

**NATIONAL
TAX
AGENCY
REPORT
2004**

To Our Nation's Taxpayers

Since its establishment in 1949, the National Tax Agency (NTA) has administered the nation's taxation system with the aim of achieving its mission of enabling taxpayers to properly and smoothly fulfill their tax responsibility. With the reform of Japan's central government in 2001, we established and publicized implementation standards and other regulations concerning the operations under our authority. In addition, we set performance targets for our organization and then conducted performance evaluations against those targets and released the results to the public.

Based on the fundamental awareness that the NTA has been entrusted with the administration of tax by the people of Japan, the reform was designed to:

- (1) fulfill the NTA's responsibility to clearly explain its mission, performance targets, and policy measures to the people of Japan;
- (2) provide an efficient and high-quality tax administration tailored to the needs of the times by objectively evaluating all NTA operations; and
- (3) streamline work flow, raise the morale of tax officials, and revitalize the NTA organization.

We continue to steadily promote reform of the tax administration today. For example, we have created a new index called "Degree of Taxpayer Satisfaction." This indicator is aimed at raising the quality of taxpayer services and improving NTA operations by measuring and evaluating the level of taxpayer satisfaction at Tax Offices—the front line of tax administration.

With the globalization of economic activities and the increasing use of information technology (IT) in those activities today, business transactions are growing more complicated. The NTA is taking rigorous measures, including establishing a team of specialists, to address malicious tax evasion via international tax avoidance schemes*¹ and tax shelters*² and tax evasion via electronic commerce.

This is the NTA's first annual report. *National Tax Agency Report 2004* was compiled for the purpose of explaining the NTA's measures to taxpayers in an easy-to-understand format, and it focuses on the following:

- (1) the NTA's future policy for tax administration, and
- (2) areas for improvement in the current administration.

Because this is our first such report, improvements or additions may be needed. We welcome your comments or suggestions via our Japanese-language website (<http://www.nta.go.jp>).

The NTA's mission is to enable taxpayers to voluntarily and properly fulfill their tax responsibility under the self-assessment system. I hope that this *National Tax Agency Report 2004* deepens taxpayers' understanding of their taxes.



Tatsumaro Terazawa

Commissioner
National Tax Agency
June 2004

*1 A tax avoidance scheme is a technique to evade tax by creating fictional frameworks that appear to be legal or by taking advantage of either the differences in nations' tax systems or the tax treaties among nations in order to alter the tax treatment of transactions.

*2 A tax shelter is a financial instrument that is designed to alter tax treatment and is offered to taxpayers in the form of an investment.

NATIONAL TAX AGENCY REPORT 2004

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Mission of the National Tax Agency

Enabling Taxpayers to Properly and Smoothly Fulfill Their Tax Responsibilities

Public services are indispensable to support the lifestyle the Japanese people enjoy today, and the national and local governments conduct a variety of public administration activities to provide those services. Taxes provide the revenue to cover the expenses incurred in those activities. The Constitution of Japan stipulates that tax payment is an obligation of the people of Japan, and the National Tax Agency (NTA) is given the authority to collect taxes so that these public services can be provided smoothly.

To perform this duty with which the NTA has been entrusted by the nation's taxpayers, the National Tax Agency has as its mission "Enabling Taxpayers to Properly and Smoothly Fulfill Their Tax Responsibilities."

The NTA supports taxpayer understanding and

fulfillment of their tax obligations and enhances taxpayer services by providing information that taxpayers need through tax education and other public relations activities that explain all aspects of tax—from the taxation system to the status of tax revenue.

At the same time, for taxpayers found not to be properly meeting their tax obligations, the NTA corrects taxpayer errors by providing proper follow-up and examinations and endeavors to prevent conscientious taxpayers from developing a sense of unfairness regarding taxation.

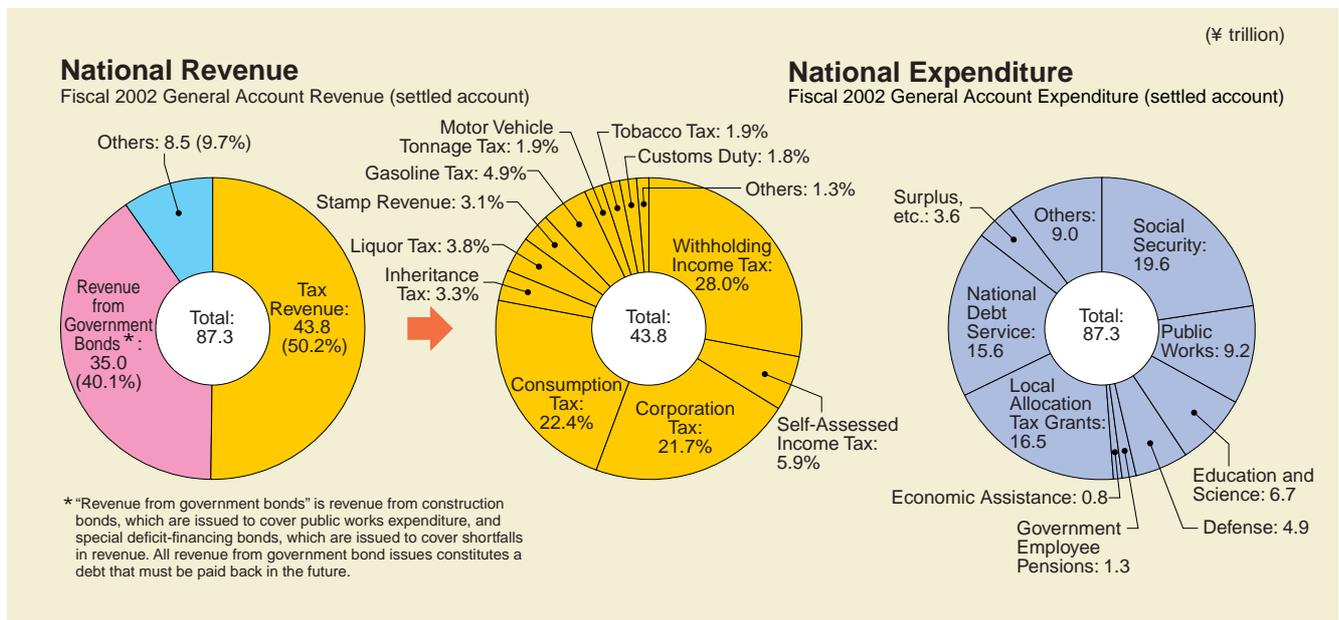
The NTA thinks it is crucial that it earn the understanding and trust of taxpayers—the people of Japan—regarding its mission and responsibilities by enhancing taxpayer services and implementing proper follow-up and examinations.

National Revenue and Taxes

National revenue (general account revenue) in fiscal 2002 was ¥87.3 trillion. Of this revenue, ¥43.8 trillion were from tax. Deducting tax and stamp revenue from customhouses and the Postal Service Agency (currently Japan Post), revenue from national

taxes alone amounted to ¥38.6 trillion. This means that the NTA collects about 88 percent of government revenue received through taxation.

Income tax, corporation tax, and consumption tax account for about 80 percent of tax revenue.



1. Earning Taxpayer Understanding and Trust

To earn taxpayer understanding and trust, the NTA must properly and fairly execute its right to levy and collect taxes (tax administration) and fully meet its responsibility to explain taxes and the tax system to the people of Japan. In its day-to-day work, the NTA pays full attention to protect taxpayer rights and ensure that officials maintain confidentiality, handle taxpayers in a professional and courteous manner, and appropriately

support taxpayers. Moreover, the NTA endeavors to develop good communication with taxpayers and conduct operations in a fair and just fashion. By minimizing the burden placed on taxpayers regarding tax payment and providing services that are of as high a quality as possible, we endeavor to raise the level of taxpayer satisfaction.

Protecting Taxpayer Privacy

Calculating taxes requires taxpayer's private information, including revenue, sales, and expense data. Moreover, information about transaction partners is sometimes needed for tax examinations. If taxpayer privacy is violated and information is leaked, the NTA cannot expect taxpayers to cooperate.

For this reason, tax officials who divulge secrets learned in the course of an examination are subject

to the criminal punishment stipulated in the tax law (imprisonment of up to two years or a fine of up to ¥300,000), which is more stringent than that provided in the National Public Service Law (imprisonment of up to one year or a fine of up to ¥30,000). Moreover, the NTA regularly holds training programs for its officials to ensure that they are fully aware of these criminal penalties.



Providing professional and courteous services to taxpayers



Mission of the National Tax Agency

2. Evaluating Our Performance

One way that the NTA assesses whether it is fully and efficiently performing its responsibilities is to set performance targets and nine action targets under these performance targets for each business year (July 1 through June 30 of the following year). To measure the degree to which we have reached these targets, we also set and publicize 64 performance and other guideposts. Such indicators include “affinity felt by taxpayers visiting tax offices” and “the percentage of income tax refunds processed within six weeks.”

At the end of each business year, the Minister of Finance compiles and releases a written evaluation of our performance against our targets for that year, and we use the evaluation to create future NTA measures. The opinions of private-sector members of the Council on Policy Evaluation in the Ministry of Finance are incorporated in the evaluation to ensure the objectivity of the evaluation and to enhance its quality.

In addition to this yearly performance evaluation, the NTA gathers public views through 2,790 national tax

monitors*³ throughout Japan and collects requests from all sectors of society through the “public comments” page on the NTA’s Japanese-language website. In this way, we endeavor to improve taxpayer services.

The NTA has made various changes to its system as a result of taxpayer input. For example, taxpayers used to be required to bring revenue stamps to request issuance of a certificate of tax payment. Citizens requested that this be changed, and, starting January 19, 2004, payment can now be made in either revenue stamps or cash at Regional Taxation Bureaus (including the Okinawa Regional Taxation Office; hereinafter the same) or Tax Offices.

Recent efforts to ascertain taxpayer evaluation of NTA policies and apply them to improve policies in the future have included a questionnaire survey on filing by Internet (e-Tax), which started in fiscal 2003, and on Sunday tax consultations, which started on a trial basis during the fiscal 2003 final tax return filing period.

NTA Budget and Personnel

The fiscal 2003 NTA budget was ¥723.2 billion, the majority of which was spent on personnel expenses. In recent years, the KSK System (*Kokuzei Sogo Kanri* [Comprehensive Tax Administration System]) and other IT-related expenses have come to comprise an increasing amount of the budget, and we are focusing on raising the efficiency of operations and improving taxpayer services.

NTA personnel numbered around 52,000 from the 1970s through the first half of the 1980s. With the introduction of the consumption tax in 1989, personnel figures increased and peaked in 1997. As of the end of fiscal 2003, the NTA staff numbered 56,315.

(persons, 1,000 cases)

| Year | 1975 | 1997 | 2003 | (Reference) 2003/1975 |
|---|--------|--------|----------|-----------------------|
| Number of personnel | 52,440 | 57,202 | 56,315 | 107.4% |
| (1) Number of Income Tax Returns Filed | 7,327 | 20,023 | [20,873] | 284.9% |
| (2) Number of Corporations | 1,482 | 2,793 | [2,896] | 195.4% |
| (3) Number of Establishments Subject to Commodity Tax | 117 | - | - | - |
| (4) Number of Enterprises Subject to Consumption Tax | - | 2,521 | [2,237] | - |
| (1) + (2) + (3) + (4) | 8,926 | 25,337 | 26,006 | 291.4% |

Notes: 1. The figures for item (4) are the number of Notifications of Taxable Enterprise Status for Consumption Tax submitted.
2. Numbers in brackets are 2002 figures.
3. The figures under “(Reference)” are 2003 percentages when 1975 figures are set at 100.

*3 Homemakers, company executives, educators, and other people from various sectors of society are appointed to serve as national tax monitors and provide the NTA with their views and requests concerning national tax administration.

3. Disclosing Information

The Law Concerning Access to Information held by Administrative Organs was introduced to raise the transparency of government administration and to ensure the government is accountable for its administrative activities. This law made it possible for anyone to request the disclosure of administrative documents by completing a disclosure request form and submitting it with the handling charge in person or by post or other courier service to the information disclosure desk at the National Tax Agency headquarters or a Regional Taxation Bureau or Tax Office.

In addition to published data such as road ratings which are necessary for the calculation of inheritance tax, the administrative documents held by the NTA

include materials that cannot be disclosed, such as information involving taxpayer privacy. Information disclosure is crucial to earn taxpayer confidence that tax administration is proper and fair and to raise trust in the tax administration. The NTA proactively handles this by placing information disclosure officials at the Regional Taxation Bureaus.

The NTA received 32,278 requests for information disclosure in fiscal 2002, accounting for about 54 percent of all such requests made to national government ministries and agencies. Full disclosure was made in about 94 percent of all cases, and full or partial disclosure together accounted for approximately 99 percent of cases, both of which are very high percentages.

Tax Collection Costs

To gain a rough estimate of how much it costs to collect taxes, we can calculate the expense required to collect ¥100 of tax revenue based on figures for the NTA's budget and tax revenue handled. In fiscal 1950, it cost ¥2.79 to collect ¥100 of tax, but the figure dropped to ¥0.90 in fiscal 1990 with the

dramatic increase in tax revenue accompanying economic growth. Since that time, however, tax revenue has decreased with tax reduction policies and the economic downturn and IT expenses have increased at the same time. As a result, it cost ¥1.78 to collect every ¥100 of tax revenue in fiscal 2003.*⁴



* 4 The fiscal 2003 figure is calculated based on the amount of the initial budget, whereas the figures for other years are based on settled accounts.

Mission of the National Tax Agency

KSK System (*Kokuzei Sogo Kanri* [Comprehensive Tax Administration System])

The KSK System links the 12 Regional Taxation Bureaus and the 524 Tax Offices in a nationwide network. Boasting more than 23,000 terminals, the KSK System makes it possible for tax officials to use the latest information online at any time. In addition to the tax returns, applications, and notifications submitted by the nation's 24 million taxpayers (including both individuals and corporations), the system includes records of tax payments made at banks and post offices as well as interest and other payment records.

The introduction of this system has raised the level and efficiency of the various operations which constitute the core of tax administration. It has made

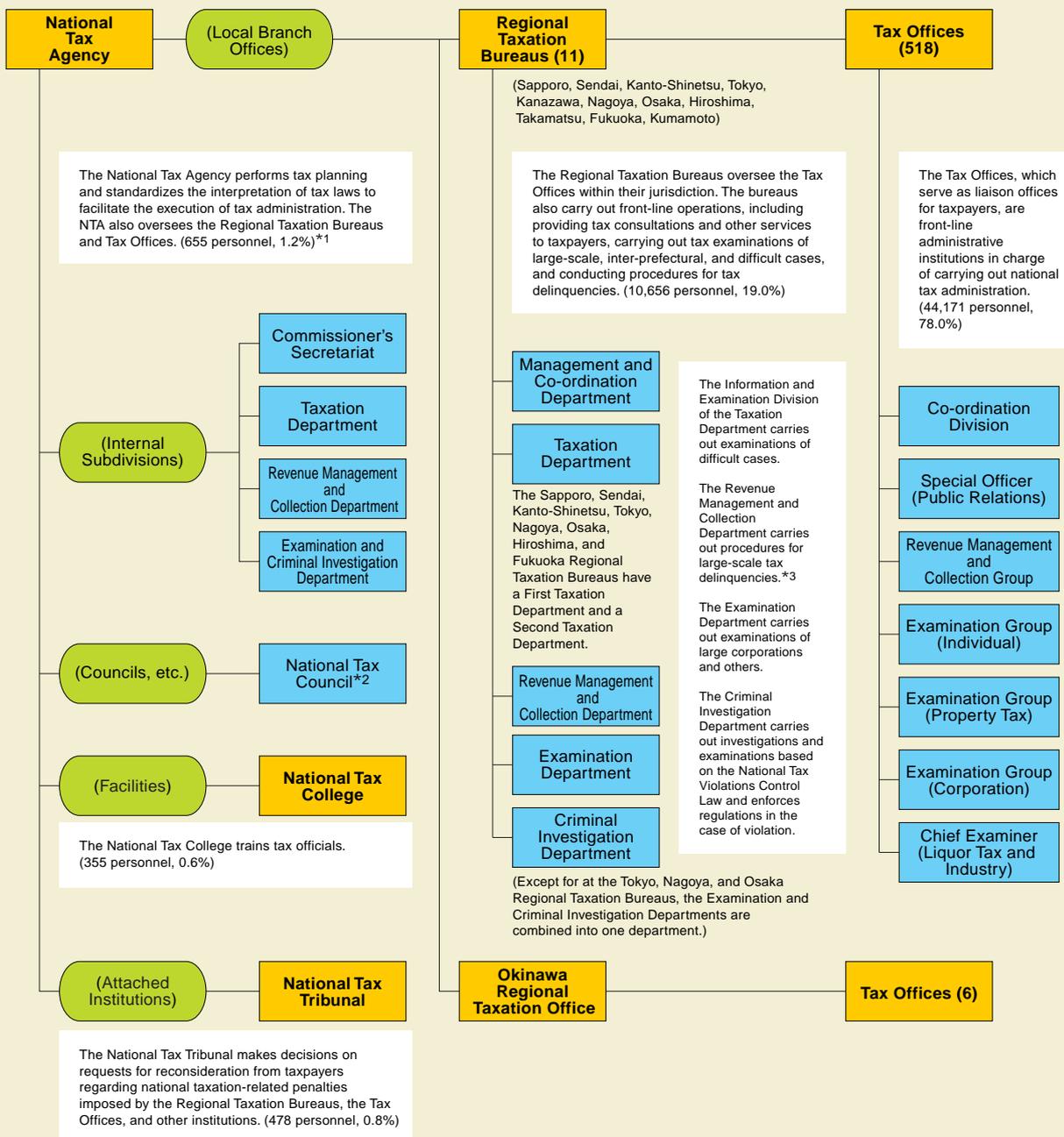
possible the integrated management of national tax claims and the access of information organized by taxpayer. The KSK System also contributes to the improvement of taxpayer services by making it possible to promptly and accurately respond to taxpayer inquiries by referring to information on computer, as needed. Thanks to the system, we have set the goal of issuing certificates of tax payment within 15 minutes of request. In addition, the system also helps in the selection of entities for tax examination and tax delinquency collection procedures because the system can perform multifaceted analyses of the information gathered.



