

National Tax Agency Report 2005



To Our Nation's Taxpayers



Since its establishment, the National Tax Agency (NTA) has administered the nation's taxation system with the aim of achieving its mission of helping 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.**

At present, the rate at which Japan's birthrate is declining and its population is aging is unprecedented. The savings rate is falling dramatically as the population ages. Economic globalization has prompted individuals and enterprises to expand cross-border activities. Enterprises and families have changed dramatically. On the other hand, the public finance situation has worsened, while social security expenses are expected to increase. The time has come for the people to seriously consider what form our taxation system and our nation should take, including how the nation should be supported and how public services and contributions should be selected. In this sense, the NTA last year shifted from the "Know Your Tax" week campaign, which had lasted for 30 years, to the "Think of Your Tax" week campaign.

With a limited staff size, the NTA's tax administration has grown more and more difficult as the number of taxpayers submitting tax returns increases due to pension taxation reform and a lowered sales threshold for exemption from the consumption tax. In order to respond accurately to these changes, we believe we must give kind treatment to good taxpayers and fight against unscrupulous taxpayers. In dealing with Certified Public Tax Accountants (CPTAs), we must conduct tax administration meeting the purpose of the new system for attaching relevant documents to tax returns. We thus believe that we must prioritize operations. We are willing to promote proper and fair tax administration to get the people's understanding of and confidence in our tax administration.

National Tax Agency Report 2005 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.**

The NTA's mission is to help taxpayers to voluntarily and properly fulfill their tax responsibility under the self-assessment system. I hope that this National Tax Agency Report 2005 deepens taxpayers' understanding of their taxes.

June 2005

大武健一郎

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Commissioner
National Tax Agency

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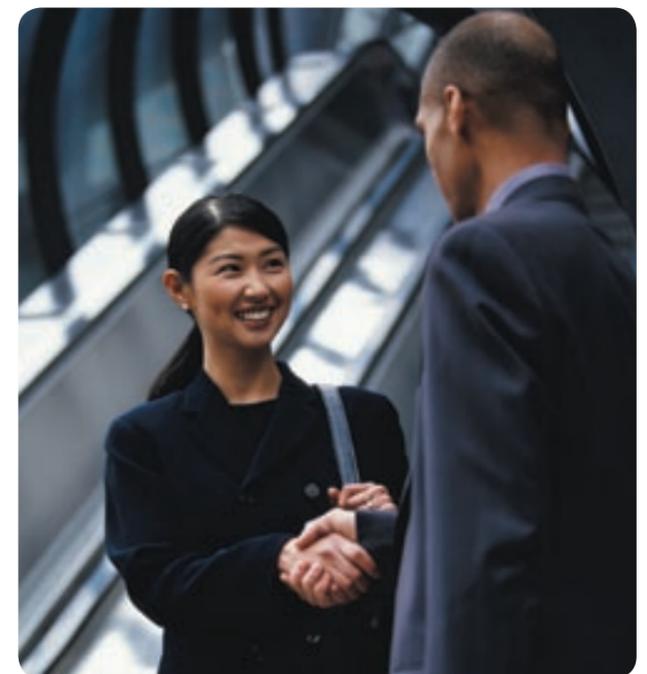
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Mission of the National Tax Agency

Helping Taxpayers to Voluntarily Fulfill Their Tax Responsibilities Properly and Smoothly

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 NTA is given the authority to collect taxes so that these public services can be provided smoothly.

The mission of the NTA is to help taxpayers to voluntarily fulfill their tax responsibilities properly and smoothly. In order to fulfill its mission as mandated by the people, the NTA has tried to properly and fairly impose and collect internal tax through tax education, public relations and other activities (taxpayer services) to help taxpayers understand and fulfill their tax responsibilities, and through activities (for promotion of proper and fair tax administration to maintain and improve taxpayers' compliance* with tax laws) to implement accurate instructions and examinations regarding taxpayers alleged to have failed to properly fulfill their tax responsibilities. The latter activities are designed to prevent good taxpayers from feeling unfairness regarding taxation. The NTA has also tried to guarantee the sound development of the liquor industry and the proper management of CPTAs' services.

The ultimate aim of all these efforts is to develop taxpayers' understanding of our tax administration and to gain their trust. (See "Directive on Standard and Rules for Implementation of NTA Duties" in Appendix - Page 54).



* Compliance means that taxpayers are highly conscious of their tax responsibilities and fulfill such responsibilities as provided in law voluntarily and properly, and that taxpayers comply with all relevant laws.

NTA Budget and Personnel

(1)-(4) (thousand cases)

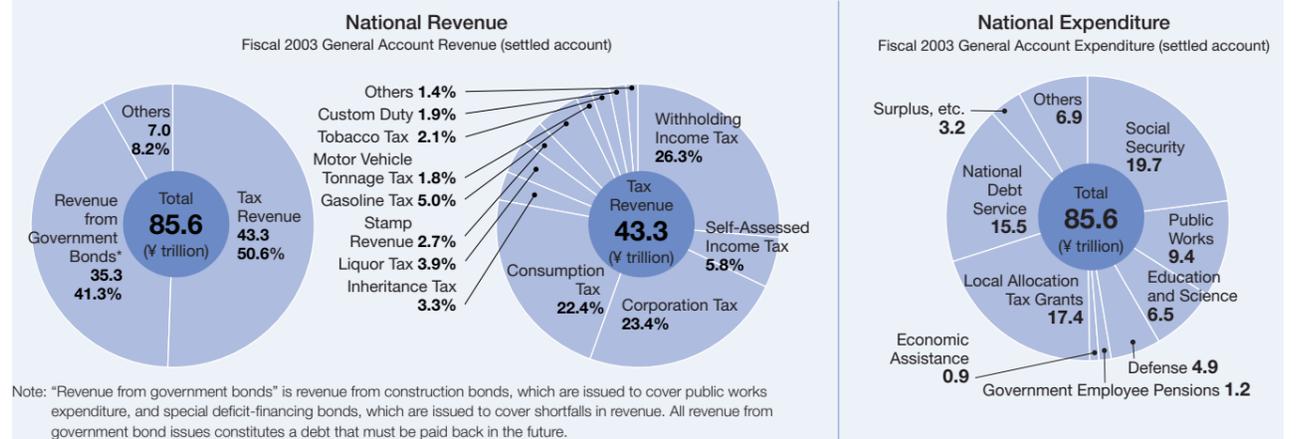
Year	1975	1997	2004	(Reference) 2004/1975
Number of personnel	52,440	57,202	56,239	107.2%
(1) Number of Income Tax Returns Filed	7,327	20,023	(21,390)	291.9%
(2) Number of Corporations	1,482	2,793	(2,920)	197.0%
(3) Number of Establishments Subject to Commodity Tax	117	—	—	—
(4) Number of Enterprises Subject to Consumption Tax	—	2,521	(2,533)	—
(1)+(2)+(3)+(4)	8,926	25,337	26,843	300.7%

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 2003 figures.
3. The figures under "(Reference)" are 2004 percentages when 1975 figures are set at 100.

The fiscal 2004 NTA budget was ¥717.6 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 2004, the NTA staff numbered 56,239.

National Revenue and Taxes



National revenue (general account revenue) in fiscal 2003 was ¥85.6 trillion. Of this revenue, ¥43.3 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 ¥38.1 trillion. This means that the NTA collects about 88 percent of government revenue received through taxation.

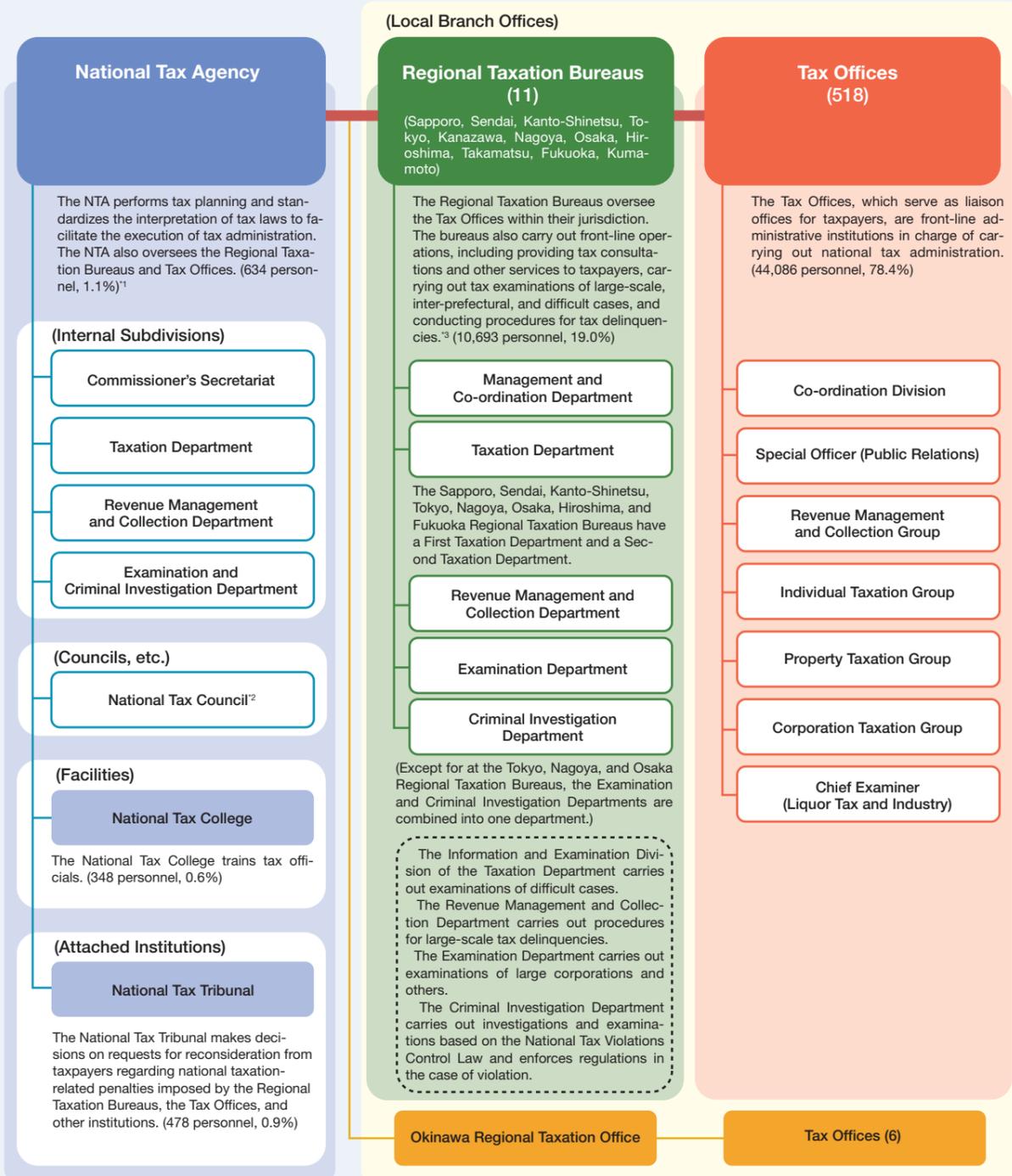
Income tax, corporation tax, and consumption tax account for about 80 percent of tax revenue.

Major Undertakings

In business year 2004 (July 2004 through June 2005), we focused on implementation of the enforcement of the revised Consumption Tax Law and the promotion of online tax return filing and payment using IT.

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.



1 Undertaking for Enforcement of the Revised Consumption Tax Law

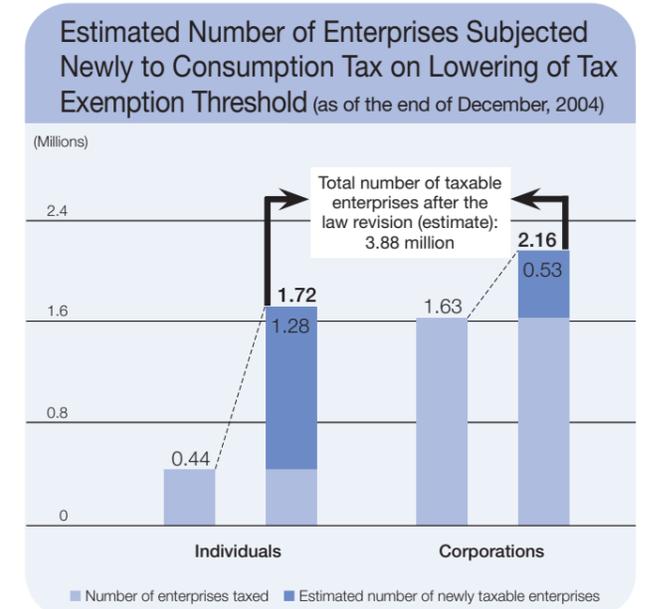
Under the fiscal 2003 tax system reform, the Consumption Tax Law was revised to lower the tax exemption sales threshold for enterprises^{*1} from ¥30 million to ¥10 million and the threshold for application of the simplified tax system^{*2}. These revisions are designed to enhance taxpayers' confidence in and transparency of the consumption tax system. The revisions came into effect on April 1, 2004, and were applied to sole proprietorship from 2005 and to corporate enterprises from the business year that started on and after April 1, 2004. The NTA has promoted the enforcement of the revised Consumption Tax Law as one of top priority tax administration operations. In a bid to ensure the smooth acceptance of the revised law, the NTA is publicizing the revisions and implementing various measures including consulting services and guidance.

