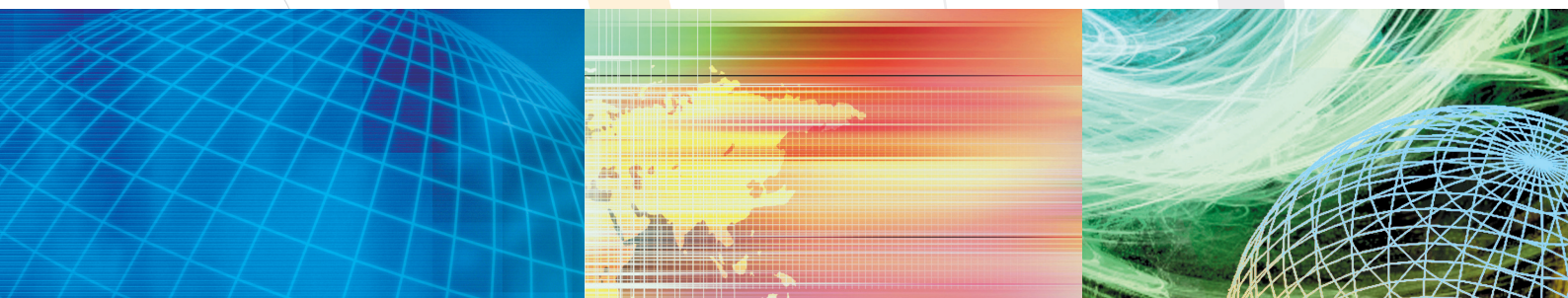


National Tax Agency Report 2007



To Our Nation's Taxpayers



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

Based on the fundamental awareness that the NTA has been entrusted with the tax administration 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.*

Due to the declining birth rate and aging of population, as well as the progress of IT and globalization, the environment surrounding tax administration is changing significantly. This has led to an increased number of taxpayers as well as more complicated and difficult cases of tax assessment and collection. Furthermore, with the advent of a lawsuit society, the NTA must also improve its examination process related to tax laws and rulings and ensure the transparency and consistency of the same. In order to properly fulfill its mission and continuously meet public expectations under circumstances where the number of the NTA employees is more strictly limited, the NTA must conduct proper tax administration by effectively and efficiently allocating its human and physical resources. By making the internal operation of Tax Offices as efficient as possible and ensuring adequate workload for tax examination and collection, the NTA must make efforts to improve convenience for taxpayers while strictly combating tax evasion, international tax avoidance or malicious tax delinquencies that would destabilize the foundation of Japan's self-assessment system.

As to improving convenience to taxpayers, from the viewpoint of supporting the return filing and tax payment of taxpayers, the NTA is striving to enhance taxpayer services by utilizing information technology (IT), such as by providing tax information through the NTA Website, and introducing or improving the e-Tax system for online tax return filing and tax payment as well as the Filing Assistance on the NTA Website.

As for e-Tax, the NTA is making it a top priority to popularize e-Tax through various initiatives at the NTA, Regional Taxation Bureaus and Tax Offices. To improve the convenience for e-Tax users, the NTA provides downloadable e-Tax software and promptly processes filing returns for refund. In addition, the NTA has improved e-Tax functions and operations, for example, by exempting digital signatures of taxpayers if tax

accountants are involved in preparing their tax returns since January 2007. Collaborating with tax accountants' associations and relevant private organizations, the NTA will continue to make efforts to promote e-Tax.

With the globalization of the economy in recent years, the double taxation risk is increasing, whereas the number of tax evasion or avoidance cases is also increasing by those taking advantage of complicated cross-border transactions. Accordingly, it is increasingly necessary to deal appropriately with these international taxation problems. However, there is a limit to how the tax authorities of one country can singly deal with such problems. Therefore, the NTA is addressing such problems in cooperation with foreign tax authorities by actively exchanging information, taking every opportunity available, including international conferences. In addition, the NTA has been facing problems, such as international tax avoidance that manipulate international gaps in taxation systems or tax treaties, as well as income drains through intra-group transactions. From the viewpoint of achieving proper and fair taxation, the NTA has been actively striving to deal with these international taxation problems.

For more efficient operations, the NTA has been taking measures such as the unification of in-office work and centralization of tax consultation services. The unification of in-office work means integrating internal operations in a cross-sectional manner, by eliminating NTA's rather vertically-divided in-office tasks (e.g. division by individual taxation, corporation taxation, and revenue management/collection), standardizing the in-office work process for each tax item, and unifying similar work processes.

Via such efforts, the NTA must attempt to further optimize its internal operations by more efficient and streamlined in-office work and cost reduction.

The National Tax Agency Report 2007 was compiled to explain the NTA's measures to taxpayers clearly, and focuses on the following points:

- (1) The NTA's future tax administration policy, 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 2007 deepens taxpayers' understanding of their taxes.

August 2007

牧野 治郎

Jiro Makino

Commissioner

National Tax Agency

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I Mission of the National Tax Agency

Helping Taxpayers to Voluntarily Fulfill Their Tax Responsibilities Properly and Smoothly

The national and local governments conduct a variety of public administration activities to provide public services vital to the lives of the people. Tax is the financial resource 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 voluntarily fulfill their tax responsibilities properly and smoothly. In order to fulfill its mission, as mandated by the people, the NTA has made effort to properly and fairly impose internal tax through tax education, public relations and other activities (taxpayer services) to help taxpayers understand and fulfill their tax responsibilities, and through activities (promotion of a proper and fair tax administration) 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 perceiving any unfairness regarding taxation. The NTA has also made effort to guarantee the sound development of the liquor industry and the proper management of CPTAs' (Certified Public Tax Accountants) services.

The ultimate aim of all these efforts is to develop taxpayers' understanding of our tax administration and gain their trust. To this end, the NTA is performing its duties giving the staff the "Mission of the National Tax Agency"*¹ that summarizes the mission mentioned above and has furthermore published the same.



National Tax Agency

*¹ The "Mission of the National Tax Agency" is the document that mentions the "Directive on Standard and Rules for the Implementation of the National Tax Agency's Duties" including the code of conduct for the duties to be performed by the staff (See page 6).

Mission of the National Tax Agency

Mission: Helping Taxpayers to Voluntarily Fulfill Their Tax Responsibilities Properly and Smoothly

Assignment

- In order to fulfill the mission mentioned above, the NTA discharges the duties provided for in Article 19 of the Ministry of Finance Establishment Law, focusing on transparency and efficiency.

1. Realize the proper and fair assessment and collection of national taxes

(1) Improve the tax payment environment

- (i) Publish the interpretation of laws and procedures regarding tax return filing and tax payment to taxpayers in an easy-to-understand and accurate manner.
- (ii) Respond promptly and accurately to taxpayers' inquiries and consultations.
- (iii) Endeavor to secure the wide-ranging cooperation and participation of relevant government agencies and various layers of people in order to gain a wide scope of understanding and cooperation regarding the roles of taxes and the tax administration.

(2) Promote proper and fair tax administration

- (i) In order to realize proper and fair taxation:
 - a. Apply the relevant laws and ordinances properly.
 - b. Endeavor to realize proper tax return filing, and correct errors reliably by implementing accurate tax examinations and guidance for taxpayers whose tax returns are identified as improper.
 - c. Endeavor to help taxpayers pay their tax by the due date, and collect delinquent tax reliably by implementing a procedure for tax delinquency against taxpayers failing to pay tax by the due date.
- (ii) Respond properly and promptly to taxpayers' requests for reinvestigation to address infringements of taxpayers' legitimate rights and interests.

2. Sound development of the liquor industry

- (i) Ensure the stability of the liquor industry's business infrastructure, the research and development of brewing technologies, and the quality and safety of liquors.
- (ii) Ensure the effective utilization of resources regarding liquors.

3. Proper management of CPTAs' service

Endeavor to guarantee the proper management of CPTAs' service so that they can play a key role in the proper and smooth operation of the self-assessment system based on their mission.

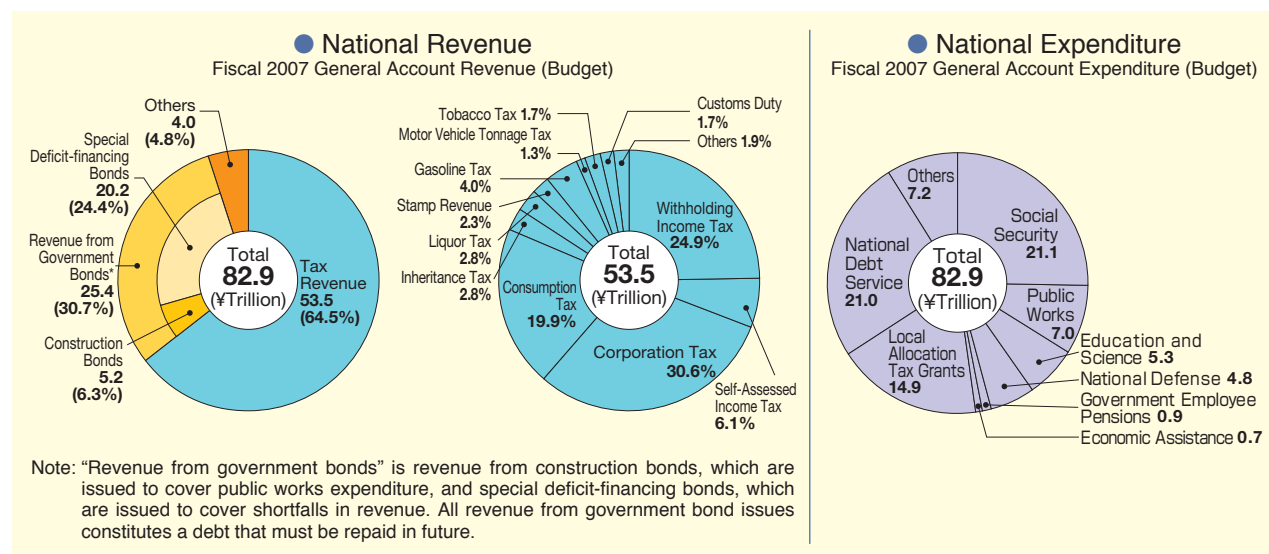
Code of Conduct

- Fulfill the duties mentioned above in compliance with the code of conduct mentioned below.
- (1) **The code of conduct upon performing duties**
- (i) Endeavor to ensure the transparency of the tax administration so that taxpayers can be aware of the interpretation of laws and regulations and administrative procedures concerning self-assessment and tax payment.
 - (ii) Endeavor to improve the convenience of taxpayers in the case of self-assessment and tax payment.
 - (iii) Endeavor to reform the operating management to improve the tax administration efficiency.
 - (iv) Endeavor to collect positively and best exploit the data and information to appropriately conduct examination and implement procedures against tax delinquency.
 - (v) Deal strictly with taxpayers who are engaged in malicious tax evasion and tax delinquency.
- (2) **The code of conduct for officials**
- (i) Respond faithfully with taxpayers.
 - (ii) Maintain the confidentiality of the information obtained in the course of conducting duties and maintain official discipline in a spirit of strict fairness.
 - (iii) Endeavor to learn the expert knowledge needed to perform the duties.

Challenges

- To deal appropriately and flexibly with changes in the economic and social structure caused by highly-networked information and internationalization. Furthermore, in order to meet the needs of taxpayers, to review incessantly and strive to improve the organization and management of the tax administration.

National Revenue and Taxes



The national revenue (general account revenue budget) in fiscal 2007 is ¥82,908.8 billion. Of this revenue, ¥53,467.0 billion are from taxes and stamps. Deducting tax from the customs and stamp revenue from Japan Post, revenue from national taxes alone amounts to ¥47,253.9 billion (about 88%).

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

NTA Budget and Personnel

The fiscal 2007 NTA budget was ¥724.5 billion, the majority of which was spent on personnel expenses. Recently, the NTA has prioritized efficiency of operations and improvement of taxpayer services, leading to a higher percentage of IT-related expenditures, including the expenditures on the KSK System (Kokuzei Sogo Kanri [NTA Comprehensive Information Management System]).

The NTA workforce 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, peaking in 1997, but declined thereafter. As of the beginning of fiscal 2007, the NTA staff numbered 56,185.

	1975	1997	2007	(Reference) 2007/1975
Budget (¥ Billion)	236.0	654.8	724.5	307.0 %
Number of personnel	52,440	57,202	56,185	107.1 %
(1) Number of Income Tax Returns Filed (Thousand cases)	7,327	20,023	23,494	320.6 %
(2) Number of Corporations (Thousand cases)	1,482	2,793	2,977	200.9 %
(3) Number of Establishments Subject to Commodity Tax (Thousand cases)	117	—	—	—
(4) Number of Enterprises Subject to Consumption Tax (Thousand cases)	—	2,521	3,766	—
(1)+(2)+(3)+(4) (Thousand cases)	8,926	25,337	30,237	338.8 %

Notes: 1. The number of income tax returns filed (1) in fiscal 2007 represents the figure for the year 2006.

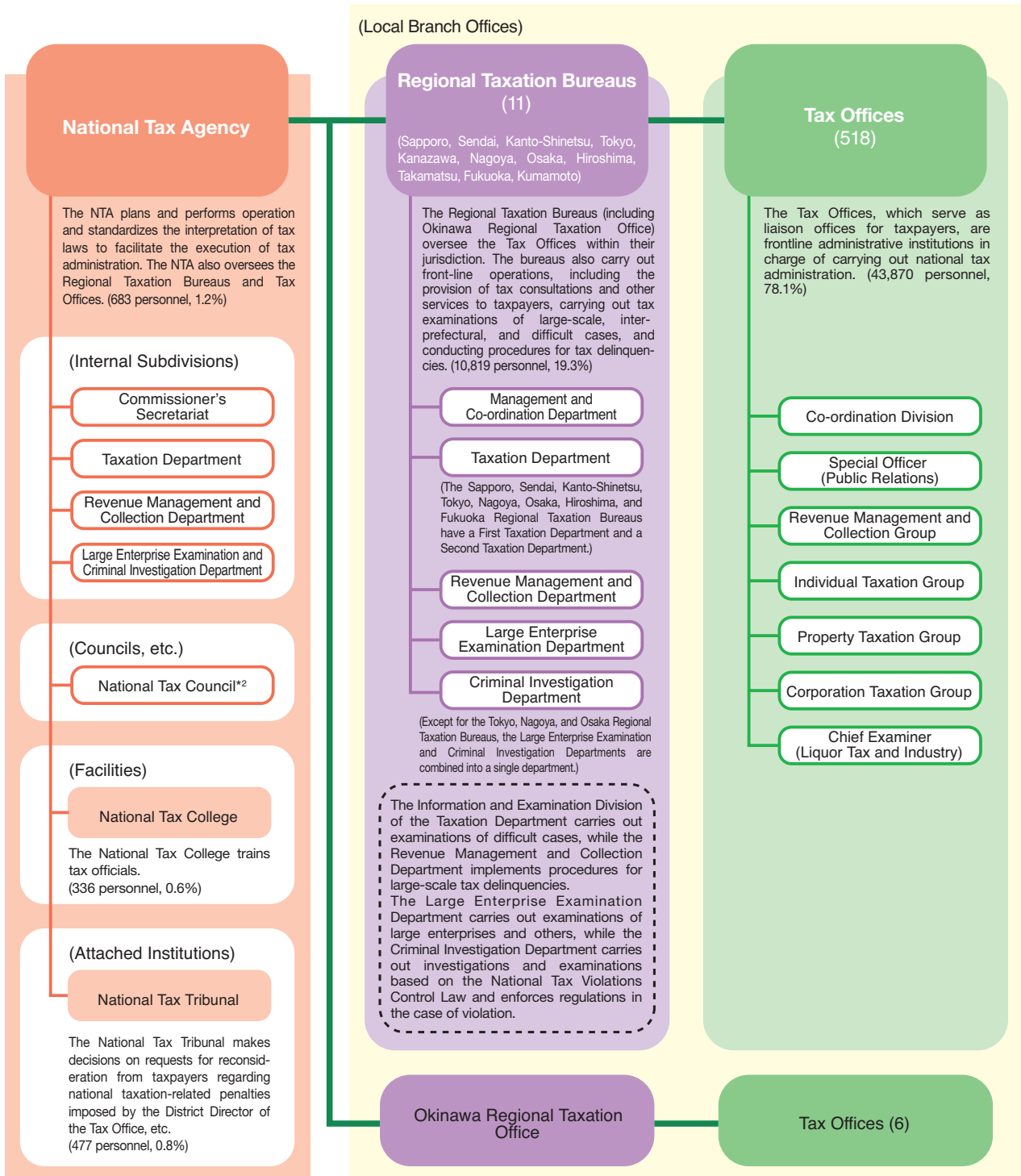
2. The number of corporations (2) in fiscal 2007 represents the figure as of the end of June 2006.

3. The figures for item (4) represent the number of Notifications of Taxable Enterprise Status submitted. Fiscal 2007 data represent the figures as of the end of March 2007.

4. The figures under "(Reference)" represent the fiscal 2007 percentages, based on a value of 100 in fiscal 1975 figures.

Structure of the National Tax Agency

The NTA is responsible for the nationwide tax administration and oversees the 12 Regional Taxation Bureaus (including Okinawa Regional Taxation Office) and 524 Tax Offices.*1



*1 The number of persons for each department shows the prescribed number of persons for fiscal 2007, and the percentage shows its proportion of the prescribed number of the NTA as a whole.

*2 The National Tax Council performs the following: (1) studies and deliberations at the request of the NTA Commissioner in cases where the Director-General of the National Tax Tribunal gives a decision that interprets the law differently from the directives issued by the NTA Commissioner, (2) the 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.

Major Undertakings

The NTA is tackling various tasks in order to deal with the rapid development of the advanced information society and globalization of the economic society, etc..

In fiscal 2006, the NTA enhanced promotion of online tax return filing and tax payment using IT, took measures for addressing globalization, and strove for efficient and simplified operations in order to reduce administrative costs.

1 Promotion of Online Tax Return Filing and Tax Payment Using IT

In order to reduce taxpayers' burdens in filing their tax returns and paying taxes, the NTA has been promoting the utilization of IT systems, including an e-Tax system for online tax return filing and tax payment and "Filing Assistance" on the NTA Website.

The NTA implemented various measures to diffuse e-Tax in accordance with the "Action Plan for Promoting the Utilization of Online Procedures" for national tax as decided in March 2006 (revised in March 2007), and to achieve the goals set forth in the said Action Plan. (For more information, see Page 17.)