The KSK System

Structure of the National Tax Agency

The NTA is responsible for the nationwide administration of tax and oversees the 12 Regional Taxation Bureaus and 524 Tax Offices.



Notes:

- * 1. Percentage figures represent the percentage of total personnel.
- * 2. The National Tax Council performs the following: (1) studies and deliberations at the request of the NTA Commissioner in cases where the president of the National Tax Tribunal gives a decision that interprets the law in a different way from the directives issued by the NTA Commissioner, (2) enforcement of certified public tax accountant examinations and deliberations on disciplinary actions against certified public tax accountants, and (3) deliberations on the establishment of labeling standards for liquor and other issues.
- * 3. If taxes are not paid by the due date, they are deemed delinquent. To collect delinquent national taxes, taxpayer assets may be seized and converted into cash through public sales or collection of claims, and the cash proceeds collected as taxes. This series of procedures is referred to as "procedures for tax delinquencies."

Self-Assessment System

Taxpayer Services & Follow-up and Examinations: The Cornerstones of the Self-Assessment System

Japan employs the self-assessment system for its national taxes. Under this system, the taxpayer determines and pays tax based on the income and other information he or she submits to the Tax Office. For local taxes, however, the official assessment system is generally used. Under that system, the tax amount is determined by the municipality in which the taxpayer resides.

Before World War II, Japan adopted the official assessment system for its national taxes as well. The tax authorities assessed each taxpayer's income and notified each of the tax amount due. With the democratization of the tax system in 1947, however, the self-assessment system was adopted for income tax, corporation tax, and inheritance tax. Later, that system was applied to all national taxes.

For the self-assessment system to function properly,

two things are necessary: First, taxpayers must have a high level of awareness regarding tax payment and voluntarily and properly fulfill their tax responsibilities prescribed by law (tax compliance). So that taxpayers can correctly file and pay their taxes by themselves, the National Tax Agency (NTA) endeavors to improve taxpayer services, including tax education, tax counseling, filing convenience, public relations activities about the significance of tax, and information on tax law and procedures.

Second, proper follow-up and examinations are necessary to check taxpayers' tax returns and instruct them on how to file their returns correctly. The NTA aims to achieve proper and fair taxation through follow-up and examinations for taxpayers that require correction.



Tax Offices encourage taxpayers to write their own returns.



Easy-to-understand advice is provided to taxpayers through tax consultations.

Corporate Compliance

To fulfill the responsibilities expected of them as members of society and to strengthen their ties of trust with society, some corporations establish compliance committees and set internal corporate action guidelines which they release to the public. Corporations are being called upon to take active measures to observe legislation and social rules and secure fairness in their business activities. As one

measure, some corporations have designated the observance of tax law as their responsibility as a member of society.

Corporate executives need to further deepen their awareness that tax payment is a duty of the citizens of Japan under the Constitution and that observance of the tax law is one of the most fundamental and importance items in corporate compliance.

1. Taxpayer Services: (1) Public Relations, Tax Consultations, and Information Provision

To have taxpayers voluntarily and properly pay their taxes, it is vitally important that the NTA takes advantage of every opportunity to enhance taxpayer understanding of their tax responsibilities. It is also important that we provide information on tax and respond to questions on tax.

We endeavor to create an environment in which information related to tax is easy to obtain. We employ a variety of PR media—ranging from pamphlets which are available at Tax Offices and city and town halls to taxpayer briefings, television,^{*5} radio,^{*6} and newspaper^{*7}—to provide information on the significance and role of tax and the structure of the tax system. More recent efforts include posting tax information on the NTA website. These efforts are targeted not only at taxpayers but all segments of society.

In questionnaire surveys on national tax PR, however, taxpayer evaluation of the NTA's efforts remains low. For this reason, future PR is being promoted with the following goals in mind:

- (1) Ensure that taxpayers can obtain the information they want when they want it.
- (2) Make it possible for taxpayers to obtain the information they want without traveling to the Tax Office.
- (3) Write public relations materials in a way that is easy for taxpayers to understand.
- (4) Reflect taxpayer input in the public relations materials.
- (5) Ensure that tax officials fully understand the purpose of the public relations materials and ensure that PR is conducted uniformly and consistently.

Tax Education

Today's children will lead and support Japan in future years. To deepen their understanding of the significance and role of taxes and tax payment, the NTA encourages educators to incorporate tax education in their school classes.

To promote tax education, the NTA established the Council for Promotion of Tax Education, which is composed of representatives of national and local governments and educational organizations. The NTA also holds classes on tax and publishes and distributes supplementary textbooks for tax education. For schools that wish to tour a Tax Office or to try a hands-on study of tax, we have set up permanent facilities exclusively for tax education at some Tax Offices. For example, "Tax Space Ueno" at the Tokyo-Ueno Tax Office gives students an opportunity to develop the skills to detect tax issues themselves, to learn and think about those issues, and to independently judge and resolve them.

*5 A regular TV program entitled *Did You Know? Tax Information for Your Life* is broadcast every other Thursday from 11:25 a.m. to 11:30 a.m.

*6 A regular radio program called *Your Tax Consultation with Teizo Muta* is broadcast every Sunday from 8:20 a.m. to 8:30 a.m.

*7 During the filing period for final income tax returns, the NTA's PR efforts include inserting advertisements in newspapers to inform taxpayers about filing deadlines.

Poster advertising the TV program entitled *Did You Know? Tax Information for Your Life*



"Tax Space Ueno" at the Tokyo-Ueno Tax Office

Self-Assessment System

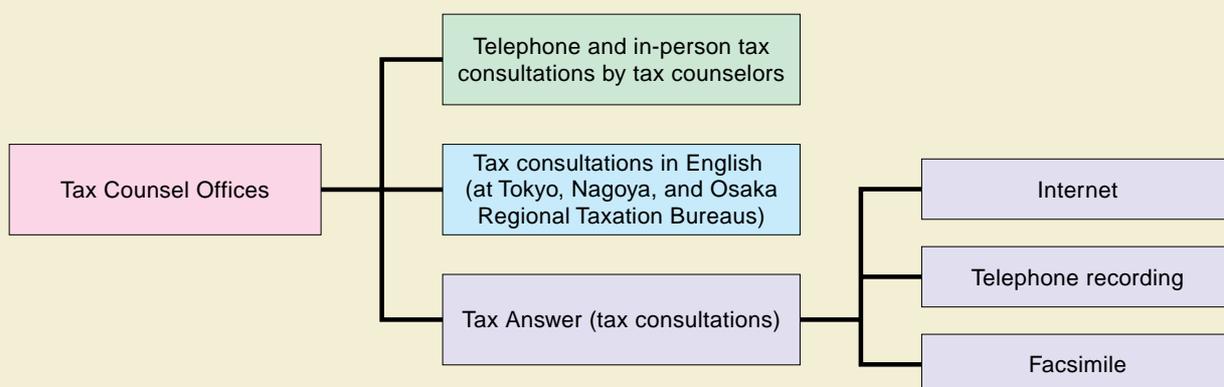
Taxpayer Briefings

The NTA holds briefings for taxpayers to inform them about tax system reforms and deepen their understanding of tax administration. At Tax Offices throughout the nation, we hold a variety of taxpayer briefings to provide information about tax in general. There are briefings for compiling financial statements for those filing a final return or a blue return; year-end adjustment briefings for withholding agents; briefings on tax law revisions, and briefings for newly formed corporations. These various briefings are held as necessary to ensure that the information needed to perform tax procedures is provided at the required times.

Tax Consultations at Tax Counsel Offices

In the past, tax counselors with vast experience in all aspects of tax handled most taxpayer tax questions. Today, in addition to telephone and in-person consultations at Tax Counsel Offices, the NTA also has Tax Answer which provides information by Internet, telephone recording, and facsimile. Tax Answer can be accessed by Internet in Japanese at <http://www.taxanswer.nta.go.jp> or in English at <http://www.taxanswer.nta.go.jp/gaikoku.htm>. The telephone number and information access codes for the Japanese-language telephone recording and facsimile services are available at any Tax Office or city or town hall. Consultations in English are provided at the Tax Counsel Offices of the Tokyo, Nagoya, and Osaka Regional Taxation Bureaus.

Types of Tax Consultations



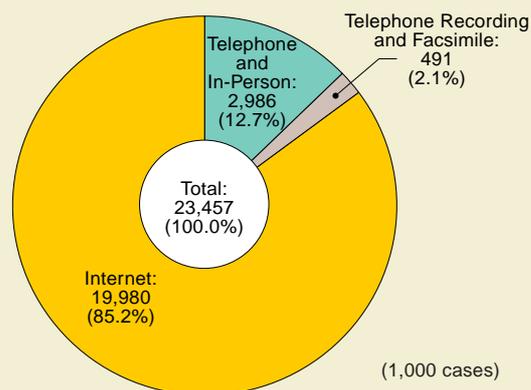
Taxpayer Briefings

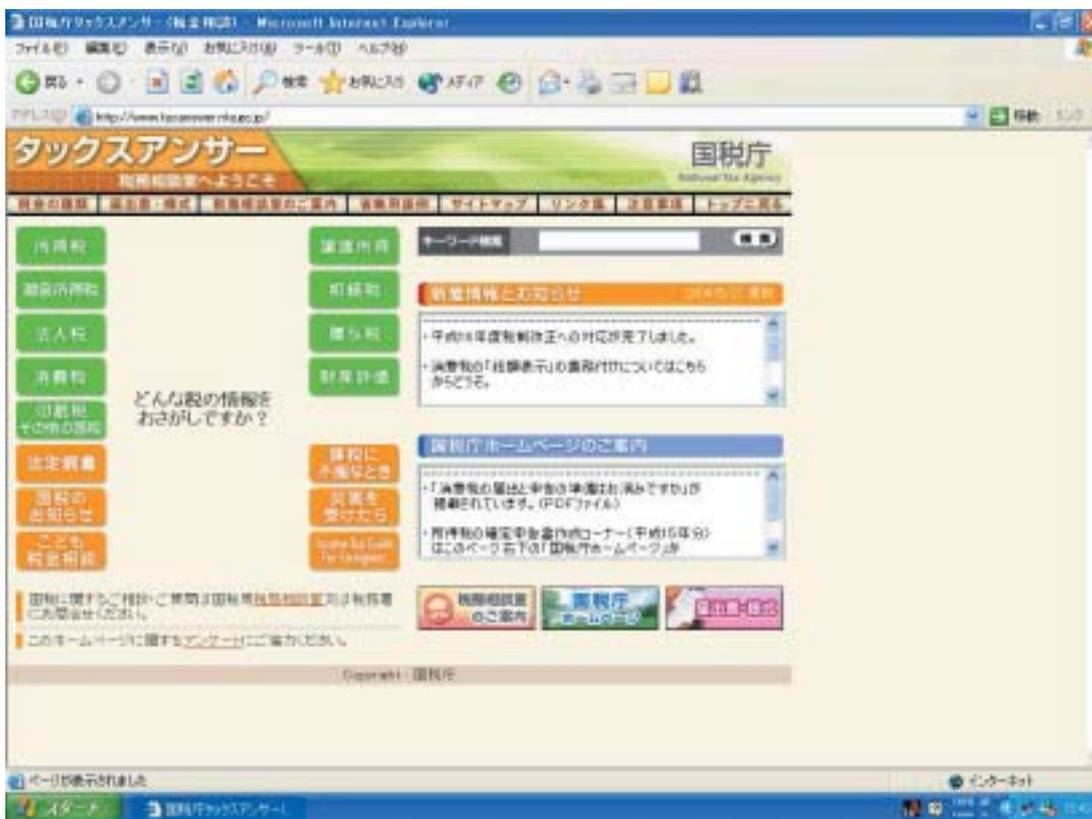
(first half of the 2003 business year)

| | Taxpayer Briefings | Of Which, Briefings on the Revised Consumption Tax Law |
|------------------------|--------------------|--|
| Number of Briefings | 20,871 | 5,487 |
| Number of Participants | 1,318 | 203 |

(briefings, 1,000 persons)

Tax Consultations at Tax Counsel Offices in Fiscal 2003





Tax Answer (tax consultation) via the Internet

Responses to Taxpayer Inquiries

The NTA provides information about the general interpretation and handling of tax law through tax consultations at Tax Counsel Offices and through the issuance of directives. Taxpayers who have questions about the detailed application of the tax law to their particular transactions may inquire in advance at the Tax Office and receive an oral answer.

In September 2001, we started to issue written responses to questions we anticipated would be asked by many taxpayers when we thought that the responses would serve as reference to other taxpayers. However, we provided written responses only to those

questions that we anticipated would be asked by many taxpayers. This regulation was relaxed in March 2004, widening the scope of cases to which written responses are issued.

To implement these improvements in taxpayer services, we expanded our review framework so that we can more promptly handle inquiries. Review Divisions (Examination) staffed with review officers were created at all Regional Taxation Bureaus, except for the Okinawa Regional Taxation Office, as specialized organizations for the review of transaction taxation.

Self-Assessment System

2. Taxpayer Services:(2) Making the Filing of Returns More Convenient

More than 20 million taxpayers—or one in every six Japanese citizens—filed a final income tax return for 2003. More than 10 million filed a return for refund, accounting for more than half of all final returns submitted.

To respond to the increase and diversification of the number of income tax filers and to increase the satisfaction of taxpayers, the NTA attempts to reduce the costs related to filing as much as possible and to provide even higher quality services than before.

Encouraging Taxpayers to Complete Their Own Returns

Under the self-assessment system, it is crucial that taxpayers understand the tax framework and pay their taxes. At tax consultations, NTA officials encourage taxpayers to complete their own forms. To further encourage taxpayers to write their own forms, we completely revised the tax form starting with the 2001 final return form and simplified the items to be entered.

We are also actively taking various other measures to make it easy for taxpayers to write their own forms: Touch-screen computers have been set up at Tax Offices for taxpayers to use to prepare their returns. Moreover, filing assistance and e-Tax are available on

the NTA website. These various services are described in detail below.

We expect the number of final returns will increase in the future, and it is important that taxpayers voluntarily and properly file their final returns for the NTA to control tax collection costs and process returns efficiently with its limited number of officials. At the same time, these computer-based measures to assist taxpayers in writing their own forms are expected to free up officials so that they can spend more time with taxpayers requiring consultations and thus further enhance taxpayer satisfaction.

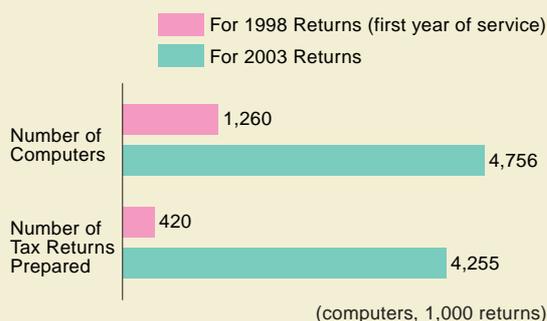
Touch-Screen Computers

Touch-screen computers for preparing tax returns have been installed at Tax Offices making it possible for taxpayers to complete a tax return simply by touching a computer panel in accordance with the instructions that appear on the screen, like a bank ATM. Thanks to the calculation function on the touch-screen computer, even taxpayers who do not know how to calculate their income or tax amount can complete their tax form without difficulty. Touch-screen computers are now a main method that taxpayers use to complete their forms by themselves at the Tax Office, and they are

contributing to the improvement of taxpayer services, including shortening the line for consultations.

