)	1.638% (23.4% x 7.0%)	1.624% (23.2% x 7.0%)
Local corporation tax	1.030% (23.4% x 4.4%)	2.410% (23.4% x 10.3%)	2.390% (23.2% x 10.3%)
Total	31.048%	31.048%	30.814%
Effective tax rate	29.97%	29.97%	29.74%

《After amendment》

	Fiscal years beginning in the periods indicated below		
	from 1 April 2016 to 31 March 2018	from 1 April 2018 to 30 September 2019	on or after 1 October 2019
Corporation tax	23.4%	23.2%	23.2%
Business tax	0.7%	0.7%	3.6%
Special local corporation tax	2.899% (0.7% x 414.2%)	2.899% (0.7% x 414.2%)	-
Prefectural and municipal tax	3.019% (23.4% x 12.9%)	2.993% (23.2% x 12.9%)	1.624% (23.2% x 7.0%)
Local corporation tax	1.030% (23.4% x 4.4%)	1.021% (23.2% x 4.4%)	2.390% (23.2% x 10.3%)
Total	31.048%	30.813%	30.814%
Effective tax rate	29.97%	29.74%	29.74%

Note that business tax rates and prefectural and municipal tax rates actually applied to companies will be determined by the local governments.

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