To address taxpayers' needs and improve their convenience, the NTA revised "Filing Assistance" on the NTA Website so that taxpayers would be able to directly send their tax returns from the website. The NTA also added new support functions for calculating capital gains related to land and preparing the tax returns on gift tax. (For more information, see Page 18.)



Poster for Fiscal 2006 Tax Return Filing

所得 (Income)		所得控除 (Income Deductions)	
事業所得 (Business Income)	(ア)	課税される所得金額 (Taxable Income Amount)	(26)
雑所得 (Miscellaneous Income)	(イ)	上の(26)に対する税額 (Tax Amount on (26))	(27)
不動産所得 (Real Estate Income)	(ウ)	配当・利息・配当金 (Dividends, Interest, Dividends)	(28)
利子所得 (Interest Income)	(エ)	控除額 (Deduction Amount)	(29)
配当所得 (Dividend Income)	(オ)	住宅借入金等特別控除 (Special Deduction for Mortgage Interest, etc.)	(30)
給与所得 (Salary Income)	(カ)	社会保険料等特別控除 (Special Deduction for Social Insurance Premiums, etc.)	(31)
公的年金等 (Public Pensions, etc.)	(キ)	住宅ローン特別控除 (Special Deduction for Mortgage Loan)	(32)
その他の所得 (Other Income)	(ク)	税引所得税額 (Taxable Income Amount)	(33)
雑所得 (Miscellaneous Income)	(ケ)	源泉徴収税額 (Withholding Tax Amount)	(34)~(35)
長期所得 (Long-term Income)	(コ)	申告納税額 (Declaratory Tax Amount)	(36)
一時所得 (One-time Income)	(サ)	定率課税額 (Fixed Rate Tax Amount)	(37)
事業所得 (Business Income)	(1)	源泉徴収税額 (Withholding Tax Amount)	(38)
雑所得 (Miscellaneous Income)	(2)	申告納税額 (Declaratory Tax Amount)	(39)
不動産所得 (Real Estate Income)	(3)	予定納税額 (Estimated Tax Amount)	(40)
利子所得 (Interest Income)	(4)	納付する税金 (Tax to be Paid)	(41)

The screen of "Filing Assistance" on the NTA Website

2 Addressing Internationalization

As maintaining and improving taxpayers' compliance*¹ on their international transactions would require the elimination of double taxation risks resulting from a taxation rule gap among nations, it is important to develop common rules on international transactions and to cooperate and share experiences among tax authorities.

To this end, the NTA takes active measures to (1) exchange information under tax treaties, (2) properly and promptly deal with mutual agreement procedures under tax treaties, (3) participate in international conferences for tax authorities, and (4) provide intellectual support for developing nations.

In addition, Japan has been facing international tax avoidance schemes that manipulate international gaps in taxation systems or tax treaties. The NTA deals with such international tax evasion or tax avoidance strictly by grasping the reality of these schemes through every opportunity available. If the NTA finds any taxation problem, the NTA will conduct an in-depth tax examination and take the necessary measures.

The NTA also strives to counter the problems of transfer pricing that arise from a price gap with overseas affiliated companies.



Study Group on Asian Tax Administration and Research (SGATAR)

3 Promotion of More Efficient and Simplified Operations

To achieve “simple and efficient government”, the Japanese government has been working on further streamlining its administrative operations by setting out “Plan for Improving Efficiency in Administrative Operations” and an “Operation and System Optimization Plan” in each agency and ministry.

To work on newly-emerging issues in the rapidly changing environment surrounding tax administration, while efficiently conducting its operations to flexibly meet such changes, the NTA must continuously review its daily operations and related systems. To this end, and from the viewpoint of further optimization, such as more efficient and simplified operation and cost reduction, the NTA laid down the “Operation and System Optimization Plan for National Tax Administration” in March 2006 (revised in May 2007). Concretely, the NTA aims to reduce administrative costs by the unification of in-office work*², the centralization of tax consultation, a reduction in systems-related expenses and the promotion of an open KSK system*³ in order to ensure the transparency of government's procurement.

In addition, the NTA has been promoting the simplification and efficiency of operations by taking various actions, such as utilizing human resources outside of the NTA.

*1 “Compliance” means that taxpayers fulfill voluntarily and properly their tax responsibilities provided for by law with a high-level of awareness of such responsibilities.

*2 “Unification of in-office work” means integrating internal operations in a cross-sectional manner, by eliminating NTA's rather vertically-divided in-office tasks (e.g. division by individual taxation, corporation taxation, and management/collection), standardizing the in-office work process for each tax item, and unifying similar work processes.

*3 “Developing an open system” means constructing a system based on common standards or specifications over systems which have been uniquely developed by each manufacturer.

II Self-Assessment System

“Taxpayer Services” and “Promotion of Proper and Fair Tax Administration”: the Two Cornerstones of the Self-Assessment System

Japan adopts the self-assessment system for its national taxes. Under this system, each taxpayer determines the amount of tax and pays the tax based on the income and other information that 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.

Concerning national taxes, the official assessment system was also adopted before World War II, and the tax authorities assessed the amount of taxable income and gave notice of the tax amount to taxpayers. In 1947, however, in order to democratize the tax system, the self-assessment system was adopted for three taxes - income tax, corporation tax and inheritance tax - and was subsequently also adopted for many other national taxes.

For the self-assessment system to function properly, two things are necessary: Firstly, taxpayers must have a high level of awareness regarding tax payment and voluntarily and properly fulfill their tax responsibilities prescribed by the constitution and law (i.e. compliance). To help taxpayers correctly file and pay their taxes by themselves, the NTA provides various taxpayer services, including tax education, tax consultation, enhancing convenience for filing, public relations activities concerning the significance of tax, and information on tax law and procedures.

Secondly, proper guidance and tax examinations are necessary to check tax returns and guide taxpayers on how to file their tax returns correctly. In addition, if the national tax is not paid by the due date, it is necessary to attempt tax collection without fail by demanding voluntary tax payment or by implementing procedures against tax delinquency. To this end, the NTA provides proper guidance on or makes an tax examination against taxpayers for whom any correction is needed, and performs strict and correct procedures against tax delinquency after taking into account the individual circumstances of the taxpayer. In this manner, the NTA promotes proper and fair tax administration.

1 Public Relations, Tax Consultations, and Information Provision

To have taxpayers voluntarily and properly file their tax returns and 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.

Therefore, the NTA implements PR activities, based on the basic ideas that “taxpayers should be able to obtain the information that they want at any time,” “tax information should be provided from the taxpayers' viewpoint in clear and plain words,” and “the PR activities should be consistent, reflecting taxpayers' opinions”.

Concretely, the NTA provides various information, such as meaning, roles and structures of taxes, mainly through the NTA Website, as well as mass media including TV and newspapers, various briefing sessions, and public relations media such as brochures available at Tax Offices and municipalities.

In particular, the NTA Website not only provides information but also functions as a provider of taxpayer services, such as “e-Tax” and “Filing Assistance on the NTA Website”. In this sense, the NTA is paying due attention to improving its search engine functions and ensuring accessibility so that everyone can use the NTA Website easily.

How to Use the NTA Website (revised in late July, 2007)

User Guidance



- Placing the five major contents by using the buttons on the page top
- Placing the most accessed information to the left of the page
- User guidance in the dark blue section on the page top and on the left is displayed on all pages so that users are able to access their desired information easily.

Searching contents within the site

- Search engine function for texts or related words
- For more information on how to use the site search engine, see "How to use the search engine."

Mail Magazines

- Signing up for the "What's new mail and magazine services"

How to Use the NTA Website

- User guidance for users who are accessing the website for the first time

Text Enlargement / Text-to-Speech

- Services for elderly or visually-impaired users

What's new

- Put on the latest information (also list up old information)

General information for tax accountants

- Entrance for professional information for tax accountants

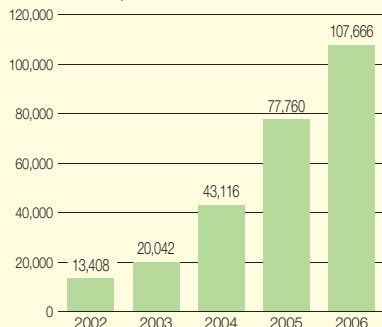
Check out for Regional Taxation Bureaus or Tax Offices

- Entrance to the Regional Taxation Bureau pages



NTA Website Access Trends

(Thousands of hits)



Check out for taxes

- Entrance for checking out general information on taxes and interpretations of tax laws

Tax return filing/taxpaying procedures

- Entrance for checking out the tax return filing and tax payment procedures or checking out tax return forms

Road Rating Map

- Browsing the nationwide Road Rating Map

Public auction information

- Information on public auctions throughout Japan

Web-TAX-TV

- Web-based TV that explains tax-related information by video

Let's Learn Taxes

- The section that teaches taxes to children for fun
- Tax education materials

(1) Tax Education

School children and students will be major players in the next generation. They should therefore be able to correctly understand the meanings and roles of taxes that constitute the bedrock of democratic society, and to voluntarily consider, through taxes, how our society or nation should be. In this context, the NTA provides supportive measures to improve tax education programs at schools, aiming to foster sound taxpayer awareness (i.e. awareness to pay taxes and monitor how they are used as members of society).

Concretely, each prefecture has its Council for the Promotion of Tax Education, which consists of teachers and representatives from central and local governments. Through these councils, the NTA holds lectures on taxes, prepares/distributes tax education materials and also holds writing contests.

As a facility for nurturing schoolchildren's and students' abilities to find, learn, think of and make their own decisions, or solve tax-related problems, the NTA has "Tax☆Space UENO" at the Tokyo Ueno Tax

Office exclusively for tax education purposes. Many people, such as schoolchildren wishing to learn more about taxes, workers and university students, are all using this facility.



A scene of Tax☆Space UENO

(2) Briefings for Taxpayers

The NTA holds briefings at Tax Offices for taxpayers to deepen their understanding of taxation procedures and revised tax laws.

Concretely, Tax Offices hold various briefings on a timely basis to provide tax information such as briefings for preparing tax return forms and financial statements for taxpayers filing final returns, year-end adjustment briefings for withholding agents, briefings for the revised tax laws and briefings for newly established corporations.

● Number of Briefings and Participants (July to December 2006)

Briefings	
Number of Briefings	19,118
Number of Participants (thousand persons)	1,047

(3) Browsing the Road Rating Map on the Internet

Although it is provided that assets acquired under inheritance or for other reasons shall be valued at a fair market value, it is not always easy for taxpayers to find the market price on their own upon filing tax returns. Accordingly, from the viewpoint of meeting the convenience of taxpayers upon self-assessment and ensuring the fairness of taxation, all the Regional Taxation Bureaus and the Okinawa Regional Taxation Office have opened to the public the road rating map

and evaluation coefficient table that are used as the basis for the evaluation of land around August each year.

The road rating maps and evaluation coefficient tables throughout the country have been provided on the NTA Website since October 2001, so that taxpayers can browse them on the Internet at any time at their own house or office (Japanese only).

(4) Tax Consultations at Tax Counsel Offices

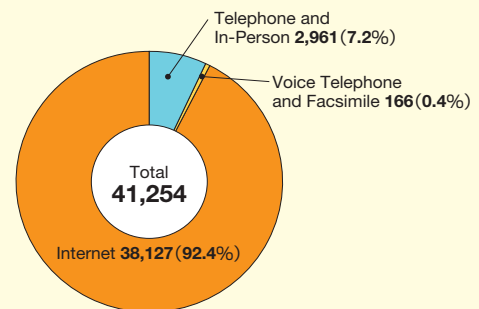
In order to answer taxpayers' questions and inquiries, the NTA has placed Tax Counselors and staff with vast experience in all aspects of tax at Tax Counsel Offices throughout the nation to provide telephone and in-person tax consultations. Consultations in English are provided at the Tax Counsel Offices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

Furthermore, concerning tax consultations by telephone, with which the Tax Counsel Offices and Tax Offices have dealt with individually, the NTA plans to improve the convenience of taxpayers such as shortening waiting time until receiving an answer via a centralized management system at the Telephone Consultation Center. The NTA has now telephone consultation centers at Sendai, Tokyo and Fukuoka Regional Taxation Bureaus and intends to set up additional telephone consultation centers nationwide in stages.

The NTA also provides information on the Internet,

or by voice telephone and facsimile (Tax Answer System). The instructions, the extension numbers for various voice telephones and facsimiles and the code table in which the information access codes are listed are available at the counter of the nearest Tax Office or municipalities.

● Tax Consultations at Tax Counsel Offices in Fiscal 2006
(Thousand cases)



(5) Responses to Taxpayer Advance Inquiries

The NTA provides information on the general interpretation and handling of tax laws by publishing directives concerning the interpretation of tax laws and regulations or tax consultations at Tax Counsel Offices.

Furthermore, if it is unknown how the tax laws apply to transactions actually conducted by taxpayers, Tax Offices, etc. respond to advance inquiries. Among such inquiries, if a taxpayer requests an answer in writing, the Tax Office concerned answers in writing

if the prescribed requirements are met, such as how a transaction is applied when the tax law is not clarified by the existing directives concerning the interpretation of the laws. In addition, the contents of inquiries and answers are also published to improve predictability for other taxpayers.

The number of inquiries to which taxpayers requested answers in writing was 78 in fiscal 2006.

Responding to the Authorized NPO Corporation System

As the birthrate declines with an aging population and increasingly diversified society, private nonprofit services of nonprofit organizations have become 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 as part of the fiscal 2001 tax system reforms to deduct donations made to NPOs that are authorized by the National Tax Agency Commissioner as meeting certain conditions. Such NPOs are referred to as "authorized NPOs."

Considering the environment surrounding NPOs, the conditions for authorization were relaxed under the fiscal 2002, 2003, 2005 and 2006 tax reforms.

In a bid to secure the proper and smooth enforcement of special tax measures, the NTA has distributed guidebooks and leaflets concerning application procedures and the conditions for authorization and placed a list of authorized NPOs on its website. The NTA has also set up counters at Regional Taxation Bureaus nationwide and the Okinawa Regional Taxation Office for consultations about applications.

2 Making the Filing of Returns More Convenient

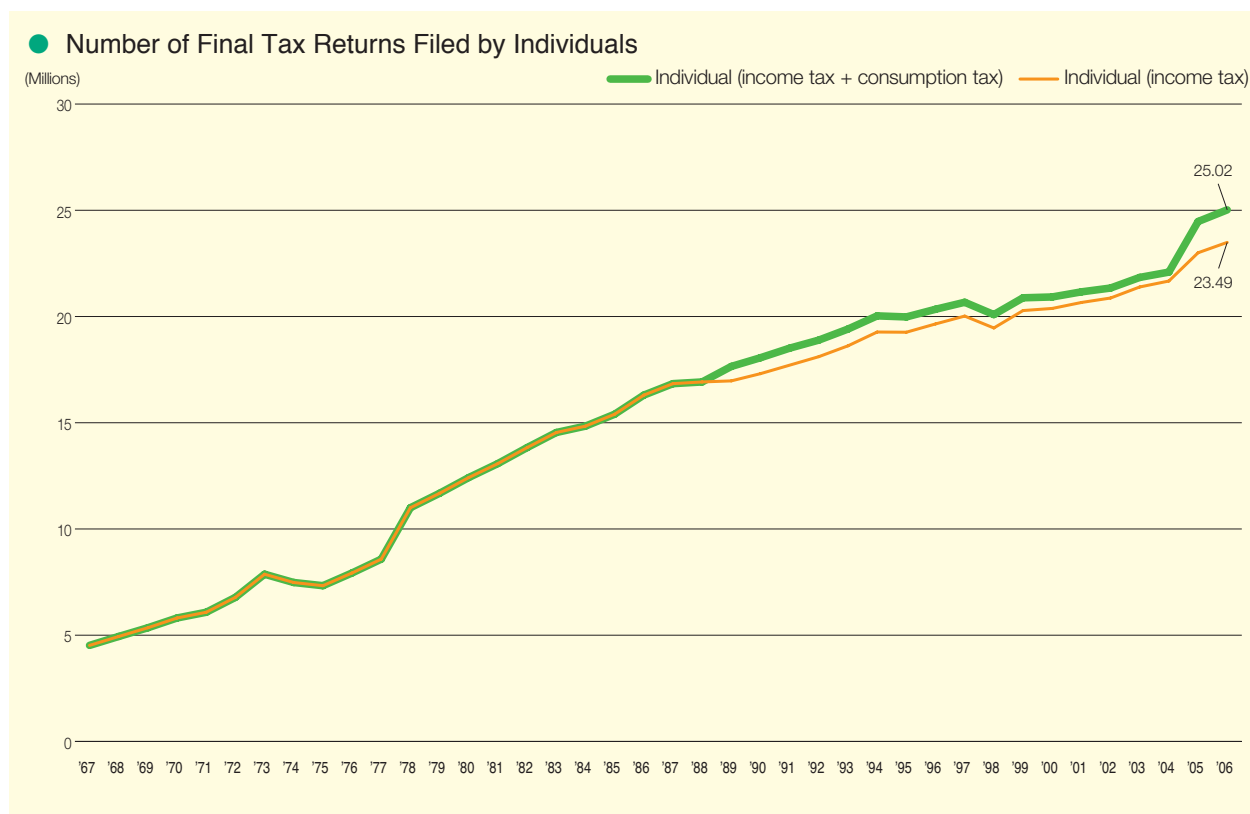
The number of taxpayers who filed a final income tax return for 2006 reached 23.49 million, meaning one in every five Japanese citizens filed such tax returns. In addition, more than 12 million filed a return for refund, accounting for more than half of all the final returns submitted.

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

(1) Promoting the Self Completion of Tax Returns

Self completion of tax returns means that taxpayers themselves prepare their tax returns and submit them to the Tax Offices. Under the principle of the self-assessment system, it is crucial that taxpayers understand the tax framework and pay their taxes. The NTA officials encourage taxpayers visiting the self-assessment consultation center at the filing period for final tax return to complete their own return forms. To further encourage the self-completion of tax returns, we completely revised the tax form, starting with the 2001 final return form, and simplified the items to be entered.

It is anticipated that many final tax return forms continue to be submitted. To deal with these circumstances, the NTA plans to positively perform various measures using IT, including e-Tax and “Filing Assistance” on the NTA Website, so that more taxpayers can file their returns voluntarily and properly. The NTA is preparing a convenient environment to improve the satisfaction level of taxpayers requiring consultation on self-assessment, while the NTA processes work related to tax returns efficiently using a limited number of staff.



(2) Weekend Tax Consultations

“Tax consultations on weekdays only are insufficient. The consultations should be made available on weekends.” In response to such requests by taxpayers, the NTA has offered tax return consultation and reception services on two Sundays in February since the filing period for 2003 final tax return.