Touch-screen computers were introduced starting from the final return filing period for 1998 returns. In the first year, 1,260 computers were installed throughout the nation, and approximately 420,000 returns were completed using them. In the final return filing period for 2003 returns, the number of computers had risen to 4,756, and a total of approximately 4,260,000 returns (about 20 percent of all returns) were prepared using them.

Touch-Screen Computers

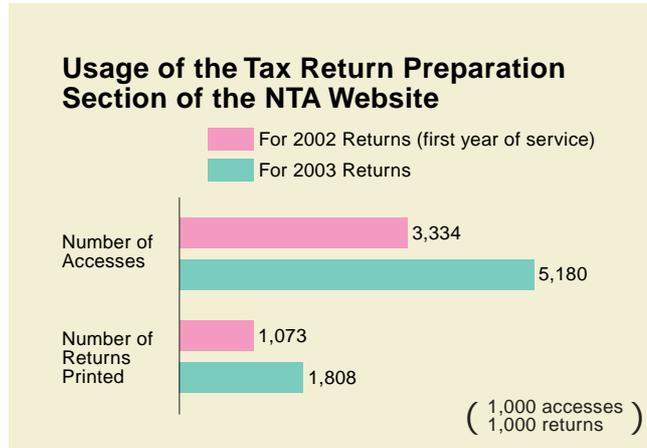


Preparing tax returns by touch-screen computer at the Tax Office

Filing Assistance on the NTA Website

The tax return preparation section of the NTA website allows taxpayers to complete their income tax return from the comfort of their very own home. By inputting the necessary information in the sequence indicated on the computer screen, taxpayers can prepare their final return and have the income and tax amount calculated automatically. If the form is printed out on a color printer, it can be submitted as the final form. Forms may be either submitted in person or sent by post or other courier service to the Tax Office.

The final tax return preparation section of the NTA website was developed in response to the spread of computers and Internet access. During the final return period for 2002 returns when the system was launched, there were about 3.33 million accesses, and approximately 1.07 million forms were printed out. Based on feedback and requests from taxpayers, we added new functions to enable temporary storage of inputted data and to increase the types of forms that can be prepared on the website. During the filing period for 2003 final returns—the second year of the system—the number of users rose steadily with about 5.18



million accesses and approximately 1.81 million forms printed despite the fact that the system was out of operation for one week to the inconvenience of taxpayers.

Considering the rate of spread of computers and Internet access at home, we estimate that the number of users will increase further. We will endeavor to further improve the tax return preparation section of the website and make it easier to use.



Poster for 2003 final tax returns



Tax return preparation section of the NTA website

Self-Assessment System

e-Tax

A system for online tax return filing and tax payment, e-Tax was developed as part of "A Program for the Creation of Next-Generation Electronic Government"*⁸ which aims to simplify and raise the efficiency of administrative procedures through the use of IT. e-Tax started operation for the filing of income tax and consumption tax (individual) returns at the Nagoya Regional Taxation Bureau from February 2004. Corporation tax return filing and tax payments for all items were added from March. Since June 2004, the system can be used throughout the nation. In this way, the range of users and operations has gradually been expanded while placing highest priority on the stable operation of the system.

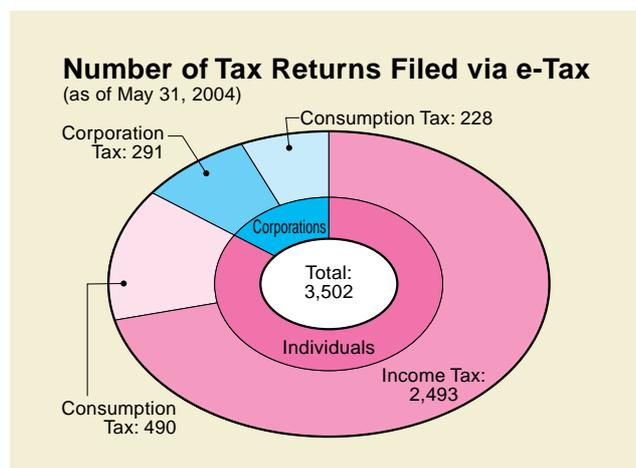
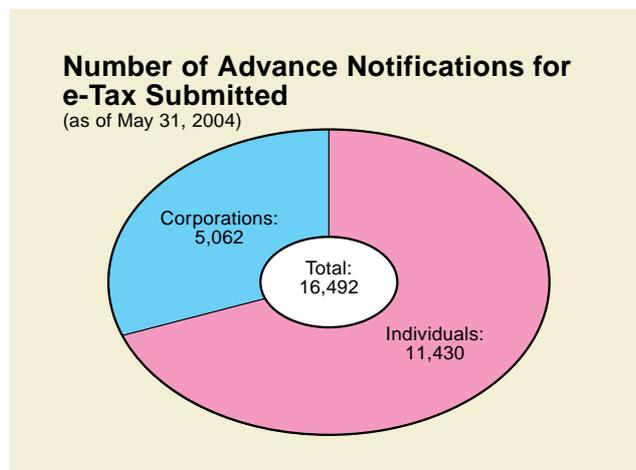
With e-Tax, taxpayers can send in their tax returns and applications from their home computers. In addition, tax payment procedures, which to date required that taxpayers bring cash and tax payment

slips to the bank or Tax Office, can also be made via Internet banking from the taxpayer's home computer. e-Tax has a major impact on taxpayer rights and obligations and involves taxpayers' personal data, such as tax information. For these reasons, we are doing our utmost to earn taxpayer confidence.

e-Tax still does not meet with the full satisfaction of taxpayers, however. For example, taxpayers must submit an advance notification to the Tax Office indicating that they wish to start filing by e-Tax, and some documents that must be attached to the return, including various certificates and receipts, must be sent separately or delivered in person to the Tax Office. While taking full care to ensure the security of the system, we will improve e-Tax so that taxpayers are more satisfied with it. We aim to increase the number of users to about 1.3 million (about 5 percent of returns) in fiscal 2006.



Poster for e-Tax



*⁸ This program aims to utilize information technology in the field of government administration in order to review administrative operations and systems, raise the level of convenience for the public, and make administration simpler and more efficient. It was decided in July 2003 by the IT Strategy Headquarters (composed of the Prime Minister and all state ministers).

Weekend Tax Consultations

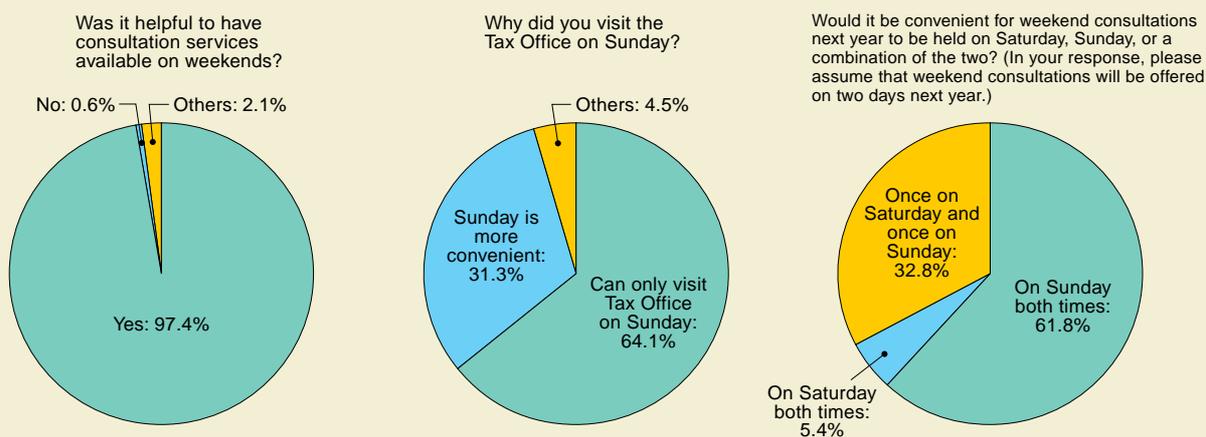
The social and economic situation has changed greatly in recent years. Employment income earners today make up more than two-thirds of all employed people, and doctors, lawyers, and other professionals are increasing in number. With this, there is increasing demand for tax filing consultations to be available on weekends because taxpayers are unable to come to the Tax Office on weekdays.

Weekend consultations were offered for the first time ever for 2003 final returns. This service was provided at 248 Tax Offices around the country where demand for weekend consultations was deemed to be high. Consultations were available for two Sundays in

February 2004. Completed returns were also received. On both days, the number of taxpayers who came to the Tax Office for a consultation was about the same as that who came on weekdays. At Tax Offices located in the residential areas of the Tokyo metropolitan area, however, the number of taxpayers who came to the Tax Office on the weekend was 20 to 40 percent more than the number who came on weekdays. Taxpayers who used the service expressed their appreciation and pleasure with the new service.

We will thoroughly study the information we gathered about the weekend consultations held during the 2003 tax return filing period and announce our findings by the filing period for 2004 final returns.

Results of a Questionnaire on Weekend Tax Consultations



Tax Q&A

Q Every January, the Tax Office says, "Submit your final tax return early!" What does the word "final" refer to?

A When the self-assessment system was introduced, the system required taxpayers to file

an advance estimate of their income for the year (known as a "provisional return") and then to determine and report their final income the following year ("final tax return"). The title "final tax return" was used to distinguish this return from the provisional return.

3. Follow-up and Examinations

To achieve proper and fair taxation, the NTA provides follow-up regarding tax returns and payment and implements rigorous examinations from various angles on taxpayers who attempt to evade their tax

obligations. To select taxpayers for examination, we analyze income tax and corporation tax returns input into the KSK System from the perspectives of industry type, business category, and business scale.

Information

The NTA gains about 130 million new pieces of information a year, and we manage this information and the tax return data in an integrated fashion today with the KSK System and use it to conduct follow-up and tax examinations.

The rise in corporations' wide-area, international business transactions and the increasing use of sophisticated information technology in recent years present new information needs. We determine what new kinds of information are required to examine these new

forms of transactions and then actively collect it. For example, to respond to the increase in transactions with overseas entities accompanying the advancement of internationalization recently, we actively exchange information with foreign tax authorities and use it to inspect returns related to overseas transactions.

Information that proves secret deals or fictitious transactions and pieces of information related to individual or corporate transactions are particularly helpful in examinations.

Follow-up

The Tax Office checks whether the information reported on a tax return is complete and correct based on information gathered from various sources. If unreported or falsely reported information is detected, the Tax Office requests the taxpayer by telephone or in writing to submit an amended return. If the taxpayer

refuses, a correction^{*9} or determination^{*10} is performed under the authority of the district director of the Tax Office.

The Individual Taxation Division handles about 700,000 cases a year of this kind of brief follow-up with taxpayers.

Cooperation with Local Tax Authorities

Some local taxes are levied on the same taxpayers and have the same tax framework as national taxes. To simplify filing procedures, therefore, the national and local tax authorities cooperate closely in terms of system structure and administration.

For example, in terms of the system structure, taxpayers who have filed income tax are not required to submit returns for individual enterprise tax or individual inhabitant tax, both of which are local taxes. Moreover, taxpayers can file their consumption tax and local consumption tax through a single procedure. In terms of administration, many municipalities offer consultations on income tax, a

national tax. In addition, the national tax and local tax authorities together hold briefings on tax return filing and conduct tax PR.

Cooperation in the area of administration is conducted based on consultations between the national tax authorities and the various local authorities, including prefectural and municipal officials. In actuality, there is considerable disparity among regions in terms of the level of cooperation. To improve taxpayer services, the national tax authorities aim to develop closer cooperation with the local tax authorities, particularly those in urban areas.

*9 If the tax and other figures declared in the tax return are too high or too low, a correction is issued by the tax authority in charge of the case.

*10 If a taxpayer who must submit a tax return fails to file by the deadline, a determination confirming the amount of tax is issued by the tax authority in charge of the case.

Strict Treatment of Malicious Taxpayers

To facilitate the smooth operation of the self-assessment system, the NTA has been granted the authority to conduct tax examinations. Such examinations aim to check the content of tax returns based on the taxpayer's books and to correct any mistakes found. We place particular priority on the examination of malicious taxpayers by being sure to invest the necessary number of days on such cases.

The average income declared in 2002 income tax returns was ¥5,540,000, and unreported income discovered through examination averaged ¥6,840,000 per case. The average income declared in 2002 corporation tax returns by corporations with a surplus was ¥41,680,000, and unreported income detected through examination averaged ¥12,790,000 per case.

Comparing this to 1985 figures, it is clear that the amount of unreported income per examination case is on the rise.

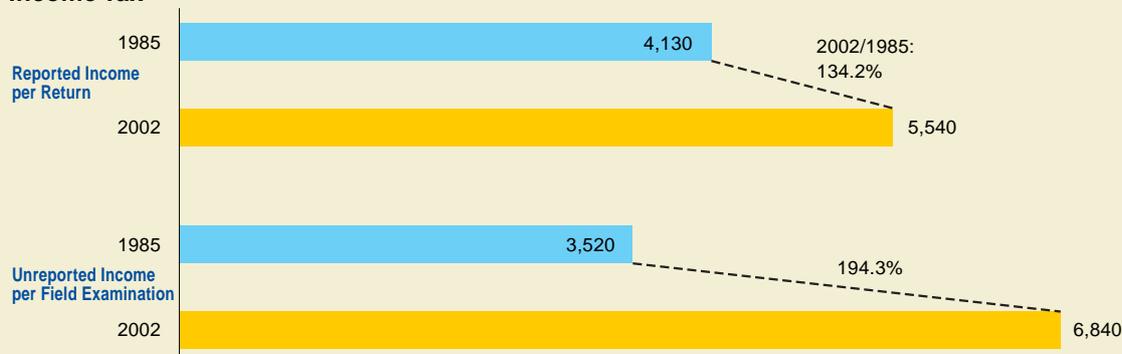
The number of examinations is on the decline, however, because of our restricted number of personnel and the increasing number of days required for each examination.

In light of this situation, the NTA deems ensuring a sufficient number of examinations as indispensable for achieving proper and fair taxation. Constantly keeping malicious taxpayers under our watchful gaze by adeptly selecting and examining taxpayers submitting deficient returns will increase conscientious taxpayers' willingness to pay tax and enhance services to taxpayers in the broad sense.

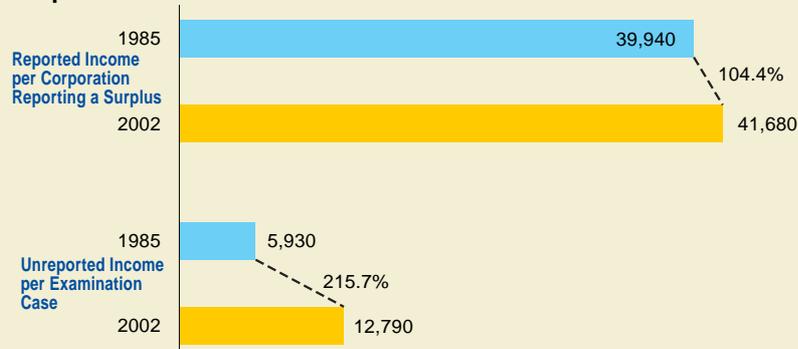
Reported and Unreported Income Per Income Tax and Corporation Tax Case

(¥ thousand)

Income Tax



Corporation Tax



Self-Assessment System

Tax Examinations

An examination proceeds quickly and smoothly if the taxpayer cooperates in the tax examination by presenting books and other documents that track daily transactions to the tax official in charge and responds accurately to questions regarding the tax return and books.

In principle, taxpayers are notified in advance of the date and time of the examination so that we can confirm the taxpayer's availability. The tax official in charge of the examination notifies the taxpayer by telephone. In cases where we must confirm the actual state of the business itself, however, no

advance notification is given. Advance notice is given in approximately 80 percent of income tax examinations and about 90 percent of corporation tax examinations.

To minimize the burden on the taxpayer, we make every attempt to conduct the examination as quickly as possible.

In principle, tax examinations are conducted in the presence of the taxpayer. The taxpayer may also have his or her certified public tax accountant who has been designated as tax proxy attend the examination.

Tax Office Responses to Tax Examination Findings

The Tax Office's response to a tax examination differs depending on whether an error is found in the tax return or not.

- (1) When an error is found in the tax return, the Tax Office explains the error to the taxpayer and states the amount of tax that should be paid.
- (2) When no error is found in the tax return, the Tax Office performs the following:
 - a. If no error is found in the return and no follow-up is needed, the Tax Office sends a written notification of tax examination findings to the taxpayer.
 - b. If there is no need for submission of an amended return or a return after due date

(hereinafter "amended return, etc."), but follow-up is needed regarding future tax returns or recordkeeping, or maintenance and storage of books and documents, the Tax Office provides the taxpayer with an explanation. The Tax Office also clearly announces that the tax examination is closed.

