

## Case 2 – Advising on Complex Consumption Taxes in International Transactions

In the web advertisement business, website publishers generally provide advertisers with ad space on their own website, and then calculate the advertising rates and issue their invoices to the advertisers. The Japanese subsidiary of an international web advertisement company wanted to automate those administrative steps for website publishers throughout the world, planning to undertake the calculation of advertisement rates and issuance of the related invoices. Therefore, the subsidiary needed to know where and how Japanese consumption taxes would apply along the international chain of website publishers' advertisement services. However, the Japanese subsidiary was confronted with the complexity of understanding where and how Japanese consumption taxes would apply to cross-border transactions.

KLO was consulted to review the Japanese subsidiary's planned operation, determine exactly where the consumption tax might be applied along that chain of cross-border transactions, and present any attractive alternatives. Consumption taxes are only a few decades old in Japan, and so older tax lawyers and tax accountants are generally unfamiliar with them. Similarly, most tax lawyers and tax accountants in Japan are unfamiliar with their professions' rules when it comes to international transactions. KLO is familiar with both these matters, and so we can identify issues and concerns missed by firms that focus on older or domestic tax practices.

In the end we advised that, in principle, no internet website advertisement services will be considered "international" if the server used to host international content is located in Japan. Consequently, the web advertisement subsidiary was able to specify the cases in which it would require Japanese consumption tax on its invoices, and was able to provide value-added administrative services for website publishers in compliance with the Japanese tax laws and regulations.