As the tax exemption threshold is lowered, some 1.8 million individual and corporate enterprises are expected to become new consumption taxpayers. Most of them are small sole proprietorship. In order to lead these enterprises in obtaining awareness of the details of the Consumption Tax Law revisions and implement proper bookkeeping from January 2005, when the first year for their consumption tax payments started, the NTA has been publicizing the revisions through various media, holding briefings on the revisions and bookkeeping procedures, and introducing bookkeeping guidance providers to these enterprises. The NTA has also requested relevant private sector organizations to promote "communications movements" for their member enterprises to notify these enterprises of the bookkeeping requirement.

The NTA will continue to publicize the revised consumption tax system, hold briefings and promote the accumulation of funds for on-time tax payments and the system for tax payment by transfer accounts. In order to allow the new consumption taxpayers to properly submit consumption tax returns and make tax payments in the period for filing of tax returns for 2005, the NTA will thus try to implement fine-tuned measures including publication, consulting, and guidance.



Leaflet for the Revised Consumption Tax Law



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 CPTA examinations and deliberations on disciplinary actions against CPTAs, 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."

^{*1} 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."
^{*2} 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 Promotion of Online Tax Return Filing and Tax Payment Using IT

The NTA has been trying to take advantage of IT systems, including the e-Tax system for online tax return filing and tax payment and the Filing Assistance on the NTA website, to help reduce taxpayers' tax return filing and tax payment burdens (See Page 14)

● e-Tax

The e-Tax system for online tax return filing and tax payment was developed as part of "A Program for the Creation of Next-Generation Electronic Government" that aims to improve convenience for the people, and to simplify and raise the efficiency of administrative procedures through the use of IT.

The e-Tax system was launched for the filing of income tax and consumption tax returns (individual) in the region controlled by the Nagoya Regional Taxation Bureau in February 2004. In March, it was slightly expanded to cover part of corporation tax and consumption tax return filing, tax payment, application, and reporting. The system was made available for the whole of the nation in June. In September, additional application and reporting procedures were made available through the system. The NTA has thus gradually expanded the system's coverage of users and procedures while confirming stable operations of the system. In November, the NTA expanded the system's

daily acceptance hours to improve taxpayers' convenience as requested by many users. In April 2005, the system started services regarding filing of liquor and stamp tax returns.

With e-Tax, taxpayers can send in their tax returns and applications from their home or office computers. In addition, tax payment procedures, which had 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 or office computer. The e-Tax system 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 keep system safety to earn taxpayer trust.

The e-Tax system still does not satisfy 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 must separately send original certificates made by third parties to the Tax Office for strict personal identification. While

taking care to ensure the security of the system, we will further improve e-Tax functions and operations and promote the utilization of the system through public relations activities for its diffusion*.

● Filing Assistance on the NTA Website

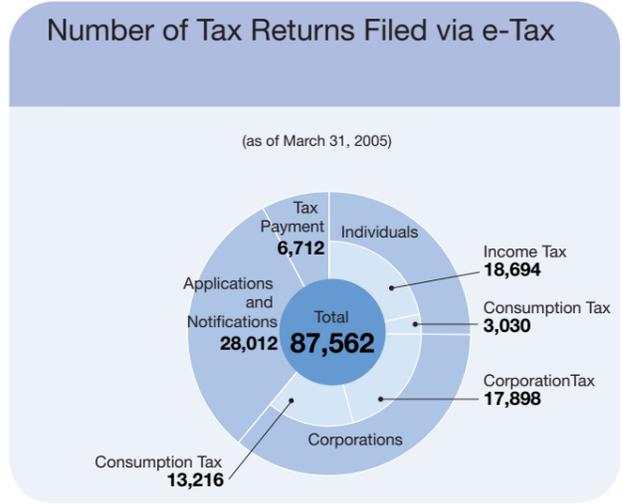
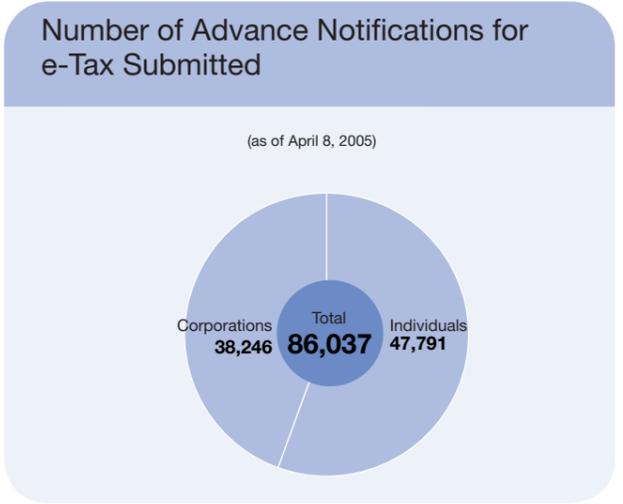
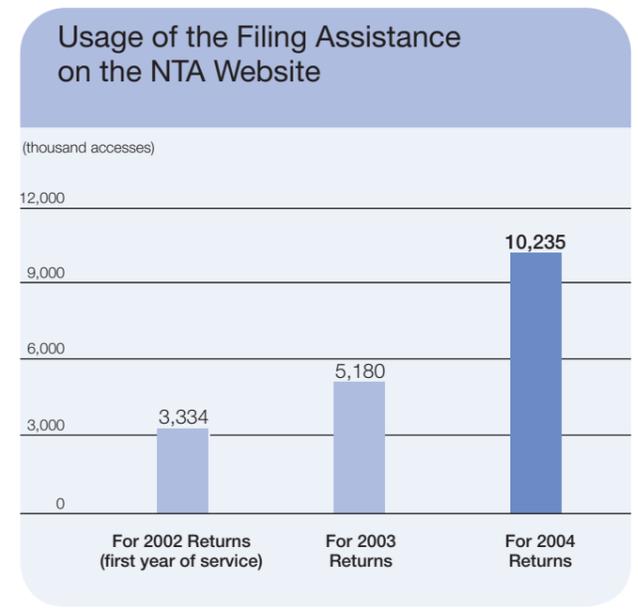
The Filing Assistance on the NTA website allows taxpayers to complete their tax returns and financial statements. By inputting the necessary information in the sequence indicated on the computer screen, taxpayers can prepare their final returns and have the income and tax amounts calculated automatically. 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 section can link data to the e-Tax system, allowing completed tax returns to be submitted via e-Tax.

The number of accesses to the section has been increasing since the section was introduced for the period for filing of final tax returns for 2002. In the period for filing of tax returns for 2004, the number came to about 10.24 million.

The Filing Assistance on the NTA website not only contributes to taxpayers' filing of tax returns that they make on their

own at home, but also provides the opportunity for taxpayers to use the e-Tax system with the data linked to e-Tax.

We would like to continue promoting improvements based on users' requests to make the Filing Assistance on the NTA website easier to use so that more taxpayers can utilize the section.



Leaflet for e-Tax



Trial Version of e-Tax

* On the precondition that financial institutions should develop and diffuse computer systems and personal identification infrastructure, the NTA aims to increase the number of e-Tax users to about 1.3 million by fiscal 2006.

Self-Assessment System

“Taxpayer Services” and “Promotion of Proper and Fair Tax Administration”: the Two 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). To help taxpayers to correctly file and pay their taxes by themselves, the NTA endeavors to improve taxpayer services, including tax education, tax counseling, enhancing convenience for filing, public relations activities about the significance of tax, and information on tax law and procedures.

Second, proper guidance and examinations are necessary to check taxpayers’ tax returns and lead them on how to file their returns correctly. The NTA aims to promote proper and fair tax administration in order to achieve proper and fair taxation through guidance and examinations for taxpayers that require correction.

Scenes of Final Tax Returns 1948



Present



Wide-Area Tax Refund Center



Consultation in a Tax Office

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 taxpayers’ 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 can be easily obtained. 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, radio, and newspaper 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.

Therefore, the NTA allows taxpayers to obtain information that they want at any time. It also makes wording of tax information easy for taxpayers to understand from their viewpoint. The NTA reflects taxpayers’ opinions in its information services. It aims at and implements unified PR operations.

● 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 experience 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 identify tax issues them-



“Tax Space Ueno” at the Tokyo-Ueno Tax Office

selves, to learn and think about those issues, and to independently judge and resolve them.



Education Section of the NTA Website

● Taxpayer Briefings

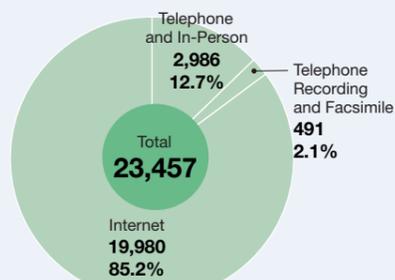
The NTA holds briefings for taxpayers to inform them about tax system reforms and deepen their understanding of tax administration. At Tax Offices throughout the nation, we hold a variety of taxpayer briefings to provide information about tax in general. There are briefings for compiling financial statements 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 need to ensure that the information needed to follow tax procedures is provided at the required times.

Number of Briefings and Participants (first half of the 2004 business year)

	(briefings, thousand persons)	
	Taxpayer Briefings	Of Which, Briefings on the Revised Consumption Tax Law
Number of Briefings	24,028	9,113
Number of Participants	1,312	252

Tax Consultations at Tax Counsel Offices in Fiscal 2003

(thousand cases, %)



● Tax Consultations at Tax Counsel Offices

In order to answer and accommodate taxpayers' questions and inquiries, the NTA has placed tax counselors and staff with vast experience in all aspects of tax at Tax Counsel Offices throughout the nation to provide telephone and in-person tax consultations. Consultations in English are provided at the Tax Counsel Offices of the Tokyo, Nagoya, and Osaka Regional Taxation Bureaus. In addition to telephone and in-person consultations at Tax Counsel Offices, the NTA also provides Tax Answer Service 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.

● Responses to Taxpayer Advance 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 notice. 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, the NTA began to make and publish written responses to inquiries about tax-related treatment of individual transactions and facts as part of its taxpayer services.

In the beginning, such written responses had excluded responses to inquiries from specific taxpayers on specific cases. In order to increase the predictability of tax law applications to transactions planned by taxpayers, the NTA in March 2004 began to make and publish written responses to specific taxpayers' inquiries about specific cases unless they fall under regarding the prevention of information abuse. As for inquiries common to plural parties within the same industry group or category, the NTA, at the same time, introduced a procedure to make general responses to inquiries from industry groups or the like, on certain conditions.

Under the new procedures for written responses, the NTA has positively responded to highly specific individual inquiries that had not been subject to written responses, as well as inquiries from central government agencies. As a result, the number of written inquiries and responses has recently posted a substantial increase.

2 Taxpayer Services: ② Making the Filing of Returns More Convenient

The number of taxpayers who filed a final income tax return for 2004 reached 21.67 million, meaning one in every six Japanese citizens filed such a return. 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.

● Promoting Self Completion of Tax 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 fill out their own forms, we completely revised the tax form starting with the 2001 final return form and simplified the items to be entered.

As the number of final returns filed is expected to further increase, we are encouraging more taxpayers to voluntarily and properly file final returns. We are actively taking various measures to make it easier for taxpayers to prepare and file their final returns on their own such as the introduction of e-Tax and the establishment of the Filing Assistance on the NTA website and touch-screen computers. As to enhance satisfaction for taxpayers who require consulting services, we consider it important to control tax collection costs and to process returns efficiently with our limited number of officials.

● e-Tax

The final tax return filing period for 2004 was the first since the e-Tax online tax return filing and tax payment system was expanded to cover the whole of the nation. As many taxpayers were expected to intensively use the system in the period, the NTA did its utmost to secure the system's safety in a bid to earn taxpayer confidence. Regarding the expansion of e-Tax operation hours as requested by many users, the NTA increased daily service hours by two hours to 14 hours between 9 a.m. and 11 p.m. for each weekday during the period. Furthermore, the e-Tax system was made available between 9 a.m. and 9 p.m. even on Sundays (see Page 9).

● Filing Assistance on the NTA Website

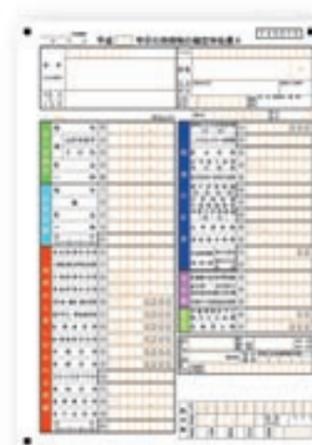
As for the above-discussed "the Filing Assistance on the NTA Website," the NTA enhanced functions for preparation of final consumption tax returns and financial statements for blue returns in the final tax return filing period for 2004, in response to opinions and requests from taxpayers (see Page 9).

Responding to the Certified NPO System

As the birthrate declines with the population aging and society becoming more diversified, private nonprofit services of nonprofit organizations have grown more important. In order to support NPO services by allowing NPOs to accept external funds for their operations more easily, a special tax measure was created under the fiscal 2001 tax system reforms to deduct donations made to NPOs that are certified by the National Tax Agency Commissioner as meeting certain conditions. Such NPOs are referred to as "certified NPOs."

The certification conditions were relaxed under the fiscal 2002 and 2003 tax system reforms. As greater consideration was given to the environment surrounding NPOs, the conditions were further relaxed under the fiscal 2005 tax system reforms.

In a bid to secure the proper and smooth enforcement of the special tax measure, the NTA has distributed guidebooks and leaflets about application procedures and certification conditions and put a list of certified NPOs on its website. The agency has also set up counters at Regional Taxation Bureaus throughout the nation and the Okinawa Regional Taxation Office for consultations about applications for such certification.