In the fiscal 2006 filing period for final tax returns, several tax offices jointly held consultation, which was based on a review on consultation services of the preceding year. On February 18 and 25 2007, 228 Tax Offices provided self-assessment consultation services

at Tax Offices and outside Tax Offices like joint venues.

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

The NTA will fully review the information gathered about the weekend consultations to date and announce futures plans before the filing period for 2007 final tax return.

Reference Filing Return for Refund and Request for a Correction

If the amount of withheld tax or an estimated tax prepayment exceeds a tax amount, based on real annual income, overpaid tax will be refunded.*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 filing returns for refund and requests for corrections to tax returns.

Reference If a Taxpayer Encounters a Disaster or Similar

- (1) If a taxpayer cannot file a tax return or pay tax by the deadline for a disaster or similar reason, the taxpayer may file an application with a competent District Director of the Tax Office. Upon approval by the District Director of the Tax Office, 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, at filing their final tax return, (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 obtain relief for all or part of the income tax due.
- (3) If a disaster or similar damages a taxpayer’s assets considerably or makes it difficult for a taxpayer to pay their tax in a lump sum immediately, such taxpayers may file an application with a District Director of the Tax Office, and by obtaining the permission of the same, benefit from a postponement of the tax payment.

Cooperation with local tax authorities

Since some local taxes are levied on the same taxpayers and have the same tax framework as national taxes, national and local tax authorities cooperate closely in terms of system structure and administration to simplify filing procedures. For example, in terms of the system structure, taxpayers who have filed income tax returns need not 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 provide consultations on income tax, and services related to national tax. In addition, the national and local tax authorities hold collective briefings on tax return filing and conduct tax PR. Cooperation in the area of tax administration is conducted based on consultations between the national tax authorities and various local authorities, including prefectural and municipal officials.

*1 Interest on refund may be made if certain conditions are met.

*2 Taxpayers may request corrections by submitting written requests for the same, specifying the details of any errors etc., to the Tax Office within a specified time.

3 Enhancing Taxpayer Convenience by the Utilization of IT

To ensure the self-assessment system operates smoothly, the NTA is trying to reduce taxpayers' burden by promoting tax return filing and tax payment in which IT is utilized, such as the e-Tax system for online tax return filing and tax payment, and "Filing Assistance" on the NTA Website.

(1) e-Tax

e-Tax is a system via which taxpayers can, through the Internet, implement procedures for applications and filings, such as the return filing of income tax, corporation tax and consumption tax, applications for the approval of blue returns, and notice of changes in the place of tax payment that were previously made in writing.

Furthermore, it has become possible to pay tax by utilizing an ATM connected with Pay-easy*¹, Internet Banking and similar.

Taxpayers and CPTAs can take procedures for tax returns and tax payment at their own houses or offices without visiting the counter of a Tax Office or financial institution by e-Tax. Furthermore, by tax accounting software compatible with e-Tax, tasks ranging from account processing to preparation and submission of data for tax returns can be performed electronically, thus facilitating labor-saving and paperless operation.

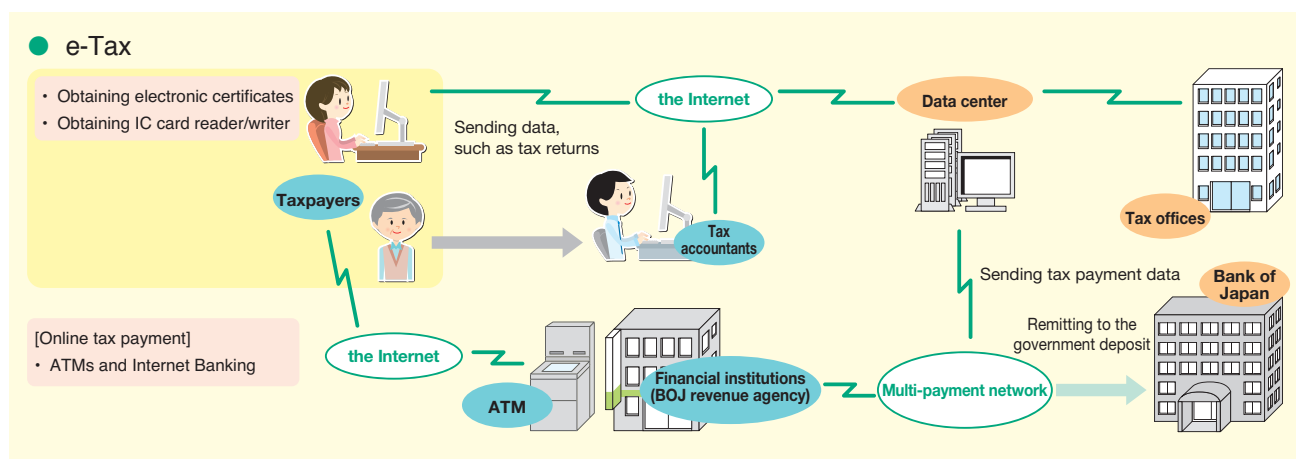
The NTA took various measures to diffuse e-Tax in accordance with "Action Plan for Promoting the Utilization of Online Procedures" for national tax as decided in March 2006 (revised in March 2007), aiming to achieve the goals set forth in the said Action Plan.

Concretely, the NTA started providing e-Tax software downloadable on the website in October 2006. The NTA also started the prompt processing of tax refund returns via the e-Tax system in November 2006.

Since January 2007, the NTA also exempts the digital signatures of taxpayers themselves if tax accountants are involved in preparing and filing their tax returns through e-Tax. In addition, the NTA also started allowing taxpayers to electronically send attached documents, such as withholding records.

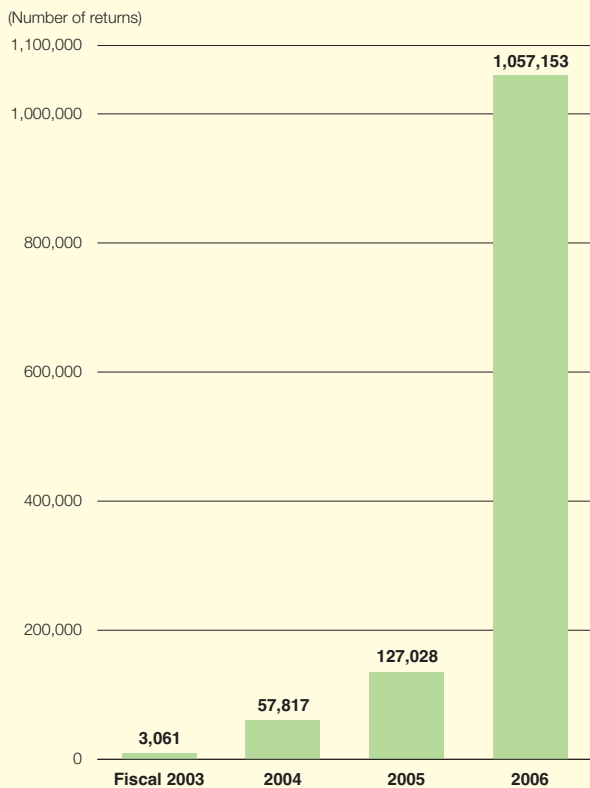
During the filing period for final tax returns, when many taxpayers use the e-Tax system, the NTA operates the e-Tax system 24 hours a day (the system is usually closed at 9:00 p.m.) and extends the office hours of the NTA help desks.

Through questionnaires concerning the usage of e-Tax, the NTA has received various opinions and requests to date from many taxpayers and tax accountants. To further enhance the convenience of e-Tax in future, the NTA will make it more user-friendly so that increasing numbers of taxpayers and tax accountants use the e-Tax system.



*1 "Pay-easy" means a settlement service by which taxpayers can pay public utility charges, etc. that have been paid at the counters of financial institutions and convenience stores via the ATMs of financial institutions or Internet Banking.

● Trends in the number of tax returns filed via e-Tax



Note:1 The figure represents all users who used the online services that the government has been promoting in accordance with the "Action Plan for Promoting the Utilization of Online" for national tax-related procedures.

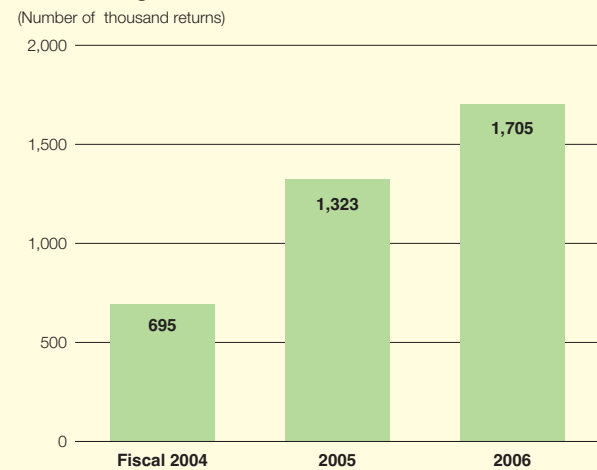
2 The figure for fiscal 2003 represents the total of the figure for February and March 2004.



"Mr. e-Ta"

"Mr. e-Ta" is an image character for e-Tax. "Mr. e-Ta" is named after e-Tax, and the design is conceived by borrowing motifs from the "e" of e-Tax and the monitor screen of a personal computer.

● Trends in the number of tax returns prepared on Filing Assistance on the NTA Website



(2) Filing Assistance on the NTA Website

The Filing Assistance on the NTA Website allows taxpayers to easily complete their tax returns just by entering the necessary information in accordance with the procedure displayed on the screen of a personal computer. The amount of taxable income and tax due are then automatically computed.

The taxpayer can subsequently print out the tax return and submit it by mail. Furthermore, the taxpayer can also send the data of the prepared tax return form for 2006 directly to e-Tax.

Since the Filing Assistance service was introduced on the NTA Website during the filing period for the

2002 final tax return, usage has been steadily increasing year on year, and the number of tax return forms prepared using this system reached around 1.71 million during the filing period for the 2006 final tax return.

This service is considered to contribute to promoting the preparation of tax returns at the taxpayer's own house and a significantly wider diffusion of e-Tax.

The NTA continues to improve the services of the Filing Assistance on the NTA Website, based on user requests, so that it becomes easier to use and available for many more taxpayers.

(3) Touch-screen Computers

A touch-screen computer is a system that enables taxpayers to complete a tax return simply by touching a computer panel following the instructions that appear on screen, like a bank ATM. The NTA has set up

touch-screen computers at Tax Offices for taxpayers who are unaccustomed to using PCs, so that they can prepare their return forms using the system.

4 Promotion of Proper and Fair Tax Administration

To realize 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.

Concretely, 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.

(1) Guidance

The NTA checks whether tax returns are properly filed and the information reported in the tax returns is complete and correct using information gathered from various sources. If unfiled 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.

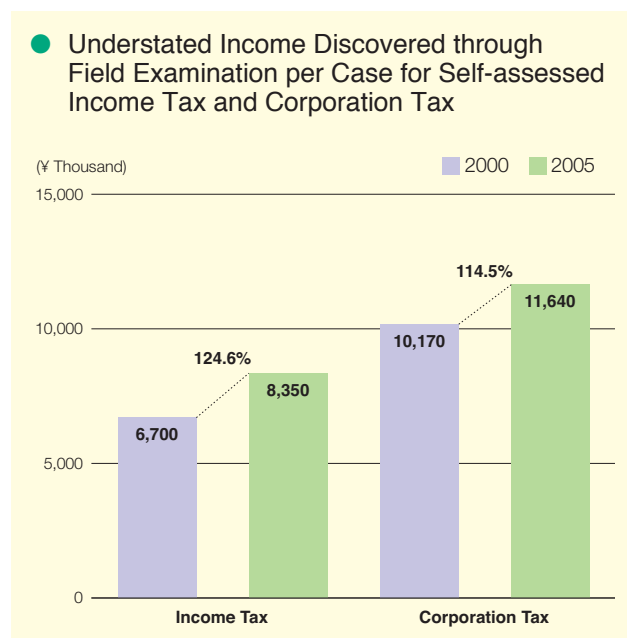
In terms of self-assessed income tax, this kind of brief contact with taxpayers stands at approximately 580,000 cases a year from July 2005 to June 2006.

(2) Strict Treatment of Unscrupulous Taxpayers

To facilitate the smooth operation of the self-assessment system and to ensure proper and fair taxation, 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 a sufficient number of days on such cases.

The understated income discovered through field examination averaged ¥8,350 thousand per case for self-assessed income tax*³ and ¥11,640 thousand for corporation tax in the year from July 2005 to June 2006. Comparing this result to the figures of five years ago, the amount of understated income per examination case is on the rise.

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.

*1 If the tax and other figures declared in the tax return are too high or 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.

*3 The data represents the amount of understated income taxes identified in special and general field examinations.

Reference Tax Examinations

The NTA provides taxpayers with proper examinations and guidance so that they can file their tax returns properly.

(1) Advance Notice 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 notice is given.

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

(2) How to Conduct Tax Examinations

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 shows 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 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.

(3) Actions to be Taken after Completion of Tax Examinations

When an error is found in the tax return etc., the Tax Office explains the error and the tax amount payable clearly to the taxpayer, and recommends an amended return or filing return after the due date. If a return is amended, no request for reinvestigation or reconsideration may be allowed. In addition to the tax amount due, a delinquent tax may be imposed. Furthermore, additional tax for deficient returns, additional tax for no return, or heavy additional tax may be imposed. When recommending a taxpayer to file an amended return, the Tax Office provides a document titled "About amended return" for explanation. This is also intended to provide taxpayers with opportunities to have a more in-depth knowledge of tax and to encourage them to file tax returns and pay tax voluntarily in future.

If the taxpayer does not cooperate with the Tax Office's request for an amended return, etc., the District Director of the Tax Office makes a correction or determination, and sends a Notice of Correction or Notice of Determination to the taxpayer.

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

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

Reference Strict Information Control

Incomes, 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 shop fronts or at the front door of their homes.

As the "Act on the Protection of Personal Information Held by Administrative Organs" took effect on April 1 2005, the NTA is enhancing the strict control of taxpayer information that it holds.

Reference Treatment of and Exemption from Additional Tax and Delinquent Tax

To encourage taxpayers to file tax returns and pay taxes properly, delinquent tax may be imposed if tax returns are not filed or taxes are not paid by the due date. There are also cases where either an additional tax for deficient returns, an additional tax for no return, or an additional tax for fraud case is imposed.

● Delinquent Tax

Up to two months from the day after the due date	Annual rate of 4.4% (in 2007)*
After two months from the day after the due date	Annual rate of 14.6%

* The annual rate may change due to financial conditions.

● Additional Tax

	Regular Case	Case of Fraud and Concealment
Return is filed by due date, but tax amount is understated	For deficient return (10% or 15%)	For fraud case (35%)
Return is not filed by the due date	For no return (15% or 20%)	For fraud case (40%)

Where errors are not attributable to the taxpayer and a legitimate reason is found, then additional tax for deficient return or additional tax for no return will not be imposed.

In cases where certain requirements are met, for example, a taxpayer may have been granted postponement of tax payment due to a disaster, or may have failed to file a return or pay a tax due to an erroneous guidance given by the 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 additional tax is imposed and has published the rules on its website (Japanese only).

(3) Information

Now the NTA collects about 170 million new pieces of information a year and we manage all the information, together with tax return data by the KSK System, and use it for proper guidance and tax examinations.

To keep pace with the geographical expansion, globalization and use of IT of economic transactions in recent years, we actively collect information on the new forms of transactions. For example, to respond to

the recent increase in transactions with overseas entities accompanying the advancement of internationalization, 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 tax examinations.

(4) Enterprise Groups Engaged in Wide-Area Transactions

Enterprises are expanding their business widely by establishing subsidiaries and branches, and how to conduct tax examination properly to such enterprises is one of the issues for the NTA.

In examining an enterprise group, it is important to gain an overall picture of the group first and grasp the actual situation to confirm whether or not the group is conducting improper tax accounting by using intra-group transactions. For overseas subsidiaries, the NTA must consider international taxation issues. The state of the local economy and the subsidiaries' ties with the community represent 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 nationwide scale where parent companies and those subsidiaries requiring close attention are examined by maintaining close communication and coordination among the national network of Regional Taxation Bureaus (including Okinawa Regional Taxation Office) and Tax Offices.

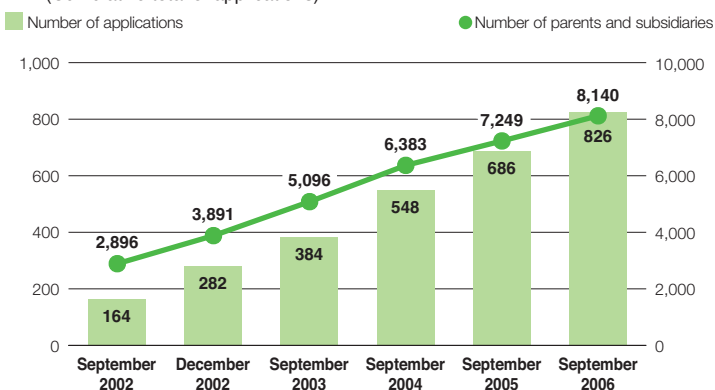
Businesses are rapidly expanding their area of activity in recent years along with internationalization and the increasing use of IT. The NTA will deal with examinations of enterprise groups and consolidated groups as an important issue for the future as well.

Consolidated Taxation System

With the dramatic changes in the business environment surrounding Japanese enterprises, the Commercial Code and other laws and regulations have been adjusted to facilitate corporate reorganization and thereby ensure that businesses remain competitive and can fully demonstrate their vitality. In the amendments made to the Corporation Tax Act as part of the fiscal 2001 tax 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 reforms in response to the current situation, 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 an enterprise group as a single corporation for the purposes of levying 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 those for subsidiaries maintain close communication and cooperation to conduct integrated examinations. In the year from July 2005 to June 2006, examinations covered 64 enterprise groups.

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



● Consolidated Taxation Returns (From July 2005 to June 2006)

Consolidated Returns	Number of Returns	467
	Percentage of Returns Declaring a Surplus	37.9 %
	Reported Income (¥ Billion)	1,848.1
Out of this total, the amount declared in Individual Group Firm's Imputed Amount Reports attached		
	Non-Consolidated Income (¥ Billion)	3,077.4

(5) Electronic Commerce Transactions

As means of communication have become more sophisticated and the cost of communications has declined, the use of the Internet has increased dramatically, and transactions via online auctions and shopping are spreading.

