Ｑ＆Ａ about Platform Taxation of Consumption Tax

（For Foreign Businesses）

July 2024
National Tax Agency
Consumption Tax Office

Explanatory Notes

○ Abbreviations of articles and other documents cited in the text and at the end of the text are as follows.

Act ············ Consumption Tax Act (Act No.108 of 1988)
ITA ············ Income Tax Act (Act No.33 of 1965)
CTA ············ Corporation Tax Act (Act No.34 of 1965)
Order ·········· Order for the Enforcement of the Consumption Tax Act (Cabinet Order No.360 of 1988)
Circular ······· Consumption Tax Act Basic Circular

《 Table of contents 》

(Overview of “platform taxation”)

Question 1: Please provide an overview for “platform taxation.”

[Answer]

Regarding the provision of electronic services (such as app distribution)*1 performed by business operators targeting consumers, etc. in Japan (excluding provision of electronic services*2 towards business operators; hereinafter “B2C provision of electronic services”), each business operator performing the provision of services is supposed to do tax declaration and tax payments, whether the business operator is a domestic business operator or a foreign business (see Question 2).

In the partial revision of the Consumption Tax Act, etc. (tax reform of FY2024), the following was prescribed: in cases of B2C provision of electronic services by a foreign business performed via digital platform (see Question 3) on April 1, 2025 onwards, if the service proceeds are collected via a specified platform business (see Question 4), it is construed that the specified platform business provided the services and that the entity has to submit tax returns and pay taxes (platform taxation) (Article 15-2 ① of the Act).

*1 “Provision of electronic services” means provision of services using telecommunication lines (Internet, etc.) such as app distribution, delivery of electronic books, music tunes, etc.

*2 Regarding the provision of electronic services performed by foreign businesses, if service recipients are limited to ordinary business operators depending on the service nature or the transaction conditions for service provision, such category is called “B2B provision of electronic services.”

- ○ Regarding the B2C provision of electronic services, if it is performed by foreign businesses via a digital platform, as well as if the proceeds from the provided services are collected via a specified platform business, it is subject to the platform taxation. Therefore, the following cases are not subject to the platform taxation.
  - ・ Cases where B2C provision of electronic services is performed by domestic business operators via a digital platform
  - ・ Cases where B2C provision of electronic services is performed not via a digital platform
  - ・ Cases where B2C provision of electronic services is performed via a digital platform and proceeds from the provided services are collected not via a specified platform business operator (see Question 6)
- ○ Regarding the B2C provision of electronic services not subject to the platform taxation, each business operator that provides the services will continue to do tax declaration and tax payments as before.
- ○ Regarding the B2B provision of electronic services, each business operator that receives the services will continue to do tax declaration and tax payments as before (reverse charge method).

(Definition of a “foreign business”)

Question 2: What kind of entity is a foreign business?

[Answer]

Regarding the B2C provision of electronic services performed by foreign businesses using a digital platform, if the proceeds from the provided services are collected via a specified platform business, such cases are subject to the platform taxation.

Herein, a “foreign business” is either of the following (Article 2 ① 4-2 of the Act, Article 2 ① 5 of the ITA, Article 2-4 of the CTA).

① Sole proprietor who is a non-resident*1

*1 Non-resident is an individual other than residents (individuals holding a postal address in Japan or having kept holding a residence in Japan for one year or longer until today).

② Foreign corporation*2

*2 Foreign corporation is a corporation other than domestic corporations (corporations having its head office or the main office in Japan).

(Definition of “digital platform”)

Question 3: What is a “digital platform”?

[Answer]

Regarding the B2C provision of electronic services performed by foreign businesses using a digital platform, if the proceeds from the provided services are collected via a specified platform business, such cases are subject to the platform taxation.