Final Income Tax Return

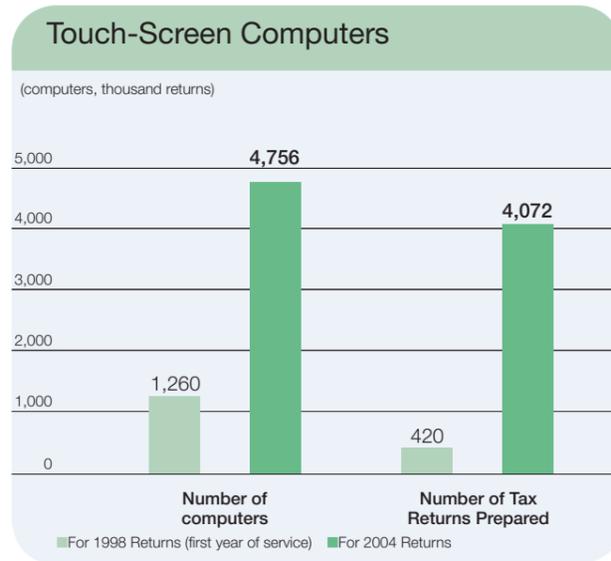


Filing Assistance for Consumption Tax on the NTA Website

●Touch-Screen Computers

For taxpayers who are not able to use e-Tax or the assistance on the NTA Website, touch-screen computers for preparing tax returns have been installed at Tax Offices making it possible for them 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 the 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 easing the congestion in the consultation area.

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 2004, the number of computers had risen to 4,756, and a total of approximately 4,070,000 returns (about 20 percent of all returns) were prepared using them.



Preparing Tax Returns by Touch-Screen Computers



Rising Number of Final Tax Returns Filed

Under the fiscal 2003 tax system reforms, the enterprise sales threshold for consumption tax exemption was lowered, the tax deduction for the elderly was eliminated and the public pension deduction was changed. As these reforms took effect in 2005, the period for 2005 tax returns is expected to see the number of sole proprietorships' consumption tax returns increasing by about 1.28 million and that of pension benefit recipients' income tax returns rising by about 1.7 million.

The NTA will try to take advantage of IT to efficiently process the increased number of tax returns. The agency will also continue to publicize the reforms and hold briefings in order to allow the new tax return filers to properly submit tax returns and make tax payments in the period for filing of tax returns for 2005. In this respect, the NTA will try to implement various well tailored measures in publication, consulting, and guidance, etc.

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 returns are not required to submit returns for sole proprietorship tax or individual inhabitant tax, both of which are local taxes. Moreover, taxpayers can file their consumption tax and local consumption tax returns through a single procedure. In terms of administration, many municipalities offer consultations on income tax, and services related to 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.

●Weekend Tax Consultations

"Tax consultations on weekdays only are insufficient. The consultations should be made available on weekends." In response to such request by taxpayers, the NTA offered tax return consultation and reception services on two Sundays in February 2004 during the final tax return filing period for 2003. This was the first ever such offer for a final tax return filing period.

In the final tax return filing period for 2004, the NTA reviewed Tax Offices available for such weekend services based on results for the previous period and offered final return consultation and reception services at 211 Tax Offices, three temporary service sites, and two wide-area self-assessment consultation centers on two Sundays in February 2005.

A questionnaire survey on the two Sundays' services indicated that many taxpayers including salaried persons used the services to consult with tax officials on medical expense and housing loan deductions and that users welcomed and gave high ratings to the weekend services.

The NTA would like to fully review the information gathered about the weekend consultations held during the 2004 tax return filing period and announce futures plans before the 2005 final tax return filing period.



Poster for 2004 Final Tax Returns

Return for Tax Refund and Request for Correction

A taxpayer who does not have to file a final tax return may file a return for a tax refund and receive the refund if a withheld tax amount or an estimated tax payment exceeds a tax amount based on real annual income*1.

If a taxpayer finds that a filed tax return includes an excessive tax amount or a short tax refund due to erroneous overestimation of the tax amount, the taxpayer may request a correction to the tax return*2.

The NTA properly applies the relevant laws and properly and promptly processes returns for tax refunds and requests for corrections to tax returns.

If a Taxpayer Encounters a Disaster or the Like

- (1) If a taxpayer cannot file a tax return or pay tax by the deadline for a disaster or a similar reason, the taxpayer may file an application with a competent Tax Office director. Upon approval by the Tax Office director, the deadline may be extended for up to two months from the end of the reason
- (2) If an earthquake, fire, windstorm, flood or any other natural disaster damages a taxpayer's housing or household goods, the taxpayer may choose (a) the deduction for casualty losses under the Income Tax Law or (b) the tax reduction or exemption as provided in the "Law Relating to Tax Reduction and Postponement of Collection for Disaster Victims," whichever is favorable, to get relieved of all or part of income tax.
- (3) If a disaster or the like damages a taxpayer's assets considerably or makes it difficult for a taxpayer to pay tax in lump sum immediately, the taxpayer may file an application with a Tax Office director for the postponement of the tax payment deadline and may be given a tax moratorium for a certain period of time.

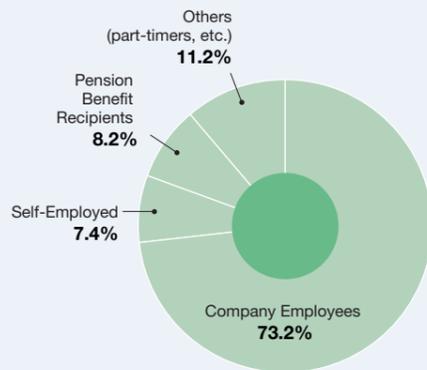
*1 Additional refunds may be made if certain conditions are met.

*2 A taxpayer may make such request by submitting a written request specifying errors.

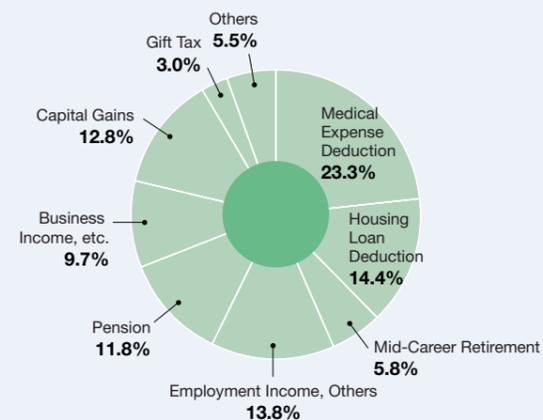
Results of a Questionnaire on Weekend Tax Consultations

Number of respondents: 61,285

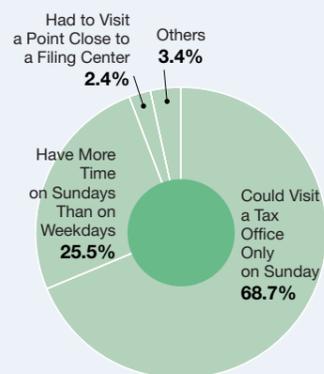
1. Occupation



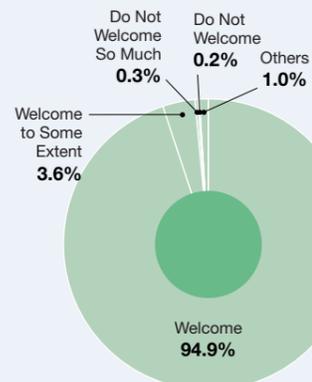
2. Details of Self-Assessment Consultations



3. Reasons for Sunday Tax Office visits

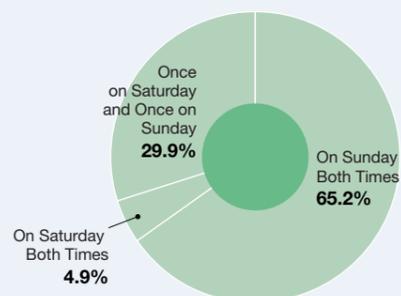


4. Weekend Self-Assessment Consultations



5. Would It Be Convenient for Weekend Consultations Next Year to Be Held on Saturday, Sunday, or a Combination of the Two?

(In your response, please assume that weekend consultations will be offered on two days next year)



3 Promotion of Proper and Fair Tax Administration

To ensure proper and fair taxation, the NTA provides guidance regarding tax returns and payment and implements rigorous examinations from various angles on taxpayers who attempt to evade their tax obligations. In selecting taxpayers for examination, we analyze their income tax and corporation tax returns entered into the KSK System from the viewpoint of their industry type, business category, and business scale.

Information

The NTA collects about 140 million new pieces of information a year, and we manage this information together with tax return data in an integrated fashion today inside the KSK System and use it for guidance 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 check returns related to overseas transactions.

Information substantiating off the book or fictitious transactions and specific information relating to individual or corporate transactions are particularly helpful in examinations.

Guidance

The Tax Office checks whether the information reported in a tax return is complete and correct using information gathered from various sources. If unreported or errors in reported information have been found, the Tax Office requests the taxpayer by telephone or in writing to submit an amended return. If the taxpayer refuses to comply, then correction*¹ or determination*² by official assessment will be made under the authority of the district director of the Tax Office.

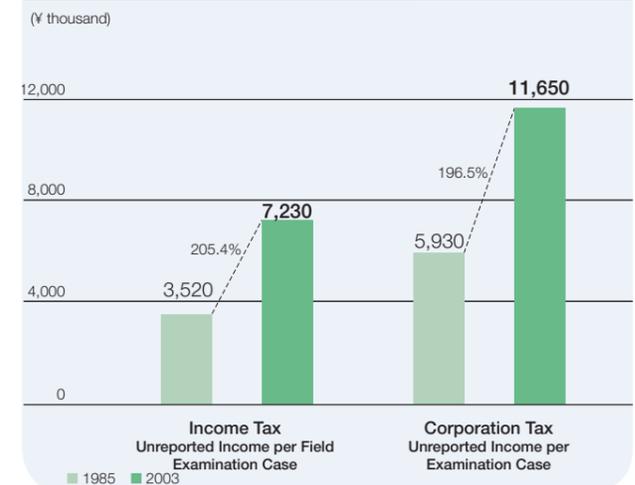
The Individual Taxation Division handles about 700,000 cases a year of this kind of brief guidance with taxpayers.

Strict Treatment of Unscrupulous 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 give higher priority to the examination of unscrupulous taxpayers and make sure we invest sufficient number of days on such cases.

The unreported income discovered through field examination averaged ¥7,230 thousand per case for income tax and ¥11,650 thousand for corporation tax in 2003. Comparing this to 1985 figures, it is clear that the amount of unreported income per examination case is on the rise.

Unreported Income Tax and Corporation Tax per Examination Case



*1 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.

*2 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.

In light of this situation, the NTA believes that it is essential to ensure a sufficient number of examinations for proper and fair taxation. By singling out and conducting examination on taxpayers who are believed to be filing improper returns, and

thereby constantly keeping such unscrupulous taxpayers under our watchful gaze, we believe that conscientious taxpayers' willingness to pay tax could be enhanced leading to better taxpayer service overall.

In order to ensure proper and fair taxation, the NTA endeavors to conduct smooth tax examinations through various efforts to properly deal with taxpayers and strictly manage taxpayer information.

Advance Notification of Tax Examination

In principle, taxpayers are notified in advance of the date for the tax examination by phone so that we can confirm the taxpayer's availability. 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.

Tax Examination

When a tax official visits the residence or office of a taxpayer to conduct a tax examination, the official presents a photo identification card that clearly show his or her name and identity as a tax official. An examination proceeds quickly and smoothly if the taxpayer cooperates 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.

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

In principle, tax examinations are conducted in the presence of the taxpayer. The taxpayer may also have his or her CPTA designated as tax proxy attend the examination.

Measures after Tax Examination

When an error is found in the tax return, the Tax Office explains to the taxpayer the error and the amount of tax that should be paid, and recommends that the taxpayer amend and refile his or her return after the due date. If a return is amended, no request for reinvestigation or reconsideration may be allowed (see Pages 35~37). In addition to the tax amount due, a delinquent tax may be imposed. Furthermore, additional tax for understatement, for failure to file a return, or a aggravated additional tax may be imposed. When recommending a taxpayer to amend his or her return, the Tax Office provides written explanations. If the taxpayer does not cooperate with the Tax Office's request for an amended return, etc., the Tax Office district director makes a correction, etc., and sends a Notice of Correction or Notice of Determination by official assessment to the taxpayer.

When no error is found in the tax return, the Tax Office performs the following:

- a. If there is no need for submission of an amended return, but guidance is needed regarding future tax returns or record keeping, or maintenance and storage of books and documents, the Tax Office provides the taxpayer with an explanation. The Tax Office also clearly communicates that the tax examination is closed.
- b. If no error is found in the return and no guidance is needed, the Tax Office sends a written notification of tax examination findings to the taxpayer.

Strict Information Control

Revenue, sales, expenses, and other information involving taxpayers' privacy are necessary for tax calculation. Information about taxpayers' trading partners may sometimes be required for tax examinations. If taxpayers' privacy and information are leaked easily, taxpayers cannot be expected to cooperate with the NTA. This may negatively affect smooth tax examinations.

Tax officials who have leaked confidential information they obtained through tax examinations are subject to a criminal penalty (up to two years in prison or up to ¥300,000 in fine) under tax law that is heavier than the penalty (up to one year in prison or up to ¥30,000 in fine) under the National Public Service Law. The NTA conducts regular training of tax officials to thoroughly inform them of such penalty provisions. When interviewing taxpayers, tax officials give considerations to their privacy and refrain from interviewing them at their shopfronts or at the front door of their homes.

As the "Act for Protection Computer-Processed Personal Data Held by Administrative Organs" took effect on April 1, 2005, the NTA has further enhanced its strict control of taxpayer information that it holds.