To collect information concerning the state of these kinds of electronic commerce transactions and to ascertain the parties involved in the same, the NTA has set up a Professional Team for E-Commerce Taxation

(PROTECT) at each Regional Taxation Bureau. This team professionally collects information on 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 all the Regional Taxation Bureaus (including Okinawa Regional Taxation Office) and Tax Offices with the information collected and various examination methods.

(6) Tax Criminal Investigations

To impose correct taxation on taxpayers who intentionally evade tax using illegal means such as fraud and also to pursue criminal responsibility for such anti-social behavior, the NTA may conduct examinations using methods similar to those used in criminal investigations by executing compulsory authority. Such examinations will be conducted apart from the general tax examinations. Based on the findings, the NTA may issue an accusation and request that prosecutors launch a public prosecution against the tax evader. 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 has an important mission to realize proper and fair taxation and maintain the self-assessment system.

Due to not only the cross regional expansion and internationalization of economic transactions but also the recent change in the financial environment, tax evasion methods are becoming increasingly complex and diverse. By enhancing and strengthening our

information and conducting efficient examinations, the NTA is actively pursuing criminal charges and prosecuting large-scale and malicious tax evaders.

In fiscal 2006, the NTA commenced 231 criminal investigative examination cases and referred 166 cases to the public prosecutor. The total tax evaded was about ¥30.4 billion, with an evaded tax sum of ¥167 million per case.

Notable tax evasion methods were the intentional concealment of sales and recording of costs at unreasonably high figures.

Furthermore, there were also cases of tax evasion related to overseas transactions, tax evasion involved in consumption tax and tax evasion by filing no return.

In FY 2006, 160 cases were resolved at the court of first instance, and in all cases, a guilty ruling was handed down. The average fine was about ¥ 27 million per case, and the average prison sentence was 16.4 months. Prison sentences without probation were given to 14 people. Prison sentences without probation have been handed down every year since 1980.

● Tax Criminal Investigations

Fiscal Year	Number of Cases Conducted	Number of Cases Closed	Number of Cases Prosecuted	Total Tax Evasion (Number in parentheses represents total tax evasion in prosecuted cases) (¥ Million)	Tax Evasion per Case (Number in parentheses represents tax evasion per prosecuted case) (¥ Million)
2005	217	214	150	27,416 (22,960)	128 (153)
2006	231	221	166	30,398 (27,755)	138 (167)

Note: 1. Figure for each year represent the figures from April to next March.
2. Tax evasion figures include additional tax.

● Judgments Handed Down in Tax Criminal Investigation Cases

Calendar Year	Number of Judgments (1)	Number of Convictions (2)	Percentage of Cases Convicted (2)/(1)%	Convictions with Prison Sentences without Probation	Amount of Tax Evaded per Case (¥ Million) (3)	Average Prison Sentence per Person (Months) (4)	Average Fine per Case (¥ Million) (5)
2005	156	156	100.0%	7	100	15.9	25
2006	160	160	100.0%	14	107	16.4	27

Notes: 1. The 2005 figure represent the annual total from January to December 2005. The 2006 figure cover the total from April 2006 to March 2007.
2. The number of convictions with prison sentences without probation and figures (3) to (5) exclude those combined with non-tax crimes.
3. The "Amount of Tax Evaded per Case" is the amount of tax evaded through fraud and other illegal activities.

5 Payment of Taxes

(1) Fostering a Cooperative Attitude Regarding Voluntary Tax Payment

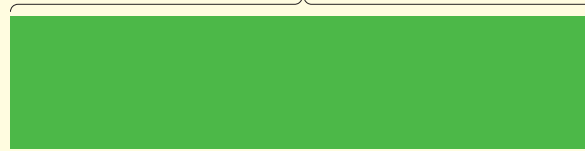
National taxes for which returns were filed are treated as tax revenue only when they are actually paid to the national treasury. In fiscal 2005, the tax amount of national taxes filed to Tax Offices (the amount determined for collection) was around ¥51,370 billion, while the amount of tax paid within the said fiscal year was around ¥50,990 billion. Accordingly, the rate of receiving tax was 99.3%.

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. Therefore, the NTA carries out publicity activities to ensure that taxpayers do not allow the tax payment deadline to pass by mistake. As for self-assessed income taxes and sole proprietor's consumption taxes that involve declaring and paying taxes on an ongoing basis, the NTA is publishing the fact that the tax can be paid by direct debit from taxpayers' deposit accounts. Moreover, from 2004, taxpayers can perform tax payment procedures at their homes or offices with e-Tax. In January 2008, a tax payment system at convenient stores will be newly introduced.¹ Thus, the NTA is improving taxpayer services.

● Amount of Collection of Delinquent National Tax

Fiscal 2005

The amount determined for collection (100%) [¥51,370 billion]



The amount paid within fiscal 2005 (99.3%) [¥50,990 billion]

(Details)

- The amount paid before a payment demand letter is issued (98.2%) [¥50,440 billion]
- The amount of tax delinquency collected during fiscal 2005 (1.1%) [¥550 billion]

The amount of tax delinquency expected to be collected after fiscal 2006 (0.7%) [¥380 billion]

Furthermore, the NTA is striving to prevent tax delinquency by giving written previous notice requesting tax payment within the due date to taxpayers who paid tax after the due date in the previous year or giving notice by telephone before sending a payment demand letter to taxpayers who have failed to pay tax within the due date by mistake.

(2) Measures to Address Tax Delinquency

Tax delinquency means that national taxes are not paid within the due date and a payment demand letter has been issued. The amount of tax debt outstanding was around ¥1,784.4 billion as of the end of fiscal 2005.

Allowing delinquency 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 strictly deals with tax delinquency while taking into consideration the unique situation of each taxpayer.

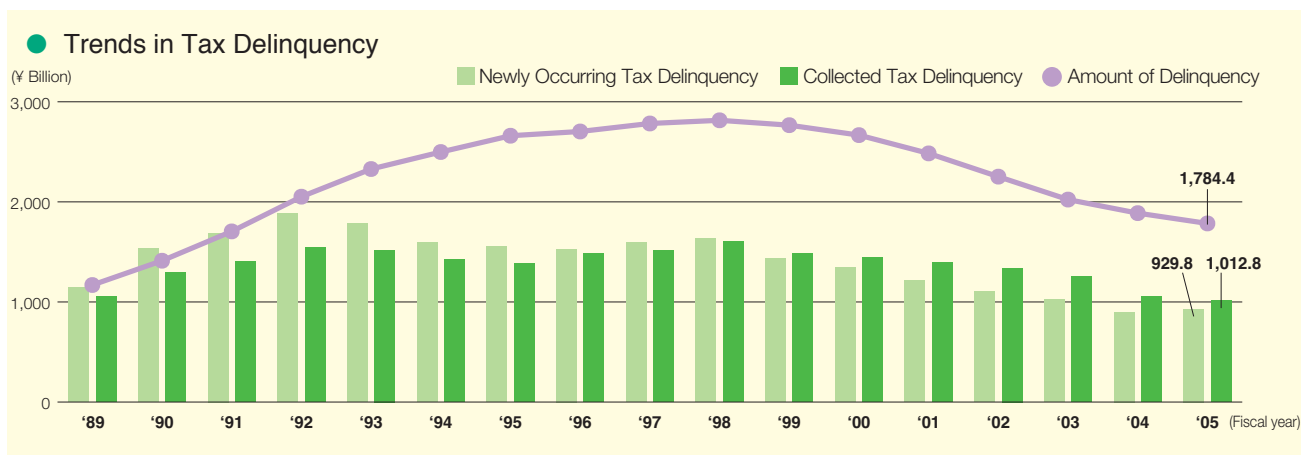
In the case that amount of the national tax is not paid within the due date and is demanded by issuing a payment demand letter and furthermore, in the case that no tax payment is made, even after the tax payment is demanded in writing or by telephone as necessary, the NTA may seize the assets of the delinquent taxpayer. For taxpayers who are having temporary difficulty with their tax payment because of natural disaster, sickness,

or the suspension or closedown of business operations due to economic circumstances, however, the NTA deals with such cases in line with the situation of each taxpayer such as allowing installments for tax payment, as a measure to lighten the burden of tax payment.

The entire NTA is working to prevent delinquencies and to prioritize the collection of delinquent consumption tax and the resolution of large-scale and unscrupulous tax delinquency. The NTA also utilizes the Office of Tax Collections Call Center to handle new delinquency cases. The agency is thus endeavoring to efficiently resolve tax delinquency. As a result, the amount of tax delinquency as of the end of each fiscal year has declined for seven consecutive years since fiscal 1999.

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 delinquencies, based on the penal provisions for evading delinquency disposition.

¹ From January 4 2008, it becomes possible to pay tax at convenience stores (consignment of tax payment). Taxpayers will be able to pay their taxes at convenience stores if certain conditions are met (e.g. the tax to be paid is ¥300,000 or less and the taxpayer uses a bar-coded tax payment slip issued by a Tax Office).



(3) Office of Tax Collections Call Center

At the Office of Tax Collections Call Center, tax officials make demand notifications for tax payment to delinquent taxpayers by telephone while referring to taxpayer information that appears on a computer screen. The calls are placed automatically by a computer system that simultaneously displays the data for the delinquent taxpayer called. Out of 550,000 people subject to demand notification in a year from July 2005 to June 2006, approximately 375,000 people (about 68%) have completely paid their tax. The Office of Tax Collections Call Center is contributing to improvement the efficiency of collecting tax delinquency.



A scene of the Office of Tax Collections Call Center

(4) Proper and Efficient Management of Tax Claims and Liabilities

The NTA manages vast number of national tax claims and liabilities by processing tax returns, some of which require tax payment and others requiring tax refund. In 1966, we started to introduce a computer system to properly and efficiently manage these claims and liabilities. In 2001, the KSK System (NTA Comprehensive Information Management System) was introduced at Tax Offices nationwide, and tax claims and liabilities have since been managed via this integrated system.

Every year, about 40 million tax payments are made, mainly of income tax. The majority of these are paid at financial institutions or by account transfer. To efficiently process such a large number of payments, the NTA has streamlined operations through cooperation with financial institutions and the Bank of Japan, including OCR processing*¹ of tax payment

slips by the Bank of Japan. We have also streamlined administrative operations by introducing payment by account transfer through the exchange of magnetic tape for self-assessed income tax and consumption tax — so-called tax payment by transfer account*². 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 adopted online transfer procedures in September 2006. In these ways, we are pursuing efficient and speedy payment processing.

The management of national tax claims and liabilities represents 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.

*¹ OCR (Optical Character Reader) processing converts characters printed on tax payment slips into electronic data, thereby enabling paperless operations.

*² Tax payment by transfer account is the method of tax payment whereby the Tax Office sends a tax payment slip to a financial institution designated in advance by the taxpayer and debits the amount of tax payment from his or her bank account. If it is necessary to send tax payment slips to financial institutions in large quantities, the Tax Office sends a magnetic tape containing data for an account transfer to the financial institution in order to perform the work of account transfer efficiently. After the financial institutions process the data, they record the processing result on the magnetic tape and return the tape to the Tax Office.

6 Roles of CPTAs

Certified Public Tax Accountants (CPTAs) play important roles in the smooth operation of the self-assessment system.

CPTAs are professionals on tax practices, whose major role is to assist taxpayers. The CPTA Law provides that CPTAs are supposed to serve for a public mission to “repay taxpayers’ trust in line with the principle of the self-assessment system and achieve proper tax compliance as provided in tax law, based on their independent and fair standpoint.” As of the end of March 2007, there are 70,068 CPTAs registered and 1,332 professional tax firms in Japan.

Taxpayers are able to properly fulfill their tax obligations by asking CPTAs to prepare their tax returns or by filing tax returns in accordance with professional advice from CPTAs. As the number of tax return filers is increasing, the role of CPTAs is becoming increasingly important.

In addition, as private corporations and sole business proprietors often ask CPTAs for bookkeeping, closing or accounting advice, CPTAs are also playing important roles in promoting correct bookkeeping practices, which is fundamental to filing tax returns.

Therefore, CPTAs need to satisfy certain qualifications. CPTAs’ services - (1) tax proxy, (2) preparation of tax documents, and (3) tax consultation - must not be provided by other people than CPTAs, even free of charge. At the same time, CPTAs are required to fulfill various obligations and responsibilities.

By cooperating with tax accountants’ associations as well as the Japan Federation of CPTAs’ Associations, the NTA is working to ensure that CPTAs properly conduct their duties and that the CPTA system gains the public trust.

(1) Promoting the System for Documents Attached by CPTAs 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 in which documents created by CPTAs are attached to tax returns. This new system aims to clarify CPTA’s specific roles in preparing tax returns, and at the same time, the NTA respects such CPTA roles. Specifically, the new system allows CPTAs to attach to tax returns documents regarding calculation, audit, or consultation 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 promotes the new system because it contributes to the preparation and submission of accurate tax returns, the establishment of a reliable CPTA system, and the facilitation of tax administration.

(2) Promotion of Online Tax Return Filing

As IT devices have become widely used for tax or accounting purposes, tax accountants themselves are expecting to provide more convenient tax and accounting services. In accordance with the “Action Plan for Promoting the Utilization of Online Procedures” for national tax as decided in March 2006 (revised in March 2007), the Japan Federation of CPTAs’ Associations has set up voluntary targets to encourage tax accountants to use e-Tax.

The NTA also prioritizes the diffusion of e-Tax among tax accountants. In January 2007, the NTA allowed taxpayer’s electronic signatures to be exempted in cases where tax accountants prepared taxpayer’s tax returns and filed them online. In addition, the NTA is cooperating with tax accountants’ associations to hold briefings and send lecturers on online tax return filing.

(3) Proper Guidance and Supervision for CPTAs

In order to ensure public trust in the CPTA system, the NTA is providing guidance and supervision for CPTAs. To smoothly provide such guidance and supervision, the NTA has set up a consultative meeting between the NTA and CPTAs' associations, etc. The NTA takes advantage of every opportunity available,

such as the consultative meetings, to attract attention and prevent misconduct of CPTAs. Furthermore, the NTA collects information on cases of misconduct and appropriately conducts investigation under the CPTA Law to deal strictly with CPTAs who are in breach of the latter.

Tax accountants' associations and Japan Federation of CPTAs' Associations

The tax accountants' association is an organization specified in CPTA Law, aiming to provide guidance, liaison and supervision to its branch offices or members in order to secure the compliance of CPTAs and professional tax firms and contribute to improvement and development in CPTA's duties. Currently, there are 15 tax accountants' associations in Japan. CPTAs and professional tax firms are members of a tax accountants' association that has jurisdiction over their locale.

Each tax accountants' association provides a wide range of services, including (1) training sessions to improve and develop its members' skills and tasks, (2) social contribution by dispatching lecturers to tax education classes at elementary, junior high or senior high schools, and (3) free tax consultation for small-scale taxpayers.

The Japan Federation of CPTAs' Associations is the organization specified in CPTA Law, consisting of tax accountants' associations. The federation provides guidance, liaison, and supervision for tax accountants' associations and their members as well as managing CPTA registration.

For these federation's duties, the federation provides guidance to tax accountants' associations and their members and also conducts research on the CPTA system. For further information, please access the website of the federation (<http://www.nichizeiren.or.jp> -- Japanese only).

7 Cooperation with Relevant Private Organizations

The NTA is taking measures not only to provide information on taxes directly to taxpayers but also to convey information on taxes to taxpayers gaining cooperation from relevant private organizations, such as blue return taxpayers' associations and corporations associations. These relevant private organizations are playing a significant role in realizing a proper self-assessment system and in disseminating knowledge about taxes as a faithful association of taxpayers.

These relevant private organizations are attempting to enhance coordination and cooperation between organizations regarding the diffusion of e-Tax and the promotion of the joint holding of various events for the "Think about Tax Week".

Blue return taxpayers' associations

Blue return taxpayers' associations are organizations formed chiefly by sole proprietorships filing blue returns, aiming at spreading the blue return system and promoting the submission of proper returns through honest bookkeeping. At present, there are around 3,800 associations nationwide, and the total number of members of such associations is around 1.03 million. Each blue return taxpayers' association performs wide-ranging activities, such as guidance on bookkeeping, holding seminars, and spreading the blue return to people outside the association. For further information, please inquire at your nearest local blue return taxpayers' association.

Corporations associations

Corporations associations are organizations formed aiming at spreading the knowledge of tax and establishing a proper self-assessment system. At present, there are 483 corporations associations (incorporated companies) nationwide under the control of the National General Federation of Corporations Associations, and membership stands at about 1.10 million corporations. Each corporations association performs wide-ranging activities, such as holding lectures and seminars on taxes or contributing to the sound development of business management and society. For further information, please access the website of the National General Federation of Corporations Associations (<http://www.zenkokuhojinkai.or.jp> -- Japanese only).

Indirect tax associations

Indirect tax associations are organizations formed aiming to contribute to the dissemination of knowledge about indirect taxes and the realization of fair taxation and proper administration through the self-assessment system. At present, there are 566 associations nationwide, and membership stands at about 101,000 persons. Indirect tax associations make proposals to the government on ways to enhance the indirect tax system and its enforcement, and are spreading knowledge about consumption tax and prevention of tax delinquency. For further information, please access the website of the National Federation of Indirect Tax Associations (<http://www.kanzeikai.jp> -- Japanese only).

Tax payment associations

Tax payment associations are organizations formed under the jurisdiction of the Tax Offices of the Osaka Regional Taxation Bureau, aiming to disseminate knowledge about taxes, promote proper tax filing and payment and enhance compliance. Presently, there are 83 tax payment associations (incorporated companies) under the control of the Federation of Tax Payment Associations, and membership stands at about 280,000, bringing individuals and corporations together. Each tax payment association is performing activities similar to those of the blue return taxpayers' associations and corporations associations, such as publicity activities, for spreading knowledge about taxes and holding various briefings. For further information, please access the website of the Tax Payment Associations (<http://www.nouzeikyokai.or.jp> -- Japanese only).

Saving-for-tax associations

Savings-for-tax associations are organizations formed by taxpayers aiming at continuing to complete payment of tax within the due date by saving for tax payments. The saving-for-tax associations are established under the Saving-for-Tax Association Law, and there are currently 78,000 such associations. The saving-for-tax associations are promoting the utilization of tax payment by transfer account and the completion of tax payment within the due date, and are performing wide-ranging activities such as holding seminars on the tax law and soliciting "Compositions on Tax" from junior high school students. For further information, please access the website of the National Federation of Saving-for-Tax Associations (<http://www.zennoren.jp> -- Japanese only).