If the taxpayer does not cooperate with the Tax Office's request for an amended return, etc., the Tax Office district director issues a correction (if a tax return has been filed) or determination (if no return has been filed) and sends a Notice of Correction or Notice of Determination to the taxpayer.

Handling Taxpayers during Tax Examinations and Tax Collection

When the tax official visits the residence or office of a taxpayer to conduct a tax examination or collect tax, the official presents a photo identification card that clearly states his or her name and identity as a

tax official. To ensure the taxpayer's privacy, tax officials make every attempt to avoid holding discussions at the entrance to the taxpayer's store or residence.

Delinquent Tax and Penalties

To encourage taxpayers to file tax returns and pay taxes properly, delinquent tax is imposed if tax returns are not filed or taxes are not paid by the due date. There are also cases where either a penalty for understatement, a penalty for failure to file, or a fraud penalty is imposed.

| | | |
|----------------|--|--|
| Delinquent Tax | Until two months from the day after the due date | Annual rate of 4.1% (in 2004) * The annual rate may change due to financial and other conditions. |
| | After two months from the day after the due date | Annual rate of 14.6% |

| Tax Return Filed by Due Date? | Regular Case | Case of Fraud, etc. |
|--|---|---------------------|
| Return is filed by due date, but tax amount is understated | Penalty for understatement (10% or 15%) | Fraud penalty (35%) |
| Return is not filed by due date | Penalty for failure to file (15%) | Fraud penalty (40%) |



Self-Assessment System

Corporate Groups Engaged in Wide-Area Transactions

Corporations endeavor to expand their business over a wide geographical area by setting up subsidiaries and branches, and the NTA is being called to adjust its tax examinations accordingly.

To examine a corporate group, the NTA must first gain an overall sense of the group, and it is very important that the NTA fully ascertain whether the group is illegally manipulating taxation by using intra-group transactions. For overseas subsidiaries, the NTA must examine international tax issues. The state of the local economy and the subsidiaries' ties with the community are valuable information for the Japanese tax authorities to fully ascertain the true situation of the subsidiaries.

The consolidated taxation system was introduced in August 2002. The corporate groups that opt for this

system are still corporate groups in form, however, so the NTA must ascertain the actual situation of intra-group transactions and the importance of local information remains basically the same.

For corporate and consolidated groups conducting wide-area transactions, the NTA implements coordinated, nationwide examinations of parent companies and those subsidiaries that require examination by maintaining close communication and coordination among the national network of Regional Taxation Bureaus and Tax Offices.

Corporations' wide-area business transactions have increased markedly in recent years with internationalization and the increasing use of IT. The NTA considers examinations of corporate groups and consolidated groups as an important issue for the future as well.

Consolidated Taxation System

With the dramatic changes in the management environment surrounding Japanese corporations, the Commercial Law and other laws and regulations have been adjusted to facilitate corporate reorganization and thereby ensure that the nation's companies remain competitive and can fully demonstrate their vitality. In the amendments made to the Corporation Tax Law as part of the fiscal 2001 tax reforms, necessary adjustments were also made to the corporation tax system, including the revision of items related to corporate split-ups and mergers. Moreover, a consolidated taxation system was introduced as part of the fiscal 2002 tax system reforms in

response to the situation today where corporations are expanding their operations as corporate groups and corporate disclosure is primarily performed via consolidated financial statements.

The consolidated taxation system was introduced in August 2002. This system views a corporate group as a single corporation in the levying of tax. The NTA is smoothly implementing the system by improving the administrative framework, including conducting PR about the new system, responding to inquiries, and promptly examining applications for approval to use the system so that consolidated reports are submitted properly.

Applications for Approval to Use the Consolidated Taxation System

| | 1. No. of Applications Submitted (No. of Parent Companies) | | Reference | |
|---|--|---|-------------------------------------|------|
| | 2. No. of Subsidiaries | 3. Total No. of Subsidiaries and Parent Companies (1 + 2) | No. of Corporations per Group (3/1) | |
| Cumulative Total as of End of Sept. 2002 | 164 | 2,732 | 2,896 | 17.7 |
| Cumulative Total as of End of June 2003 (submitted during 2002 business year) | 304 | 3,789 | 4,093 | 13.5 |
| Cumulative Total as of End of Sept. 2003 | 384 | 4,712 | 5,096 | 13.3 |

Consolidated Taxation Returns

(for fiscal 2003, ending March 31)

| | | |
|----------------------|---|-------|
| Consolidated Returns | No. of Returns | 134 |
| | Percentage of Returns Declaring a Surplus | 13.4% |
| | Reported Income (¥100 million) | 325 |
| Reference | Non-consolidated Income (¥100 million) | 9,287 |

International Tax Avoidance Schemes

With the globalization of the economy, corporate activities that span national borders are growing more dynamic. At the same time, attempts to avoid international tax by craftily using differences in tax systems and tax treaties between nations are becoming more numerous and are unfairly eroding the nation's tax base. Tax avoidance plans are complex schemes that use anonymous association contracts, partnerships,^{*11} limited liability companies (LLC),^{*12} or other business formats or new financial methods.

To realize proper and fair taxation and prevent the unfair erosion of the nation's tax base, the NTA refuses to allow these schemes because they will result, in the final analysis, in conscientious taxpayers' carrying the burden of the taxation avoided by these schemes.

The NTA makes every effort to properly address international tax avoidance schemes. We implement tax examinations and other measures to ascertain the actual situation of the transactions and clarify the facts of complicated schemes. We then carefully examine the applicable laws and determine whether taxation is necessary.

To handle these new issues, we have endeavored to improve and strengthen our system since the 1980s, including increasing the number of senior examiners (international) who specialize mainly in examining the

international transactions of large corporations. In recent years, small and medium-sized enterprises and wealthy individuals have come to be involved in international tax avoidance schemes. In response, the NTA established the Project Team to Deal with Internationalization at key Regional Taxation Bureaus in the 2002 business year, and endeavors to ascertain the schemes, explicate the facts, and acquire information about financial assets held overseas. To improve the abilities of our tax officials, the National Tax College provides advanced, long-term training in international taxation, including foreign tax law, tax conventions, derivatives,^{*13} and foreign languages. In addition, the Regional Taxation Bureaus offer various practical training courses as well. We are also considering incorporating the expertise of private-sector specialists in financial transactions and tax avoidance schemes to explicate the facts.

To prevent the loss of the nation's tax base, the NTA requests that tax system revisions be made as soon as possible so that the NTA can successfully address schemes that cannot be properly handled using the interpretation of current tax law and schemes that demonstrated in court rulings the need for new legislation.

Types of International Taxation Avoidance Schemes

There are two types of international taxation avoidance schemes: boutique-type schemes, in which individual corporations or other entities form a scheme in line with their business activities, and package-type schemes, in which those who develop schemes sell to an indefinite, large number of corporations. Boutique-type schemes include cases where foreign corporations attempt to avoid Japanese tax by investing through paper-companies established in the Netherlands, for example, to abuse

tax conventions in their purchase of nonperforming loans and other investment activities in Japan. Package-type schemes include transactions in which corporations or other entities purchase and then lease expensive depreciable assets, including airplanes, tankers, motion-picture films, and overseas real estate, through such entities as anonymous associations or voluntary partnerships. With such schemes, depreciation costs which exceed the lease earnings are accounted first.

* 11 A partnership is an organization of two or more persons who carry on a business as co-owners for profit. Partnerships are widely used to set up joint ventures mainly in the U.S. There are generally two types of partnerships: (1) general partnerships, which consist of two or more general partners with unlimited liability, and (2) limited partnerships, which consist of one or more general partners who manage the business and have unlimited liability and one or more limited partners who do not participate in management and have limited liability.

* 12 A limited liability company (LLC) is a business entity organized based on the limited liability company law in the U.S. state where the company is located. LLCs consist exclusively of members who have limited liability.

* 13 Derivatives are new financial products based on bond, stock, exchange, and interest rate transactions. Futures, options, and swaps are types of derivatives.

Self-Assessment System

Transfer Pricing Issues

With the globalization of corporate activities, transfer pricing issues have become important in the field of international taxation. For example, if a Japanese parent company sets a low price when it exports products to its overseas subsidiary, income is transferred overseas. The transfer pricing tax system has been developed to address such issues.

Transfer pricing issues also lie at the heart of transactions, namely, the setting of prices for transactions between related corporations in a multinational corporate group. At the same time, transfer pricing issues are related to multinational corporations' management policy. Moreover, transfer pricing examinations generally require a large volume of documents and considerable time to calculate the appropriate price. If we consider the costs required to

resolve double taxation that arises from transfer pricing taxation, this issue has a tremendous influence on corporations.

To reduce the administrative burden on corporations and to ensure predictability of taxation on business activities, the NTA offers advance pricing arrangements (APA) to confirm in advance the method used to calculate the transfer price.

As more and more Japanese corporations have transferred their production bases overseas in recent years, transactions related to intangible assets and the rendering of service^{*14} have been of increasing importance. Regarding these kinds of transactions, the NTA must make corporate executives aware of the importance of the parent company's receiving a proper price from their overseas subsidiaries.

Electronic Commerce Transactions

As means of communication have become more sophisticated and communications costs have declined, use of the Internet has increased dramatically, and transactions with individual consumers via virtual shopping malls on the Internet are spreading.

To collect information about the state of these kinds of electronic commerce transactions and to ascertain

the parties involved in the transaction, the NTA has set up a Professional Team for E-Commerce Taxation (PROTECT) at each Regional Taxation Bureau. This team collects information in both a specialized and cross-sectoral manner from providers and others involved in e-commerce transactions and conducts tax examinations based on the information gathered. The team also develops and collects examination methods.

Discussions at the OECD

The Organisation for Economic Co-operation and Development (OECD) has long been the primary international forum for the discussion of the taxation of electronic commerce transactions that span national borders. Purchases of products from foreign entities via the Internet are taxed with customs duties and consumption tax, if items are physically imported, because they pass through customs. When consumers directly purchase digital content (music, books, etc.) distributed online from overseas entities, problems arise in terms of tax neutrality and tax revenue if no consumption tax is levied. The OECD

has recommended the following: for business-to-business (B-to-B) transactions, the importer shall pay tax by voluntarily filing with the Tax Office the consumption tax related to purchases from overseas, and for business-to-consumer (B-to-C) transactions, the foreign entity shall pay tax by registering as a taxpayer with the Tax Office.

The Executive Committee of the European Union adopted a framework for imposing value added tax on digital content and the framework was similar to that in the OECD recommendation. The regulation came into force in July 2003.

*14 Transactions related to intangible assets include transactions that permit the use of copyrights, patents, and other rights recognized by law as well as know-how, customer lists, and other things that are not recognized in the law but are important and valuable. Transactions related to the rendering of service include transactions related to the provision of service regarding management, financial affairs, operations, and administrative management within the corporate group.

Criminal Investigations

General tax examinations are so-called voluntary examinations and are conducted with the consent of the taxpayer in principle. To impose correct taxation on taxpayers who intentionally evade tax using illegal means and to pursue criminal responsibility for antisocial behavior, however, the NTA conducts examinations using methods equivalent to those used in criminal investigations conducted by police. Based on the findings, we request the public prosecutor to charge and prosecute the person. This is known as the criminal investigation system, and it pursues the criminal responsibility of large-scale and malicious tax evaders. Taking advantage of the fact that punishing one serves as a warning to others, this system plays an important role as the ultimate means for protecting the self-assessment system.

As corporations engage in wide-area, international business activities that involve the use of advanced IT, tax evasion methods have grown more complex and diverse in recent years. By expanding and strengthening our information and conducting efficient examinations,

the NTA endeavors to actively pursue criminal charges and prosecute large-scale, malicious tax evaders.

In fiscal 2003, the NTA commenced 201 criminal investigation cases and reported 147 cases to the prosecutor. Total tax evaded was about ¥33.6 billion, with an evaded tax sum of ¥208 million per accused case. Although the number of cases commenced, closed, and prosecuted increased over the previous fiscal year, the percentage of prosecutions, total evaded tax amount, and amount of tax evaded per case decreased.

Notable tax evasion methods in fiscal 2003 were intentional concealment of sales and recording of costs at unreasonably high figures. Moreover, evasion of tax through wide-area transactions that involved several Regional Taxation Bureaus and tax evasion related to overseas transactions were also prominent.

In 2003, 133 cases were resolved at the court of first instance, all of which were convicted. The average fine was about ¥32 million per case, and the average prison sentence was 15.6 months, including six cases with no probation. Prison sentences have been handed down every year since 1980.

Criminal Investigations

| Fiscal Year | Number of Cases Commenced | Number of Cases Closed | Number of Cases Prosecuted | Total Tax Evaded (Number in parentheses is total tax evaded in prosecuted cases) (¥ million) | Tax Evaded per Case (Number in parentheses is tax evaded per prosecuted case) (¥ million) |
|-------------|---------------------------|------------------------|----------------------------|--|---|
| 2003 | 201 | 202 | 147 | 33,613 (30,600) | 166 (208) |

Note: Tax evasion figures include penalties.

Judgments Handed Down in Criminal Investigation Cases

| Calendar Year | (1) Number of Judgments | (2) Number of Convictions | Of (2), Number of Convictions with Prison Sentence without Probation | (2)/(1) Percentage of Cases Convicted | Amount of Tax Evaded per Case (¥ million) | Average Prison Sentence per Person (months) | Average Fine per Case (¥ million) |
|---------------|-------------------------|---------------------------|--|---------------------------------------|--|---|--------------------------------------|
| 2003 | 133 | 133 | 6 | 100.0% | 155 | 15.6 | 32 |

Note: The "Amount of Tax Evaded per Case" is the amount of tax evaded through fraud and other illegal activities.

4. Payment of Taxes

Fostering a Cooperative Attitude regarding Voluntary Payment

Declared tax becomes tax revenue when it is actually paid to the national treasury. In fiscal 2002, about ¥46.5 trillion of the ¥48 trillion in national tax reported to the Tax Office were paid by year-end. This means that approximately 97 percent of taxes were paid.

For national taxes, taxpayers file a tax return themselves and pay the tax by the filing due date using a tax payment slip on which they write in the tax amount themselves. For this reason, the NTA endeavors through PR to make sure that taxpayers do not let the tax payment deadline pass by accident. For individual

enterprises that declare and pay tax on an ongoing basis, we suggest tax payment by transfer account from their savings account. Moreover, we are committed to further improving taxpayer services. From 2004, taxpayers can perform tax payment procedures at their homes or offices with e-Tax.

The NTA also takes steps to ensure tax receipts. Taxpayers whose last tax payment was submitted after the due date are reminded in writing of the next tax payment deadline, and taxpayers who missed the deadline by accident are contacted by telephone prior to issuance of a demand for payment.

Measures to Address Tax Delinquency

Tax delinquency is failure to pay national tax by the deadline. Delinquent tax outstanding at the end of fiscal 2003 amounted to about ¥2 trillion. Allowing delinquent tax to go unpaid results in unfairness between delinquent taxpayers and the vast majority of taxpayers who pay their national taxes by the deadline. In the end, this undermines the principles of the self-assessment system, namely, voluntary declaration and payment. For this reason, the NTA endeavors to strictly deal with tax delinquency while taking into consideration the unique situation of each taxpayer.