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	Up to two months from the day after the due date	Annual rate of 4.1% (in 2005) * 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%	
Additional Tax	Whether the Tax Return was Filed by Due Date	Regular Case	Case of Fraud, etc.
	Return is filed by due date, but tax amount is understated	For understatement (10% or 15%)	35%
	Return is not filed by due date	For failure to file (15%)	40%

Where errors are not attributable to the taxpayer and a legitimate reason is found, then additional tax for understatement, additional tax for failure to file, or aggravated additional tax may not be imposed.

In cases where certain requirements are met, for example, a taxpayer may have been given a tax payment grace period after a disaster, or may have failed to file a return or pay a tax due to an erroneous guidance given by NTA officials, the taxpayer may be exempted from all or part of a delinquent tax corresponding to the grace period.

The NTA has set up the rules for the cases where no penalty is imposed and has published the rules on its website (Japanese only)*.

Enterprise Groups Engaged in Wide-Area Transactions

Corporations endeavor to engage their business in wide area or cross regional activity by setting up subsidiaries and branches, the NTA is being called upon to adapt its tax examinations accordingly.

In examining a enterprise group, it is important that the NTA must first gain an overall picture of the group, grasp the actual activities, and ascertain whether the group is conducting improper tax accounting by using intra-group transactions. For overseas subsidiaries, the NTA must consider international tax issues. The state of the local economy and the subsidiaries'

* On the NTA website, see <http://www.nta.go.jp/category/tutatu/jimu/jimu.htm> for penalties and "Exemption from delinquent tax for tax payment moratorium related to Article 63" in <http://www.nta.go.jp/category/tutatu/kihon/tyousyu/general/mokuji.htm> for the delinquent tax (Japanese only).

ties with the community are valuable information to the NTA to fully ascertain the true situation of the subsidiaries.

The consolidated taxation system was introduced in August 2002. The enterprise groups that file consolidated tax returns are one form of the actual enterprise groups, and the need to ascertain intra-group transactions and the importance of local information remains basically the same.

In examining enterprise groups and consolidated groups engaged in wide-area transactions, the NTA implements coordinated examinations on a nation wide scale where parent companies and those subsidiaries that require close atten-

tion are examined by maintaining close communication and coordination among the national network of Regional Taxation Bureaus and Tax Offices.

Business are rapidly expanding their area of activity in recent years along with internationalization and the increasing use of IT. The NTA considers examinations of enterprise groups and consolidated groups as an important issue for the future as well.

● International Tax Avoidance Schemes

As cross-border business activities expand, complex international tax avoidance schemes are emerging. They take advantage of differences between national tax systems and between tax treaties, and utilize anonymous association contracts, partnerships^{*1}, limited liability companies^{**2} and other entities, and new financial means for international tax avoidance.

To realize proper and fair taxation, to prevent the unfair erosion of the nation's tax base, and to protect conscientious taxpayers from being forced to carry the burden of the tax avoided by these schemes, the NTA implements tax examinations and other measures to ascertain the actual situation of transactions, clarify the facts of complicated schemes and collect evidence for proper taxation.

Expertise in international taxation and examination know-how are required to address these international tax avoidance schemes. In this respect, the NTA has endeavored to expand and enhance the examination setup by increasing the number of senior examiners (international) who specialize mainly in examining international transactions of corporations at Regional Taxation Bureaus. 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 business year 2002 and endeavors to identify these schemes, uncover the facts, and acquire information about financial assets held overseas.

To improve the capabilities of our tax officials, the National Tax College provides training courses on international taxation, foreign tax law, tax conventions, derivatives^{**3}, and foreign languages. In addition, the Regional Taxation Bureaus offer various practical training courses regarding examinations of international transactions.

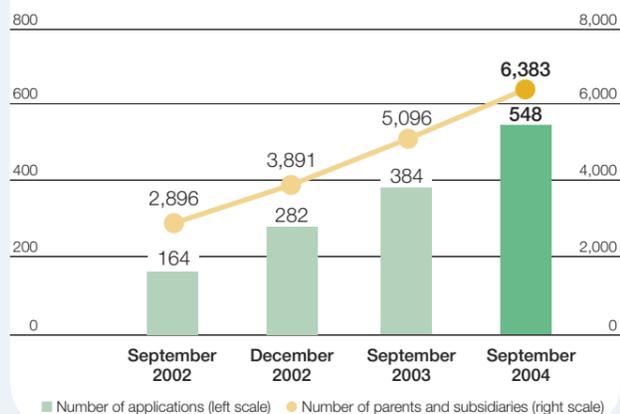
To prevent the loss of the nation's tax base, the NTA requests that tax system revisions be made regarding schemes that cannot be properly handled through the interpretation of current tax law. The fiscal 2005 tax system reforms included revisions to address tax avoidance schemes utilizing partnerships.

Consolidated Taxation System

With the dramatic changes in the business environment surrounding Japanese enterprises, the Commercial Law and other laws and regulations have been adjusted to facilitate corporate reorganization and thereby to ensure that businesses remain competitive and can fully demonstrate their vitality. In the amendments made to the Corporation Tax Law as part of the fiscal 2001 tax system reforms, necessary adjustments were also made, including the revision related to corporate spin-offs 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 enterprise groups and corporate disclosure is primarily performed via consolidated financial statements.

The consolidated taxation system was introduced in August 2002. This system views a enterprise group as a single corporation in the levying of tax. The NTA is improving the administrative framework for responding to advance inquiries, and examining applications for approval so that approval applications and consolidated tax returns are submitted properly. When examining consolidated enterprise groups, a competent Tax Office for parent companies, and ones for subsidiaries, and the Examination Department of the Regional Taxation Bureau try to maintain close communication and cooperation to conduct integrated examinations. In business year 2003, examinations covered 79 enterprise groups.

Applications for Approval on Consolidated Taxation (Cumulative total of applications)



Consolidated Taxation Returns (For business year 2003, ending in June 2004)

Consolidated Returns	Number of Returns	239
	Percentage of Returns Declaring a Surplus (%)	20.1
	Reported Income (¥ billion)	65.7
Reference	Non-Consolidated Income (¥ billion)	120.24

Types of International Tax Avoidance Schemes

There are two types of international tax avoidance schemes. One is the made-to-order type, in which corporations or individuals form schemes in line with their business activities. The other is the ready-made type, in which those who develop schemes sell them to any number of enterprises.

Made-to-order type schemes include cases where foreign corporations doing business and investment in Japan attempt to avoid Japanese tax by investing through shell companies established to abuse tax conventions.

Ready-made type schemes include transactions in which corporations or other entities utilize partnerships for purchasing and leasing aircraft, recommend investment in the partnerships as a "tax-saving product" to highly profitable small and medium-sized enterprises and wealthy individuals, and distribute booked losses on aircraft to investors. In aircraft leasing transactions, depreciation costs exceeding leasing income can be frontloaded.

^{*1} 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.

^{**2} 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.

^{**3} Derivatives are new financial products based on bond, stock, exchange, and interest rate transactions. Futures, options, and swaps are types of derivatives.

● 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 companies in a multinational enterprise 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.

In recent developments regarding transfer pricing issues, Japanese companies have increasingly transferred their production bases overseas and provided their overseas manufacturing subsidiaries with such intangible assets as production technology and know-how, as well as management guidance, operations management, and other services. This means that Japanese parent must receive fair prices for intangible assets provided to overseas manufacturing subsidiaries. Regarding such intangible assets transactions, the NTA endeavors to accumulate know-how for smooth tax enforcement with a view



to the application of the Transactional Net Margin Method (TNMM)* introduced through the fiscal 2004 tax system reforms.

To ensure the proper and smooth enforcement of the transfer pricing tax system, the NTA endeavors to reduce the administrative burden on corporations and ensure the predictability of taxation on business activities regarding the system by offering an Advance Pricing Arrangement (APA) to confirm in advance the method used to calculate transfer prices.

● 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 specialized and cross-sectional ways from e-commerce service providers and others, conducts tax examinations based on the information collected, and develops and accumulates examination methods. It also provides officials of each Regional Tax Bureau and Tax Office with information collected and various examination methods.

● Tax Criminal Investigations

General tax examinations are so-called voluntary examinations and are conducted in principle with the consent of the taxpayer. 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 assimilating 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 tax 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 transactions become more cross regional, international, and IT oriented, tax evasion methods have grown more complex and diverse in recent years. By enhancing 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 2004, the NTA commenced 210 criminal investigative examination cases and referred 152 cases to the prosecutor. Total tax evaded was about ¥28.2 billion, with an evaded tax sum of ¥162 million per case. Although the number of cases commenced, closed, and referred to prosecutors increased over the previous fiscal year, the percentage of reference to prosecutions, total evaded tax amount, and amount of tax evaded per case decreased.

Notable tax evasion methods in fiscal 2004 were intentional concealment of sales and recording of costs at unreasonably high figures. In addition, tax evasions regarding overseas transactions and corporate groups were seen.

In 2004, 171 cases were resolved at the court of first instance, and in all of the cases, a guilty ruling was handed down. The average fine was about ¥27 million per case, and the average prison sentence was 15.3 months. There were eleven cases with no suspended sentence. Prison sentences without probation have been handed down every year since 1980.

Tax 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)
2004	210	213	152	28,224 (24,680)	133 (162)

Note: Tax evasion figures include penalties.

Judgments Handed Down in Tax Criminal Investigation Cases

Calendar Year	(1) Number of Judgments	(2) Number of Convictions	(2)/(1) Percentage of Cases Convicted	Number of Convictions with Prison Sentences without Probation	(3) Amount of Tax Evaded per Case (¥ million)	(4) Average Prison Sentence per Person (months)	(5) Average Fine per Case (¥ million)
2004	171	171	100.0 %	11	111	15.3	27

Notes: 1. The number of convictions with prison sentences without probation and (3)-(5) figures exclude those combined with non-tax crimes.
2. The "Amount of Tax Evaded per Case" is the amount of tax evaded through fraud and other illegal activities.

* The TNMM is used to calculate transfer prices by comparing a corporation's operating profit margin with that of another corporation in the same industrial category.

4 Payment of Taxes

●Fostering a Cooperative Attitude Regarding Self Initiated Tax Payment

Reported tax becomes tax revenue only when it is actually paid to the national treasury. In fiscal 2003, about ¥46 trillion of the ¥47 trillion in national tax reported to the Tax Office were paid by year-end. This means that approximately 97.4 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 sole proprietors that declare and pay tax on an ongoing basis, we suggest tax payment by transfer account from their deposit accounts. 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 2004 amounted to about ¥1.87 trillion (provisional figure). 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, self 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 a taxpayer is delinquent in the payment of national taxes and fails to pay even after receiving a written payment demand slip and an advice to pay, the NTA may seize the taxpayer's property. Various assets are subject to seizure, ranging from real estate such as land and buildings, claims such as deposits and loans receivables, movable assets, and securities.

For taxpayers who are having temporary difficulty with their tax payment because of natural disaster, sickness, or the suspension or shutdown of business operations due to economic circumstances, however, we respond appropriately to the taxpayers' situation. For example, we may allow an installment plan for tax payment, as a measure to lighten the burden of tax payment.

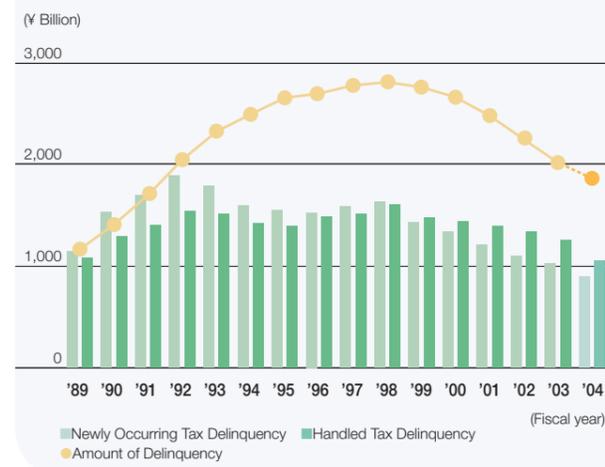
The NTA has designated the clampdown on tax delinquency as a top-priority issue since 1999. The entire NTA is working to prevent tax delinquency and to place priority on the collection of delinquent consumption tax which is a type of deposit received and the resolution of large-scale and unscrupulous tax delinquency. The NTA also utilizes the Tax Payment Call Center to handle small-scale delinquency cases. The agency is thus endeavoring to efficiently resolve tax delinquency.

Moreover, the NTA requests law enforcement authorities to charge particularly unscrupulous taxpayers who conceal or dispose of assets with the intent to evade the procedure for collection of delinquent tax, based on the penal provisions for evading delinquency disposition stated in Article 187 of the National Tax Collection Law. Under these provisions, a taxpayer may be sentenced to a maximum of three years in prison or a fine of up to ¥500,000 for such evasion. There have been five such cases since 1996.

●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 from the level for collection through written notices in the past. The Tax Payment Call Center was introduced at the Tokyo Regional Taxation Bureau in 2002. It was introduced later at the Osaka Regional Taxation Bureau and the Kanto-Shinetsu Regional Taxation Bureau. Call centers spread throughout the nation in 2004.

Trends in Tax Delinquency



●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 introduce a computer 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.*1 We have also streamlined operations through cooperation with financial institutions and the Bank of Japan, including OCR processing*2 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. The NTA intends to have more taxpayers use 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. Most of these payment collection procedures at financial institutions and fee collection agencies were done manually, resulting in massive clerical work. 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 written information to be transferred online, in order to diversify the means of settlement to improve the convenience for payers and the efficiency of work at fee collection agencies. The resulting network is called the Multipayment Network. Payment settlement services using this network are called Pay-easy. Online tax payments use the Pay-easy services.

The Multipayment Network commenced operation for the collection of private sector bills in October 2001. It has been available for national tax payments throughout the nation since June 2004.



*1 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.