“Digital platform” is a place constructed through computer-used information processing, expecting its uses by unspecified and large number of entities. It is a place where entities other than the provider of the place perform B2C provision of electronic services, constantly displaying information related to the B2C provision of electronic services using telecommunication lines, targeting unspecified and large number of entities. Specific examples include application stores, online shopping malls for electronic books, etc. (Article 15-2 ① of the Act).

(Confirmation of whether the platform taxation is applicable or not)

Question 4: Regarding whether the B2C provision of electronic services performed by our company is subject to the platform taxation or not, how should we confirm?

[Answer]

In cases of B2C provision of electronic services carried out by a foreign business via a digital platform, if the proceeds from the provided services are received via a specified platform business, such cases are subject to the platform taxation (Article 15-2 ① of the Act).

“Specified platform business” is a business operator that is designated by the Commissioner of the NTA as a platform business operator that satisfies certain requirements. Each designated specified platform business is supposed to notify the foreign businesses performing the B2C provision of electronic services that will become subject to the platform taxation that the cases will become subject to the platform taxation as well as of the expected date the platform taxation will start to be applied to (that is, the date the designation as a specified platform business will take effect). Therefore, you can confirm whether your service is subject to the platform taxation or not by using such relevant notifications (Article 15-2 ②⑤ of the Act).

Regarding specified platform business, the following items will be publicized through the NTA website (Article 15-2 ④ of the Act, Article 29 ④⑤ of the Regulations).

① **Name of the digital platform** of the specified platform business
② **Individual name or name** of the specified platform business
③ **Date on which the designation** as a specified platform business **becomes effective**

* Regarding specified platform businesses that will become subject to the platform taxation from April 1, 2025, designation will be completed by December 31, 2024, and the registration status will be publicized through the NTA website.

(Goods sales via shopping websites)

Question 5: Are goods sales performed over a shopping site on the Internet run by other business operator subject to the platform taxation?

[Answer]

In cases of B2C provision of electronic services carried out by a foreign business via a digital platform, if the proceeds from the provided services are received via a specified platform business, such cases are subject to the platform taxation (Article 15-2 ① of the Act).
Since goods sales for not fall under the category of provision of electronic services, such sales are not subject to the platform taxation (Article 2 ① 8-3 of the Act).

(In case proceeds from B2C provision of electronic services are collected not via the platform business)

Question 6: Our company is distributing apps to domestic users in Japan via a digital platform (B2C provision of electronic services), and the service proceeds are collected directly from the users using the settlement service provided by our own company, not via a specified platform business. In such a case, is the app distribution performed by our company subject to the platform taxation?

[Answer]

Regarding the B2C provision of electronic services performed by foreign businesses using a digital platform, if the proceeds for the provided services are collected via the specified platform business, such cases are subject to the platform taxation (Article 15-2 ① of the Act).

Regarding the app distribution you questioned (B2C provision of electronic services), the proceeds are not collected via a specified platform business, so it is not subject to the platform taxation.

(B2C provision of electronic services against in-game usable coins which are regarded as prepaid payment instruments)

Question 7: Our company is a foreign business providing game apps mainly to consumers via

a digital platform. We are issuing coins (falling under the category of prepaid payment instruments as prescribed in the Payment Services Act) usable only for purchases of in-game items, etc. and collecting the proceeds via a specified platform business. Is the coin issuance performed by us subject to the platform taxation? Also, is the provision of in-game items against the issued coins (B2C provision of electronic services) subject to the platform taxation?

[Answer]

Issuance of coins usable only for purchases of in-game items, etc. (prepaid payment instruments as prescribed in the Payment Services Act.; the same does apply hereunder) performed by your company is not regarded as asset transfer nor service provision (6-4-5 of the Circular), so consumption tax is not imposed on it. Therefore, it is not subject to the platform taxation.

On the other hand, regarding the provision of in-game items performed by your company against the coins that can be used only for purchases of in-game items, etc. (B2C provision of electronic services), if it is via a digital platform as well as if the proceeds from the provided services (amounts corresponding to the issued coins) are collected via a specified platform business, it is subject to the platform taxation.