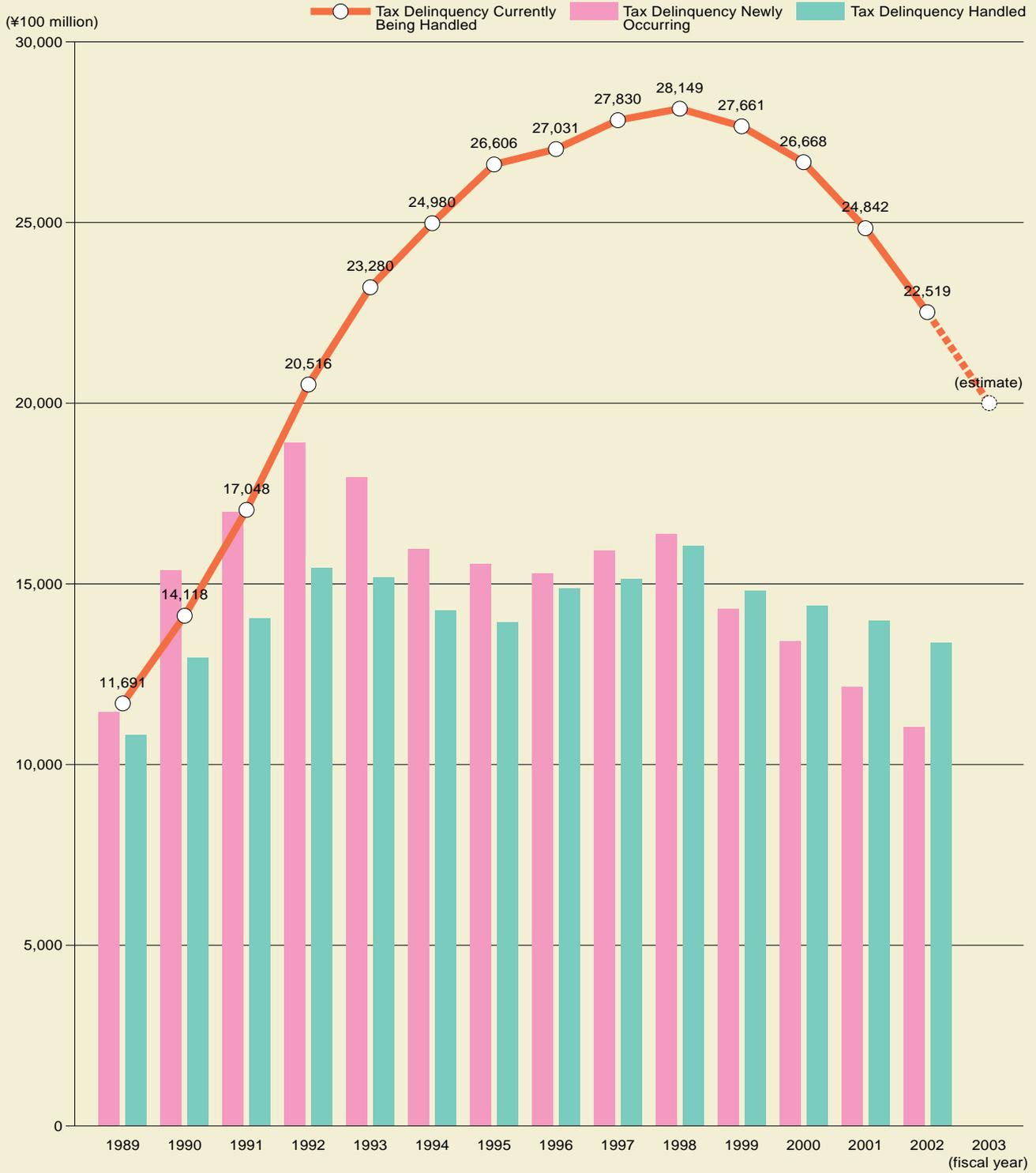
If taxpayers are delinquent in the payment of their national taxes and do not pay even after receiving a written payment demand slip, the NTA seizes the taxpayer's property. In past years, telephone subscription rights and real estate were often the items seized. Reflecting the decline in value of telephone subscription rights and in real estate prices, savings accounts, loans receivable, and other claims are increasingly seized today. For taxpayers who are having temporary difficulty with their tax payment because of natural disaster, sickness, or the suspension or

closedown of business operations due to economic circumstances, however, we respond appropriately to the taxpayers' situation, including allowing an installment plan for tax payment, as a measure to lighten the burden of tax payment.

The clamping down on tax delinquency was designated a top-priority issue from 1999. The entire NTA is working together to take measures to prevent tax delinquency and to place priority on the collection of delinquent consumption tax—which is a type of deposit—and the collection of large-scale and malicious tax delinquency.

Moreover, the NTA is addressing cases of particularly malicious tax delinquency, including concealment or disposal of assets with the intent of evading the procedure for collection of tax delinquency, based on the penal provisions for evading delinquency disposition stated in Article 187 of the National Tax Collection Law. Under these provisions, a taxpayer is given a maximum of three years in prison or a fine of up to ¥500,000 for such evasion. There have been three such cases since 1996.

Trends in Tax Delinquency



Self-Assessment System

Tax Payment Call Centers

At Tax Payment Call Centers, tax officials make demand notifications to delinquent taxpayers by telephone while referring to taxpayer information that appears on a computer screen. The calls are placed automatically by a state-of-the-art computer system that simultaneously displays the data for the delinquent taxpayer called. This system has helped raise the

efficiency of delinquent tax handling; the full payment rate has risen four to five times compared to that collected through written notices in the past. The Tax Payment Call Center was introduced at the Tokyo Regional Taxation Bureau in 2002 and introduced later at the Osaka Regional Taxation Bureau and then at the Kanto-Shinetsu Regional Taxation Bureau. Call centers are scheduled to spread throughout the nation in 2004.

Efficient Management of Tax Claims and Liabilities

The NTA manages national tax claims and liabilities by processing tax returns, some of which require tax payment and others that require tax refund. In 1966, we initiated efforts to create a system to properly and efficiently manage these claims and liabilities. In 2001, the KSK System was introduced at Tax Offices nationwide, and tax claims and liabilities are managed via this integrated system.

Every year, about 40 million tax payments are made, mainly of income tax. To date, the majority of them have been paid at financial institutions. To efficiently process such a large number of payments, the NTA has streamlined administrative operations by introducing payment by account transfer through the exchange of magnetic tape for self-assessed income tax—so-called tax payment by transfer account.*¹⁵ We have also streamlined operations through cooperation with financial institutions and the Bank of Japan, including OCR processing*¹⁶ of tax payment slips by the Bank of

Japan. Transfer procedures to pay refunds used to be performed through written documents from Tax Offices, but the NTA developed paperless procedures for refund transfers by magnetic tape in 2001 and performs most refunds using those procedures. In these ways, we endeavor to achieve efficient and speedy processing of payments.

The introduction of e-Tax makes possible even more efficient administrative procedures because taxes that to date could only be paid at Tax Offices or financial institutions can now be paid via computer or ATM. In the future, the NTA intends to spread and expand electronic tax payment in cooperation with financial institutions.

The management of national tax claims and liabilities is the cornerstone of taxation and tax collection. We will continue to strive to improve services by conducting procedures speedily and accurately through the advanced application of the system and delivering refunds to taxpayers as quickly as possible.

Multipayment Network

Many banking transactions can be performed using ATMs or the Internet, but the payment of taxes and other public fees has in the past required the taxpayer to bring a payment slip or application form with the payment to a financial institution or government office. The financial institution collected the amount written on the slip or form and then took procedures to notify the fee collection agency in question about the payment. In 2000, financial institutions and fee collection agencies (government ministries and agencies and private corporations) started discussing the creation of a network for the collection of tax and other public fees that would

enable the notification of payments to be performed electronically. The resulting network is called the Multipayment Network and is part of the infrastructure for the electronic payment of taxes.

The Multipayment Network commenced operation for the collection of private sector bills from October 2001. From January 2004, it started to be used for some national treasury funds. National taxes were collected by this system from March 22 from taxpayers under the jurisdiction of the Nagoya Regional Taxation Bureau. It has been used nationwide since June 1, 2004.

*¹⁵ Tax payment by transfer account uses a method in which tax payment slips are sent from the Tax Office to the financial institution designated in advance by the taxpayer and taxes are automatically deducted from the designated account. Regarding self-assessed income tax, for which filing of returns is concentrated on a certain period, a large quantity of tax payment slips must be sent to financial institutions, and both the financial institutions and the Tax Offices must handle a massive volume of administrative work to input and output such slips. To make such administrative work more efficient, magnetic tape with the data necessary to carry out transfers between accounts is sent to financial institutions, and procedures for transfers between accounts are carried out. The results of the procedures are then recorded on the magnetic tape, and the tape is returned.

*¹⁶ OCR (optical character reader) processing converts characters printed on tax payment slips into electronic data, thereby enabling paperless operations.

5. Cooperation with Private Organizations

To enable correct filing and payment of tax—the cornerstones of the self-assessment system—the NTA endeavors to disseminate correct information about tax and to ensure a fair tax burden, but in the final analysis, taxpayers are the key players in the self-assessment system.

In reality, however, it is very hard to communicate all the fine points of tax law to the average taxpayer. To support taxpayers, a certified public tax accountant system has been established, and the NTA receives cooperation from private organizations as well.

Certified Public Tax Accountants

Certified public tax accountants have a public mission as tax experts to strive to realize tax compliance as provided in the tax law and to satisfy taxpayer trust from a fair and independent standpoint. They play an important role in the proper and smooth operation of the self-assessment system.

Japan has about 67,000 certified public tax

accountants and about 700 certified public tax accountant firms. The business, qualifications, rights, and obligations of certified public tax accountants are stipulated in the Certified Public Tax Accountant Law. The business of certified public tax accountants includes tax counsel, tax proxy, and preparation of tax documents.

Documents Attached by Certified Public Tax Accountants to Tax Returns

To facilitate tax compliance, the Certified Public Tax Accountant Law was revised in May 2001, and the revisions took effect from April 1, 2002. The amendments to the law expanded the system for hearing the opinions of certified public tax accountants (firms). The new system permits certified public tax accountants (firms) to attach documents that describe the calculations or audit they performed for the return. If the Tax Office intends to conduct a tax examination on a taxpayer that has submitted

such a return, the certified public tax accountant (firm) possessing the certificate evidencing the authority of tax proxy is given the opportunity to express his or her opinion on the items written in the attached documents before the taxpayer is notified about the tax examination.

The NTA intends to facilitate tax filing and payment so that the new system for having certified public tax accountants attach documents can be actively used.



The NTA's Tax Payment Call Centers boast a state-of-the-art computer system.

Self-Assessment System

Cooperative Private Organizations

In addition to providing tax information directly to taxpayers, the NTA also endeavors to relay information to taxpayers through cooperative private organizations, including blue return associations, corporations associations, and indirect tax associations. These cooperative private organizations play an important role in realizing correct tax filing and payment as organizations of sincere taxpayers.



This representative of a cooperative private organization submits final tax returns early.

Blue Return Associations

Set up voluntarily by individual enterprises and other blue return taxpayers, blue return associations aim to spread the blue return system and promote the submission of proper returns through honest bookkeeping. Today, there are about 4,200 blue return associations in Japan comprised of approximately 1.09 million members. Each association provides members with

instruction on bookkeeping and account settlement and disseminates tax information through seminars and association newsletters. The associations are also conducting a wide range of activities to encourage nonmembers to use blue returns. For details, please inquire at your local blue return association.

Corporations Associations

Corporations associations are independently formed organizations that aim to improve bookkeeping practices and deepen and spread knowledge of tax. Today, there are 483 corporations associations nationwide, including prefectural federations, and membership stands at about 1.16 million corporations. Corporations associations conduct a wide range of activities to contribute to the improvement of tax awareness and the sound

development of corporate management and society. They hold tax lectures and seminars for corporate executives, managers, and accountants and engage in activities to contribute to the local community. For more information, see the website of the National General Federation of Corporations Associations at <http://www.zenkokuhojinkai.or.jp> (Japanese only).

Indirect Tax Associations

Indirect tax associations aim to contribute to the dissemination of knowledge about indirect taxes and the realization of fair taxation and proper tax administration through the self-assessment system. Today, there are 538 indirect tax associations in Japan, and total membership stands at about 109,000 and is composed mainly of taxpayers of consumption tax and other indirect taxes. Indirect tax

associations make proposals to the government on ways to enhance the indirect tax system and its enforcement. The associations also conduct activities to prevent consumption tax delinquency. For more details, please see the website of the National General Federation of Indirect Tax Associations at <http://www.kanzeikai.jp> (Japanese only).

Tax Payment Associations

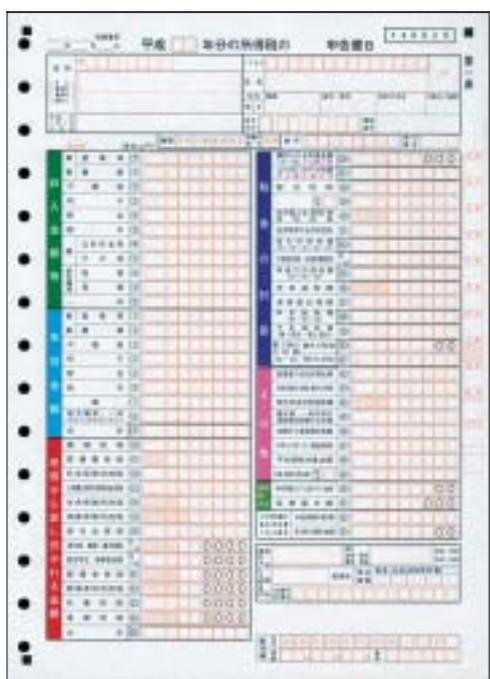
Established under the jurisdiction of the Tax Offices under the Osaka Regional Taxation Bureau, tax payment associations conduct the same activities as the above-mentioned blue return associations and corporations associations. These associations aim to disseminate knowledge about taxes, promote proper tax filing and payment, and enhance compliance. There are 83 tax payment associations nationwide which together boast membership of about 310,000

individuals and corporations. Each tax payment association conducts a wide range of activities to disseminate information about tax, including PR activities, briefings and lectures tailored to the needs of members, and bookkeeping classes. For more details, please consult the website of the Federation of Tax Payment Associations at <http://www.nouzeikyokai.or.jp> (Japanese only).

Saving-for-Tax Associations

To fully pay tax by the deadline, it is important to think about cash flow and endeavor to systematically save funds to use for tax payment. Saving-for-tax associations are formed by and of taxpayers who strive to pay all their taxes on time every year by saving for tax payment on a daily basis. Established based on the Saving-for-Tax Associations Law, these associations number 99,000 today. The associations encourage tax payment by transfer account for income tax for individuals and for consumption tax and local consumption tax for individual enterprises

based on savings set aside as funds for tax payment, and promote the full payment of consumption tax. Moreover, the associations conduct a wide range of activities to spread tax information and raise tax awareness, including holding seminars on tax law and holding an essay contest on tax for junior high school students. For details, please consult the website of the National Federation of Saving-for-Tax Associations at <http://www.zennoren.jp> (Japanese only).



Final income tax return

Tax Q&A

- Q** I see posters promoting blue return associations and blue returns. Why are these returns referred to as “blue?”
- A** Blue returns were introduced with the Shoup Recommendations* after World War II. Designed to promote proper filing, blue returns were permitted only for taxpayers who kept certain books and documents, and blue return taxpayers were given various benefits. There are various theories about why the returns are referred to as “blue.” One theory is that the system in the United States at that time used a blue-colored return. Another theory is that blue was selected because of its association with the image of “cleanliness” and “proper declaration.”

* The Shoup Recommendations are the recommendations of a U.S. mission led by Dr. Carl Summer Shoup that served as the master plan for the comprehensive reform of Japan's tax system after World War II.

Remedy for Infringement of Taxpayer Rights

Requests for Reinvestigation, Requests for Reconsideration, Litigation: Japan's Systems to Address Infringement of Taxpayer Rights and Interests

Sometimes taxpayers differ in viewpoint with the Tax Office about a correction made during a tax examination. If they want to appeal the correction, they use the appellate system for administrative review before lodging a lawsuit directly with the court. This review system provides procedures to simply and promptly remedy infringement of taxpayer rights and interests and is composed of requests for reinvestigation and requests for reconsideration.

To appeal the Tax Office's handling of a case, in principle taxpayers first submit a request for

reinvestigation to the district director of the Tax Office. If a taxpayer is still dissatisfied after receiving the outcome of the request for reinvestigation, he or she can submit a request for reconsideration to the president of the National Tax Tribunal, a specialized institute which is independent from the district director of the Tax Office. In addition, if a taxpayer wants to appeal the disposal of his or her case after a decision has been given by the president of the National Tax Tribunal, the taxpayer may lodge a lawsuit in court as in other general administrative cases.

Requests for Reinvestigation

Requests for reinvestigation represent the first stage of administrative dispute procedures regarding disposal of national tax. To appeal a correction/determination or seizure made by the Tax Office district director or other official, the taxpayer lodges a request for reinvestigation with the district director or other official to request the ruling be revoked or changed.

In recent years, reinvestigation request cases have grown increasingly complicated as corporate groups conduct inter-prefectural and international business transactions. With this, more and more of these cases require facts that are hard to ascertain and involve laws that are difficult to interpret. To respond to this situation, the National Tax Agency (NTA) has established Review Divisions (Examination) with review officers at each Regional Taxation Bureau. In addition, we are endeavoring to develop a system to appropriately and promptly process requests for reinvestigation by offering various training programs to develop officials expert in conducting reviews as well as examinations. As a result, about 80 percent of all requests for reinvestigation have been processed within three months in recent years.