*2 OCR (Optical Character Reader) processing converts characters printed on tax payment slips into electronic data, thereby enabling paperless operations.

5 Roles of CPTAs

Certified public tax accountants (CPTAs) have a public mission as tax experts to strive to promote taxpayer trust in line with the principle of the self-assessment system and realize tax compliance as provided in tax law, based on their independent and fair standpoint (Article 1, CPTA Law).

In this respect, CPTAs' services - (1) tax proxy, (2) preparation of tax documents, and (3) tax counseling - must not be provided by other people than CPTAs, even free of charge (Article 52, CPTA Law) to be provided only by CPTAs.

For the proper and smooth operation of the self-assessment system amid a substantial increase in the number of tax return filers, CPTAs are required and expected to play an important role in the proper performance of tax obligations by taxpayers. Therefore, the NTA fully respects CPTAs who perform the public mission by making such efforts as the promotion of the new system for documents attached by CPTAs to tax returns. On the other hand, the NTA takes strict measures against those who violate the CPTA Law.

●Promoting Attachment of Return Working Paper to Tax Returns

The CPTA Law was revised in May 2001 (effective from April 1, 2002) to expand the system for hearing the opinions of CPTAs and introduce a new system (Article 33-2, CPTA Law) was introduced in which return working paper created by CPTA would be attached to tax returns. The new system allows CPTAs to attach to tax returns documents regarding calculation, audit, or counseling services that they provided for the preparation of the tax returns. If the Tax Office intends to conduct a tax examination on a taxpayer who has filed a tax return along with such documents, the CPTA possessing the certificate evidencing the authority of tax proxy must be given the opportunity to give his or her opinions on the items written in the attached documents before the taxpayer is notified about the tax examination.

The NTA respects and endeavors to promote the new system because the system contributes to the preparation and submission of accurate tax returns, the establishment of a reliable system for CPTAs, and the facilitation of tax administration.

●Fighting against CPTA Law Violations

To secure the people's confidence in the CPTA system, the NTA endeavors to forestall malpractice by CPTAs by taking advantage of consultations with CPTAs' associations and other opportunities to give a warning against malpractice.

The NTA also takes strict measures against CPTAs and others violating the CPTA Law, through efforts to collect various kinds of information and accurately conduct examinations based on the law.

Japan Federation of CPTAs' Associations

The Japan Federation of CPTAs' Associations is an organization that is required by the CPTA Law to be established to undertake guidance, liaison, and supervision services for CPTAs' associations and their members and perform the registration of CPTAs in order to contribute to CPTAs' compliance with their obligations and improvement of their services in view of their mission and duties. The federation consists of 15 CPTAs' associations covering about 69,000 CPTAs and about 900 CPTA firms.

Each association of CPTAs provides a wide range of services including (1) training to contribute to the advancement of members' qualifications and the improvement and development of their operations, (2) social contributions through the external audit system for local governments and public services such as tax and accounting advisory services for nonprofit organizations, and (3) free-of-charge counseling services for small-scale taxpayers and the like.

For details, see the federation's website at <http://www.nichizeiren.or.jp> (Japanese only).

6 Cooperation with Private Organizations

To allow taxpayers to make correct tax returns and tax payments - the cornerstones of the self-assessment system, the NTA endeavors to disseminate correct information about tax and to ensure a fair tax burden. It is the taxpayers who are the key players in the self-assessment system.

In reality, however, it is very difficult to communicate all the fine points of tax law to the average taxpayer. Therefore, the NTA is receiving help from private organizations in supporting taxpayers.

●Relevant Private Organizations

In addition to providing tax information directly to taxpayers, the NTA also endeavors to relay information to taxpayers through relevant private organizations, including blue return

associations, corporations associations, and indirect tax associations. These relevant private organizations play an important role in realizing correct tax filing and payment.

Blue Return Associations

Set up voluntarily by sole proprietors 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 1.14 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 accounting staffs 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 105,000 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 disseminate knowledge about consumption tax and 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 Administration in the Era of Globalization

The NTA promotes tax administration including cooperation with foreign tax authorities to meet the era of globalization.

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 78,000 today. The associations encourage tax payment by transfer account for income tax for individuals and for consumption tax and local consumption tax for sole proprietors 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).

Enhancement of Coordination and Cooperation among Private Organizations

The Regional Taxation Bureaus and Tax Offices have established liaison councils and the like to promote coordination and cooperation between private organizations. As an increase has been seen in the coordination regarding the revised Consumption Tax Law, the diffusion of online tax return filing and other activities whose efficiency can be improved through the integration of resources at private organizations, the Regional Taxation Bureaus and Tax Offices are backing up joint activities of private organizations such as cosponsoring of various events for the "Think-Your-Tax" week campaign in a bid to enhance coordination and cooperation between relevant private organizations.



e-Tax Briefing Held by a Youth Group of a Corporations Association



Ad for the "Think-Your-Tax" Week Campaign

As multinational enterprises and the like conduct various cross-border economic activities with growing economic and social globalization, one country's taxation system and tax administration can have a great impact on other nations' taxation systems and enforcement. The environment surrounding tax administration has thus changed dramatically. The elimination of international tax avoidance and double taxation risks emerging from such environmental change has become a major issue for tax authorities in all nations. In this respect, bilateral and multilateral talks on tax issues have increased for the development of common rules on international transactions and for the cooperation and sharing of experiences between tax authorities.

● 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 from one country to another. For example, if tax administration fails to eliminate the risk of double taxation, it may block the flow of transactions and in turn make it difficult to maintain the tax 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 Model Tax Convention

Mainly at the OECD Committee on Fiscal Affairs, tax authorities have been reviewing a model tax convention clarifying common interpretation or standards and developing new rules for bilateral tax conventions. In cases where an international company based in a country has subsidiaries and branches located in other countries, the national attribution of the income made by the subsidiaries and branches involves the allocation of tax revenue among countries and double taxation may arise. The OECD Committee on Fiscal Affairs explores how best to 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 a foreign country and settle their transactions by withdrawing payment from bank accounts. The OECD Committee on Fiscal Affairs and other related international conferences examine international taxation rules for these kinds of interna-

tional 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 in other nations' results. This has a negative influence on the fiscal base of the other nations 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 jurisdictions that offer extreme tax reductions.



An International Meeting

Discussions at OECD on Calculation of Income Attributed to Permanent Establishment (PE)

Regarding taxation on branches or the like of foreign corporations, there is an established rule that income attributed to a PE will be the taxable income of that branch and that the amount will be determined under the arm's length principle.

Since the arm's length principle regarding attribution of income to PEs is interpreted differently among nations, however, the OECD has launched a project on calculation of taxable income at PEs. Discussions have been under way on the development of common rules. Specifically, the OECD is considering calculating taxable income of PEs by allowing the OECD transfer pricing guideline for the arm's length principle in the transfer pricing system to be applied for attribution of income to PEs.

An interim reports on these discussions are available on the OECD website (<http://www.oecd.org>).

The fruition of the project will be final report published by January 2007. Revisions reflecting the discussions will be made to the OECD model convention commentary.

Discussions on Development of Common Taxation Rules and Tax Enforcement Problems - Participation in International Meetings between Tax Authorities

Japan has positively participated in international meetings on tax administration to ensure cooperation and sharing of experiences between tax authorities regarding their common issues including international taxation problems such as double taxation and tax avoidance schemes, as well as the improvement of taxpayer services and compliance. Key multilateral and bilateral 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.

The latest SGATAR meeting, which was the 34th, took place in Australia in November 2004.

Pacific Association of Tax Administrators (PATA)

A meeting of the tax authorities of four 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. As one of its accomplishments, PATA in March 2003 developed and released a unified list of documents regarding international transactions (a common list of transfer pricing examination documents submitted by the tax authorities of the PATA member countries) to facilitate the PATA members' transfer pricing examinations. In June 2004, PATA also released the Mutual Agreement Procedures guidance and the Bilateral Advance Pricing Agreement guidance to facilitate Mutual Agreement Procedures between the member countries. These are available in Japanese on the NTA website.

The latest PATA meeting, which was the 26th, took place in October 2004.

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 experts from member country administrations. In January 2005, the OECD held a meeting of the Tax Administration Advisory Board in Arizona, where commissioners from major countries participated and actively exchanged opinions on the evaluation and measurement of taxpayer compliance levels, and also shared knowledge and experiences regarding the IT-utilizing improvement of tax administration and taxpayer services.

Japan-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 has 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.

The latest meetings of this kind took place in Beijing and Tokyo in April 2005.

Preventing International Double Taxation—Implementation of Mutual Consultations Based on Tax Conventions

When countries differ in viewpoint on the 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 would increase. Such double taxation is resolved through Mutual Agreement Procedures between the tax authorities based on tax conventions.

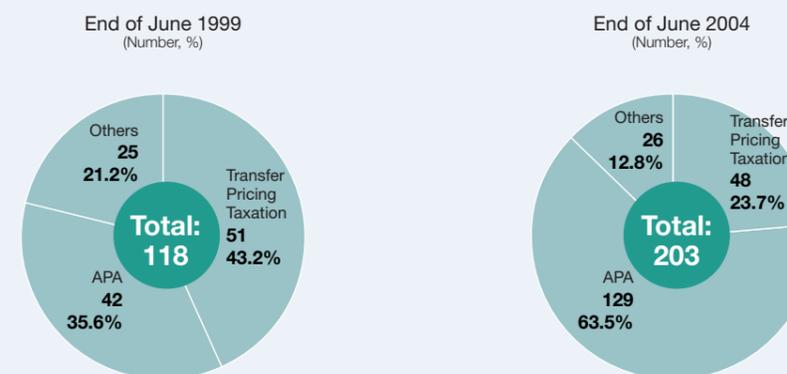
The risk of international double taxation increases as corporate activities become more global, and the number of cases using Mutual Agreement Procedures is increasing every year. Recently, there are increasing cases have involving the Bilateral Advance Pricing Arrangement (BAPA) aimed at ensuring taxpayers' predictability and avoiding double taxation risks concerning transfer pricing. The number of countries for bilateral consultations has also risen. Particularly, cases have emerged

for Japan's competent authority consultations with China and other Asian countries that have experienced few consultations with Japan in the past. Cases for Japan's competent authority consultations with China are expected to increase in future.

To properly and quickly resolve cases for such consultations, the NTA endeavors to further deepen cooperative relations with foreign tax authorities and improve the efficiency of such consultations.

To deepen taxpayers' understanding about Japan's APA system and promote the utilization of the system, the NTA published an APA report (available on the NTA website) in September 2004 following another in 2003 and intends to step up the provision of information to taxpayers.

Number of Mutual Agreement Procedure Cases by Type



● Addressing International Tax Avoidance—

Exchange of Information Based on Tax Conventions

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 convention 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 fiscal 2003 tax system reforms 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 is levying 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.

New Japan-U.S. Tax Convention

When corporations engage in international business transactions, double taxation sometimes arises due to differences between nations' tax systems. Countries 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 convention. 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 by a Japanese resident from a U.S. subsidiary 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, such dividends and royalties are exempted in the new convention from taxation in the country 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.

The new Japan-U.S. tax convention has been applied to withholding tax on income paid as from July 1, 2004, and to tax on self-assessed income from the tax year starting after January 1, 2005. The NTA believes that the appropriate enforcement of this convention is very important for proper and fair taxation.



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 the tax authorities of developing countries and Japan is expected to help forestall international taxation problems and facilitate speedy Mutual Agreement Procedures. 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.

1. Dispatching Experts

(1) Dispatching Experts for Long-Term Stationing

To introduce the NTA's operations and experiences and implement intellectual support including the provision of advisories on the improvement of tax administration in developing countries, NTA officials are dispatched as experts of the Japan International Cooperation Agency (JICA) for long-term stationing at tax authorities of developing countries. One such expert has been dispatched to Indonesia since 1996 and to Malaysia since 2002. This year, the NTA plans to dispatch one each to the Philippines and Vietnam.

(2) Dispatching Experts for Short-Term Stationing

At the request of tax authorities in developing countries, the NTA dispatches officials for short-term stationing to lead the improvement of tax administration and the like. In the current fiscal year, the NTA dispatched such experts to China, Cambodia, Malaysia, Laos, etc.

2. Implementing Training Programs in Japan

(1) International Seminar on Taxation (ISTAX)

As part of JICA group training programs subject to official development assistance, the NTA implements international seminars on taxation for tax officials from Asia, Africa, Latin America, the Middle East, Oceania and Eastern Europe. The ISTAX seminars include the general course (established in 1968) and the senior course (established in 1974) to cover lectures, discussions, inspection tours, etc.

The ISTAX aims at transferring the expertise and know-how regarding Japan's tax system and tax administration to developing countries for the improvement of their tax systems and tax administration and nurturing people's understanding of Japan's tax administration in these countries so as to promote mutual friendship.

(2) Short-Term Seminar for Foreign Tax Officials (Tax Administration Seminar)

In response to the request of foreign tax authorities, the NTA, in cooperation with JICA and the like, implements short-term seminars to introduce Japan's tax administration and tax system to tax officials from China, Vietnam, Mongolia, Cambodia, etc. are held on a nation-by-nation basis.

(3) NTA Practical Training Courses

The NTA implements practical training courses at the National Tax College mainly for tax officials from developing countries who are enrolled in master's courses at graduate schools of Keio University, Yokohama National University, the National Graduate Institute for Policy Studies, Hitotsubashi University, and Waseda University, under World Bank and other scholarships. These training courses have been open since April 1996 to help these officials learn knowledge and skills regarding public finances, taxes, tax administration and the like and to contribute to the improvement of tax administration in their countries.