(Note) If it is difficult for the specified platform business to grasp the timing of the service provision subject to the platform taxation (the timing of exchange between coins and in-game items, etc.), when having collected the proceeds corresponding to the issued coins, the specified platform business is allowed to recognize taxable sales as subject to the platform taxation.

In such a case, the following items will be notified from the specified platform business, before the date the designation as a specified platform business takes effect (that is, the date it becomes subject to the platform taxation).

- That starting with the B2C provision of electronic services (provision of certain items, etc.) in relation to the prepaid payment instruments (coins) that are issued on or after the date the designation as a specified platform business takes effect, the platform taxation will apply.
- Regarding the B2C provision of electronic services in relation to the prepaid payment I nstruments that were issued before that date, it is not subject to the platform taxation. Therefore, proceeds from such provision will continue to be treated as taxable sales of the foreign businesses.

【Reference】

○ Payment Services Act (excerpts)

(Definitions)

Article 3 The term “prepaid payment instruments” as used in this Chapter means any of the following instruments:

(i) certificates, electronic devices, or other items (hereinafter referred to as "certificates, etc." in this Chapter) or numbers, markings, or other signs (including additions to the amount recorded in the certificate, etc. by electronic or magnetic means in exchange for the receipt of consideration equivalent to the additional amount recorded) issued in exchange for the receipt of consideration equivalent to the amount (if the amount is found each time to be converted to and indicated as an amount indicated in another unit, include the number of that unit; the same applies hereinafter in this item and in paragraph (3)) recorded in the certificate, etc. or recorded using electronic or magnetic means (meaning in electronic form, magnetic form, or any other form that is impossible to perceive by the human senses alone; the same applies hereinafter in this paragraph) which can be used for the purpose of paying consideration for the purchase or leasing of goods, etc. or the receipt of provision of services from the issuer or the person designated by the issuer (referred to as the "issuer, etc." in the following item) by way of presentation, delivery, notification, or other means;

(ii) certificates, etc. or numbers, markings, or other signs issued in exchange for the receipt of consideration equivalent to the quantity of goods, etc. or services recorded in the certificate, etc. or recorded using electronic or magnetic means (including additions to the quantity of goods, etc. or services recorded in the certificate, etc. by electronic or magnetic means in exchange for the receipt of consideration equivalent to the recorded additional quantity) which can be used for the purpose of claiming the delivery or provision of those goods, etc. or services from the issuer, etc. by way of presentation, delivery, notification, or other means.

Article 2 ~ 10 (Snip)

(Provision of electronic services performed by a foreign business that has a Japan Branch)

Question 8: Our company is a foreign business performing B2C provision of electronic services using a digital platform. The operation of B2C provision of electronic services towards consumers, etc. in Japan is mainly covered by the Tokyo Branch of our company. Is it subject to the platform taxation?

[Answer]

Addressing your question, even in case the Japan Branch is covering the operation of B2C provision of electronic services, if it is B2C provision of electronic services performed by a foreign business (see Question 2) towards consumers, etc. in Japan using a digital platform and if the proceeds are collected via a specified platform business, it is subject to the platform taxation.

(Tax declaration and tax payments when having become subject to the platform taxation)

Question 9: When B2C provision of electronic services performed by a foreign business has become subject to the platform taxation, how will the foreign business be obligated to do tax declaration and tax payments for consumption tax?

[Answer]

When B2C provision of electronic services performed by a foreign business has become subject to the platform taxation, the specified platform business will cover tax declaration and tax payments for the B2C provision of electronic services, so it is not necessary for the foreign business to perform tax declaration and payments for consumption tax (Article 15-2 ① of the Act).

In addition to the B2C provision of electronic services subject to the platform taxation, if any consumption tax-imposed transactions are being implemented, tax declaration and payments for consumption tax will be needed for those transactions.