III Tax Administration in the IT Era

Via the utilization of IT, the NTA provides more convenient services for the public and manage administrative operations in more simplified, efficient, advanced and transparent manners.

In order to provide more convenient services for the public and manage administrative operations in more simplified, efficient, advanced and transparent manners by utilizing IT (information technologies) in the civil services and reviewing administrative operations and systems, the “e-Government Establishment Plan” was determined in July 2003. Since then, the Japanese government as a whole has been working on IT-based civil service reforms to provide better and more convenient civil services.

Focusing on these efforts, the government drew up “New IT Reform Strategy” in January 2006, aiming to achieve “the world’s most convenient and efficient e-government”. It also formulated the “e-Government Promotion Plan” in August 2006 to promote the utilization of IT from the viewpoint of users and optimize the whole administration and systems.

The NTA has been taking proper actions as described in these plans and is now striving to promote tax administrative services suitable for the IT era.

(1) NTA’s Efforts to Promote e-Government

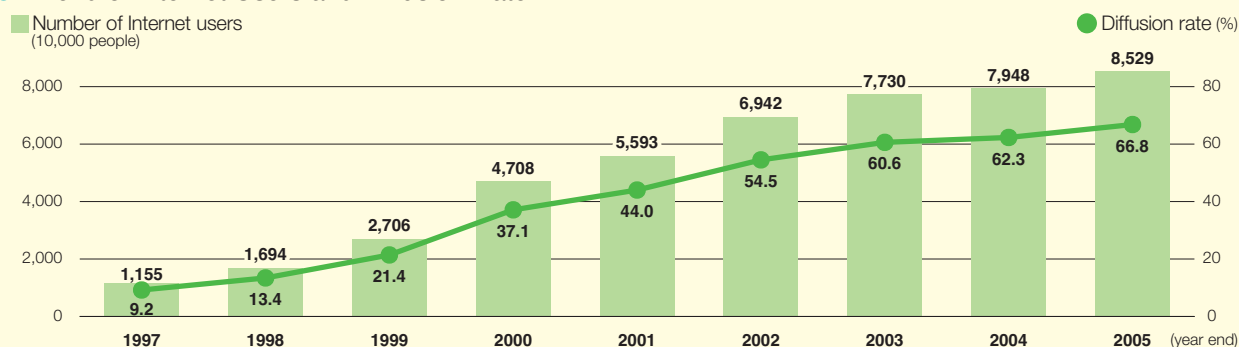
The number of people estimated to be using the Internet, the foundation of the coming information network society, is approximately 85.29 million at the end of 2005, and the total is increasing every year.

The “New IT Reform Strategy” aims to achieve a ubiquitous network society and the most convenient and efficient e-government in the world to “realize a ubiquitous and universal network society where everyone can enjoy the benefit of IT.” Positioning e-Tax, a system that has enabled online tax returns and tax payments, as a central system for tax-related procedures, the NTA has been improving

the convenience for taxpayers and promoting wider dissemination of e-Tax.

In addition to the utilization of IT for the convenience to taxpayers, the NTA is currently reviewing its operations, assuming the more sophisticated use of IT. Through the operation and system optimization plan for national tax administration, the NTA is enhancing its systems, maintaining information security, outsourcing operational tasks and improving transparency in procurement processes, including those for systems.

● Trend of Internet Users and Diffusion Rate



Source: Ministry of Internal Affairs and Communications, “White Paper on Information and Communications in Japan 2006”

Online administrative procedures

Following the “New IT Reform Strategy,” which aims to increase the use of online tools to 50% by FY 2010 in applications and notifications to the government, the NTA has been promoting various measures to achieve the specific targets set out for each year, based on the “Action Plan for Promoting the Utilization of Online Procedures” for national tax as decided in March 2006 (revised in March 2007).

As for national tax-related procedures, taxpayers are now able to submit not only their tax returns but also other applications and notifications online from their homes or offices.

The NTA used to use magnetic tapes or documents when requesting headquarters, branches or agencies of Bank of Japan to refund overpaid taxes by bank transfer. However, the NTA is now able to process tax refunds more promptly by bank transfer because the NTA, Bank of Japan and private financial institutions holding taxpayers’ banking accounts are linked online.

(2) Optimization of Operations and Systems

In line with the “e-Government Establishment Plan”, decided in July 2003, the NTA formulated and published an “Optimization Plan of Operations and Systems related to National Tax Administration” in March 2006 (revised in May 2007). Its basic policies are (1) to attempt simplification and improvement in operational efficiency for appropriate performance, (2) to attempt improvement in the convenience of taxpayers by utilization of IT, (3) to attempt sophistication of the system related to examinations and collections of tax delinquency through the utilization of IT, (4) to ensure stability and reliability of the system and information security, and (5) to attempt reduction of expenses related to the system and to ensure the transparency of procurement.

In terms of the simplification and efficiency of the operation, the NTA manages in-office work in more integrated manner and centralizes telephone

consultation services to call centers. To provide more convenient services for taxpayers, the NTA has also improved its e-Tax functions and operations by providing downloadable e-Tax software and exempting taxpayers’ electronic signatures when a tax accountant is involved in the filing process. In addition, the bank transfer of tax refund is now processed more quickly on the online system. Furthermore, for cost reduction purposes, the NTA has made a part of the KSK system an open system.

Through such optimization of in-office works and systems, the NTA simplifies administrative processes and improves the operational efficiency and convenience of taxpayers. With a view to properly fulfilling the NTA’s missions to achieve proper and fair taxation, the NTA is striving to enhance its tax examination and collection of delinquent tax and improve compliance of taxpayers’ obligations.

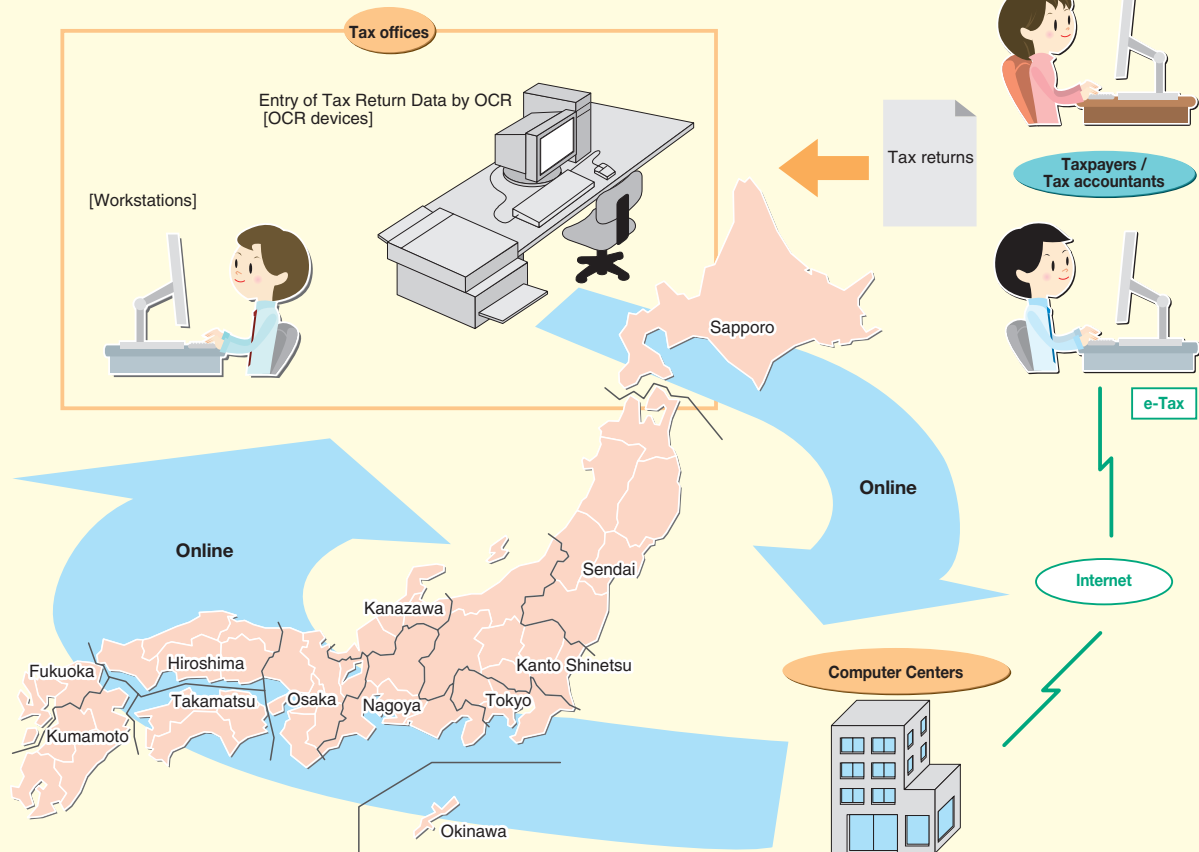
Stability and Reliability of the System and Information Security

As national tax-related tasks are closely related with public rights and obligations, system failure could pose significant impacts on the public and impair the credibility of tax administration. Therefore, the NTA works on stable operations of national tax-related systems, including regular replacements of system equipment.

Since national tax-related systems stores and accumulate a significant amount of taxpayers’ data, the NTA is paying the closest attention to preventing unauthorized use of the data and information leakage. Therefore, to ensure security, the NTA has set up a system in which the NTA staff can access only the data necessary for their duties, and established official directives for information security and thoroughly implemented them. Furthermore, the NTA conducts a security audit regularly by external experts and takes necessary measures.

● KSK System

Nationwide Online Processing



KSK System (NTA Comprehensive Information Management System)

The KSK System, which links all Regional Taxation Bureaus, Okinawa Regional Taxation Office and Tax Offices, is a computer system introduced to handle various administrative works in a more sophisticated and efficient manner by managing all the data across regions or tax items. It manages national tax obligations in an integrated manner by entering various information, including that on tax returns and tax payment, and analyzes these data for tax examination or the collection of delinquent tax.

Full-scale development of the KSK system started in 1990. The NTA has gradually introduced the system since 1995 and started nationwide operations in 2001.

Addressing IT-based Taxation/Accounting Duties

As more and more corporations prepare their accounting/financial data electronically, e-Tax adopts standardized formats so that corporations or tax accountant offices can attach electronic financial statements to their tax returns for corporation tax.

To enable taxpayers and tax accountant offices to directly send the necessary documents to e-Tax via the use of commercially available tax/accounting software, the NTA discloses the specifications compatible to e-Tax actively and quickly during system modifications.

IV Tax Administration in the Era of Globalization

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

As multinational enterprises conduct various cross-border economic activities amid growing economic and social globalization, one country's taxation system and tax administration can have a great impact on another 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 worldwide. In this respect, it is necessary to develop common rules on international transactions, promote cooperation among tax authorities and share experiences between them. Under this situation, the NTA actively responds to the globalization of tax administration by enhancing mutual trust and cooperation with other countries. Furthermore, in order to tackle the problems of international tax avoidance and transfer pricing, the NTA is enhancing and strengthening its organizational systems.

1 Discussion on Development of Common Taxation Rules and Enforcement Issues

The NTA is enhancing multinational or bilateral collaboration by actively participating in discussions in OECD Committee on Fiscal Affairs*¹ on taxation issues related to international transactions, as well as engaging in talks with taxation authorities in nations or regions that have close economic relations with Japan.

(1) Developing Common Taxation Rules

(i) Review of Transfer Pricing Taxation

The OECD Guidelines, which serve as a model for the transfer pricing taxation system*² of each country, have been unchanged for more than a decade since the last update in 1995. It is necessary to refine and review the OECD Guidelines, paying due attentions to recent changing practices of multinational enterprises,

development of practice and the accumulated experiences of the tax authorities of each country. For example, due to the increase of transactions involving intangible assets, it is becoming more difficult to apply the traditional comparable method, while the practical importance of the profit method*³ is growing.

(ii) Discussion on Taxation Issues Arising from Business Restructuring

In the business restructuring process of multinational enterprises, some turn their supplier or sales subsidiary into a commissionaire*⁴ or turn their manufacturing subsidiary into contract manufacturer. If a trademark, brand, production know-how or any other important intangible asset is transferred to an overseas affiliated firm in its group in the business restructuring process,

the problem of transfer pricing will emerge in compensation. In addition, there may be cases where a subsidiary after business restructuring is treated as an agent of its overseas parent company. OECD Committee on Fiscal Affairs has been discussing these new problems toward the announcement of new guidelines.

*1 OECD Committee on Fiscal Affairs provides a forum where OECD member nations engage in discussions to set international common taxation rules, such as the Model Tax Convention and the Transfer Pricing Guidelines, and the tax authorities of OECD member nations share their knowledge and experience. OECD Committee on Fiscal Affairs has organized working groups to exchange opinions among member nations.

*2 In the 1986 tax reform, Japan introduced a "transfer pricing taxation system" in order to achieve proper international taxation by addressing overseas income transfers through transactions with foreign affiliated firms (overseas related parties). Currently, more than 40 nations, including major developed nations, have adopted such system. In the basic framework of the system, if a transaction with an overseas related party has a price gap with a transaction with a third party, and such gap brings about a decrease in taxable income in Japan, then the tax authority will recalculate their income in line with the arm's length principles.

*3 The "Profit method" is an approach taken to calculate transfer pricing. It includes the "Profit Split Method," which redistributes the parties' total profits according to their proportion of contribution, and the "Transactional Net Margin Method (TNMM)," which employs an operating profit ratio related to comparable transactions.

*4 "Commissionaire" corresponds to the commission agent specified in the Commercial Code. Although it has the rights and obligations as a party in a transaction legally, from an economical standpoint, it merely receives commission, without assuming these rights and obligations by transferring them to the consigner.

(iii) Reviewing the Taxation Rules for Foreign Corporation's Branch Offices

Although the legal character of branch offices of foreign corporations (permanent establishments) and subsidiaries differs, there is now a strong belief that they should be treated in the same manner in terms of taxation, with the economic reality in mind. Having been reviewing taxation rules on permanent establishments, OECD Committee of Fiscal Affairs is

now at the stage of final consideration concerning how the transfer pricing approaches should be applied to branch offices of foreign corporations. In addition, the Committee plans to revise the Model Tax Convention on income and capital and related commentaries (interpretive criteria).

(iv) Eliminating Harmful Tax Practice and Achieving Fair Competitive Condition

Certain nations and regions provide tax incentives to attract "light-footed" economic activities such as financial services from foreign nations. This could lead to more difficulties in taxing such "light-footed" economic activities and the erosion of tax base on a global scale. On the other hand, the tax burden of "slow-moving" labor and consumption could be

relatively heavier. OECD Committee on Fiscal Affairs announced a report on such harmful tax competition in 1998 and has been working on follow-up activities. To reduce "harmfulness" by enhancing "transparency" and "the effective exchange of information," the Committee is taking actions covering nations and regions that have tax havens*¹ and important financial centers.

(2) Sharing Tax Administrative Experiences with Foreign Tax Authorities

Adaptation to the environmental change surrounding tax administration, including economic globalization and the diffusion of IT, has been a common issue for tax authorities worldwide, despite the gaps in their taxation systems. In this context, the tax authorities are cooperating and sharing their experiences in dealing with common issues, such as reinforcement of compliance and improvement of taxpayers services.

OECD Committee on Fiscal Affairs has been playing central roles in setting international common taxation rules. In recent years, the OECD Forum on Tax Administration (FTA), which consists of heads of tax authorities of OECD members and major non-OECD members, has been studying common issues.

As a small top-level forum, the Leeds Castle

Group (Tax Administrators Meeting)*², consisting of 10 nations (Japan, U.S., Canada, Australia, U.K., France, Germany, China, South Korea, and India), discusses how they should address abusive tax planning. Moreover, the Study Group on Asian Tax Administration and Research (SGATAR), consisting of tax authorities in 13 countries and regions in Asia, is holding a forum that contributes to regional cooperation.

In addition, the NTA holds tax administrator-level meetings every year with the tax authorities of China and South Korea, who have close historical and economic relationships with Japan, in order to promote cooperation.

Technical Cooperation to Developing Countries

The NTA is positively engaging in technical cooperation to developing countries. In cooperation with the Japan International Cooperation Agency (JICA), the NTA holds the International Seminar on Taxation (ISTAX) and has recently conducted country-specific projects. Especially in the fields of tax examination, tax collection, organizational management, taxpayers' services, and international taxation, the NTA is sending experts to ASEAN countries and providing training sessions in Japan by inviting the staff of foreign tax authorities. The NTA is also actively contributing to technical cooperation in seminars held by OECD or the Asian Development Bank (ADB). Through these technical cooperation activities, Japanese tax administrative experiences and know-how will improve tax administration in developing countries. These activities will also contribute to improving region-wide tax administration and enhancing regional cooperative relationships.

*1 "Tax haven" is a nation or region that levies zero or extremely low tax on corporate income.

*2 This meeting is called the Leeds Castle Group, since the preparatory meeting was held in Leeds Castle in the U.K. in 2006.

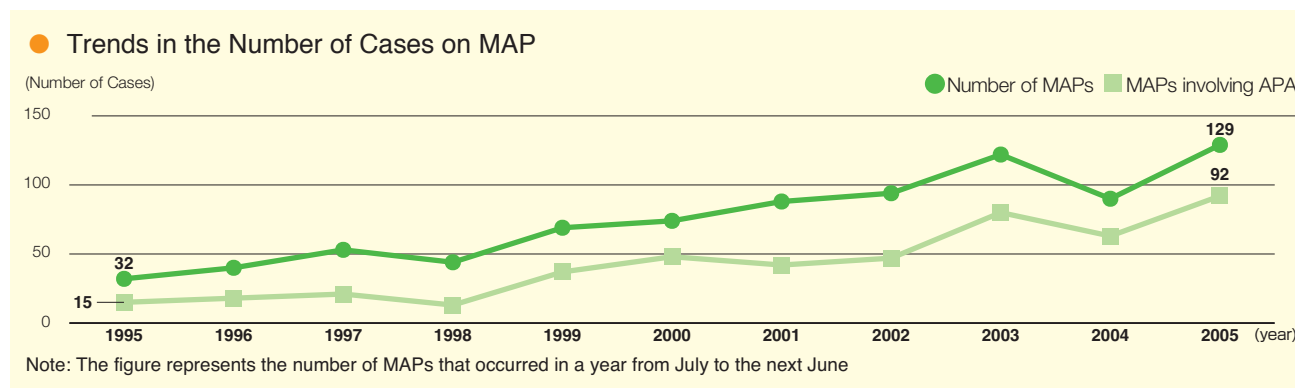
2 Mutual Agreement Procedures and Exchange of Information

Using a system of mutual agreement procedures*¹ based on tax treaties, the NTA is striving to smoothly handle taxation issues, such as the prevention of international double taxation. From the viewpoint of preventing malicious tax avoidance relating to international transactions, the NTA is actively utilizing the tax treaty and exchanging information with foreign tax authorities.