Remedy for Infringement of Taxpayer Rights

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

When a taxpayer disagrees with the Tax Office about a correction made during a tax examination and wants to appeal, there is an appellate system that allows for an administrative review before lodging a lawsuit directly with the court. This review system provides simple procedures to promptly remedy infringement of taxpayer rights and interests and is composed of requests for reinvestigation and requests for reconsideration.

If a taxpayer is not happy with the Tax Office's handling of a case, he or she will first submit a request for reinvestigation to the district director of the Tax Office. If the 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 dispositions concerning national tax. To appeal a correction/determination or seizure made by the Tax Office district director or other official, a 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 enterprise groups conduct interprefectural 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 including various training programs to develop experts in conducting reviews as well as examinations.

The NTA endeavors to conduct reinvestigations 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.

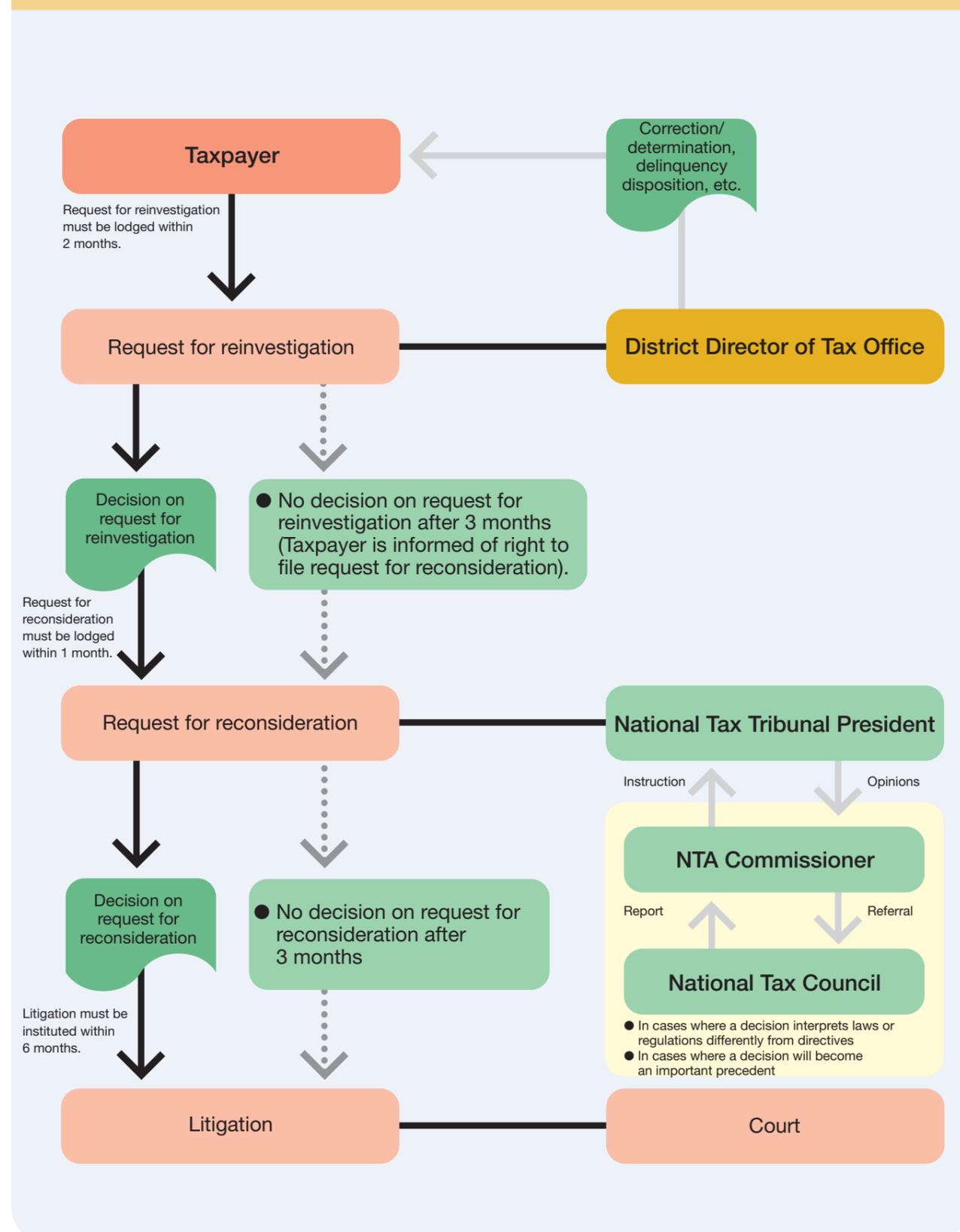
Percentage of Reinvestigation Request Cases Processed within Three Months and Number of Reinvestigation Request Cases Processed



Responding to Taxpayer Grievances

In addition to receiving requests for reinvestigation regarding corrections, the NTA also sometimes receives complaints, requests, and criticisms 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. 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.

Relationship between the Appellate System and Litigation



Remedy for Infringement of Taxpayer Rights

Administration of the Liquor Industry

Ensuring the Sound Development of the Liquor Industry

● 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 is an impartial body, independent from Regional Taxation Bureaus and Tax Offices, and provides relief to infringement of taxpayer rights and interests. 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 positions 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 views and positions of each party and conducting its own examination when necessary.

Decisions by the president of the National Tax Tribunal would not be more disadvantageous to the taxpayer than the dispositions made by the Tax Office district director. Moreover, the district director cannot institute a lawsuit even if he or she disagrees with the ruling, because the ruling by the National Tax Tribunal president represents the final decision of the NTA.

● 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.

● Case Trends

The NTA endeavors to process every request for reinvestigation within three months. In recent years, around 80% of these requests were processed in this way. The number of requests for reinvestigation regarding taxation totaled 4,124 in fiscal 2004. In some 14.8% of the request cases, taxpayers' claims were totally or partially endorsed due to new findings. The National Tax Tribunal endeavors to make a decision on every request for reconsideration within one year. The number of requests for reconsideration regarding taxation totaled 3,146 in fiscal 2004. In about 15.5% of the request cases, taxpayers' claims were totally or partially endorsed.

As for litigations regarding taxation, 457 lawsuits were instituted in fiscal 2004. Of them, 387 lawsuits were processed. In some 14.0% of the processed lawsuits, taxpayers' claims were totally or partially endorsed.

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.

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. But subsequently income tax, corporation tax, and other direct taxes have come to make up a greater proportion of total revenue. In fiscal 2004, liquor tax amounted to ¥1.657 trillion and accounted for 3.6 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 2,838 manufacturers and 163,221 distributors (as of the end of fiscal 2003), more than 95 percent of which are small or medium-sized enterprises.

The environment surrounding the liquor industry is changing dramatically due to the falling birthrate and the aging population, citizens' growing interests in food safety, diversification of lifestyles, measures against minors' alcoholic beverage consumption and the deregulation of liquor sales licenses.

The NTA endeavors to respond to these social and economic changes and promote the sound development of the liquor industry from a broad viewpoint covering liquor consumers, manufacturers, and distributors.

● Liquor Industry Revitalization Efforts

In order to revitalize the liquor industry, it is important for liquor manufacturers, distributors, and the government to work together in ensuring production of good-quality and safe liquors, their appropriate quality control in the distribution stage, and to offer the product, based on the viewpoint of consumers.

In this respect, the NTA actively listens to the voice of consumers, provides information to the liquor industry and conducts label, quality and safety checks on liquors in the retail stage.

As overseas demand for Japanese liquors has increased due to growing interest in Japanese foods, the NTA supports the expansion of Japan's liquor exports by providing export procedures and other relevant information to liquor businesses.

The NTA also has programs that allow liquor businesses to identify their own management problems and to provide information on business success cases.

● 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 sake manufacturers and liquor wholesalers, the NTA provides various forms of support for their efforts to strengthen their management base in line with the Small and Medium Enterprises Business Innovation Support Law.

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



● Ensuring a Fair Trade Environment

To ensure a fair trade environment in the liquor industry^{*1}, 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.

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.

To support the sound development of the liquor industry, it is important to secure a fair trade environment. In this respect, the NTA endeavors to actively publicize the NTA and JFTC Guidelines and expand fact-finding surveys on transactions.

● Cooperation with the National Research Institute of Brewing (NRIB)²

Office of Analysis and Brewing Technology at each Regional Taxation Bureau conducts technical guidance for liquor manufacturers and safety checks on liquors. In addressing brewing technologies for improving liquor quality, and ensuring safety of liquors, research and development of analytical methods and other highly technical problems that the NTA alone cannot address, the NTA exchanges information and cooperates with the NRIB for the sound development of the liquor industry.

● 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.

● Conducting Rigorous Licensing Inspections

A licensing system is adopted in the liquor industry to ensure proper collection of liquor tax and smooth passing of the tax burden onto consumers. In recent years, 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 criteria³ for the issuance of retail licenses was discontinued in January 2001, and the population quotas⁴ were gradually relaxed and finally abolished in September 2003. In line with these deregulations, regions that have a marked overcapacity to supply liquor in relation to the regions' 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, which was established to restrict the issuance of retail licenses in license years⁵ 2003 and 2004.

Before issuing licenses in response to retail license applications, the NTA conducts rigorous and accurate examinations on the violation of the Law for Prohibiting Liquors to Minors, as required by the 2003 revision of the Liquor Tax Law.

National Research Institute of Brewing¹

The NRIB was established in Tokyo's Takinogawa area in 1904, as a national research organization of technology for alcoholic beverages within the Ministry of Finance. The NTA brewing research institute transitioned to an independent administrative agency in April 2001. As Japan's only comprehensive research institute regarding liquors, the institute undertakes advanced analyses and examinations for proper and fair taxation on liquors, research and surveys on liquors, training programs for small and medium-sized liquor manufacturers, seminars for consumers, etc. It also issues an information magazine, "Liquor Stories," which explains to the general public about liquor product information as well as how to make liquors including sake, shochu, wine and other liquors, in an easy-to-understand manner. For details, see the NRIB website at <http://www.nrib.go.jp>.

Associations Based on the Law Concerning Liquor Business Associations and Measures for Securing Revenue from the Liquor Tax

Liquor manufacturers and distributors have organized associations based on the Law Concerning Liquor Business Associations and Measures for Securing Revenue from the Liquor Tax, which aims to secure the liquor tax and stabilize liquor transactions. Each association cooperates with the NTA, the Regional Taxation Bureau and the Tax Office to undertake projects for securing the liquor tax and implements various projects for promoting members' common interests.



^{*1} "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.

^{*2} The NRIB is Japan's only independent administrative institution engaged in activities regarding liquors. It conducts research on liquors, liquor quality evaluation, provision of liquor information, liquor seminars, etc.

^{*3} 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.

^{*4} With the population quotas, new licenses were only issued if the resident population per existing liquor store reached a certain level.

^{*5} A license year begins on September 1 and ends on August 31 of the next year.

Current Situation and Forecasts of the Liquor Industry

Change in Social and Economic Situation in Japan

Changes in Social Situation

- Growing interest in health and safety
- Changes in diet
- Changes in lifestyles
- Age of shrinking population

Changes in Economic Situation

- Progress in deregulation
- Deflation and slack wage growth
- Globalization

Current Situation

Manufacturers

- Problems with securing quality levels
 - An increase in low-cost, low-priced liquors
- Structural and business management problems
 - Existence of small, vulnerable manufacturers
 - Overcapacity
 - Excessive competition

Wholesalers

- Falling profit margins (changes in profit structures)
- Declining functionality

Retailers

- Growth of organized retailers
- Decline of general liquor shops
- Participation of inexperienced retailers

Restaurants

- Inappropriate handling of liquor
- Lack of product information

Consumers

- Doubts about quality and prices

Efforts by Government and Industry

Manufacturers

- Measures to secure and improve quality levels
 - Studying measures to increase value added
 - Considering a quality evaluation system allowing consumers to select products easily
 - Supporting establishment of regional brands
- Measures to address structural and business management problems
 - Eliminating overcapacity
 - Giving guidance on self-diagnosis and analysis of management
 - Promoting exports

Manufacturers/Wholesalers/Retailers

- Guidance covering manufacturing, wholesale, and retail layers
 - Promoting fair transactions
 - Enhancing quality checks on liquor on the market
 - Training by experts
 - Holding meetings for exchange of views

Wholesalers/Retailers

- Measures to solve problems with distributors
 - Promoting fair transactions
 - Improving quality control, services, etc.
 - Expanding and promoting utilization of management support measures
 - Responding to social requirements for prevention of minors' liquor consumption, etc. (Stricter liquor sales control, liquor labeling standard reform, elimination of liquor vending machines, thorough age identification)

Restaurants/Consumers

- Measures taken from consumers' viewpoints
 - Information and education activities regarding proposals on ways to enjoy liquor safely
 - Finding facts regarding quality control at restaurants and bars
 - Liquor quality checks and labeling based on consumers' viewpoint
 - Offering consultation to consumers
 - Holding liquor-tasting events

Vision

Manufacturers

Manufacturing high-quality liquor with higher value added
Appropriate management strategies

Shifting priority from quantity to quality

Wholesalers

Securing appropriate profit margins through utilization of wholesale functions and developing relevant markets

Retailers

Differentiation through provision of diversified services
Sales control meeting social requirements

Restaurants

Providing safe, delicious liquor
Providing appropriate product information
Information regarding ways to enjoy liquor

Consumers

Correct knowledge about liquor
Consciousness about cultural aspects of liquor

Future Challenges

Responding to Changes in Environment Surrounding Tax Administration

At present, Japan sees its birthrate declining and its population aging at an unprecedented high pace. The saving rate is falling dramatically as the population ages. The demographic trend indicates that the population will likely peak this year and trend down continually from next year. Constant economic growth has ended. Taxation reforms are being conducted to support such a changing society.

