EBC
EUROPEAN BUSINESS COUNCIL IN JAPAN

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Recommendations for Policy Reform to Streamline Expense Settlement in Japan

The European Business Council in Japan (EBC) Tax Committee urges the Japanese government to adopt global best practices and implement the following policy changes to simplify employee travel expense processing:

Short-Term

1. **Reduce Receipt Requirements:** Implement either or both of the following changes:

   A. Extend the current exemption for travel expense receipts under 30,000 JPY to include a wider range of expenses or payments made using company credit cards.

   B. Eliminate the need for receipts in cases where cashless payments (e.g., company credit cards) automatically link transaction data to expense settlement systems.

Long-Term

2. **Establish an Automated System for Payment Data Integration:** Require nationwide credit card merchants' payment terminals, payment networks, and systems operated by card issuers and international card brands to update their systems to be able to electronically link and automatically process information newly required by the Qualified Invoice System, such as business registration numbers, to eliminate the need for receipt verification in most cases and improve efficiency in business expense claims.

3. **Provide Financial Support and Guidance to Accomplish System Updates:** Ensure that payment terminal makers, payment network operators, card issuers, and international card brands are able to implement the requirements in 2. by providing subsidies to cover related expenses.

These measures will enhance efficiency, support proper regulation, and allow businesses, consumers, and regulators to benefit from innovation and best practices developed in other global markets.

Background

Japan has made significant strides in digital transformation, particularly through the adoption of cashless payments and secure data systems. Cashless payments and tamperproof systems, along with sensible rules on expense processing eliminated the need for receipts in a large portion of employee expense claims. However, the introduction of the Qualified Invoice System in October 2023 has inadvertently complicated expense claim processing by newly requiring receipts for almost all transactions, even for small cashless payments.

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Previously, companies could rely on electronic transaction data from credit card companies for expense claims without needing receipts. However, the new system mandates receipts for even minor transactions due to the lack of data integration for required information, such as business registration numbers and tax amounts for each tax rate. This has created additional administrative burdens for businesses.

Challenges with the Qualified Invoice System

Before the introduction of the qualified invoice system, a large portion of credit card transactions were exempted from keeping receipts or other records. E-storage rules and the corporate tax rules allowed electronic credit card transaction data to be used as proof of payment if the systems processing the data did not allow corrections to data or kept a record of corrections, and payments under 30,000 JPY did not require receipts under the Consumption Tax Act. However, the new requirements for business registration numbers, applicable tax rates, and tax amount for each tax rate to be included in proofs of payment, which cannot be processed in many of Japan's payment networks and none of the international card brands' systems, has made it so that paper or electronic receipts are once again required for all transactions. This is true even for minor expenses, adding unnecessary complexity in expense settlement processes, especially to minor B2B payments made using corporate credit cards. While Japan's Digital Agency has formulated JP PINT, which is the Japanese version of PEPPOL and is designed to meet the qualified invoice requirements, this standard specification is not yet incorporated into Japan's credit card settlement network.

Updating Japan's payment infrastructure, however will require significant time and financial resources. It would be highly costly for operators of payment networks and credit card systems to make the updates necessary to electronically process the information newly required by the Qualified Invoice System and may take multiple years to fully implement. In the meantime, businesses will continue to experience productivity losses due to the increased work in processing expense settlements.

Global Best Practices and Exemptions for Small Transactions

In some countries, receipts are not required during expense reimbursement for certain types of expenses below certain thresholds, reducing the administrative burden. For example, the U.S. exempts business travel expenses under $75 USD from receipt requirements. In Australia, transactions equal to or less than 82.50 AUD do not require issuing of tax invoices, meaning receipts are also unnecessary. Not only do these measures reduce time spent on expense processing, it also increases accurate recordkeeping as it reduces instances of employees forgoing expense reporting due to tediousness.

Furthermore, promoting the use of corporate credit cards improves governance. By recording transaction data in a way that cannot be tampered, fraud such as counterfeit invoices, receipt forgery, and re-use of the same receipt by multiple employees can be prevented.

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Conclusion

Efficient tax collection and record-keeping are vital, but it is equally important to minimize the administrative burden on companies while maintaining strong governance. The EBC recommends the following actions:

Short-Term

1. **Reduce Receipt Requirements:** Implement either or both of the following changes:

    A. Extend the current exemption for travel expense receipts under 30,000 JPY to include a wider range of expenses or payments made using company credit cards by amending Article 49 of the Consumption Tax Act Enforcement Order.

    B. Eliminate the need for receipts in cases where cashless payments (e.g., company credit cards) automatically link transaction data to expense settlement systems by amending Article 30-9 of the Consumption Tax Act.

Long-Term

2. **Establish an Automated System for Payment Data Integration:** Require nationwide credit card merchants' payment terminals, payment networks, and systems operated by card issuers and international card brands to update their systems to be able to electronically link and automatically process information newly required by the Qualified Invoice System, such as business registration numbers, to eliminate the need for receipt verification in most cases and improve efficiency in business expense claims. While the implementation timeline should provide sufficient time for such updates to be made, a hard deadline should be implemented to ensure timely compliance.

3. **Provide Financial Support and Guidance to Accomplish System Updates:** Ensure that payment terminal makers, payment network operators, card issuers, and international card brands are able to implement the requirements in 2. by providing subsidies to cover related expenses. Support measures should be determined by estimating and taking into account the overall economic benefits of reducing receipt requirements for expense processing, in addition to any insights gained from expert panels and consultations with potential recipients of the support.

By implementing these measures, Japan can foster a more efficient business environment, reduce administrative burdens, and bolster its ongoing digital transformation efforts.

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