(Note) In case taxable sales is ¥10 million or less in the reference period of the target taxation period (that is, the year before the last year for sole proprietors; and the fiscal year before the last fiscal year for corporations; the same does apply hereunder), tax payment obligation is waived. However, even when taxable sales is ¥10 million or less in the reference period, in the following cases, tax payment obligation is not waived: cases where the entity is registered as a qualified invoice issuer; and cases where taxable sales is over ¥10 million in a specific period (the period of January 1 ~ June 30 in the year preceding the current year for sole proprietors; and the 6-month period from the first day of the fiscal year preceding the current fiscal year for corporations, in principle; the same does apply hereunder) (Article 9 ① and Article 9-2 ① of the Act).

(Obligation to issue invoices for the provision of electronic services that will become subject to the platform taxation)

Question 10: Our company is a foreign business as well as a qualified invoice issuer (invoice issuer). When the B2C provision of electronic services performed by our company has become subject to the platform taxation, if regarding the B2C provision of electronic services, we are asked by a counterparty of the service provision (taxable business operator) to issue qualified invoices (invoices), should our company issue qualified invoices?

[Answer]

Regarding the B2C provision of electronic services subject to the platform taxation, a specified platform business is deemed to have performed it. Therefore, even if your company is a qualified invoice issuer (invoice issuer), your company is not obligated to issue qualified invoices (invoices) regarding the B2C provision of electronic services subject to the platform taxation. In such a case, each of the relevant specified platform businesses (limited to qualified invoice issuers) will issue qualified invoices in response to the requesting counterparty of the service provision (taxable business operator).

(Calculation of taxable sales, etc. in the reference period when having become subject to the platform taxation)

Question 11: Our company (FY ends in December) is providing game apps targeting consumers using a digital platform. The app distribution (B2C provision of electronic services) will become subject to the platform taxation from April 1, 2025. In such a case, when deciding on tax payment obligation for FYE December 2026 and FYE December 2027, should we include the amount of proceeds from the app distribution subject to the platform taxation in the taxable sales of the reference period?

[Answer]

Regarding the B2C provision of electronic services that will become subject to the platform taxation, a specified platform business is deemed to have performed it; in other words, it is deemed that the B2C provision of electronic services is not what has been performed by your company (Article 15-2 ① of the Act).

Addressing your question, it is noted that the app distribution by your company (B2C provision of electronic services) will become subject to the platform taxation from April 1, 2025; the amount of the proceeds from the app distribution performed by your company will need to be included in the taxable sales in the reference period for FYE December 2026 (that is, FYE December 2024).

Next, amount of proceeds from your app distribution to be performed in January ~ March 2025 will be included in the taxable sales in FYE December 2025, or the reference period for FYE December 2027, whereas amount of proceeds from the app distribution to be performed in April ~ December 2025 subject to the platform taxation will not be included therein.

(Reference) 1 The same does apply to judgment on the taxable sales in a specific period.

(Reference) 2 Pay attention to the following point: regarding the ¥10 million judgment in a specific period for a fiscal year starting after October 1, 2024, any foreign business is not allowed to use the total amount of salaries, etc. paid for the judgment instead of taxable sales (Article 9-2 ③ of the Act).

(Reference) 3 Even in case as a result of judgment on tax payment obligation, you have become a taxable business operator, it is not necessary for you to submit a tax return, if the following conditions are met in the target taxation period: there were not any taxable asset transfers and taxable purchases in addition to the B2C provision of electronic services subject to the platform taxation; and there was no consumption tax amount to be paid (Article 45 ① of the Act).

(Purchase tax credit on taxable purchases for the B2C electronic services subject to the platform taxation)

Question 12: Our company is distributing smartphone apps towards consumers via a digital platform. Our app distribution (B2C provision of electronic services) will become subject to the platform taxation from April 1, 2025. The operation of app distribution to consumers, etc. in Japan is mainly covered by the Japan Branch of our company, and the rents for the building of the Japan Branch is being paid. After April 1, 2025, the consumption tax amounts relating to the rents for the building (taxable purchases) will continue to be subject to purchase tax credit?