Businesses and families have also changed dramatically. Traditional Japanese-style employment practices have been shaken. Working styles and family structures have been diversified.

Economic development of countries in Asia and economic globalization have prompted people and businesses to increase cross-border activities. While inward and outward direct investment is increasing, international tax avoidance schemes are growing more complex.

Staffing levels at the National Tax Agency has remained tight due to continued administrative reforms. As the sales threshold for exemption from the consumption tax is lowered while the pension taxation is being reformed, the number of tax return filers is increasing. Tax examinations and collections are becoming more complicated and difficult. The NTA's work environment is changing. The environment surrounding the tax administration is growing more difficult.

In order to continuously fulfill the mandate of the people under these difficult circumstances, the NTA may have to develop a work environment where tax officials can work actively to more effectively and efficiently tackle the NTA's mission to promote the proper and fair tax administration and improve the tax payment environment.

In this respect, the roles of the national tax authorities, taxpayers under the self-assessment system, and certified public tax accountants with public missions should be realigned to allow the NTA to implement priority-oriented tax administration while allocating the limited resources effectively and efficiently. We believe that we should make such efforts in order to secure sufficient tax examination and collection, maintain and improve taxpayers' compliance with law and give considerations to taxpayer services.

Specifically, the NTA has been implementing the following reforms:

● Improving Tax Payment Environment

In response to the increase in the number of tax return filers, the NTA must rebuild taxpayer services in line with the principles of self-assessment system under which taxpayers calculate and declare tax amounts and pay taxes on their own. In this respect, the NTA is expanding tax information services for taxpayers through the improvement of its website and diversifying tax return filing and tax payment means by promoting the utilization of IT for tax return filing and tax payment through the expansion of the e-Tax online tax return filing and tax payment system and the Filing Assistance on the NTA website. The NTA is also considering developing an efficient tax consulting service system.

● Overhauling Backoffice Operations

Inside Tax Offices

While giving full considerations to the fact that the NTA's operations have a direct bearing on the rights and obligations of taxpayers, the NTA is improving the efficiency of backoffice operations inside Tax Offices by reforming duties through growing IT utilization (integration and rationalization of duties, integrated processing of paperwork, etc.) and by outsourcing work that can be done by non-tax officials.

● Overhauling Tax Examination and Collection

To maintain and improve taxpayers' compliance with law, the NTA must implement tax examinations and collection of delin-

quent tax more effectively and efficiently. In this regard, the NTA is enhancing its capacity to address advanced areas such as international tax avoidance schemes and electronic commerce and is overhauling tax examination and tax collection throughout its organization.

In view of CPTAs' public mission to support the self-assessment system, the NTA also endeavors to foster the system for CPTAs to attach working papers to tax returns under the CPTA Law*. At the same time, the NTA is improving responses to taxpayer inquiries and the utilization of advance pricing arrangements regarding transfer pricing in order to increase the predictability of tax matters for taxpayers' economic activities.

● Improving NTA Officials' Work Environment

The NTA is developing a work environment where its officials are encouraged to perform their duties with enthusiasm. In this respect, the NTA is promoting its action plan prepared to

develop a work environment where a balance can be achieved between work and childcare. It is also reforming training programs in response to work environment changes.

To promote the aforementioned measures, the NTA is endeavoring to attain the optimum allocation of the limited staff resources, budget distribution based on quantitative results and the placement of the right people in the right jobs.

Support for a Balance between Childcare and Work

Based on the basic philosophy of the Law for the Promotion of Measures to Support the Fostering of the Next Generation, as established in July 2003, the NTA has worked out an action plan to develop a work environment to promote a balance between childcare and work. It released the action plan (on the NTA website) on February 10 this year for implementation on April 1.

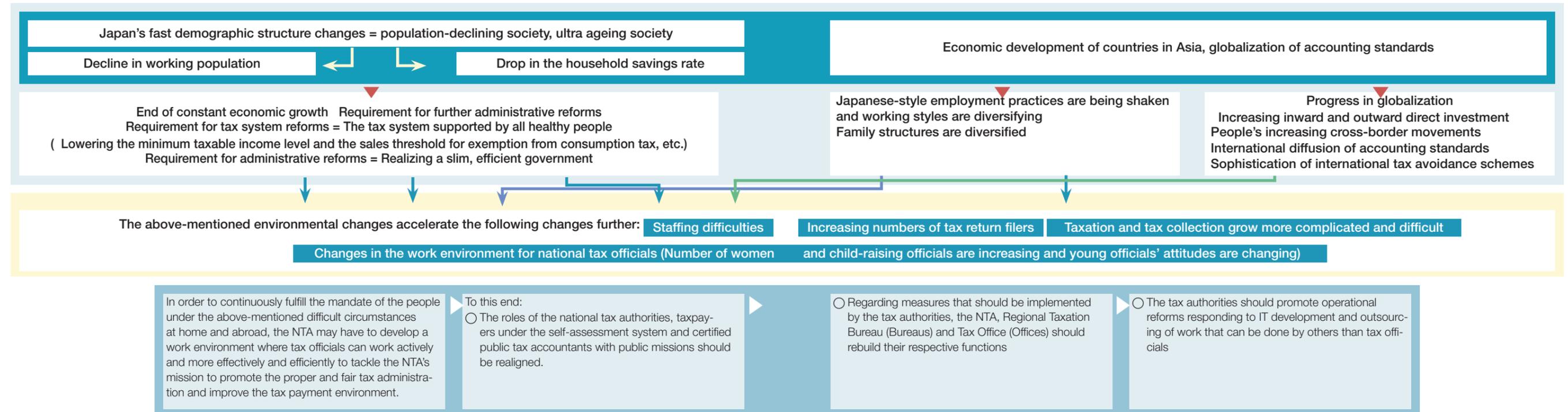
In Japan, where the birthrate has been falling at one of the fastest paces among industrial countries, the working population is expected to peak out in 2005. As the population increasingly ages, Japan is expected to become an aged society where about one in every three persons will be aged 65 or older. This means that Japanese people, whether they are men or women, will have to work in society as long as possible over a lifetime. Given the fact that the proportion in women around the age of 30 working in Japan is far lower than in other industrial countries, Japan will have to develop a work environment where women can give birth to children and achieve a balance between childcare and work, in order to maintain its economic and social vitality.

Women account for about 13% of the NTA's 56,000 officials. They represented some 30% of the NTA's recruits in fiscal 2004. Women's proportion in the NTA's staffing has been rising year by year. If the NTA develops a work environment where a balance can be achieved between childcare and work, it may have a great impact on Japan's realization of a gender-equal society.

Acknowledging that the effective promotion of the NTA action plan to achieve a balance between childcare and work is its social obligation, the NTA would like to steadily implement the action plan.

* See "Roles of CPTAs" on Page 27.

Changes in Environment Surrounding Tax Administration and NTA's Responses to Such Changes



Improving The Tax Payment Environment

- Basic stance
Taxpayer services should be rebuilt in line with the rising number of tax return filers and with the objectives of the self-assessment system.

- Promoting utilization of IT for information services
Expansion of the NTA website and the Tax Answer system, utilization of mail magazines
- Promoting diversification of tax return filing means through utilization of IT
Introduction of the e-Tax system and expansion of the Filing Assistance on the NTA website
- Measures for the final tax return filing period
 - Implementation of tax consulting services on Sundays (two Sundays) (services on government holidays)
 - Further promotion of tax consulting services encouraging taxpayers to prepare their tax returns on their own
- Considering increasing the efficiency of the tax consulting service system
In pursuit of a desirable state of tax consulting services, the tax authorities should realign and reform the scope and system for necessary tax consulting services, including relations with CPTAs.

Overhauling Backoffice Operations (including general services)

- Basic stance
With consideration given to ensuring appropriate operations, the tax authorities should promote operational reforms responding to IT development and outsourcing of work that can be done by non-tax officials.

- Increasing the efficiency of backoffice operations
Considering increasing the efficiency of backoffice operations through their centralization and bureau-level integration
- Increasing the efficiency of general services
Promoting IT utilization for, centralization of, and outsourcing of accounting, health and welfare, and remuneration-related work

Overhauling tax examination and tax collection duties

- Basic stance
To maintain and improve taxpayers' compliance with law, the tax authorities should overhaul tax examination and tax collection systems to implement tax examination and tax collection more effectively and efficiently

- Improving tax examination and tax collection duties
Considering overhauling tax examination and tax collection systems based on sharing of roles between Regional Taxation Bureaus and Tax Offices
- Roles of CPTAs with public missions
Promoting the new system for CPTAs to attach working papers to tax returns
- Addressing advanced areas
 - Expanding international taxation including fighting against international tax avoidance schemes
Responding to advanced information regarding corporate activities
 - Responding to the consolidated taxation system
 - Securing taxpayers' predictability
 - Improving responses to taxpayer inquires
 - Utilizing advance price arrangements regarding the transfer pricing taxation

Developing a work environment for national tax officials

- Basic stance
The tax authorities should develop a work environment where tax officials can come to work with enthusiasm and hope.

- Endeavoring to realize a gender-equal society
 - Promoting a personnel policy to make the most of female officials' abilities and aptitudes
 - Promoting the NTA action plan to achieve a balance between childcare and work
- Improving guidance and fosterage measures for young officials
- Reforming training systems in response to changes in the environment surrounding the tax administration
- Improving the work environment (building communications-oriented offices and establishing separate smoking rooms)
- Enhancing research functions at the National Tax College

To promote the measures above, the NTA endeavors to attain the optimum distribution of the limited staff resources, budget distribution based on quantitative results, and the placement of the right people in the right jobs. For the whole of the government, the NTA will prepare the "Operation and System Optimization Plan" (by March 2006) and implement the plan to replace the KSK System.

Statistics

● Operation and System Optimization Plan

The NTA has always studied various tax administration issues and endeavored to make improvements as possible. Based on “the Program for the Creation of Next Generation Electronic Government” which had been decided for the whole of the government in July 2003, the NTA decided to take full advantage of information technology to increase the work efficiency, improve taxpayer services, and enhance tax examinations and processing of tax delinquency. In this regard, the NTA finalized and published its “policy on reforming tax administration operations and computer systems.” (For details, see the NTA website at <http://www.nta.go.jp/category/topics/data/h17/4115/01.htm> (Japanese only))

In reviewing operations and computer systems, the NTA plans to consider the following four points:

- (1) To increase the efficiency of and rationalize operations, the NTA will thoroughly pursue the simplification of the tax

administration and the improvement of operational efficiency through such measures as a shift from tax item based processes to function based processes and a switch to a computer system meeting such an operational shift.

- (2) The NTA will further promote the improvement of taxpayers’ convenience using IT from the viewpoint of taxpayers.
- (3) The NTA will attempt to utilize IT for advancing tax examinations and processing of tax delinquency.
- (4) While expending all possible means to ensure the safety, reliability, and security of computer systems, the NTA will review the above three points and attempt to cut expenses.

Based on these points, the NTA plans to finalize and publish a plan by March 2006 to optimize national tax administration operations and relevant computer systems. The plan should include specific dates for reforms, relevant expenses and reductions in cycle time.

Ensuring the Reduction and Transparency of Computer System Costs

The NTA has introduced the KSK System as the information and communications infrastructure to respond to the complication and geographical expansion of economic transactions, information and other changes in the environment surrounding the tax administration and to support online tax return filing, online tax payment, and other IT uses.

The KSK System was described as a legacy system in “the Program for the Creation of Next Generation Electronic Government” as determined for the whole of the government in July 2003, prompting the NTA to reform the system from the viewpoints of cost reduction and more transparent procurement.

By April 2004, the NTA implemented the study of outside experts’ on the feasibility of reforms. Based on the feasibility study, regarding the computer systems, the NTA has decided to make efforts to ensure (1) their improved efficiency and economy, (2) their stability and reliability, (3) their security, and (4) the transparency of procurement. Specific measures have been taken to introduce project managers, expand open competitive biddings, promote open computer systems, shift to general purpose products for KSK terminals and OCR devices, and ensure security through the construction of internal networks separated from external networks.

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Note: For each table, 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 a 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.

Tax Revenue and Budget

Budget and Actual Amounts of Tax and Stamp Revenues for Fiscal 2003

(Million yen)

Item	Budget	Actual
General Account		
Withholding income tax	11,241,000	11,392,631
Self-assessed income tax	2,569,000	2,521,976
Corporation tax	9,114,000	10,115,194
Inheritance tax	1,351,000	1,442,531
Land value tax	1,000	298
Consumption tax	9,489,000	9,712,817
Liquor tax	1,733,000	1,684,183
Tobacco tax	917,000	903,158
Gasoline tax	2,133,000	2,182,106
Liquefied petroleum gas tax	14,000	14,272
Aviation fuel tax	88,000	90,950
Petroleum tax	450,000	478,339
Motor vehicle tonnage tax	741,000	767,086
Customs duty	808,000	802,860
Tonnage due	8,000	8,809
Others	—	113
Stamp revenue	1,129,000	1,165,079
Subtotal	41,786,000	43,282,403
Local road tax	303,500	308,731
Liquefied petroleum gas tax (transferred)	14,000	14,272
Aviation fuel tax (transferred)	16,000	16,536
Motor vehicle tonnage tax (transferred)	371,000	383,543
Special tonnage due	10,000	11,011
Crude oil custom duty, etc.	38,000	42,140
Power resources development promotion tax	368,500	366,328
Gasoline tax	703,300	703,300
Special tobacco surtax	246,300	241,106
Total	43,856,600	45,369,370

NTA Budget for Fiscal 2004

(Million yen)

Item	Budget
KSK System-related expenditures, etc.	59,569
Expenses to improve convenience for taxpayers*1	10,510
Expenses related to internationalization measures	704
Expenses to improve workplace environment*2	6,890
Expenses related to tax system revisions	3,200
Expenses for various taxation forms and communication expenses	21,198
General operating expenses*3	41,579
Expenses for National Tax College	2,785
Expenses for National Tax Tribunal	483
Expenses for National Research Institute of Brewing	1,196
Subtotal	148,115
Personnel expenses	569,512
Total NTA budget	717,627

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

(2004 calendar year)

(Thousand persons)

(1) Total population	127,620
(2) Workforce	63,160
(3) Number of final returns for income tax*	21,670
(4) Refund*	10,820
(5) Tax payment*	7,440
(6) Of (5), wage earners whose income tax is withheld	2,910
(7) Number of employment income earners	41,610
(8) Of (7), taxpayers for whom only year-end adjustments are made [(7)-(6)]	38,700
(9) Number of taxpayers [(5)-(8)]	46,140
(10) Percentage of workforce that pays tax [(9)/(2)]	73.1%

Note: Figures for items (3), (4), and (5) are preliminary for the 2004 calendar year, and those for the other items are for the 2003 calendar year.