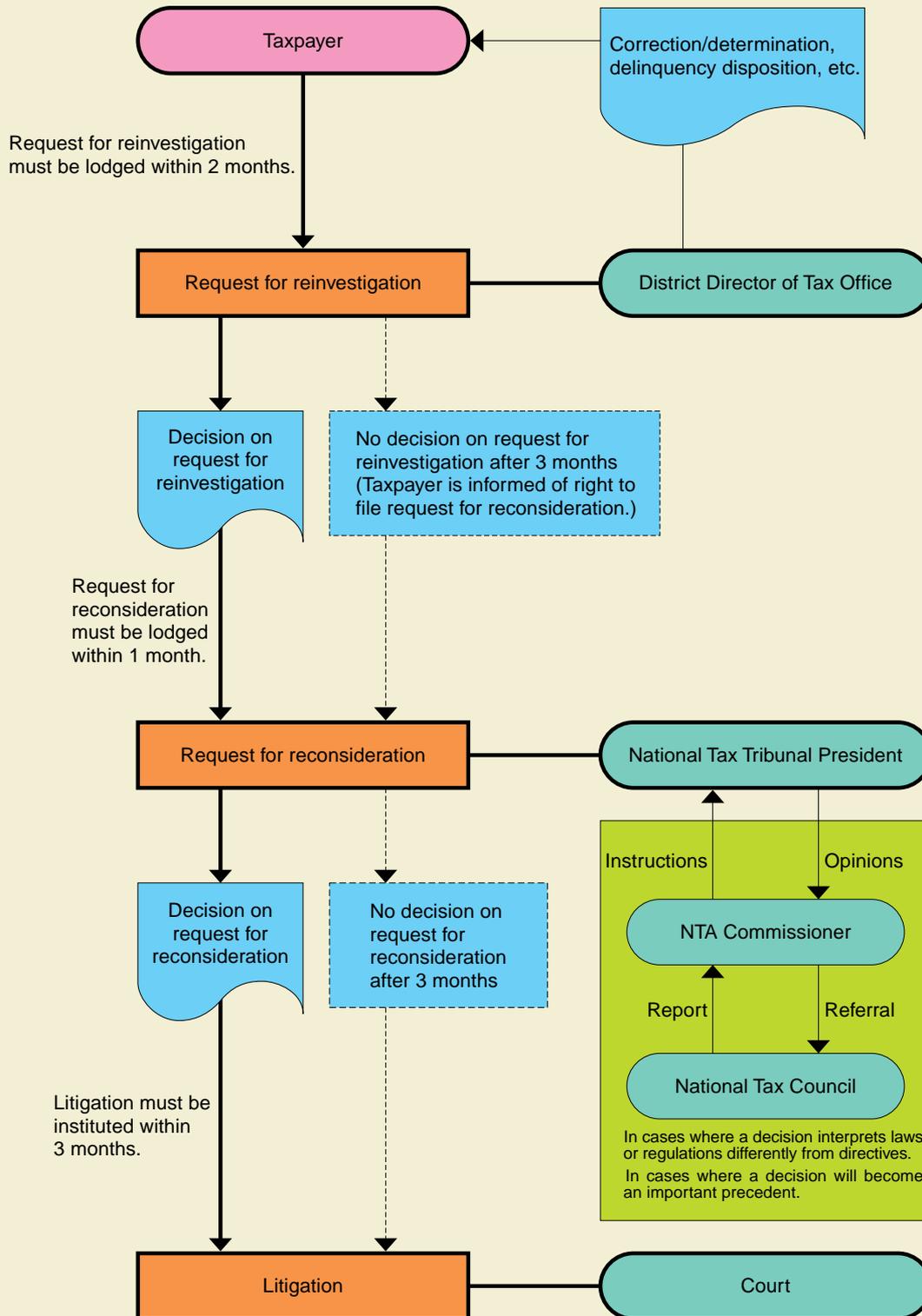
The NTA endeavors to conduct reinvestigation operations properly and uniformly throughout the nation based on an accurate interpretation of tax law so that taxpayers throughout the country are properly and fairly taxed at the examination stage.

In fiscal 2002, a total of 4,379 requests for reinvestigation related to taxation were processed. Of these cases, 18 percent saw full or partial review in favor of the taxpayer's claims based on new facts determined.

Percentage of Reinvestigation Request Cases Processed within 3 Months and Number of Reinvestigation Request Cases Processed



Relationship between the Appellate System and Litigation



Remedy for Infringement of Taxpayer Rights

Requests for Reconsideration

Taxpayers who wish to appeal the decision of the district director of the Tax Office in relation to their request for reinvestigation can lodge a request for reconsideration with the president of the National Tax Tribunal.

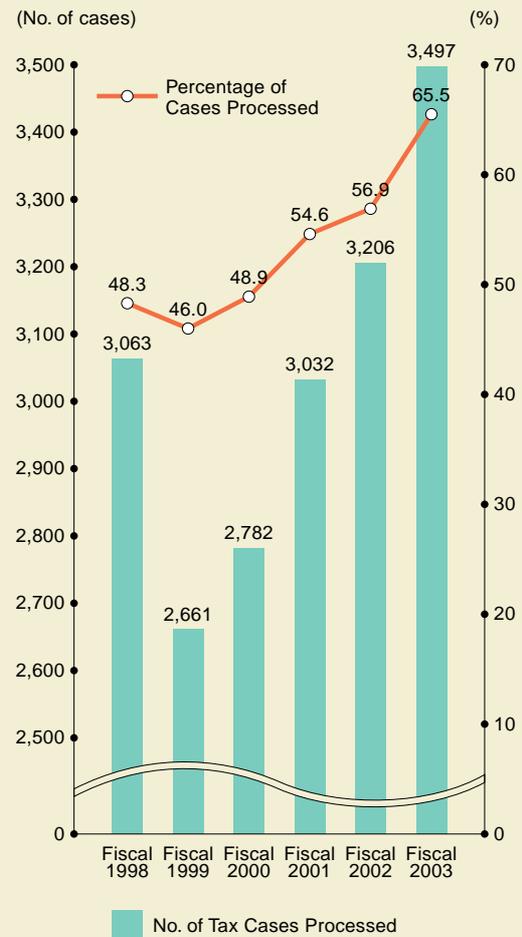
The National Tax Tribunal remedies infringement of taxpayer rights and interests by taking an independent, third-party perspective from the Regional Taxation Bureaus and Tax Offices. Appeals judges, associate appeals judges, and tax tribunal examiners with specialized knowledge and vast experience examine and review the case from a neutral standpoint. Justices and public prosecutors are appointed president of the National Tax Tribunal and chief appeals judges at the Tokyo and Osaka Branch Offices of the Tribunal and other key positions.

The National Tax Tribunal promptly clarifies the points at issue in a case by drafting a chart outlining the claims of each party after fully ascertaining their perspectives by contacting the party requesting reconsideration and the Tax Office. The Tribunal endeavors to quickly and speedily remedy any infringement of the rights and interests of the taxpayer by listening fully to the opinions and claims of each party and conducting its own examination when necessary.

Decisions by the president of the National Tax Tribunal never increase the penalty placed on the taxpayer in the disposal made by the Tax Office district director. Moreover, the district director cannot institute a lawsuit even if he or she wishes to appeal the ruling, because the decision by the National Tax Tribunal president represents the final opinion of the NTA.

In principle, decisions on requests for reconsideration are issued within one year. In fiscal 2002, requests for reconsideration related to taxation numbered 3,206, about 15 percent of which found fully or partially in favor of the taxpayer.

Percentage of Reconsideration Request Cases Processed within 1 Year and Number of Reconsideration Request Cases Processed



Litigation

Taxpayers can institute a lawsuit at a court of law if they wish to appeal the decision by the president of the National Tax Tribunal. The NTA accepts the decisions of the court and reflects them in its administration of tax particularly as regards new tax matters that arise due to today's constantly changing social and economic situation. When issues arise because the system itself is unable to successfully respond to socioeconomic changes, the NTA requests the legislative authorities to revise the law.

In fiscal 2002, 275 tax-related lawsuits were lodged. A total of 232 cases were resolved over the course of the year, about 12 percent of which found fully or partially in favor of the taxpayer. However, this is not a final figure because there is a considerable number of cases where the taxpayer's views are validated in the court of first instance but then overturned in favor of the state in a higher court. In recent years, there are about 10 litigation cases a year which find in favor of the taxpayer in the end.

Case Trends

Approximately 4,500 requests for reinvestigation and 3,000 requests for reconsideration are received every year, and in about 15 percent of both types of cases the original disposal at question is revoked. Combining these two figures, this means that full or partial review of the correction, determination, or other disposal by the Tax Office is made in about one-fourth of all cases of request for investigation. Requests for reinvestigation, requests for reconsideration, and

litigation found fully or partially in favor of the taxpayer's claims in about 0.4 percent of all cases where the Tax Office found that there were errors in the declaration of tax. In other words, approximately 4 of every 1,000 corrections by the Tax Office were ruled against.

To gain taxpayer understanding regarding the system for remedy of infringement of taxpayer rights, the NTA and the National Tax Tribunal provide information in Japanese on case decisions via the NTA website.

Responding to Taxpayer Grievances

In addition to receiving requests for reinvestigation regarding corrections, the NTA also sometimes receives complaints, requests, and criticisms (hereinafter "grievances") from taxpayers regarding tax officials' attitude or manner of examination. The NTA endeavors to respond promptly and properly by taking the standpoint of the taxpayer because we believe that responding forthrightly to taxpayer

grievances is crucial to earn the understanding and trust of taxpayers. In recent years, about 88 percent of all grievances have been handled within three days of receipt. Moreover, in July 2001, the position of taxpayer support officer was created, and the position's duties include explaining procedures for remedy of infringement in cases where taxpayer rights or interests have been infringed.

Administration of the Liquor Industry

Ensuring the Sound Development of the Liquor Industry

Liquor tax has been a major source of government revenue alongside land tax since the Meiji Restoration of 1868. Liquor tax even surpassed land tax revenue at one point to become the primary source of national tax revenue. Since then, however, income tax, corporation tax, and other direct taxes have come to make up a greater proportion of total revenue. In fiscal 2003, liquor tax amounted to ¥1.733 trillion and accounted for 4.0 percent of total tax revenue. Liquor tax is a stable form of tax revenue because it is not easily affected by fluctuations in the economy. For this reason, liquor tax continues to play an important role in Japan's tax system today.

The liquor industry is composed of 2,841 manufacturers and 152,477 sellers (as of the end of fiscal 2002), more than 95 percent of which are small

or medium-sized enterprises. The environment surrounding the liquor industry is changing dramatically as it responds to the issues of citizen health and the consumption of alcohol by minors, as well as the deregulation of liquor sales licenses, the diversification of consumer preferences and demand, and the advancement of IT.

With the aim of promoting the sound development of the liquor industry amid this environment, the National Tax Agency (NTA) conducts rigorous licensing inspections and responds to society's demands, including the call to prevent underage drinking. The NTA also endeavors to ensure a fair trade environment and to support the revitalization of the management of the small and medium-sized enterprises in the liquor industry.

Conducting Rigorous Licensing Inspections

A licensing system is adopted in the liquor industry to ensure the proper collection of liquor tax and to facilitate the shifting of the tax burden onto consumers. In recent years, however, the liquor industry has been deregulated to enhance consumer convenience. Based on the Three-Year Program for Promoting Deregulation (passed by the Cabinet in March 1998), the geographical distance criteria^{*17} for the issuance of retail licenses was discontinued in January 2000, and the population quotas^{*18} were gradually relaxed and finally abolished in September 2003. Along with these deregulations, regions that have a marked over-capacity to supply liquor in relation to the region's demand for liquor have been designated as "regions requiring emergency adjustment of liquor demand and supply"

based on the Emergency Measures Law Concerning Improvement, etc., of the Management of Liquor Retailers (hereinafter "Emergency Measures Law"), and the issuance of retail licenses is restricted for the one-year period from September 1, 2003, through August 31, 2004.

In regions not requiring adjustment of liquor demand and supply, there are more retail license applications today than there were prior to the lifting of the population quotas. Before issuing licenses in response to these applications, however, the NTA conducts rigorous inspections to make sure that all requirements added with the 2003 revision of the Liquor Tax Law are fulfilled and checks specifically for violation of the Law for Prohibiting Liquors to Minors.

*17 With the geographical distance criteria, new licenses were only issued if there were a certain distance between the location where the license applicant intended to sell liquor and existing liquor stores.

*18 With the population quotas, new licenses were only issued if the resident population per existing liquor store reached a certain level.

Responding to Society's Demands

To respond to society's demand to prevent the consumption of alcohol by minors, every liquor retailer is required to appoint a liquor sales manager with the 2003 revision of the Law Concerning Liquor Business Associations and Measures for Securing Revenue from the Liquor Tax. In addition, liquor retailers must endeavor to have their liquor sales manager attend liquor sales management training. Stores are also

required to place a "Liquor sales area" sign and a "Drinking by minors is prohibited by law" sign wherever liquor is displayed.

The efforts not only of the liquor industry but also of families, schools, communities, and the government are crucial to successfully address this issue. The NTA is cooperating and coordinating its efforts with the related government ministries and agencies, members of the liquor industry, and others.

Ensuring a Fair Trade Environment

To ensure a fair trade environment in the liquor industry,^{*19} the NTA works in cooperation with the Fair Trade Commission of Japan (JFTC) to publicize the NTA's Guidelines for the Sound Development of the Liquor Industry through Fair Competition and the JFTC's Guidelines Concerning Unfair Price-Cutting and Discriminatory Pricing in the Distribution of Liquors. In addition, the NTA conducts surveys of transactions to ascertain actual trade conditions and provides guidance on how to improve the trade

environment. The liquor industry is also taking measures; it independently has announced it will comply with fair trade business practices and has released its own evaluation of the industry's performance.

Based on the Emergency Measures Law, the national tax authorities request the JFTC to take the appropriate actions if they find that unfair trade practices stipulated in the Antimonopoly Act are being used in liquor transactions.

Supporting Management Revitalization

To revitalize the management of the small and medium-sized enterprises in the liquor industry, the NTA conducts measures to support liquor retailers in implementing management improvement plans and smoothly closing down or changing their business domain if needed. The NTA has created a low-interest financing system for equipment and facility purchases

and has set up a website for consultations to support companies in such endeavors as entering a new industry. We also hold training programs and consultations and award superior companies with the designation of "model business."

For the sake manufacturing and liquor wholesale industry, the NTA provides various forms of support for company efforts to strengthen their management base in line with the Small and Medium Enterprises Business Innovation Support Law.



The liquor industry is adapting to diversifying consumer demand.

^{*19} "To ensure a fair trade environment in the liquor industry" means to provide guidance and other support to promote free and fair competition by eliminating unfair trade practices such as "unfair price-cutting," which is to trade goods at prices lower than procurement prices or at unreasonably low prices, and "discriminatory pricing," which is to trade goods at unreasonably advantageous conditions only to certain business partners.

An Eye to the Future

Revised Consumption Tax Law, Internationalization, and Support for Developing Countries

1. Revised Consumption Tax Law

With the fiscal 2003 revisions to the tax system, the sales threshold for enterprises to be exempt from consumption tax^{*20} was lowered as was the threshold for application of the simplified tax system.^{*21} At the same time, new provisions were introduced requiring that merchandise labels indicate full prices inclusive of consumption tax. The revised system came into effect on April 1, 2004. To ensure the smooth enforcement of the new law, the National Tax Agency (NTA) is publicizing the revisions made to the Consumption Tax Law as well as providing consultations and guidance and taking various other measures.

The lowering of the threshold for consumption tax

exemption is expected to result in about 1.4 million new enterprises being subject to taxation from fiscal 2005. These will be small-scale businesses with little experience in reporting and paying consumption tax. For the revised system to take root, it is crucial that these businesses are able to properly declare and pay their consumption tax obligations, and the NTA is taking thorough measures, including encouraging the submission of such documents as Notification of Taxable Enterprise Status for Consumption Tax, holding briefings, and providing guidance on bookkeeping.

Changes in the Number of Enterprises Subject to Consumption Tax with the Revisions to the Consumption Tax Law

(1,000 enterprises)

| | Fiscal 2000 | | | Effects of Revised Consumption Tax Law* | | |
|--------------|-----------------------------|-------------------------------|---------------------------------|--|--|--|
| | Total Number of Enterprises | Number of Taxable Enterprises | Percentage of Enterprises Taxed | Number of Taxable Enterprises after Revisions to the System for Exempting Enterprises from Consumption Tax | Number of Enterprises Affected by Revisions to the Simplified Tax System | Of Which, Number of Enterprises with Taxable Sales of over ¥50 Million |
| Individuals | 3,256 | 537 | 16.5% | 1,419 | 313 | 102 |
| Corporations | 2,676 | 1,719 | 64.2% | 2,200 | 750 | 463 |
| Total | 5,933 | 2,255 | 38.0% | 3,619 | 1,063 | 565 |

* Source: Data from the Japanese government's Tax Commission

*20 Enterprises have consumption tax obligations; however, enterprises with taxable sales of ¥10 million or less (¥30 million or less before the revisions) are exempted from paying this tax. This is called the "system for exempting enterprises from tax liability."