[Answer]

Addressing your question, you said that your app distribution (B2C provision of electronic services) will become subject to the platform taxation from April 1, 2025. Even after it will be no longer the B2C provision of electronic services performed by your company, the consumption tax amount on the taxable purchases to be performed by your company in Japan will continue to be subject to purchase tax credit (Article 30 ① of the Act).

If the taxable purchases performed in Japan are needed only for the B2C provision of electronic services subject to the platform taxation, they are categorized to the taxable purchases that are needed only for transfer of taxable assets, etc., when the individual response method is applied (Article 30 ② of the Act, Article 29 ③ of the Order, 11-2-13 of the Circular).

(Calculation of taxable sales share when having become subject to the platform taxation)

Question 13: Our company (FY ends in September) is distributing music apps towards consumers using a digital platform. Our app distribution (B2C provision of electronic services) will become subject to the platform taxation from April 1, 2025. In such a case, how should we calculate taxable sales share for FYE September 2025?

[Answer]

Since the B2C provision of electronic services subject to the platform taxation is regarded as what was performed by a specified platform business, the B2C provision of electronic services is not what was performed by your company (Article 15-2 ① of the Act).

Addressing your question, since the app distribution by your company (B2C provision of electronic services) will become subject to the platform taxation from April 1, 2025, when calculating taxable sales share for FYE September 2025, the amount of proceeds from app distribution performed by your company between October 2024 and March 2025 will be included, whereas the amount of proceeds from app distribution performed by your company between April and September 2025 (subject to the platform taxation) will not be included either in numerator nor in denominator (Article 30 ⑥ of the Act, Article 48 ① of the Order).

(In case proceeds from the B2C provision of electronic services subject to the platform taxation were returned)

Question 14: Our company is distributing game apps towards consumers via a digital platform. our app distribution (B2C provision of electronic services) will become subject to the platform taxation from April 1, 2025. Given that, regarding the app distribution performed before becoming subject to the platform taxation, if part of the proceeds is returned after April 1, 2025, is it possible to deduct the consumption tax amount relating to the returned amount?

[Answer]

Addressing your question, even if your app distribution (B2C provision of electronic services) will become subject to the platform taxation from April 1, 2025, regarding the app distribution performed before becoming subject to the platform taxation, if all or part of the proceeds is returned, your company may deduct the consumption tax amount relating to the returned amount (Article 38 ① of the Act).

Since the B2C provision of electronic services subject to the platform taxation is regarded as what was performed by a specified platform business, if proceeds are returned relating to the app distribution to be performed after April 1, 2025 (when becoming subject to the platform taxation), your company will not be allowed to deduct the consumption tax amount relating to the returned amount.

(Judgment on interim tax declaration obligation and calculation of interim tax payment amount when having become subject to the platform taxation)

Question 15: Our company (FY ends in March) is distributing smartphone apps towards consumers via a digital platform. Our app distribution (B2C provision of electronic services) will become subject to the platform taxation from April 1, 2025. In such a case, how should we treat the judgment on interim tax declaration obligation and the calculation of interim tax payment amount for FYE March 2026.

[Answer]

Whether the obligation of interim tax declaration arises or not will be determined based on the declared consumption tax amount for the latest taxation period. In addition, the interim tax payment amount will be calculated based on the declared consumption tax amount for the for the latest taxation period (Article 42 ① of the Act).

Therefore, addressing your question, even if your app distribution (B2C provision of electronic services) will become subject to the platform taxation from April 1, 2025, judgment on interim tax declaration obligation and calculation of interim tax payment amount for FYE March 2026 will be carried out based on the declared consumption tax amount for FYE March 2025 (the latest taxation period).