(1) Increase of Mutual Agreement Procedure (MAP): Expansion of the Advance Pricing Arrangement (APA)

Cases of MAP have been increasing in recent years, more than 90% of which are related to transfer pricing. As for cases on transfer pricing, increasing numbers of cases are involving APA, targeting predictability for taxpayers and preventing double taxation. In the year from July 2005 to June 2006, 129 cases on MAP occurred, of which 119 cases were related to transfer pricing and 92 involving APA for transfer pricing. Compared to 10 years ago, the number of cases on MAP has increased approximately fourfold, while cases on MAP involving APA have also increased approximately sixfold.

Due to such increase in MAPs, Japan now has a MAP with an increased number of nations, from the total of 11 nations a decade ago to 23 nations at the end of June 2006. Likewise, APAs with MAP have been recently increasing in relation with Asian countries, which were not previously involved in APAs. To solve these MAP-related cases properly and promptly, the NTA is enhancing cooperative relations with foreign tax authorities and engaging in talks more effectively.



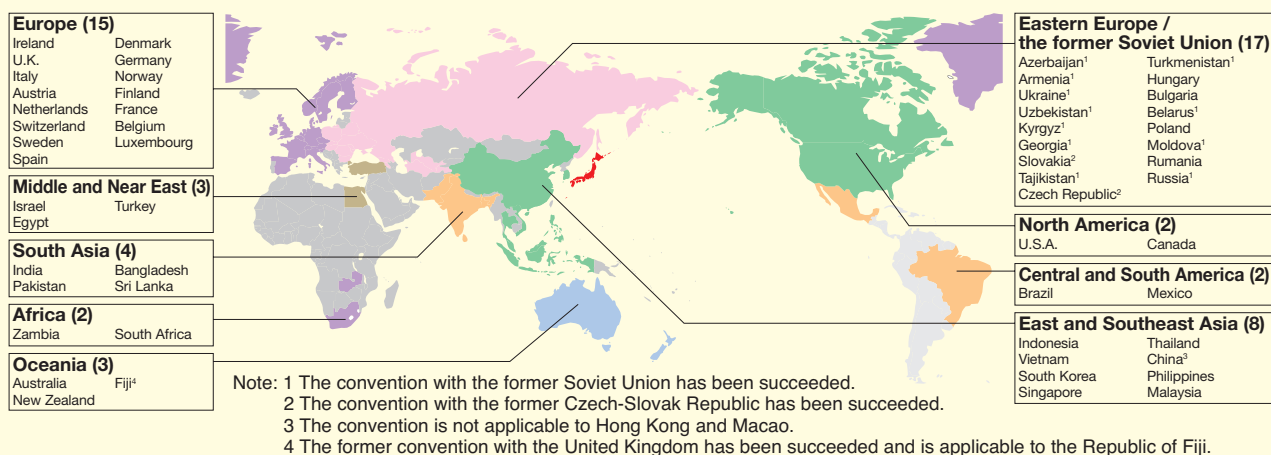
Trend of International Discussion on MAP

As for dispute resolution on international taxation, including MAPs, OECD Committee on Fiscal Affairs has been discussing how to improve the effectiveness of MAPs and issues concerning the supplementary dispute resolution mechanism. This is to explore best practices and a proper arbitration process in order to solve such issues, considering opinions such as the excessive time required for some cases of MAP and the fact that the current MAP does not completely solve the problem of double taxation. The NTA has posted the detailed information in the “Improvement of International Taxation Dispute Resolution” and “Manual on Effective MAP” sections on its website.

Notes: 1 “Mutual agreement procedure (MAP)” refers to a negotiation procedure between tax authorities of contracting parties to a tax treaty to eliminate taxation incompatible with the applicable tax treaty when a taxpayer is or likely to be subject to tax incompatible with provisions in the tax treaty. All of the 45 tax treaties that Japan has concluded (applicable to 56 nations) provide for the MAP.

2 “Advance Pricing Arrangement (APA) on Transfer Pricing” refers to the District Director of a Tax Office confirming calculation methods used for arm’s-length price and its details related to international transactions in advance, in order to ensure predictability on transfer pricing taxation for taxpayers according to their request. Japan introduced the measure ahead of any other country in 1987. Subsequently, APA was introduced in the U.S. in 1991, followed by Canada (1994), Australia (1995), South Korea (1996) and China (1998). To date, more than 30 countries have introduced APA.

● Japan's Tax Convention Network (45 conventions applied in 56 countries, as of May 2007)



(2) Exchange of Information under Tax Treaties

In international transactions, not only the risk of double taxation but also “taxation loopholes”, in which no tax is levied by any country, has been an issue. The tax authority of each country has been enhancing their actions regarding international taxation in order to address various tax avoidance schemes, but proper information collection from outside the country is essential for proper and fair taxation. With this in mind, each country is reinforcing the exchange of information under the tax treaties.

Through the 2003 and 2006 tax reforms, Japan also developed legislation concerning the exchange of

information, including investigation on tax violations. In July 2005, a new team exclusively in charge of the exchange of information was established in the International Operations Division of the NTA. Thus, the NTA is setting up a system to respond to requests from foreign countries promptly and also proactively request their cooperation. The effective exchange of information would require close cooperation among tax authorities. In addition to participating in working-level EOI meetings at the OECD Committee on Fiscal Affairs, the NTA actively provides technical assistance for developing countries.

(3) Linkage with Foreign Tax Authorities, Information Collection and Research Activities

To properly collect information outside Japan and enhance linkage with foreign tax authorities, the NTA has placed NTA liaison officers in the U.S. and some other countries and regions with close economic relations with Japan since 1985. The NTA

now has liaison officers in 12 countries (17 regions) to collect information on the local tax systems and tax administration. They also serve as a important pipeline when cooperation with foreign taxation authorities is needed.

3 Addressing International Tax Avoidance

Concerning tax evasion and tax avoidance through the exploitation of cross-border transactions, the NTA implements proper taxation after properly grasping the facts through examinations. To this end, the NTA has enhanced the examination framework, such as increasing the number of Senior Examiners (International Taxation), setting up a project team and so forth, and taking every opportunity available to collect information helpful to taxation through, such as making the best use of information exchange under the tax treaties and grasping the flow of funds to foreign countries. Furthermore, the NTA is properly handling the transfer pricing issues involved in the prices for transaction with related companies located overseas, based on information collected by examinations.

(1) International Tax Avoidance Schemes

As cross-border activities of individuals and corporations expand, international tax avoidance involving reducing tax liability by cleverly exploiting differences between national tax systems and the tax treaties is developing into a major international issue. Finance specialists, legal counsels and Certified Public Tax Accountants have all become involved in international tax avoidance, and various entities such as sleeping partnership (Tokumei Kumiai) contracts, partnerships, LLC (Limited Liability Companies) and similar, or complicated schemes making free use of new financial technology, are used for international tax avoidance.

From the viewpoint of realizing proper and fair taxation, the NTA is endeavoring to grasp and elucidate the actual state of transactions; taking every opportunity available. If there are recognizably problems for taxation purposes, the NTA conducts close examinations and deals strictly with tax evaders, so that no amount of tax avoided under such tax avoidance scheme is finally borne by conscientious taxpayers.

To this end, the NTA has increased the number of

Senior Examiners (International Taxation) and has endeavored to enhance and strengthen the examination framework, such as setting up the International Examination Division in key Regional Taxation Bureaus. In recent years, international taxation problems have begun to extend from large enterprises and corporations that have overseas subsidiaries to wealthy individuals. In order to deal with such circumstances, the NTA established the “Project Team to Deal with Internationalization” in the key Regional Taxation Bureaus and is endeavoring to grasp or elucidate such tax avoidance schemes and collect information on financial assets held overseas by tax evaders.

The National Tax College provides training courses on international tax law, tax treaties, derivatives and foreign languages.

As for tax avoidance schemes that cannot be properly handled under current legislation, the NTA requests the departments and bureaus in charge to reform the relevant system.

(2) 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 exporting products to its overseas subsidiary, the income is transferred overseas. The transfer pricing tax system has been developed to address such issues.

As corporations have been expanding their business activities on a global scale due to internationalization, increasing numbers of transactions are subject to transfer pricing taxation and the transactions have been getting more complicated and sophisticated. In particular, the importance of transactions involving intangible assets is increasing. To properly address these changes in economic conditions and prevent Japanese taxable income from escaping abroad, the NTA is striving to realize proper international taxation through definite enforcement of the transfer pricing taxation.

To ensure transparency and predictability on transfer pricing taxation, the NTA also implements its operations in a more transparent manner and reinforces the framework for addressing APAs.

To enhance operational transparency, the NTA has set up and revised the directives concerning the interpretation of the laws on transfer pricing taxation and administrative guidelines for operation on virtually

a yearly basis. Through the announcement of these activities, the NTA is clarifying the applicable criteria and enforcement policies. In addition, the NTA has decided to prepare and disclose Case Studies on Transfer Pricing as a supplementary volume of the administrative guidelines for operation, which outlines taxation practices under certain conditions, using examples from recent taxation practices.

Increasing numbers of taxpayers are filing applications for APAs due to the recent increase in international transactions. In this context, Regional Taxation Bureaus provide Pre-filing Conference (i.e. consultations before taxpayers actually file applications for APA). The NTA is also improving the environment for users, such as posting the outline of the APA process or Pre-filing Conference on the NTA Website. Furthermore, the NTA is conducting its duties smoothly by increasing the number of officers in charge of examining APA, streamlining its operations and promoting a cooperative relationship with countries involved in the MAP.

Considering the characteristics of the transfer pricing taxation, the NTA introduced a system of grace of tax payment to mitigate double taxation burdens until an agreement is formed at bilateral talks in the MAP.

V Remedy for the Infringement of Taxpayer Rights

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

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

In principle, taxpayers who disagree with the actions taken by a Tax Office shall first submit requests for reinvestigation to the District Director of the Tax Office. On the other hand, a request for reconsideration is to be submitted to the Director-General of the National Tax Tribunal, established as an independent institute.

In addition, if the taxpayer is still dissatisfied with the disposal taken after the decision made by the Director-General of the National Tax Tribunal, the taxpayer may appeal to the court to seek remedies, as in other general administrative cases.

(1) Request 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 District Director of the Tax Office or other official, a taxpayer may lodge a request for reinvestigation with the District Director of the Tax Office or other official to request that the ruling be revoked or changed.

In recent years, requesting reinvestigation has become complicated due to the geographical expansion and globalization of economic transactions, and the difficulty associated with fact finding and legal interpretation/application in many cases. To respond to this situation, the NTA has established a Rulings

and Legal Affairs Division in each Regional Taxation Bureau and assigned a Special Officer (Legal Affairs) to the same. The NTA is also providing various forms of training to develop tax officials, who are skilled in reviewing as well as being capable of examination and collection. In this way, the NTA is endeavoring to build up an organization which can deal with requests for reinvestigation from taxpayers properly and promptly.

The NTA properly processes the administrative works involved in such requests for reinvestigation and executes the uniform tax administration under the correct interpretation of the tax laws nationwide, so that proper and fair taxation and collection are realized for taxpayers at the examination or collection stage.

(2) Request 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 Director-General of the National Tax Tribunal.

The National Tax Tribunal is an impartial body, independent from Regional Taxation Bureaus and Tax Offices, and provides relief for any 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.

For the posts of the Director-General of the National Tax Tribunal as well as the Chief Appeals Judges of Tokyo and Osaka Regional Tax Tribunal, former justices and former public prosecutors have been appointed.

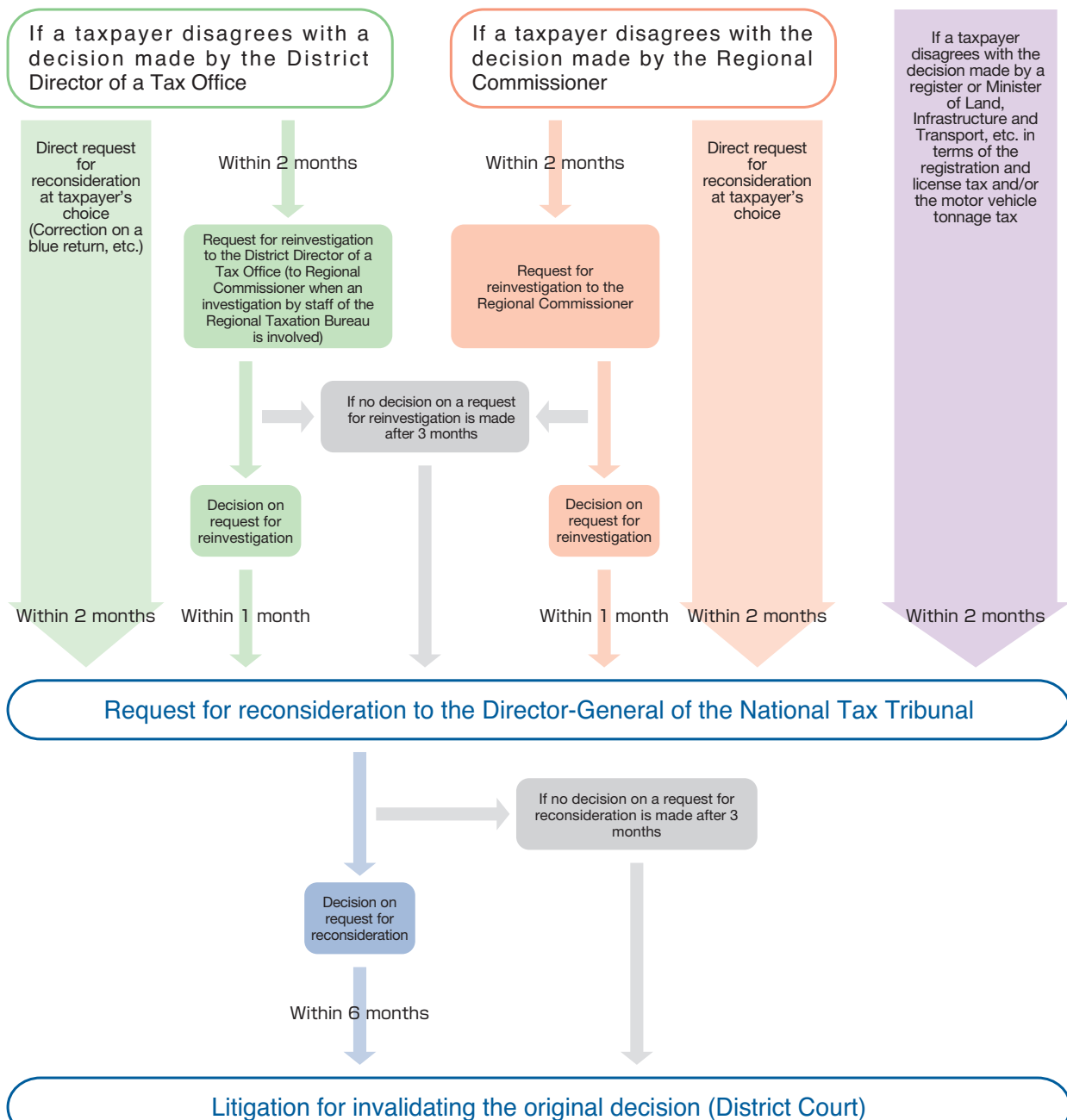
The National Tax Tribunal promptly clarifies the points at issue in a case by drafting a chart outlining the positions of each party after fully ascertaining their perspectives by contacting the party requesting reconsideration and the Tax Office. The Tribunal endeavors to quickly and speedily remedy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

by fully listening to the views and positions of each party and conducting its own examination when necessary.

Decisions by the Director-General of the National Tax Tribunal would be no more disadvantageous to the taxpayer than those made by the District Director

of the Tax Office. Moreover, the District Director of the Tax Office cannot institute litigation, even if he or she disagrees with the ruling, because the ruling by the Director-General of the National Tax Tribunal represents the final decision of the NTA.

Overview of the Appellate System for National Tax



(3) Litigation

If a taxpayer wishes to appeal the decision by the Director-General of the National Tax Tribunal, he or

she is entitled to appeal to the court to seek remedy.

(4) Case Trends

The NTA endeavors to process every request for reinvestigation within three months in principle. The total number of reinvestigation request cases processed was 4,027 (3,414 for taxation and 613 for collection) in fiscal 2006. In some 10.2% of the request cases, taxpayers' claims were totally or partially endorsed due to new findings.

As to reconsideration request cases processed, the National Tax Tribunal endeavors to complete processing within one year in principle. The number of requests for reconsideration totaled 2,945 (2,561 for taxation and 384 for collection) in fiscal 2006. In about 12.3% of the request cases, taxpayers' claims were

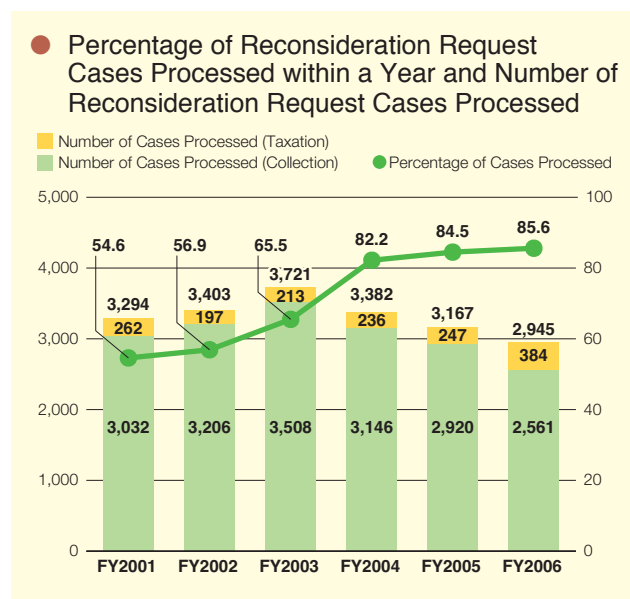
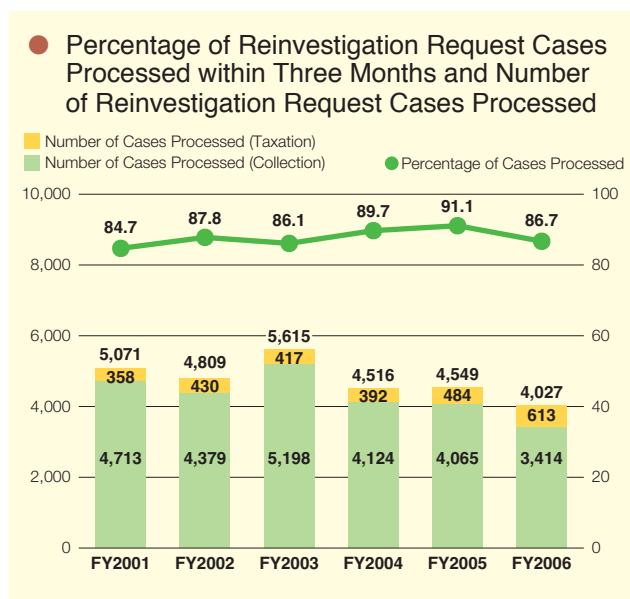
totally or partially endorsed.