*21 In principle, the amount of consumption tax payable is calculated by deducting the amount of consumption tax on purchases and other items from the amount of consumption tax on sales. Enterprises with taxable sales of ¥50 million or less (¥200 million or less before the revisions), however, can calculate their consumption tax by multiplying the amount of consumption tax on sales by the purchase ratio set for their industry. This is referred to as the "simplified tax system".

2. Tax Administration in the Era of Globalization

To maintain and improve the compliance of taxpayers engaging in international transactions, it is important to eliminate the risk of double taxation that sometimes results from differences in taxation rules between nations. To achieve this, common rules on international transactions must be developed, and

nations' tax authorities must work together and share their experiences. This is an important task not only for Japan but also for other nations, and the NTA is conducting the following key measures in cooperation with the tax authorities of other nations.

Developing Common Tax Rules

Today the number of international transactions is increasing and transaction formats are diversifying with IT and other developments. Taxation rules, however, sometimes differ between countries. Unless tax administrations can completely eliminate the risk of double taxation, such differences in rules block the flow of transactions and in turn make it difficult to maintain the compliance of taxpayers engaged in global transactions. That is why the NTA is working with tax authorities around the world to develop common tax rules for international transactions.

(1) Review of the Tax Convention Model

The OECD Committee on Fiscal Affairs has long spearheaded the effort to create new rules and develop a common tax convention among nations, and it has revised its tax convention model, as necessary.

In cases where the affiliates and branches of an international company are located in a different country from the parent company or head office, the national attribution of the income made by the affiliates and branches involves the allocation of tax revenue among countries and double taxation may arise. The OECD Committee on Fiscal Affairs examines how to best design rules to address such issues.

(2) Taxation of Electronic Commerce

With the increasing use of IT, international transactions via the Internet are expanding rapidly. In the case of e-commerce, consumers can place orders directly with a company's head office in another country and settle their transactions by withdrawing payment from a bank account. The OECD Committee on Fiscal Affairs and other related international conferences examine international taxation rules for these kinds of international transactions via the Internet.

(3) Elimination of Harmful Tax Competition

To attract foreign capital, some countries implement excessive tax reductions (tax incentives) on their financial and services industries. Comparatively heavy taxation on labor, assets, and consumption results. This has a negative influence on the fiscal base of the nation and also gives rise to distortions in corporate investment behavior. The OECD Committee on Fiscal Affairs endeavors to rectify this problem by issuing a list of countries and regions that offer extreme tax reductions.

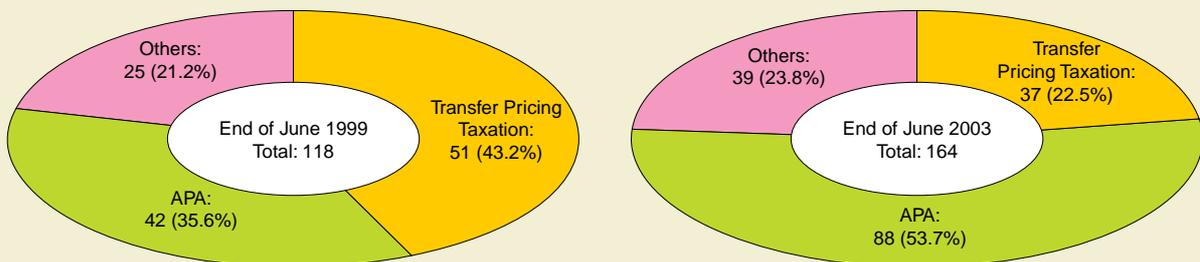
Preventing International Double Taxation

When countries differ in viewpoint on the national attribution of income earned through international transactions, the risk that a corporation will be subject to double taxation through transfer pricing taxation or withholding income tax rises. Such double taxation is resolved through mutual consultations between the tax authorities based on tax conventions. The risk of international double taxation increases as corporate activities become more global, and the number of cases requiring mutual consultations is increasing every year. The NTA strives to appropriately resolve such cases and to perform the necessary administrative procedures as efficiently as possible so that cases are processed swiftly.

To reduce the administrative burden on corporations regarding transfer pricing taxation and ensure taxation predictability for corporate management, the NTA actively implements bilateral advance pricing arrangements (BAPA) using the system for mutual consultations recognized in tax conventions. More and more corporations are taking advantage of this system.

In September 2003, to increase taxpayer understanding of our nation's advance pricing arrangement (APA) system and to further promote use of this system, the NTA released the *APA Program Report* which gives an overview of APA and the APA process and provides statistics on past APA cases. The report is available in English and Japanese on the NTA website.

Number of Mutual Agreement Procedure Cases by Type



New Japan-U.S. Tax Convention

When corporations engage in international business transactions, double taxation sometimes arises due to differences in each nation's tax system. Nations conclude tax conventions to eliminate such double taxation. Japan has concluded 45 such treaties to date.

The new Japan-U.S. tax convention ratified in March 2004 is a comprehensive revision of the old tax treaty. With the close economic ties that Japan and the U.S. enjoy, the convention aims to promote active investment exchange and at the same time stipulates measures to prevent tax avoidance. For example, dividends received from a U.S. affiliate or royalties received from a U.S. corporation have been

subject to withholding tax in the U.S. to date. Based on the philosophy in the OECD Model Tax Convention on Income and on Capital,^{*22} such dividends and royalties are exempted in the new convention from taxation in the nation in which the investment is made.

The new Japan-U.S. tax convention also includes new provisions not seen in Japan's other tax treaties, including provisions to prevent abuse of the treaty by residents in a third country, to whom the treaty was not originally intended to be applied.

Ensuring the proper application of this new treaty which will come into force from July 2004 is crucial to ensure proper and fair taxation.

*22 The OECD Model Tax Convention is a model for the drafting of new bilateral tax treaties and the revision of existing treaties. The Model Convention is drafted based on ongoing discussions among OECD member countries at the OECD Committee on Fiscal Affairs. The Model Convention was first established in 1977 and was revised in 1992, 1994, 1995, 1997, and 2000.

Addressing International Tax Avoidance

As the risk of double taxation in international transactions heightens, taxation loopholes where income is not taxed in any country arise through tax avoidance schemes that abuse tax treaty privileges. To prevent this kind of international tax avoidance and to secure their taxation rights, countries are strengthening their measures regarding international taxation. As economic activities grow more global, it is crucial that information outside the country can be gathered to ensure appropriate taxation. Each country's tax authorities are making efforts to deepen cooperative relations, including providing each other with information requested based on tax treaties. To actively cooperate in this kind of international information exchange, the NTA was newly given the authority to inquire and inspect under the 2003 revisions to the tax system so that the NTA also can respond quickly to requests for information from Japan's treaty partners based on its tax treaties.

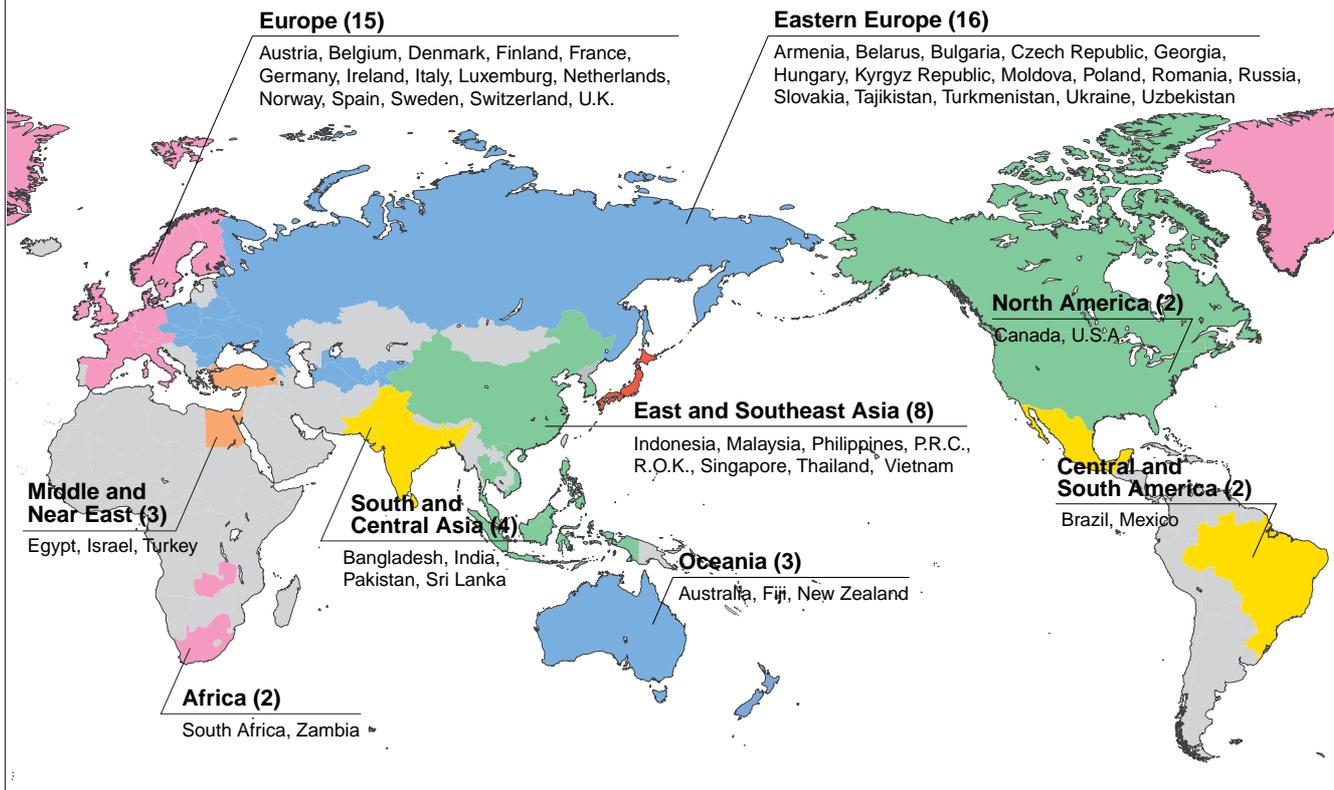
In the past, international taxation issues were a

question of adjusting each nation's right of taxation by determining which country had the right to levy tax. Today, however, responding to tax avoidance schemes in which no country has levied tax is an important issue. International conferences of taxation authorities are of one accord that sophisticated tax avoidance schemes must be handled through international cooperation just like the issue of double taxation.

Information Exchange Based on Tax Treaties
(1,000 cases)

| | 1998 Business Year | 2002 Business Year |
|--------------------------------------|-----------------------|-----------------------|
| Number of Information Exchange Cases | 175 | 237 |

Japan's Tax Convention Network 45 treaties applied in 55 countries (as of May 2004)



International Conferences of Tax Authorities

To deepen the cooperative ties among tax authorities, various meetings are held, including those for commissioners. Key multilateral and bilateral international meetings include the following:

Study Group on Asian Tax Administration and Research (SGATAR)

SGATAR was established in 1971 with the aim of promoting international cooperation in tax administration in Asia and fostering the exchange of views on common issues. Today SGATAR is composed of the tax authorities of 13 nations and regions. To provide information to member and nonmember countries alike, basic information on the tax administration of member countries was compiled in a uniform format through a project proposed by Japan. This information is available in English on the NTA website.

Pacific Association of Tax Administrators (PATA)

A meeting of the tax authorities of four key Pacific Rim countries (Japan, Canada, the United States, and Australia), PATA was established in 1980 with the aim of fostering the exchange of views on common tax issues. To facilitate transfer pricing examinations by PATA members, PATA released principles in March 2003 under which taxpayers can create uniform transfer pricing documentation for their international transactions (PATA Documentation Package) so that one set of documentation can meet their respective transfer pricing documentation provisions. The PATA Documentation Package can be viewed in Japanese and English on the NTA website.

Meetings Related to the OECD Committee on Fiscal Affairs

The OECD performs a central role in developing international common tax rules. In addition, it encourages the sharing of experiences among countries by organizing study groups on various tax issues and fostering exchange of opinions among specialists from member country administrations. A forum for tax administrations* was launched in January 2004. At the first meeting, opinions were actively exchanged about how to maintain social morals about tax, improve taxpayer convenience, and promote communication with taxpayers.

*The OECD Forum on Tax Administration (FTA) was held in Seville, Spain, in January 2004. Tax authorities from a total of 39 countries, including OECD members, participated.

Japan-People's Republic of China Tax Administrators' Meeting and Japan-Republic of Korea Tax Administrators' Meeting

Bilateral commissioner-level meetings are held every year with the tax administrations of China and South Korea—two of Japan's neighbors with which it shares strong economic ties. At the conferences, the commissioners exchange opinions about matters of concern related to tax. In this way, mutual understanding and cooperative ties are promoted regarding tax administration.

Offering Intellectual Support to Developing Countries

Improving and enhancing the tax system and administration in developing countries contributes to the economic development of those countries by strengthening their fiscal base. Moreover, fostering a common understanding of taxation rules between

developing countries and Japan prevents tax issues from arising and facilitates speedy mutual consultations and other procedures if problems do arise. For this reason, Japan actively provides intellectual support to developing countries, including dispatching experts to the People's Republic of China and ASEAN nations and holding training programs in Japan.



The National Tax College provides training to tax officials from developing countries.



Representatives of tax authorities of 13 countries and regions in the Asia-Pacific region participate in the Study Group on Asian Tax Administration and Research (SGATAR).



Representatives of tax authorities of four key Pacific Rim countries (Japan, Canada, the U.S., and Australia) participate in the Pacific Association of Tax Administrators (PATA).

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Tax Revenue and Budget

Budget and Actual Amounts of Tax and Stamp Revenues for Fiscal 2002

(¥ million)

| | Item | Budget | Actual |
|-----------------|---|-------------------|-------------------|
| General Account | Withholding income tax | 12,933,000 | 12,249,159 |
| | Self-assessed income tax | 2,898,000 | 2,563,068 |
| | Corporation tax | 11,174,000 | 9,523,438 |
| | Inheritance tax | 1,530,000 | 1,452,891 |
| | Consumption tax | 9,825,000 | 9,811,538 |
| | Liquor tax | 1,735,000 | 1,680,396 |
| | Tobacco tax | 848,000 | 844,101 |
| | Gasoline tax | 2,134,000 | 2,126,266 |
| | Liquefied petroleum gas tax | 14,000 | 14,162 |
| | Aviation fuel tax | 91,000 | 90,102 |
| | Petroleum tax | 480,000 | 463,445 |
| | Motor vehicle tonnage tax | 840,000 | 847,977 |
| | Customs duty | 860,000 | 793,642 |
| | Tonnage due | 9,000 | 8,725 |
| | Others* | 1,000 | 546 |
| | Stamp revenue | 1,444,000 | 1,363,750 |
| | Subtotal | 46,816,000 | 43,833,205 |
| | Local road tax | 304,300 | 303,490 |
| | Liquefied petroleum gas tax (transferred) | 14,000 | 14,162 |
| | Aviation fuel tax (transferred) | 16,500 | 16,382 |
| | Motor vehicle tonnage tax (transferred) | 280,000 | 282,659 |
| | Special tonnage due | 11,300 | 10,907 |
| | Crude oil custom duty, etc. | 38,000 | 41,470 |
| | Power resources development promotion tax | 376,700 | 376,791 |
| | Gasoline tax | 710,200 | 710,200 |
| | Special tobacco surtax | 255,800 | 254,968 |
| | Total | 48,822,800 | 45,844,234 |

Note: "Others" includes commodity tax, land value tax, and other items collected as delinquent taxes.

Note: The period of the statistics is shown in the title, above the table, or in the notes. A fiscal year is the one-year period from April 1 through March 31 of the following year. A business year is the one-year period starting July 1 of the given year and ending on June 30 of the following year. A calendar year is the one-year period from January 1 through December 31.

NTA Budget for Fiscal 2003

(¥ million)

| Item | | Budget |
|-------------------------|--|---------|
| General Expenditures | KSK System-related expenditures, etc. | 62,087 |
| | Expenses to improve convenience for taxpayers*1 | 11,171 |
| | Expenses related to internationalization measures | 594 |
| | Expenses to improve workplace environment*2 | 6,755 |
| | Expenses related to tax system revisions | 5,628 |
| | Expenses for various taxation forms and communication expenses | 21,387 |
| | General operating expenses*3 | 42,371 |
| | Expenses for National Tax College | 2,807 |
| | Expenses for National Tax Tribunal | 491 |
| | Expenses for National Research Institute of Brewing | 1,309 |
| | Subtotal | 154,601 |
| Personnel expenses | 568,620 | |
| Total NTA budget | 723,221 | |

Notes:

- *1. "Expenses to improve convenience for taxpayers" include expenses related to touch-screen computers and the development of e-Tax and the tax return preparation section of the NTA website.
- *2. "Expenses to improve workplace environment" include expenses to improve facilities and health care expenses.
- *3. "General operating expenses" include wages for part-time workers, travel expenses, honoraria for hired bookkeeping instructors, and PR expenses.