Withholding Agents and Withholding Income Taxation

(2003 business year)

Income Classification, etc.	(Thousand cases) (Million yen)	
	Number of Withholding Agents*	Tax Amount
Employment income (wages and salaries)	3,883	9,446,100
Retirement income	—	331,900
Interest income, etc.	43	657,700
Dividends	127	1,043,700
Capital gains of listed stocks held in special accounts, etc.	2	36,700
Remunerations, fees, etc.	3,151	1,045,200
Income paid to nonresidents and foreign corporations	24	372,600
Total	—	12,934,000

Note: Figures for withholding agents are as of the end of June 2004.

Number of Corporations and Number of Corporation Tax Returns Filed

(2003 business year)

Number of corporations*	2,920,000
Number of tax returns filed	2,727,000
Percentage of corporations filing	89.6 %
Percentage of returns declaring a surplus	30.8 %
Amount of self-assessed income	38,896,800 million yen
Amount of self-assessed loss	28,458,500 million yen
Amount of tax	9,950,300 million yen

Note: The figure for "number of corporations" is as of the end of June 2004.

Inheritance Tax

(2003 calendar year)

Number of deceased persons	1,014,951
Number of deceased persons subject to taxation	44,438
Number of heirs subject to taxation	133,999
Taxable amount	10,358,200 million yen
Amount of tax	1,126,300 million yen

Gift Tax

(2003 calendar year)

Number of persons subject to taxation	403,651
Value of property acquired	2,308,100 million yen
Amount of tax	87,700 million yen

Consumption Tax

(2003 calendar year)

Number of Returns	(Thousands) (Thousands)	
	Tax Payment	Tax Refund
Individual	430	15
Corporation	1,546	85
Total	1,976	100
Amount of tax	9,481,400 million yen	1,673,700 million yen

Liquor Tax and Liquor Production

(2003 calendar year)

Classification	(Thousand kl) (Million yen)	
	Production Volume	Amount of Tax
Sake	601	106,450
Sake compounds	34	4,965
Shochu	923	211,296
Mirin (sake-based cooking wine)	105	2,308
Beer	3,959	870,306
Wine, etc.	80	6,304
Whisky and brandy	80	32,397
Spirits	47	5,418
Liquors	595	51,939
Other liquors*	2,549	328,180
Total	8,974	1,619,562

Tax Examinations

Examinations for Self-Assessed Income Tax

(2003 business year)

Field	(Thousands) (Million yen)		(Thousand yen) (Million yen)		
	Number of Cases	Total Unreported Income	Unreported Income per Case	Total Deficient Tax	Deficient Tax per Case
Field examinations	70	506,800	7,230	107,100	1,530
Brief contact*	728	402,400	550	23,700	30
Total	799	909,300	1,140	130,700	160

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

(2003 business year)

Number of Cases Examined	(Thousands) (Million yen)	
	Of Which, Number of Illegal Cases	Deficient Tax Amount
173	45	68,400

Field Examinations for Corporation Tax

(2003 business year)

Field	(Thousands) (Million yen)		(Thousand yen) (Million yen)	
	Number of Cases	Total Unreported Income	Unreported Income per Case	Total Deficient Tax
All corporations	115	1,337,300	11,654	320,100
Of which, corporations handled by the Examination Department	4	609,100	137,521	130,300

Examinations for Consumption Tax

(2003 business year)

Number of Cases	(Thousands) (Thousands)		(Million yen) (Thousand yen)	
	Number of Cases	Number of Unreported Income	Total Deficient Tax	Deficient Tax per Case
Individuals	34	24	16,200	480
Corporations	103	54	51,000	490

Field Examinations for Inheritance Tax

(2003 business year)

Number of Cases	(Thousands) (Thousands)		(Million yen) (Thousand yen)		
	Number of Cases with Unreported Income	Total Amount of Unreported Inheritance	Unreported Inheritance per Case	Total Deficient Tax	Deficient Tax per Case
13	11	386,000	34,440	84,000	7,490

Information Returns Collected

(2003 business year)

	(Thousands)
Withholding record of employment income	19,407
Interest payment record	780
Dividend payment record	3,931
Withholding record of public pension, etc.	29,754
Payment record of remunerations, fees, contract payments, and prizes	8,553
Payment record of consideration for transfer of stocks, etc.	10,899
Others	28,620
Total	101,944

Tax Criminal Investigations

Tax Criminal Investigations

(2004 fiscal year)

	(Million yen)	(Thousand yen)	(Million yen)	(Thousand yen)
Number of Cases Commenced	210	213	152	162,370
Number of Cases Closed	213	152	28,200	132,509
Number of Cases Prosecuted	152	17	24,700	162,370
Total Tax Evaded (in Prosecuted Cases)	28,200	17	132,509	162,370
Tax Evaded per Case	132,509	162,370	24,700	162,370

Large-Scale Cases

(2004 fiscal year)

Number of Prosecuted Cases	Of Which, Number of Prosecuted Cases with a Tax Evasion Amount of 300 Million Yen or More	Of Which, Number of Prosecuted Cases with a Tax Evasion Amount of 500 Million Yen or More
152	17	6

Prosecuted Cases by Tax Item

(2004 fiscal year)

Tax Item	Number of Cases	Total Tax Evaded (Million yen)	Tax Evaded per Case (Thousand yen)
Income tax	43	5,500	126,900
Corporation tax	98	15,500	158,060
Other taxes	11	3,700	339,423
Total	152	24,700	162,370

Reduction of Tax Delinquency

Tax Delinquency Cases of 100 Million Yen or More by Industry

(as of the end of the 2004 fiscal year)

Industry	Number of Persons	(%)	Tax Amount (Million yen)	(%)
Manufacturing industry	72	4.0	16,500	3.4
Distribution industry	120	6.6	40,100	8.3
Real estate and construction industry	500	27.6	126,900	26.2
Food and beverage industry	92	5.1	16,800	3.5
Financial industry	39	2.1	11,000	2.3
Other industries*1	451	24.9	119,500	24.7
Others*2	538	29.7	152,700	31.6
Total	1,812	100.0	483,500	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

(2003 business year)

	Number of Delinquent Taxpayers	Number of Objects Seized	Appraisal Value (Million yen)
Movable property	347	109,618	2,766
Claims	35,890	48,476	151,766
Immovable property, etc.	9,296	37,370	235,460
Others	4,750	83,659	2,809
Total	50,283	279,123	392,801

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 (4)	Percentage	
			Percentage [(2)/(1)]	Percentage [(4)/(3)]				
Tax assessment	284,000	6,613	5,156	1.8	5,198	817	0.29	15.7
Tax collection	—	471	417	—	417	0	—	—
Total	—	7,084	5,573	—	5,615	817	—	14.6

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 (4)	Percentage	
			Percentage [(2)/(1)]	Percentage [(4)/(3)]				
Tax assessment	284,000	6,157	3,260	1.1	3,508	815	0.29	23.2
Tax collection	—	298	187	—	213	3	—	1.4
Total	—	6,455	3,447	—	3,721	818	—	22.0

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 Requests Approved (4)	Percentage	
			Percentage [(2)/(1)]	Percentage [(4)/(3)]				
Tax assessment	284,000	834	226	0.1	355	48	0.02	13.5
Tax collection	—	165	66	—	114	4	—	3.5
Total	—	1,007	297	—	473	53	—	11.2

Notes: *1 The figures for "Number of Illegal Cases (1)" are the following numbers for the 2003 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

*2 The "Number of Requests for Reinvestigation" and the "Number of Requests for Reconsideration" are the figures for the 2003 fiscal year.

*3 The "Number of Litigation Cases" is the total number of litigation cases for each level of trial for the 2003 fiscal year.

Tax Consultations

Number of Tax Consultation Cases Handled by Tax Counsel Offices and via Tax Answer (2004 fiscal year)

(Thousand cases)

Tax Counsel Offices		
Income tax		1,505
Corporation tax		204
Property tax		733
Consumption tax		121
Other indirect taxes		46
Collection		46
Others		231
Total		2,886
Tax ANSWER		26,962
Total		29,848

The Five Most Frequent Tax Consultation Topics In-Person and Telephone Consultations (2004 fiscal year)

(Thousand cases)

Ranking	Tax Item	Topic	
1	Income tax	Obligation to file returns and filing procedures, etc.	258
2	Income tax	Income category and calculation	136
3	Income tax	Preparation of tax returns, statements of accounts, and other forms	128
4	Income tax	Medical expenses deduction	122
5	Income tax	Returns for tax refund	113

Tax Answer (2004 fiscal year)

(Thousand cases)

Ranking	Tax Item	Topic	
1	Income tax	Cases in which funds are spent on medical expenses (medical expenses deduction)	898
2	Income tax	Medical expenses subject to medical expenses deductions	555
3	Income tax	Special treatment that can be received according to the spouse's income (special exemption for spouse)	442
4	Income tax	Special treatment for housing acquisition (special credit for loans relating to a dwelling)	351
5	Income tax	Exemption for dependents	346

Number of Complaints Received at Tax Counsel Offices

(2004 fiscal year)

Income tax	643
Corporation tax	448
Property tax	104
Consumption tax	98
Other indirect taxes	24
Tax collection	88
Others	376
Total	1,781

International Taxation

Fraudulent Income Made through Overseas Transactions

(2003 business year)

Number of cases of fraudulent overseas income	83 cases
Amount of fraudulent income made overseas	10,900 million yen

Enforcement of Transfer Pricing

(2003 business year)

Number of cases processed	62 cases
Amount of taxable income	75,800 million yen

Taxpayer Satisfaction

Items That Meet with High Taxpayer Satisfaction

(2003 business year)

(%)

Item	High Satisfaction Rate	
Attitude of officials in providing services	79.8	
Level of convenience in using Tax Office	55.7	
Evaluation regarding PR activities	27.9	
Evaluation regarding activities to collect public opinions	59.7	
Level of satisfaction with consultations at Tax Counsel Offices	In-person	88.8
	Telephone	67.1

Note: "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.

Directive on Standard and Rules for Implementation of NTA Duties

(Objective of Directive)

Article 1. The objective of this directive shall be to provide for the Standard and Rules for Implementation of NTA duties, based on Article 16-6-2 of the Basic Law for Central Government Reform (Law 103, 1998)

(NTA's Undertaking Duties)

Article 2. The NTA shall undertake duties as provided by Article 20 of the Ministry of Finance Establishment Law (Law 95, 1999) and enforce the laws listed in the appendix table.

(Standard for Implementing Duties)

Article 3. The standard for implementation of NTA duties shall be that the NTA shall endeavor to realize the proper and fair imposition and collection of internal tax by improving the tax payment environment and promoting the proper and fair tax administration to properly and smoothly help taxpayers voluntarily fulfill their tax responsibilities. The NTA shall also endeavor to guarantee the sound development of the liquor industry and the proper management of CPTAs' service.

(Rules)

Article 4. Based on the standard as provided by the above article, the NTA shall make the following its rules and implement its duties while giving considerations to the transparency and efficiency:

1. Realize the proper and fair imposition and collection of internal taxes according to the following:

(1) Improve the tax payment environment

- Publicize taxpayers of the interpretation of law and procedures regarding tax return filing and tax payment in an easy-to-understand, accurate manner
- Respond promptly and accurately to taxpayers' inquiries and consultations
- Endeavor to secure wide-ranging cooperation and participation by relevant government agencies and various layers of the people in order to gain wide understanding and cooperation regarding the roles of taxes and the tax administration

(2) Promote the proper and fair tax administration

- Apply relevant laws and ordinances properly
- Endeavor to realize proper tax return filing, and correct errors reliably by implementing accurate tax examinations and instructions for taxpayers whose tax returns are identified as improper
- Endeavor to help taxpayer pay their tax by the due date, and collect delinquent tax reliably by taking the procedure for tax delinquency against taxpayers failing to pay tax by the due date
- Respond properly and promptly to taxpayers' requests for reinvestigation to address infringement of taxpayer's legitimate rights and interests.

2. Endeavor to guarantee the sound development of the liquor industry according to the following:

- Endeavor to ensure the stability of the liquor industry's business infrastructure, the research and development of brewing technologies, and the quality and safety of liquors
- Endeavor to ensure the effective utilization of resources regarding liquors

3. Endeavor to guarantee the proper management of CPTAs' service according to the following:

CPTAs have a public mission as tax experts to strive to satisfy taxpayer trust in line with the principle of the self-assessment system and realize tax compliance as provided in tax law, based on their independent and fair standpoint. The NTA should take this into account and endeavor to guarantee the proper management of CPTAs' service in order to help them play a key role in the proper and smooth operation of the self-assessment system.