As for litigation cases, there were 447 cases closed (371 cases for taxation, 75 cases for collection, and 1 case involving the National Tax Tribunal) in fiscal 2006. In about 17.9% of the cases, taxpayers' claims were totally or partially endorsed.

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

For further information, please access the website of the National Tax Tribunal (<http://www.kfs.go.jp>).

(Note) The figure represents preliminary data as of the end of May 2007.



Reference

Response to Complaints from Taxpayers

Not only requests for appellate of an administrative disposition but also complaints, requests, criticisms or consultation over problems, covering all aspects of tax administration, such as the attitude of the tax official having responded to taxpayers or the method of examination, may be forwarded to the NTA. The NTA responds promptly and properly by taking the viewpoint of taxpayers because we believe that responding forthrightly to taxpayers' complaints is crucial to earn their understanding and trust. Moreover, in July 2001, the position of Taxpayer Support Officer was created, with duties including explaining procedures for how to remedy infringements in cases where the taxpayer's rights or interests have been affected.

VI Administration of the Liquor Industry

Ensuring the Sound Development of the Liquor Industry

Liquor tax has been a major source of government revenue alongside land tax since the Meiji Restoration of 1868 and even surpassed land tax revenue at one point to become the primary source of national tax revenue. Subsequently, direct taxes, such as income tax and corporation tax, have come to account for a greater proportion of total revenue, and in fiscal 2005, liquor tax amounted to ¥1.5853 trillion; representing 3.2% of the total tax revenue. Liquor tax is a stable form of tax revenue because it is not easily affected by economic fluctuations. For this reason, liquor tax continues to play an important role in Japan's tax system today.

The liquor industry is composed of 2,833 manufacturers and 158,863 distributors (as of the end of fiscal 2006), more than 95 percent of which are small or medium-sized enterprises.

Accompanied by a shrinking population, the public's growing interest in health maintenance and food safety, changes in lifestyles and progressive deregulation, there are significant changes in the environment surrounding the liquor industry.

In order to adapt to such socio-economic change, the NTA is taking various measures to ensure the sound development of the liquor industry from a comprehensive perspective covering the whole liquor industry.

(1) Measures for Improving the Managerial Makeup of the Liquor Industry

In order to improve the managerial makeup of the liquor industry, measures should be taken based on the ideas of a "shift from quantity to quality" and the "viewpoint of consumers". It is important for both industry and administration to collaborate for issues occurring at every stage, from liquor manufacturing to sales, from the viewpoint of consumers, so that high-quality and safe liquor is produced and provided to consumers with proper information and under appropriate quality control.

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

In order to support the activities of the liquor industry to provide proper product information and to establish regional brands of "Sake", in October 2005, the NTA added provisions aiming to protect the Geographical Indications (GIs) for Sake to the

"Standard for Indication in Relation to Geographical Indications," which were previously applicable only to wines and distilled liquor. In December 2005 the NTA designated "Hakusan" as the first place of origin of Sake GIs.

As Japanese cuisines have been attracting increased overseas attention, Japanese sake is also being more widely acclaimed as part of Japanese culture. In this context, the NTA is supporting the establishment of more favorable export conditions, such as providing liquor merchants with information on export procedures.

In addition, the NTA also provides supports for liquor businesses, such as helping them identify their own management problems, holding management consultant lecture sessions, providing information on best practices in business management and government SME-related policies, and helping their business innovation plans.

(2) Ensuring a Fair Trade Environment

For sound development in the liquor industry, a fair trading environment is vital. In this sense, the NTA reviewed the existing guidelines and laid down "Guidelines on Fair Liquor Trade" in August

2006. Through PR activities on the new guidelines, the NTA encourages the voluntary efforts of liquor businesses for fair trade. The new guidelines describe means of fair trade, which all liquor businesses should

voluntarily respect in terms of “Rational price setting,” “Fair treatment of business partners,” “Setting of fair trading conditions” and “Transparent and rational rebates.” Under such circumstances, the liquor industry is voluntarily promoting fair trading, such as reasonable

pricing by the cost plus method, or establishing objective criteria on the trading terms.

The NTA examines actual liquor trade practices and is working with the Fair Trade Commission to provide guidance for improvement.

(3) Cooperation with the National Research Institute of Brewing (NRIB)

Each Regional Taxation Bureau has an Office of Analysis and Brewing Technology, which works on enhancing the quality and safety of domestically available alcoholic beverages through technical guidance to liquor breweries and surveys on commercially available

alcoholic beverages. In addressing brewing technologies for improving liquor quality, and ensuring the safety of liquors, the research and development of analytical methods and other highly technical problems, the NTA exchanges information and cooperates with the NRIB.

National Research Institute of Brewing

The National Research Institute of Brewing (NRIB) was established at Takinogawa, Tokyo in 1904, as a national research organization of technology for alcoholic beverages within the Ministry of Finance. The NTA brewing research institute was transformed into an independent administrative agency in April 2001. Furthermore, in April 2006, the NRIB became an independent administrative agency, in which staff members are treated as non-governmental employees, based on the perspective of promoting cooperation with the public sectors and universities such as personnel exchange. As Japan's only comprehensive liquor-related research institute, the institute undertakes advanced analyses and examinations for realizing proper and fair taxation on liquors, research and surveys on liquors, training programs for small and medium-sized liquor manufacturers and seminars for consumers, etc. For details, see the NRIB website at <http://www.nrrib.go.jp>.

(4) Responding to Social Demands

In order to meet social demands, such as preventing underage drinking, in April 2003, the NTA attempted to ensure thorough compliance with the obligations, which was introduced by revision of the “Law concerning Liquor Business Associations and Measures for Securing Revenue from the Liquor Tax” in 2003, to appoint a liquor sales manager, to attend sales management training, and to present at venues displaying liquor beverages. In addition, the NTA revised labeling standards at venues displaying liquor in favor of labeling that is much more persuasive and effective and that can limit access to liquor by underage people. This led to a reform of the label stating “Underage Drinking is prohibited by Law” to one stating “Where unable to confirm that the purchasers are more than 20 years old, the liquor retailers shall

not sell liquor to them” in September 2005 to prevent minors from gaining access to liquor.

The efforts, not only of the liquor industry but also of families, schools, communities, and the government, are crucial to successfully address social issues such as the problem of drunk driving. The NTA is cooperating and coordinating its efforts with the related government ministries and agencies, members of the liquor industry, and others.

In accordance with the resolution of the World Health Assembly*¹ held in May 2005, the NTA is considering, with the relevant government offices and the liquor industry, measures to reduce the impact imposed on the health of people or society caused by the harmful use of alcohol.

(5) Proper Handling of Applications for Liquor License

On August 31 2006, the designated emergent adjustment districts in accordance with “Emergency Measures Law on Improving Business Operations of Liquor Retailers” lost its effectiveness. As a result, many applications for liquor sales license have been submitted,

which the NTA is examining properly and promptly.

The NTA is also providing proper guidance to new licensees concerning the obligations of the licensed businesses, such as appointing a liquor sales manager and attending liquor sales management training sessions.

*1. The World Health Assembly is the supreme decision-making body for the World Health Organization (WHO).

Guidelines on Fair Liquor Trade (August 31, 2006)

Purposes:

To ensure liquor tax revenue and stabilize liquor trade

(Article 1 of the Liquor Business Associations Law)

Trading complied with the Guidelines



Sound business management and improvement in consumer benefits

Sound development of the liquor industry

Introduction

(i) Recent Liquor Market

- ➡ • Changes in the business environment (advent of society of declining population, etc.)
 - ⇒ Difficulty in expanding the domestic liquor market overall in terms of volume
- Diversification of liquor retailers (convenience stores, supermarkets, drugstores, etc.)
 - ⇒ Gaps in trade volume and prices among liquor businesses

(ii) Issues for the Sound Development of the Liquor Industry

- ➡ “Shift from quantity to quality,” “Viewpoints of consumers,” “Sales management” and “Ensuring Fair trade”

(iii) To suggest “Fair liquor trade practices” and “How to cooperate with Fair Trade Commission”, considering the applicability of Article 84 of the Liquor Business Associations Law < Recommendation or orders for maintaining liquor tax revenue >

- ➡ Encouraging voluntary efforts to achieve fair trade

I. Fair Liquor Trade Practices

(suggests fair liquor trade practices from the viewpoint of keeping liquor tax revenues)

1. Rational Price Setting

- (i) The rational price should be “purchase price + SGA expenses + profits”

Liquor prices should be also reasonable from the viewpoint of liquor’s unique characteristics.

- (ii) As liquor beverages have unique characteristics, they should not be used as a “bait leader” to attract customers, since this is improper business practice.
- (iii) Production should be kept at a proper level, based on an accurate supply-demand outlook.

2. Fair treatment of Business Partners

If liquor businesses set discriminatory selling prices or business terms for certain business partners or sales territories without justifiable reason, such behavior would distort the proper market prices.

3. Setting of Fair Trading Conditions

If a large-scale retailer, such as supermarket, unilaterally returns products for its own reasons, refuses to accept private brand products, demands suppliers accept its staff, pay rebates or excessive center fees, or imposes disadvantageous treatment based on the refusal to accept such demand, such behavior would adversely affect the profitability of liquor suppliers, pose a negative impact on the collection of receivables by manufacturers and erode liquor tax revenues.

4. Transparent and Rational Rebates

Rebates that lack transparency and rationality should be abolished.

II. Conducting Surveys on Actual Trade Practices and Collaborating with the Fair Trade Commission

(Measures taken by the NTA)

1. Conducting Surveys on Actual Trade Practices Effectively

- (i) Conducting surveys focusing on liquor businesses that have a significant influence on the market
- (ii) Conducting follow-up surveys on liquor businesses subject to the NTA’s improvement guidance
- (iii) Publicly disclosing problematic trade practices and the guidance provided as much as possible in order to prevent similar trade by other businesses

2. Measures to Keep the Liquor Tax Revenues

- (i) Judging the existence of excessive competition (as specified in Article 84, Paragraph 1 of the Liquor Business Associations Law) in line with the descriptions in I “Fair Liquor Trade Practices”
- (ii) Taking the minimum actions to solve the problem if a measures should be taken to keep the liquor tax revenues.

3. Addressing Violations of the Anti-Monopoly Law

If a Regional Commissioner finds any violation of the Anti-Monopoly Law in liquor businesses’ trade, the Commissioner will report this fact to the Fair Trade Commission.

4. Collaborating with the Fair Trade Commission

- (i) The NTA has discussions with the Fair Trade Commission concerning problems in the distribution process
- (ii) The appointing officers in the Regional Taxation Bureau in charge of managing market-related information

VII Future Challenges

Changes in the Environment Surrounding Tax Administration

At present, our nation is facing an unprecedented situation of a declining birthrate and aging of the population. The saving rate is significantly declining and the working-age population is anticipated to shrink. The so-called “steadily growing economy” are over, and under such circumstances, the people’s desire for administrative and fiscal structural reform is intensifying. In order to deal with such structural change in society, the tax system is also being reviewed. Furthermore, the shapes of enterprises and family lifestyles are undergoing marked transformation, due to the diversification of employment and family structures. The rapid progress in IT and expansion of the cross-border activities of individuals and enterprises, along with the economic development of Asian countries and economic globalization, are seen in economic activities. In addition, accounting standards penetrate both internationally and mutually.

The environment surrounding the tax administration is undergoing significant change due to such economic and social movement. Due to a reduction in the tax exemption sales threshold for enterprises for consumption tax and a review of pension taxation etc., the number of final returns has significantly increased. Accordingly, the administrative work of Tax Offices involving the processing of such returns has also been increasing. Furthermore, tax avoidance methods are becoming increasingly shrewd, alongside the progress of IT and globalization of the economic society, meaning cases of tax examinations and collection are becoming ever more complicated and difficult than before. With this in mind, the environment surrounding the tax administration is becoming increasingly difficult in both quantitative and qualitative terms.

The NTA’s Responses to Such Changes in the Environment

In order to continuously fulfill the mandate of the people under such difficult circumstances, the NTA should implement priority-oriented tax administration while allocating human and material resources effectively and efficiently. It is important to strive in this way in order to secure sufficient tax examination and collection, maintain and improve taxpayers’ compliance with law and give considerations to taxpayer services.

To this end, in line with the purport of the self-assessment system, whereby after taxpayers calculate the amount of tax themselves, they make a voluntary declaration and voluntary payment, it is necessary to restructure the system of providing taxpayer services. After restructuring, the NTA reviews the computer systems and relevant operations regarding the in-office work of Tax Offices, attempts to outsource administrative work that can be handled by persons other than Tax Office officials and are planning to positively promote the rationalization of and improved efficiency of administrative work. Furthermore, also concerning the administrative work involved in tax examination and collection, and from the perspective of maintaining and improving taxpayer compliance, the NTA is planning to refine the system by making positive use of IT to review the operations involved in tax examination and collection and to attempt further enhancement of the tax administration.

Concrete Measures

(1) Improving the Tax Payment Environment

The NTA is improving taxpayer services so that taxpayers themselves are able to file the correct returns and make tax payment.

Specifically, the NTA is providing tax information required by taxpayers by enhancing the content of the information provided on the NTA Website. Furthermore, the NTA is endeavoring to diversify the means of tax return filing and tax payment by making the best use of IT, such as the e-Tax and the

“Filing Assistance on the NTA Website”, and the introduction of tax payment at convenience stores. To further improve convenience for taxpayers, such as quickly answering taxpayers’ questions in telephone consultations available at Tax Counsel Offices and Tax Offices, the NTA will gradually increase the number of telephone consultation centers at each Regional Taxation Bureau level to accept phone calls from taxpayers in a more centralized manner.

(2) Overhauling In-office Works

While giving full consideration 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 in-office work at Tax Offices by reforming duties through the growing use of IT.

Specifically, in-office work, such as the series of tasks involved in handling tax return filing and tax payment, works related to a taxpayer’s changing status, and tax office’s counter work, have been separately

handled by different divisions in Tax Offices. However, the NTA will streamline the work by centralizing the majority to a single division and effectively using IT systems (i.e. the integration of in-office work). Furthermore, the NTA is promoting the centralization of large-volume, temporary work that is independent of other operations and the outsourcing of administrative work that can be handled by persons other than tax officials.

(3) Overhauling Tax Examination and Collection Operation

Under circumstances whereby internationalization and highly-networked information are progressing in the economic society, in order to ensure proper and fair taxation, the NTA is responding to advanced areas, such as international tax avoidance schemes and electronic commerce, by developing a system to deal with enterprise groups engaged in such wide-area transactions, and is also overhauling tax examination and collection duties throughout its organization. Furthermore, the NTA is planning to refine the system

so as to be able to make flexible use of the various kinds of information on taxpayers.

In view of the CPTAs’ public mission to support the self-assessment system, the NTA is also facilitating the system for the documents attached by CPTAs 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.

(4) Improving the NTA Officials’ Work Environment

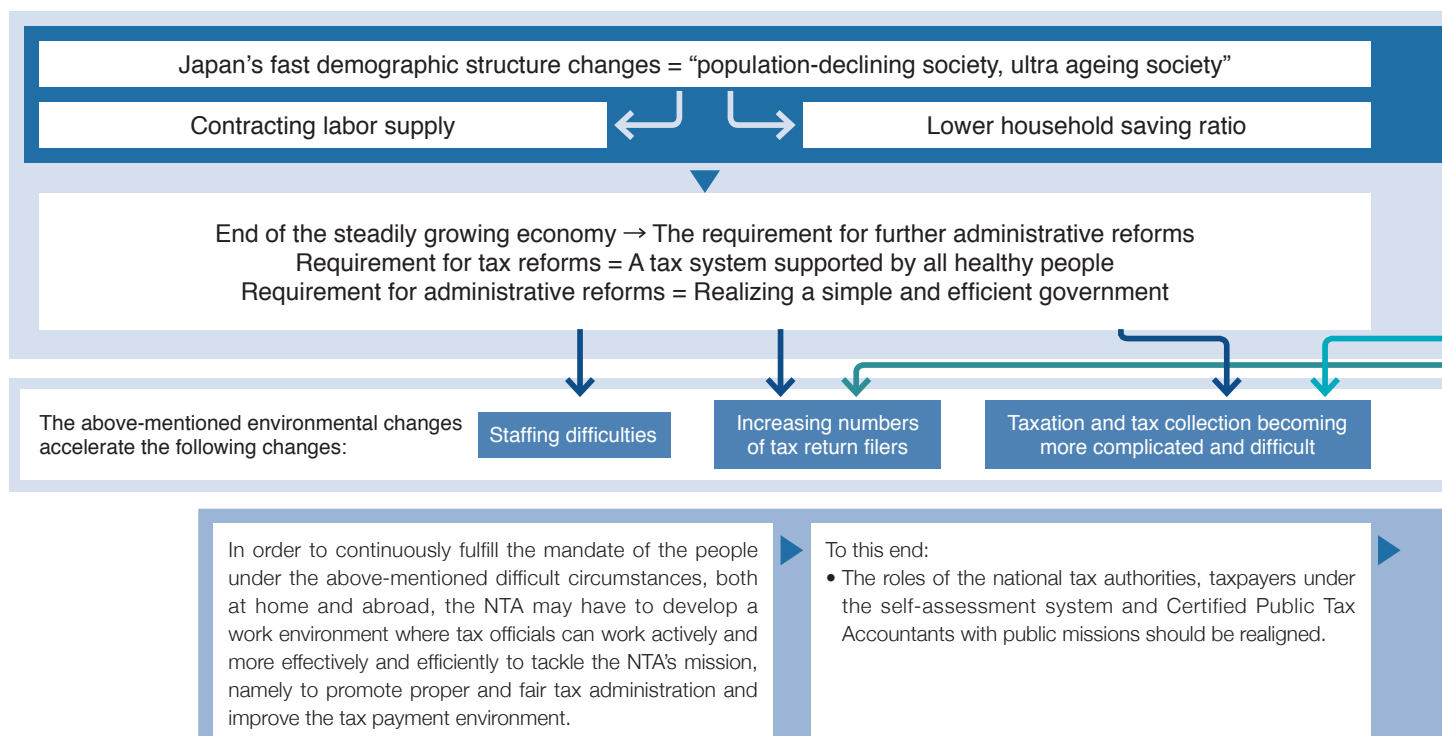
The NTA is developing a work environment where its officials are encouraged to perform their duties with enthusiasm.