Taxation and Status of Tax Return Filing

Income Taxpayers (2003 calendar year)

(1,000 persons)

| | |
|---|---------|
| (1) Total population | 127,440 |
| (2) Workforce | 63,300 |
| (3) Number of final returns for income tax* | 21,390 |
| (4) Refund* | 10,940 |
| (5) Tax payment* | 6,930 |
| (6) Of (5), wage earners whose income tax is withheld | 2,840 |
| (7) Number of employment income earners | 42,390 |
| (8) Of (7), taxpayers for whom only year-end adjustments are made [(7) - (6)] | 39,550 |
| (9) Number of taxpayers [(5) + (8)] | 46,480 |
| (10) Percentage of workforce that pays tax [(9)/(2)] | 73.4 % |

Note: Figures for items (3), (4), and (5) are for the 2003 calendar year, and those for the other items are for the 2002 calendar year.

Withholding Agents and Withholding Income Taxation

(2002 business year)

| Income Classification, etc. | Number of Withholding Agents* (1,000 agents) | Tax Amount (¥100 million) |
|---|--|---------------------------|
| Employment income (wages and salaries) | 3,906 | 96,453 |
| Retirement income | - | 3,414 |
| Interest income, etc. | 45 | 10,492 |
| Dividends | 129 | 10,665 |
| Capital gains of listed stocks, etc. | - | 1,237 |
| Capital gains of listed stocks held in special accounts, etc. | 2 | 80 |
| Remunerations, fees, etc. | 3,222 | 10,873 |
| Income paid to nonresidents and foreign corporations | 24 | 4,033 |
| Total | 7,328 | 137,245 |

Note: Figures for withholding agents are as of the end of June 2003.

Number of Corporations and Number of Corporation Tax Returns Filed (2002 business year)

| | |
|---|---------|
| Number of corporations* (1,000 corporations) | 2,896 |
| Number of tax returns filed (1,000 returns) | 2,723 |
| Percentage of corporations filing | 89.0 % |
| Percentage of returns declaring a surplus | 30.3 % |
| Amount of self-assessed income (¥100 million) | 350,299 |
| Amount of self-assessed loss (¥100 million) | 330,116 |
| Amount of tax (¥100 million) | 93,500 |

Note: The figure for "number of corporations" is as of the end of June 2003.

Inheritance Tax (2002 calendar year)

| | |
|--|---------|
| Number of deceased persons | 982,379 |
| Number of deceased persons subject to taxation | 44,370 |
| Number of heirs subject to taxation | 134,294 |
| Taxable amount (¥100 million) | 106,397 |
| Amount of tax (¥100 million) | 12,863 |

Gift Tax (2002 calendar year)

| | |
|---|---------|
| Number of persons subject to taxation | 360,594 |
| Value of property acquired (¥100 million) | 12,685 |
| Amount of tax (¥100 million) | 692 |

Consumption Tax (2002 calendar year)

| | | Tax Payment | Tax Refund |
|-----------------------------------|-------------|-------------|------------|
| No. of Returns (1,000 returns) | Individual | 456 | 15 |
| | Corporation | 1,571 | 85 |
| | Total | 2,027 | 99 |
| Amount of tax (¥100 million) | | 95,349 | 15,456 |

Liquor Tax and Liquor Production (2002 calendar year)

| Classification | Production Volume (1,000 kL) | Amount of Tax (¥ million) |
|---|---------------------------------|------------------------------|
| Sake | 633 | 113,891 |
| Sake compound | 40 | 4,572 |
| <i>Shochu</i> | 827 | 206,573 |
| <i>Mirin</i> (sake-based cooking wine) | 100 | 2,272 |
| Beer | 4,300 | 952,837 |
| Wine, etc. | 89 | 15,544 |
| Whisky and brandy | 89 | 46,737 |
| Spirits | 53 | 7,764 |
| Liquors | 558 | 53,064 |
| Other liquors* | 2,626 | 278,929 |
| Total | 9,314 | 1,682,183 |

Note: "Other liquors" includes low-malt beer.

Tax Examinations

Examinations for Self-Assessed Income Tax (2002 business year)

| | Number of Cases (1,000 cases) | Total Unreported Income (¥100 million) | Unreported Income per Case (¥ thousand) | Total Deficient Tax (¥100 million) | Deficient Tax per Case (¥ thousand) |
|--------------------|----------------------------------|---|--|---------------------------------------|--|
| Field examinations | 74 | 5,033 | 6,845 | 1,059 | 1,440 |
| Brief contact* | 695 | 3,532 | 508 | 210 | 30 |
| Total | 768 | 8,565 | 1,115 | 1,269 | 165 |

Note: "Brief contact" refers to the correction of tax return errors by speaking with the taxpayer by telephone or by asking the taxpayer to visit the Tax Office.

Examinations for Withholding Income Tax (2002 business year)

| Number of Cases Examined (1,000 cases) | Of Which, Number of Illegal Cases (1,000 cases) | Total Deficient Tax (¥100 million) |
|---|--|---------------------------------------|
| 183 | 47 | 741 |

Field Examinations for Corporation Tax (2002 business year)

| | Number of Cases (1,000 cases) | Total Unreported Income (¥100 million) | Unreported Income per Case (¥ thousand) | Total Deficient Tax (¥100 million) | Deficient Tax per Case (¥ thousand) |
|--|----------------------------------|---|--|---------------------------------------|--|
| All corporations | 122 | 15,555 | 12,793 | 4,173 | 3,432 |
| Of which, corporations handled by the Examination Department | 5 | 8,388 | 171,927 | 2,259 | 46,300 |

Examinations for Consumption Tax (2002 business year)

| | Number of Cases (1,000 cases) | Number of Cases with Unreported Income (1,000 cases) | Total Deficient Tax (¥100 million) | Deficient Tax per Case (¥ thousand) |
|--------------|----------------------------------|---|---------------------------------------|--|
| Individuals | 39 | 27 | 171 | 438 |
| Corporations | 109 | 57 | 666 | 609 |

Field Examinations for Inheritance Tax (2002 business year)

| Number of Cases (1,000 cases) | Number of Cases with Unreported Inheritance (1,000 cases) | Total Amount of Unreported Inheritance (¥100 million) | Unreported Inheritance per Case (¥ thousand) | Total Deficient Tax (¥100 million) | Deficient Tax per Case (¥ thousand) |
|----------------------------------|--|--|---|---------------------------------------|--|
| 11 | 10 | 3,748 | 36,847 | 922 | 9,751 |

Information Returns Collected (2002 business year)

(1,000 returns)

| | |
|--|---------------|
| Withholding record of employment income | 20,043 |
| Interest payment record | 928 |
| Dividend payment record | 2,635 |
| Withholding record of public pension, etc. | 28,653 |
| Payment record of remunerations, fees, contract payments, and prizes | 7,441 |
| Payment record of consideration for transfer of stocks, etc. | 6,315 |
| Others | 25,981 |
| Total | 91,996 |

Criminal Investigations

Criminal Investigations (2003 fiscal year)

| Number of Cases Commenced | Number of Cases Closed | Number of Cases Prosecuted | Total Tax Evaded (¥100 million) | Tax Evaded per Case (¥ thousand) | Total Tax Evaded (in Prosecuted Cases) (¥100 million) | Tax Evaded per Prosecuted Case (¥ thousand) |
|---------------------------|------------------------|----------------------------|------------------------------------|-------------------------------------|--|--|
| | | | | | | |

Large-Scale Cases (2003 fiscal year)

| Number of Prosecuted Cases | Of Which, Number of Prosecuted Cases with a Tax Evasion Amount of ¥300 Million or More | Of Which, Number of Prosecuted Cases with a Tax Evasion Amount of ¥500 Million or More |
|----------------------------|--|--|
| 147 | 21 | 15 |

Prosecuted Cases by Tax Item (2003 fiscal year)

| Tax Item | Number of Cases | Total Tax Evaded (¥100 million) | Tax Evaded per Case (¥ thousand) |
|-----------------|-----------------|------------------------------------|-------------------------------------|
| Income tax | 32 | 38 | 118,814 |
| Corporation tax | 104 | 223 | 214,055 |
| Other taxes | 11 | 45 | 412,429 |
| Total | 147 | 306 | 208,166 |

Tax Delinquency

Tax Delinquency Cases of ¥100 Million or More by Industry

(as of the end of the 2003 fiscal year)

| Industry | Number of Persons | | Tax Amount (¥100 million) | |
|---------------------------------------|-------------------|---------------|------------------------------|---------------|
| | Number | Percentage | Amount | Percentage |
| Manufacturing industry | 83 | 4.2% | 172 | 3.2% |
| Distribution industry | 126 | 6.4% | 431 | 8.0% |
| Real estate and construction industry | 550 | 27.9% | 1,428 | 26.5% |
| Food and beverage industry | 98 | 5.0% | 189 | 3.5% |
| Financial industry | 38 | 1.9% | 113 | 2.1% |
| Other industries*1 | 495 | 25.1% | 1,313 | 24.4% |
| Others*2 | 582 | 29.5% | 1,733 | 32.3% |
| Total | 1,972 | 100.0% | 5,379 | 100.0% |

Notes:

*1. "Other industries" includes hospitals (doctors), the service industry, and the leisure industry.

*2. "Others" includes salaries workers and pension recipients.

Seizure of Property (2002 business year)

| | Number of Delinquent Taxpayers | Number of Objects Seized | Appraisal Value (¥ million) |
|--------------------------|--------------------------------|--------------------------|--------------------------------|
| Movable property | 357 | 4,921 | 2,669 |
| Claims | 36,322 | 51,284 | 141,447 |
| Immovable property, etc. | 10,253 | 40,319 | 299,275 |
| Others | 5,690 | 92,824 | 4,270 |
| Total | 52,622 | 189,348 | 447,661 |

Remedy for Infringement of Taxpayers Rights

Requests for Reinvestigation

| Classification | Number of Illegal Cases (1) | Number of Requests for Reinvestigation | Number of New Requests for Reinvestigation (2) | | Number of Cases Processed (3) | Number of Requests Approved | | |
|----------------|--------------------------------|--|--|----------------------|----------------------------------|-----------------------------|----------------------|----------------------|
| | | | | Percentage [(2)/(1)] | | (4) | Percentage [(4)/(1)] | Percentage [(4)/(3)] |
| Tax assessment | 288,000 | 5,836 | 4,727 | 1.6% | 4,379 | 770 | 0.27% | 17.6% |
| Tax collection | 52,622 | 484 | 392 | 0.7% | 430 | 4 | 0.01% | 0.9% |
| Total | 340,622 | 6,320 | 5,119 | 1.5% | 4,809 | 774 | 0.23% | 16.1% |

Requests for Reconsideration

| Classification | Number of Illegal Cases (1) | Number of Requests for Reconsideration | Number of New Requests for Reconsideration (2) | | Number of Cases Processed (3) | Number of Requests Approved | | |
|----------------|--------------------------------|--|--|----------------------|----------------------------------|-----------------------------|----------------------|----------------------|
| | | | | Percentage [(2)/(1)] | | (4) | Percentage [(4)/(1)] | Percentage [(4)/(3)] |
| Tax assessment | 288,000 | 6,103 | 2,622 | 0.9% | 3,206 | 494 | 0.17% | 15.4% |
| Tax collection | 52,622 | 308 | 201 | 0.4% | 197 | 6 | 0.01% | 3.0% |
| Total | 340,622 | 6,411 | 2,823 | 0.8% | 3,403 | 500 | 0.15% | 14.7% |

Litigation

| Classification | Number of Illegal Cases (1) | Number of Litigation Cases | Number of the First Instance Newly Filed (2) | | Number of Cases Closed (3) | Number of Cases Lost on All or Some Counts | | |
|----------------|--------------------------------|----------------------------|--|----------------------|-------------------------------|--|----------------------|----------------------|
| | | | | Percentage [(2)/(1)] | | (4) | Percentage [(4)/(1)] | Percentage [(4)/(3)] |
| Tax assessment | 288,000 | 679 | 178 | 0.1% | 232 | 27 | 0.01% | 11.6% |
| Tax collection | 52,622 | 174 | 71 | 0.1% | 107 | 6 | 0.01% | 5.6% |
| Total | 340,622 | 861 | 254 | 0.1% | 346 | 33 | 0.01% | 9.5% |

Notes:

1. The figures for "Number of Illegal Cases (1)" are the following numbers for the 2002 business year:

In tax assessment cases: the total number of illegal cases for which field examinations regarding self-assessed income tax, withholding income tax, corporation tax, consumption tax, and inheritance tax are conducted

In tax collection cases: the number of delinquent taxpayers who have property seized

2. The "Number of Requests for Reinvestigation" and the "Number of Requests for Reconsideration" are the figures for the 2002 fiscal year.

3. The "Number of Litigation Cases" is the total number of litigation cases for each level of trial for the 2002 fiscal year.

Tax Consultations

Number of Tax Consultation Cases Handled by Tax Counsel Offices and via Tax Answer (2003 fiscal year)

(1,000 cases)

| Number of Tax Consultations | Income tax | 1,535 |
|-----------------------------|--|--------|
| | Corporation tax | 214 |
| | Property tax | 768 |
| | Consumption tax | 114 |
| | Other indirect taxes | 47 |
| | Collection | 45 |
| | Others | 263 |
| | Total | 2,986 |
| | Number of consultations via Tax Answer | 20,471 |
| Total | 23,457 | |

The Five Most Frequent Tax Consultation Topics

In-Person and Telephone Consultations (2003 fiscal year)

(1,000 cases)

| Ranking | Tax Item | Topic | No. of Cases |
|---------|------------|---|--------------|
| 1 | Income tax | Obligation to file returns and filing procedures, etc. | 264 |
| 2 | Income tax | Income category and calculation | 145 |
| 3 | Income tax | Preparation of tax returns, statements of accounts, and other forms | 135 |
| 4 | Income tax | Medical expenses deduction | 128 |
| 5 | Income tax | Returns for tax refund | 124 |

Tax Answer (2003 fiscal year)

(1,000 cases)

| Ranking | Tax Item | Topic | No. of Cases |
|---------|------------|--|--------------|
| 1 | Income tax | Cases in which funds are spent on medical expenses (medical expenses deduction) | 398 |
| 2 | Income tax | Medical expenses subject to medical expenses deduction | 330 |
| 3 | Income tax | Special treatment that can be received according to spouse's income (special exemption for spouse) | 283 |
| 4 | Income tax | Final returns | 245 |
| 5 | Income tax | Exemption for dependents | 226 |

Number of Complaints Received at Tax Counsel Offices

(2003 fiscal year)

| | |
|----------------------|-------|
| Income tax | 741 |
| Corporation tax | 462 |
| Property tax | 153 |
| Consumption tax | 64 |
| Other indirect taxes | 20 |
| Tax collection | 107 |
| Others | 471 |
| Total | 2,018 |

International Taxation

Fraudulent Income Made through Overseas Transactions

(2002 business year)

| | |
|--|-----|
| Number of cases of fraudulent overseas income | 117 |
| Amount of fraudulent income made overseas (¥100 million) | 266 |

(Reference) The amount of fraudulent income made overseas per case is ¥227 million.

Enforcement of Transfer Pricing (2002 business year)

| | |
|---|-----|
| Number of cases processed | 62 |
| Amount of taxable income (¥100 million) | 725 |

(Reference) The amount of taxable income per case is ¥1,200 million.

Taxpayer Satisfaction

Items That Meet with High Taxpayer Satisfaction

(2002 business year)

| Item | High Satisfaction Rate | |
|---|------------------------|-------|
| Attitude of officials in providing services | 80.4% | |
| Level of convenience in using Tax Office | 56.6% | |
| Evaluation regarding PR activities | 29.9% | |
| Evaluation regarding activities to collect public opinions | 71.6% | |
| Level of satisfaction with consultations at Tax Counsel Offices | In-person | 87.9% |
| | Telephone | 67.6% |

Notes:

- The above figures are from the Questionnaire Survey of the Level of Satisfaction among Taxpayers which was conducted on taxpayers who visited one of Japan's 524 Tax Offices nationwide on one of the four preselected days between July 2002 and June 2003. (A total of 113,286 questionnaires were collected.)
- "High Satisfaction Rate" is the percentage of taxpayers who gave high evaluations ("good" and "somewhat good" responses on a five-grade scale between "good" and "bad") to the item in a questionnaire survey.



**NATIONAL
TAX
AGENCY
REPORT
2004**

Published June 2004
Edited and published by
National Tax Agency of Japan

3-1-1 Kasumigaseki, Chiyoda-ku,
Tokyo 100-8978 Japan
Tel: (03) 3581-4161

National Tax Agency Website

URLs:

<http://www.nta.go.jp> (Japanese)

<http://www.nta.go.jp/category/english/index.htm> (English)

National Tax Agency