Regarding interim tax declaration target period, if interim tax declaration and payment are performed based on a tentatively calculated consumption tax amount, etc., not based on the declared consumption tax amount for the latest taxation period, when calculating an interim tax payment amount, it will not be necessary to include the amount of proceeds from the app distribution subject to the platform taxation to be performed after April 1, 2025 in the taxable sales amount (Article 43 ① of the Act).

(How to confirm cancellation of the designation as a specified platform business)

Question 16: We heard that designation as a specified platform business may be cancelled in certain cases. How can we confirm whether the designation was cancelled or not?

[Answer]

When a specified platform business meets certain requirements, it is prescribed that the Commissioner of the NTA may cancel the designation for the entity (Article 15-2 ⑧⑪ of the Act). When the designation as a specified platform business was cancelled, the specified platform business whose designation was cancelled is required to notify the foreign businesses performing the B2C provision of electronic services that will be no longer subject to the platform taxation that being subject to the platform taxation will be discontinued as well as of the date to be discontinued. Therefore, you can confirm whether cancellation of the designation was cancelled or not using the notification (Article 15-2 ⑬ of the Act).

In addition, for relevant specified platform businesses, the following will be publicized through the NTA website: ① that their designation as a specified platform business was cancelled; and ② the date application of the platform taxation will be discontinued (Article 15-2 ⑫ of the Act, Article 29 ④ of the Order).

(Responses needed when application of the platform taxation is discontinued)

Question 17: Regarding the B2C provision of electronic services that was subject to the platform taxation, when it has become no longer subject to the platform taxation, what kind of action should we take?

[Answer]

Regarding the B2C provision of electronic services to be performed by a foreign business after the date having become no longer subject to the platform taxation, the foreign business needs to do the tax declaration and pay the relevant consumption taxes.

(Note) If the taxable sales in the reference period of the target taxation period is ¥10 million or less, tax payment obligation is waived. However, even when taxable sales is ¥10 million or less in the reference period, in the following cases, tax payment obligation is not waived: cases where the entity is registered as a qualified invoice issuer; and cases where taxable sales is over ¥10 million in a specific period.

In addition, if the foreign business performing the B2C provision of electronic services is a qualified invoice issuer (invoice issuer), it needs to issue qualified invoices (invoices) in response to the requesting counterparty of the service provision (taxable business operator), concerning the B2C provision of electronic services to be performed after the date having become no longer subject to the platform taxation.

(Judgment on tax payment obligation for a foreign business when the specified platform business designation has been cancelled)

Question 18: The B2C provision of electronic services performed by our company (FY ends in December) has been subject to the platform taxation to date but our specified platform business designation has been cancelled. We will be no longer subject to the platform taxation from April 1, 2032. In such a case, when judging on tax payment obligation for FYE December 2033 and FYE December 2034, is it necessary for us to include the amount of proceeds from the B2C

provision of electronic services subject to the platform taxation in the taxable sales amount of respective reference period?

[Answer]

Since the B2C provision of electronic services subject to the platform taxation is regarded as what was performed by a specified platform business, the B2C provision of electronic services is not what was performed by your company (Article 15-2 ① of the Act).

Addressing your question, since the B2C provision of electronic services performed by your company will no longer be subject to the platform taxation from April 1, 2032, when calculating taxable sales of your company for FYE December 2031 (reference period for FYE December 2033), the amount of proceeds from B2C provision of electronic services subject to the platform taxation will not be included.

Next, the taxable sales in FYE December 2032 (reference period for FYE December 2034) will not include the amount of proceeds from the B2C provision of electronic services subject to the platform taxation to be performed in January ~ March 2032, whereas it will include the amount of proceeds from the B2C provision of electronic services no longer subject to the platform taxation to be performed by your company in April ~ December 2032.

(Reference) The same does apply to judgment on the taxable sales in a specific period.