Particularly, in view of the fact that the number of female NTA officials is increasing year by year, based on the basic philosophy of the “Act for the Promotion of Measures to Support the Fosterage of

the Next Generation,” as established in July 2003, the NTA has devised an “Action Plan” to develop a work environment to promote a balance between childcare and work, under which the NTA started activity on April 1 2005. Furthermore, the NTA is planning to review the training system in tune with environmental changes.

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

Changes in the Environment Surrounding Tax Administration



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.

- (1) Promoting the utilization of IT for information services
Expansion of the NTA Website and the Tax Answer System, the utilization of mail magazines
- (2) Promoting diversified means of tax return filing and tax payment through the utilization of IT
Extending the utilization of e-Tax, expansion of the Filing Assistance on the NTA Website, and the introduction of tax payment at convenience stores
- (3) Measures for the filing period for the final tax return
 - (a) Further encouragement of self completion of tax returns in self-assessment consultation
 - (b) Implementation of self-assessment consultation on Sundays (two Sundays) (services on government holidays)
- (4) Improving the efficiency of the tax consultation system
Putting together general tax consultations to the Telephone Consultation Center.

Overhauling In-office Works (including general services)

• Basic stance

With consideration given to ensuring appropriate operations, the tax authorities should promote operational reforms responding to IT development and the outsourcing of administrative work that can be handled by persons other than tax officials.

- (1) Increasing the efficiency of in-office works
 - (i) Examining/testing possible approaches for unification of in-office work
 - (ii) Examining possible approaches for efficient in-office work through trial of decentralization
- (2) Increasing the efficiency of general work
Promoting IT utilization for the centralization and outsourcing of accounting, health and welfare, and remuneration-related work

To promote the above measures, the NTA endeavors to attain the optimum distribution of its limited staff resources,

For the government as a whole, the NTA will move forward with a phased approach for the "Optimization Plan of Operations and Systems

and NTA's Responses to Such Changes

The economic development of countries in Asia, globalization of accounting standards

Japanese-style employment practices are being shaken up and working styles are diversifying
Family structures are also diversified, etc.

Progress in globalization
→ Increasing inward and outward direct investment
People's increasing cross-border movements
Sophistication of international tax avoidance schemes

Changes in the work environment for national tax officials
(The number of women and child-raising officials are increasing and young officials' attitudes are changing)

- Regarding measures that should be implemented by the tax authorities, the NTA, Regional Taxation Bureau (Bureaus) and Tax Office (Offices) should rebuild their respective functions

- The tax authorities should promote operational reforms responding to IT development and the outsourcing of administrative work that can be handled by persons other than tax officials.

Overhauling Tax Examination and Collection Operation

- Basic stance

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

- Improving tax examination and collection duties
 - Considering an overhaul of the tax examination and collection systems, based on sharing of roles between Regional Taxation Bureaus and Tax Offices
 - Using more sophisticated systems, such as sharing various information
- Roles of CPTAs with public missions

Promoting the new system for CPTAs to attach documents to tax returns
- Addressing advanced areas
 - Expanding international taxation, including fighting against international tax avoidance schemes Responding to advanced information regarding corporate activities
 - Securing taxpayers' predictability
 - Improving responses to taxpayer inquiries
 - Utilizing advance price arrangements regarding the transfer pricing taxation
 - Responding to the consolidated taxation system

Improving the NTA Officials' Work Environment

- Basic stance

The tax authorities should develop a work environment where tax officials can work with enthusiasm and hope.

- Endeavoring to realize a gender-equal society
 - Promoting a personnel policy to optimally exploit female officials' abilities and aptitudes
 - Promoting the NTA action plan to achieve a balance between childcare and work
- Improving the 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

budget distribution based on quantitative results, and the placement of the right people in the right jobs.

Related to National Tax Administration" (issued in March 2006, revised in May 2007) by fiscal 2010.

VIII Statistics

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Note: The time periods for the figure are described in the title section on the top right of each table. 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 2005

Item		Budget	Actual
		Million yen	Million yen
General Account	Withholding income tax	12,186,000	12,955,818
	Self-assessed income tax	2,497,000	2,630,095
	Corporation tax	12,473,000	13,273,567
	Inheritance tax	1,497,000	1,565,678
	Consumption tax	10,468,000	10,583,409
	Liquor tax	1,625,000	1,585,339
	Tobacco tax	862,000	886,737
	Gasoline tax	2,173,000	2,167,598
	Liquefied petroleum gas tax	15,000	14,231
	Aviation fuel tax	89,000	88,589
	Petroleum and coal tax	500,000	493,126
	Motor vehicle tonnage tax	755,000	757,420
	Customs duty	779,000	885,669
	Tonnage due	9,000	9,116
	Others	—	215
	Stamp revenue	1,114,000	1,168,832
	Subtotal	47,042,000	49,065,439
	Income tax (transferred)	1,115,900	1,115,900
	Local road tax	311,800	311,187
	Liquefied petroleum gas tax (transferred)	15,000	14,231
	Aviation fuel tax (transferred)	16,200	16,107
	Motor vehicle tonnage tax (transferred)	377,500	378,710
	Special tonnage due	11,300	11,395
	Crude oil customs duty, etc.	38,000	44,629
	Power resources development promotion tax	355,100	359,249
	Gasoline tax	740,800	740,800
	Special tobacco tax	226,200	232,855
Total		50,249,800	52,290,502

Note: "Others" include the tax delinquency currently being handled of the goods and service tax, land value tax and so forth.

NTA Budget for Fiscal 2007

Item		Budget
		Million yen
General Expenditures	IT-related Expenses	48,382
	Expenses to improve convenience for taxpayers*1	12,353
	Expenses related to internationalization measures	871
	Expenses to improve work environment*2	7,048
	Expenses related to tax reforms	3,442
	Expenses for various taxation forms and communication expenses	17,788
	General operating expenses*3	46,843
	Expenses for National Tax College	2,886
	Expenses for National Tax Tribunal	446
	Expenses for National Research Institute of Brewing	1,222
	Subtotal	141,280
	Personnel expenses	583,181
Total NTA budget		724,461

Notes: *1 "Expenses to improve convenience for taxpayers" include expenses related to touch-screen computers and the development of e-Tax and the Filing Assistance on the NTA Website.

*2 "Expenses to improve work 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

(2006 calendar year)

		Thousand persons
Total population		127,760
Workforce		63,560
Number of final returns for income tax*		23,490
Refund*		12,250
Tax payment*		8,230
Detail by income earner category	Business income earners	1,900
	Other income earners	6,330
	Real-estate income earners	1,110
	Employment income earners	2,740
	Miscellaneous income earners	2,120
	Others	350

Notes: "Total population" and "workforce" represent the figure as of fiscal 2005.

Withholding Agents and Withholding Income Taxation

(2005 business year)

Income Classification, etc.	Number of Withholding Agents*	Amount of Tax
	Thousands	Million yen
Employment income (wages and salaries)	3,860	10,540,700
Retirement income	—	291,100
Interest income, etc.	40	488,000
Dividend income	129	2,496,600
Capital gains etc. from selling listed shares managed in special accounts	5	254,800
Income from remuneration, etc.	3,083	1,340,600
Income paid to non-residents and foreign corporations	24	316,100
Total	—	15,727,900

Notes: The number of withholding income agents represents the figure as of the end of June 2006.

Number of Corporations and Number of Corporation Tax Returns Filed

(2005 business year)

Number of corporations*	2,977	Thousands
Number of tax returns filed	2,767	Thousands
Percentage of corporations filing	89.9	%
Percentage of returns declaring a surplus	31.9	%
Amount of self-assessed income	50,397,400	Million yen
Amount of self-assessed loss	22,715,400	Million yen
Amount of tax	12,596,900	Million yen

Notes: The number of corporations represents the figures as of the end of June 2006.

Inheritance Tax

(2005 calendar year)

Number of deceased persons	1,083,796
Number of deceased persons subject to taxation	45,152
Number of heirs subject to taxation	135,803
Taxable amount	10,195,200 Million yen
Amount of tax	1,156,700 Million yen

Gift Tax

(2005 calendar year)

Number of persons subject to taxation	405,332
Value of property acquired	2,376,000 Million yen
Amount of tax	115,900 Million yen

Note: The data above is under taxation system for settlement at the time of inheritance.

Consumption Tax

(2005 fiscal year)

		Tax Payment	Tax Refund
Number of Returns		Thousand cases	Thousand cases
	Individual	1,566	50
	Corporation	1,991	116
	Total	3,557	165
Amount of tax		10,026,500 Million yen	2,181,400 Million yen

Liquor Tax and Liquor Production

(2005 fiscal year)

Classification	Production Volume	Amount of Tax
	Thousand kl	Million yen
Sake	499	91,760
Sake compounds	34	5,013
Shochu	1,042	227,042
Mirin (rice cooking wine)	86	2,353
Beer	3,650	800,426
Fruit wines	94	6,711
Whiskies	69	27,726
Spirits	76	7,630
Liqueurs	742	63,451
Miscellaneous liquors	2,737	297,497
Total	9,029	1,529,609

Tax Examinations

Examinations for Self-Assessed Income Tax

(2005 business year)

	Number of Cases	Total Understated Income	Understated Income per Case	Total Additional Tax Revenue Collected	Additional Tax Revenue Collected per Case
Field examinations	Thousands	Million yen	Thousand yen	Million yen	Thousand yen
Special,* ¹					
General	54	454,300	8,350	90,700	1,670
Focusing* ²	169	336,100	1,980	15,900	90
Brief contact* ³	583	105,300	180	7,700	10
Total	807	895,700	1,110	114,400	140

Notes: *1. "Special, General" refers to the focused examination for the malicious taxpayer.

*2. "Focusing" refers to the short term examination to grasp the understated income.

*3 "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

(2005 business year)

Number of Cases Examined	Of Which, Number of Illegal Cases	Total Additional Tax Revenue Collected
Thousands	Thousands	Million yen
194	53	58,000

Field Examinations for Corporation Tax

(2005 business year)

	Number of Cases	Total Understated Income	Understated Income per Case	Total Additional Tax Revenue Collected
	Thousands	Million yen	Thousand yen	Million yen
All corporations	143	1,665,400	11,636	395,300
Of which, corporations handled by the Large Enterprise Examination Department	5	897,700	199,088	201,100

Examinations for Consumption Tax

(2005 business year)

	Number of Cases	Number of Cases with Understated Income	Total Additional Tax Revenue Collected	Additional Tax Revenue Collected per Case
	Thousands	Thousands	Million yen	Thousand yen
Individuals	72	49	22,000	300
Corporations	135	73	55,100	410

Field Examinations for Inheritance Tax

(2005 business year)

Number of Cases	Number of Cases with Understated Income	Total Additional of Understated Inheritance	Understated Inheritance per Case	Total Additional Tax Revenue Collected	Additional Tax Revenue Cases per Case
Thousands	Thousands	Million yen	Thousand yen	Million yen	Thousand yen
14	12	388,200	27,300	86,400	6,080

Information Returns Collected

(2005 business year)

Name of Information under Mandatory Submission	Number of Returns Collected
	Thousands
Withholding record of employment income	19,428
Payment record of interest and others	594
Payment record of dividend, distribution of surplus and interest on guaranty capital	4,061
Withholding record of public pension, etc.	31,643
Payment record of remunerations, fees, contract payments, and prizes	9,174
Payment record of consideration for transfer of stocks, etc.	10,592
Record of remittance to foreign countries	3,208
Others	36,770
Total	115,470

Tax Criminal Investigations

Tax Criminal Investigations

(2006 fiscal year)

Number of Cases Conducted	Number of Cases Closed	Number of Cases Prosecuted	Total Tax Evasion	Tax Evasion per Case	Total Tax Evasion (in Prosecuted Cases)	Tax Evasion per Prosecuted Case
			Million yen	Million yen	Million yen	Million yen
231	221	166	30,400	138	27,800	167

Large-Scale Cases

(2006 fiscal year)

Number of Cases Prosecuted	Of Which, Number of Cases Prosecuted with a Tax Evasion Amount of 300 Million Yen or More	Of Which, Number of Cases Prosecuted with a Tax Evasion Amount of 500 Million Yen or More
166	17	8

Prosecuted Cases by Tax Item

(2006 fiscal year)

Tax Item	Number of Cases	Total Tax Evasion	Tax Evasion per Case
		Million yen	Million yen
Income tax	59	10,800	183
Corporation tax	78	11,900	153
Inheritance tax	5	2,900	580
Consumption tax	23	2,100	91
Withholding income tax	1	100	100
Total	166	27,800	167

Reduction of Tax Delinquency

Tax Delinquency Cases of 100 Million Yen or More by Industry
(as of the end of the 2006 fiscal year)

Industry	Number of Persons		Amount of Tax	
		%	Million yen	%
Manufacturing industry	64	4.4	13,180	3.3
Distribution industry	99	6.7	43,262	10.8
Real estate and construction industry	395	26.9	96,495	24.1
Food and beverage industry	82	5.6	15,765	3.9
Financial industry	24	1.6	6,717	1.7
Other industries* ¹	377	25.7	97,055	24.2
Others* ²	427	29.1	128,677	32.0
Total	1,468	100.0	401,151	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

(2005 business year)

	Number of Delinquent Taxpayers	Number of Objects Seized	Appraisal Value
			Million yen
Movable property	427	14,783	7,574
Claims	42,786	53,938	61,208
Immovable property, etc.	7,747	27,481	151,130
Others	3,514	102,981	4,005
Total	54,474	199,183	223,917

Remedy for Infringement of Taxpayer 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)/(1)]	Percentage [(4)/(3)]
	Thousands			%			%	%
Tax assessment	478	5,117	3,935	0.82	4,065	604	0.13	14.86
Tax collection	—	609	566	—	484	14	—	2.89
Total	—	5,726	4,501	—	4,549	618	—	13.59

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)/(1)]	Percentage [(4)/(3)]
	Thousands			%			%	%
Tax assessment	478	5,034	2,730	0.57	2,920	464	0.10	15.89
Tax collection	—	368	233	—	247	6	—	2.43
Total	—	5,402	2,963	—	3,167	470	—	14.84

Requests for 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 Lost in Litigation and Partial Defeat Cases (4)	Percentage	
				Percentage [(2)/(1)]			Percentage [(4)/(1)]	Percentage [(4)/(3)]
	Thousands			%			%	%
Tax assessment	478	868	131	0.03	469	48	0.01	10.23
Tax collection	—	132	48	—	89	3	—	3.37
Total	—	1,002	180	—	559	52	—	9.30

Notes: 1. "(1) The number of illegal cases" represents the total of illegal cases identified in field examinations in the fiscal 2005 in terms of self-assessed income tax (including capital gains), withholding income tax, corporation tax, consumption tax and inheritance tax.

2. The "Number of Requests for Reinvestigation" and the "Number of Requests for Reconsideration" are the figures for the 2004 fiscal year.

3. The "Number of Litigation Cases" is the total number of litigation cases for each level of trial for the 2004 fiscal year.

4. The "Total" Number of Litigation Cases includes the cases for National Tax Tribunal and Regional Tax Tribunals

Tax Consultations

Number of Tax Consultation Cases Handled by Tax Counsel Offices and via Tax Answer System

(2006 fiscal year)

Number of Tax Consultations	Thousand cases
Income tax	1,501
Corporation tax	233
Property tax	686
Consumption tax	90
Other indirect taxes	61
Tax collection	94
Others	296
Subtotal	2,961
Tax Answer System	38,293
Total	41,254

Number of Complaints Received at Tax Counsel Offices

(2006 fiscal year)

Income tax	549
Corporation tax	336
Property tax	65
Consumption tax	49
Other indirect taxes	15
Tax collection	41
Others	333
Total	1,388

International Taxation

Fraudulent Income Made through Overseas Transactions

(2005 business year)

Number of cases of fraudulent overseas income	78 cases
Amount of fraudulent income made overseas	8,300 Million yen

Notes: The data represent figures of corporations for which the NTA's Large Enterprise Examination Division is responsible (i.e. corporations capitalized at ¥100 million or more).

Status of Transfer Pricing Taxation

(2005 business year)

Number of cases closed	119 cases
Amount of taxable income	283,600 Million yen

Notes: The data represent figures of corporations for which the NTA's Large Enterprise Examination Division is responsible (i.e. corporations capitalized at ¥100 million or more).

The Five Most Frequent Tax Consultation Topics In-Person and Telephone Consultations

(2006 fiscal year)

Ranking	Tax Item	Topic	Thousand cases
1	Income tax	Obligation to file returns and filing procedures, etc.	285
2	Income tax	Medical expenses deduction	159
3	Income tax	Preparation of tax returns, statements of accounts, and other forms	117
4	Income tax	Special credit for loans relating to a dwelling	117
5	Income tax	(Special) exemption for spouse, and exemption for dependents	98

Tax Answer System

(2006 fiscal year)

Ranking	Tax Item	Topic	Thousand cases
1	Income tax	Cases in which funds are spent on medical expenses (medical expenses deduction)	1,240
2	Income tax	Tax rate of income tax	958
3	Income tax	Medical expenses subject to medical expenses deductions	740
4	Income tax	Tax return filing	570
5	Income tax	Exemption for dependents	516

Taxpayer Satisfaction

(2005 business year)

Item	High Satisfaction Rate
	%
Attitude of officials in providing services	78.9
Level of convenience in using Tax Office	56.3
Evaluation regarding PR activities	70.7
Evaluation regarding activities to collect public opinions	78.3
Level of satisfaction with consultations at Tax Counsel Offices	
In-person	91.6
Telephone	67.4

* "High Satisfaction Rate" is the percentage of respondents giving high evaluations ("good" or "somewhat good" on a five-grade scale between "good" and "bad") in a questionnaire survey.

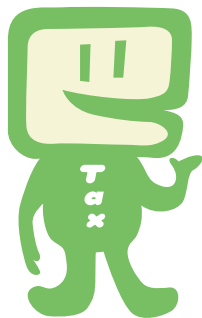
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