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Japan Inbound Tax & Legal Newsletter

Introduction of multiple consumption tax rates – Special considerations for food and beverage retailers

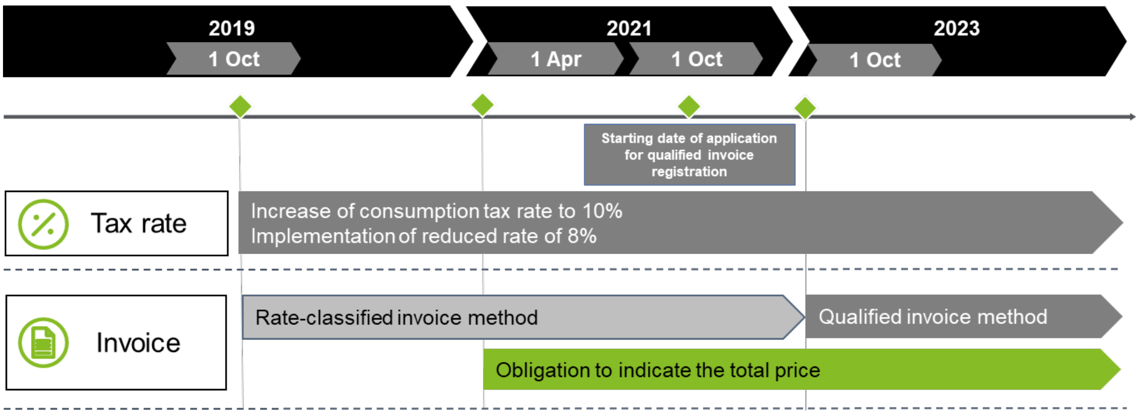
February 2019, No. 36

In Brief

On 1 October 2019, Japan will introduce a multiple rate system for Japanese consumption tax (JCT) when the standard JCT rate will increase from the current 8% to 10%. Under the new rate structure, an 8% rate (i.e. the reduced rate) will continue to apply to the sale of food and beverages, as well as print newspaper subscriptions. In addition, a rate-classified invoice system[1] will be implemented for the period 1 October 2019 to 30 September 2023 as a transitional measure until a qualified invoice system[2] comes into operation on 1 October 2023. This article outlines some key considerations that may impact businesses operating in Japan, with a special focus on retailers of food and beverages.

1. Timeline

The timeline for implementation of the multi-rate JCT structure and qualified invoice system is shown below.



2. Key considerations

With less than eight months to go before the launch of the multi-rate structure, retailers already should have been updating systems and making other preparations based on the lessons learned from the previous rate increase from 5% to 8% in 2014. However, this time a more careful and comprehensive approach likely will be required, taking into account the following:

(1) Price setting and display for food/beverage products

Currently, enterprises are not required to show the JCT-inclusive price of items provided it is clearly stated that the price displayed does not include JCT. With the introduction of the multi-rate system on 1 October 2019, price setting and display will become a significant issue for food and beverage retailers, as take-away orders of food/beverage products will be eligible for the lower rate of 8%, while eat-in orders at restaurants will be taxed at the standard 10% JCT rate.

1.A rate-classified invoice must differentiate between 8% and 10% items and state the total consideration for each rate, in addition to the information currently required. Sellers are not obliged to issue such an invoice.
2.In addition to the items required on a rate-classified invoice, a qualified invoice also must state the JCT amount for each rate and the registration number of the qualified issuer. Sellers are required to issue qualified invoices to buyers.

Enterprises offering both take-away and eat-in food/beverage items generally may set prices themselves and therefore, under certain conditions, may set a higher JCT-exclusive price for take-away items than for eat-in items, with the result that JCT-inclusive prices for both are equal.

(2) Store operations for food/beverage retailers

Stores selling both take-away and eat-in items will be responsible for developing procedures to determine the applicable rate (i.e. 8% or 10%) for each item. Retailers generally will need to make this determination based on the consumer's declaration of whether the items are being purchased to take away or eat in.

However, retailers such as supermarkets that may provide a space with tables and chairs will need to consider how to treat customers who consume on the premises food or beverage products declared as take-away. Guidance on the multiple-rate system issued in November 2018 states that if consumption in such a space is prohibited and no consumption takes place there in practice, the space would not be considered as an eat-in space and the store would be allowed to apply the lower 8% rate to any food/beverage sales.

(3) Own brand items

Retailers generally apply a rate of JCT based on related purchases and therefore do not need to determine the applicable JCT rate independently. However, where retailers sell food/beverages internally developed by themselves (e.g. own brand items), they will need to determine the applicable rate independently, as manufacturers do, because their products may be "mixed items."

