

Japan tax alert

Ernst & Young Tax Co.



Japanese government affirms scheduled initial increase in consumption tax rate

Overview of phased-in increases to consumption tax rate

The consumption tax rate will increase to 8% (including local consumption tax of 1.7%) effective 1 April 2014, in accordance with previously enacted legislation. A further increase to 10% (including local consumption tax of 2.2%) effective 1 October 2015 is also enacted.

Rate to increase to 8% as initially planned

On 1 October 2013, Prime Minister Shinzo Abe announced that the consumption tax rate will increase to 8% as of 1 April 2014, from the current rate of 5%.

The revised Consumption Tax Law (enacted on 22 August 2012) includes a general provision for this first phase of rate increase, but also includes an “economic resiliency” clause which serves as a mechanism whereby the increase can be canceled if deemed necessary based on prevailing economic conditions. In making this determination, the overall economic situation is to be considered, with reference to key indicators such as nominal GDP, real GDP, and price trends.

Mr. Abe’s announcement has confirmed that this economic resiliency clause will not be invoked to cancel the first phase of rate increase, and as a result the consumption tax rate will become 8% effective 1 April 2014 as initially planned.

Planned further rate increase to 10%

Similarly, the enacted second phase of consumption tax rate increase to 10% as of 1 October 2015 is accompanied by this economic resiliency clause, such that another determination of the overall economic situation will be made prior to its implementation.



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Transitional measures regarding the rate increase to 8%

A number of transitional measures provide for continued application of the current 5% rate following the effective date of the general rate increase, in certain situations. The main impacted transactions are outlined below. There are also other important transition measures to be considered. We recommend that you contact your EY advisor for details.

1. Transactions with 1 October 2013 as key testing date

A) Construction contracts

The taxable sales on or after 1 April 2014 pursuant to a construction contract, etc. concluded prior to 1 October 2013.

B) Property leases

Lease payments made on or after 1 April 2014 pursuant to a lease agreement concluded prior to 1 October 2013 the term of which begins prior to and extends beyond 1 April 2014.

C) Books, etc. subscriptions

The sale of books, etc. on or after 1 April 2014 pursuant to a subscription agreement concluded prior to 1 October 2013 for provision thereof at a fixed frequency to members of the general public, and for which payment was made before 1 April 2014.

D) Mail order and online sales

The sale of products on or after 1 April 2014 via mail order or online platforms, for which the vendor had advertised (or completed preparations to advertise) sales terms including the price prior to 1 October 2013, the order was received prior to 1 April 2014, and the sale is made in accordance with those advertised terms.

2. Transactions with 1 April 2014 as key testing date

A) Travel fares and admission fees

The transport of passengers, or admission of customers to movies, theatres, horse races, bicycle races, art galleries, amusement parks, or similar entertainment venues, on or after 1 April 2014, for which fees were paid prior to 1 April 2014.

B) Utility charges

Charges relating to the continuous provision of electricity, gas, water, or telecommunications pursuant to an agreement with a term beginning prior to and extending beyond 1 April 2014, for which the right to receive payment is established between 1 April and 30 April 2014.

C) Newspapers and magazine sales

The sale of certain newspapers or magazines on or after 1 April 2014, for which the specific release dates were prior to 1 April 2014, and for which delivery to the general public occurs at a fixed frequency such as weekly or monthly.

D) Long-term installment sales

Installment payments with a due date on or after 1 April 2014 pursuant to sales which occurred prior to 1 April 2014.

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