(4) Mixed items

A mixed item has a single price but comprises a food/beverage product eligible for the reduced rate of 8% and a non-food/beverage product subject to the standard 10% rate. If the JCT-exclusive price of a mixed item does not exceed JPY 10,000 and the food/beverage element accounts for at least two thirds of the item (calculated on a reasonable basis), the lower rate of 8% will apply to the whole item.

(5) Import JCT

Imported foods/beverages also will be eligible for the lower rate of 8%. Eligibility will be determined based on whether or not the item is imported for human consumption, and the specific rate likely will be determined based on the system of automated codes currently used for import declaration purposes.

3. Other impacts

Businesses not involved in the sale of goods eligible for the lower rate of 8% will need to take certain measures to account for multiple JCT rates, as the multi-rate structure will affect their meal and beverage costs. As the national and local tax portions of the current 8% rate and the proposed 8% reduced rate differ slightly, enterprises may need to set up new tax codes to differentiate between the two.

In addition, for the period from 1 October 2019 to 30 September 2023, both current invoices and rate-classified invoices (a temporary measure before the start of the qualified invoice system on 1 October 2023) may be issued. Therefore, enterprises purchasing goods eligible for the lower rate during this period will need to confirm whether the invoices they receive contain all the information required under this transitional procedure and if not, add to the invoice any missing items (e.g. items eligible for the 8% rate and the total consideration amounts for each rate).

Deloitte's View

While retailers have dealt with consumption tax rate increases in the past, the introduction of the new multi-rate system means that food and beverage retailers will need to consider how to update their price labels from October 2019 to treat take-aways and eat-ins appropriately and efficiently. In doing so, they may need to consider updates to their systems, procedures to determine the proper rate, their consumer pricing strategy, as well as methods for monitoring that the rates are being properly applied.

In particular, establishments that offer space where take-away items may be consumed on the premises or those that sell mixed items may face additional complications in determining the correct rate of JCT.

Although guidance has been released on the multi-rate structure, it may not address every issue that businesses may face. With less than eight months to go before the introduction of the multi-rate system, enterprises should consult with their JCT advisors to make informed decisions on how to treat certain transactions for which clear guidance is not provided.

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Contacts

Deloitte Tohmatsu Tax & Legal Inbound Group

Not all facts and circumstances are covered in this alert. If you have any questions regarding your specific situation, please contact one of the tax professionals at our Deloitte office in Tokyo as follows:

Jun Sawada, Inbound Group Leader		jun.sawada@tohmatsu.co.jp	+81 3 6213 3927
Business Tax Services	Sunie Oue, Partner	sunie.oue@tohmatsu.co.jp	+81 3 6213 3753
	David Bickle, Partner	david.bickle@tohmatsu.co.jp	+81 3 6213 3743
Indirect Tax Services	Chikara Okada, Partner	chikara.okada@tohmatsu.co.jp	+81 3 6213 3900
Global Employer Services	Russell Bird, Partner	russell.bird@tohmatsu.co.jp	+81 3 6213 3979
Transfer Pricing	Timothy O'Brien, Partner	timothy.obrien@tohmatsu.co.jp	+81 3 6213 3923
	Samuel Gordon, Partner	samuel.gordon@tohmatsu.co.jp	+81 3 6213 3760
Tax Management Consulting	Sam Reeves, Director	sam.reeves@tohmatsu.co.jp	+81 80 4087 6475
Financial Service Industry	Yang Ho Kim, Partner	yangho.kim@tohmatsu.co.jp	+81 3 6213 3841
	Kai Hielscher, Partner	kai.hielscher@tohmatsu.co.jp	+81 90 9855 9819
Tax Controversy	Yutaka Kitamura, Director	yutaka.kitamura@tohmatsu.co.jp	+81 70 3192 5611
Legal	Kaori Oka, Partner	kaori.oka@tohmatsu.co.jp	+81 3 6895 2678
Immigration	Yoshito Kijima, Partner	yoshito.kijima@tohmatsu.co.jp	+81 80 4183 4429

Issued by

Deloitte Tohmatsu Tax Co.
Tokyo Office
Marunouchi-Nijubashi Building, 3-2-3 Marunouchi, Chiyoda-ku, Tokyo 100-8362, Japan
Tel: +81 3 6213 3800
email: tax.cs@tohmatsu.co.jp
Corporate Info: www.deloitte.com/jp/en/tax