

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.

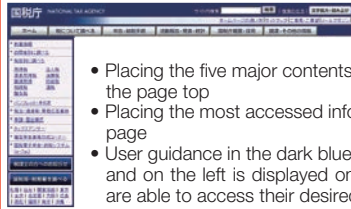
Therefore, the NTA implements PR activities, based on the basic ideas that “taxpayers should be able to obtain the information that they want at any time,” “tax information should be provided from the taxpayers' viewpoint in clear and plain words,” and “the PR activities should be consistent, reflecting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

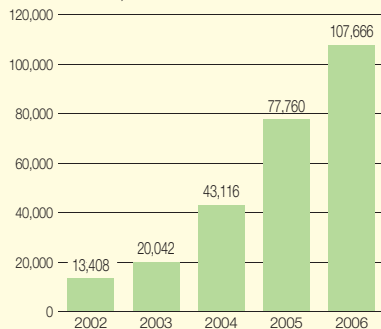
Check out for Regional Taxation Bureaus or Tax Offices

- 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

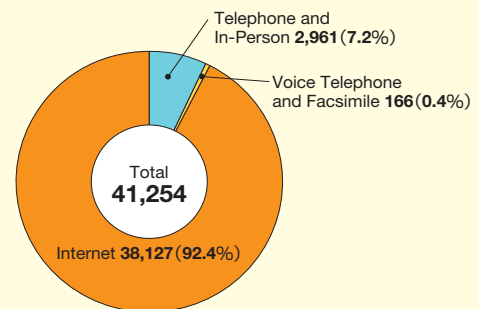
In order to answer taxpayers' questions and inquiries, the NTA has placed Tax Counselors and staff with vast experience in all aspects of tax at Tax Counsel Offices throughout the nation to provide telephone and in-person tax consultations. Consultations in English are provided at the Tax Counsel Offices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

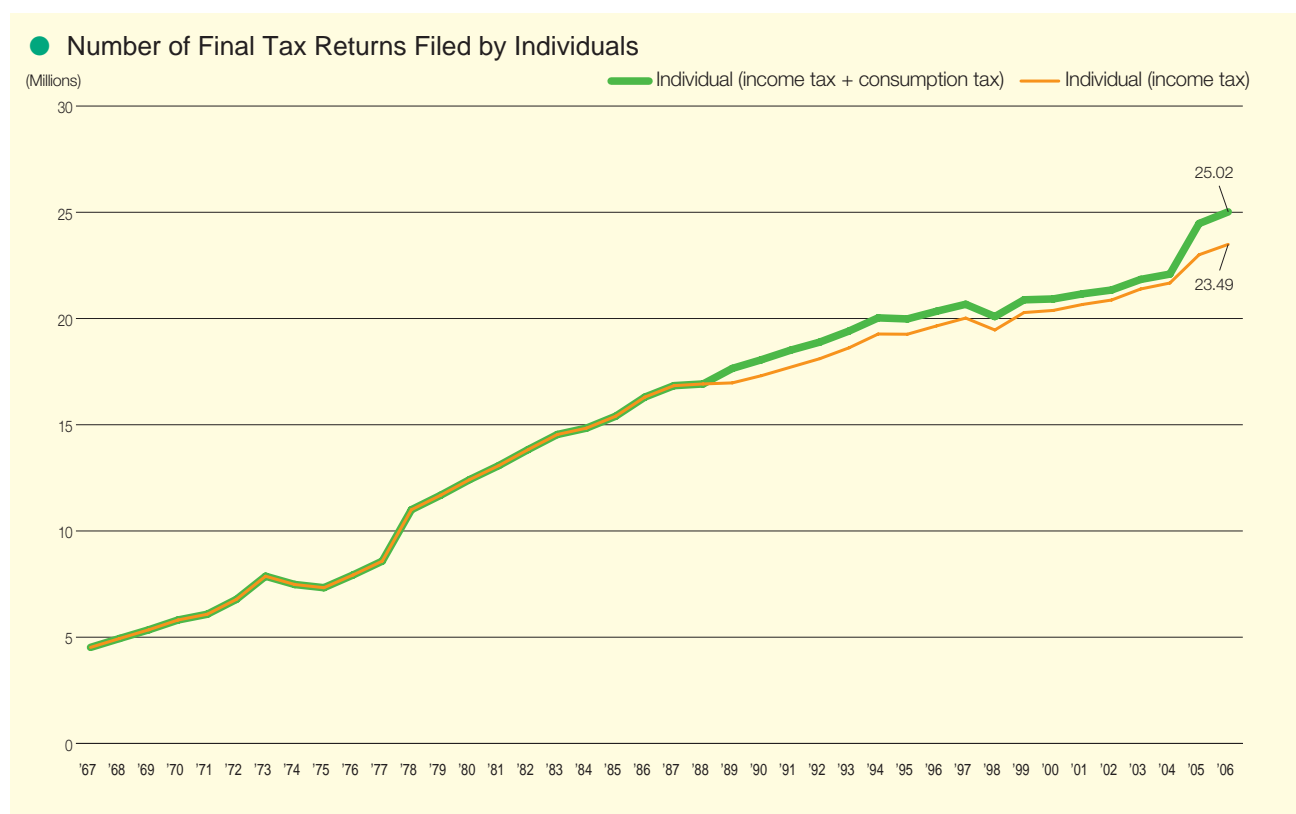
The number of taxpayers who filed a final income tax return for 2006 reached 23.49 million, meaning one in every five Japanese citizens filed such tax returns. In addition, more than 12 million filed a return for refund, accounting for more than half of all the final returns submitted.

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.

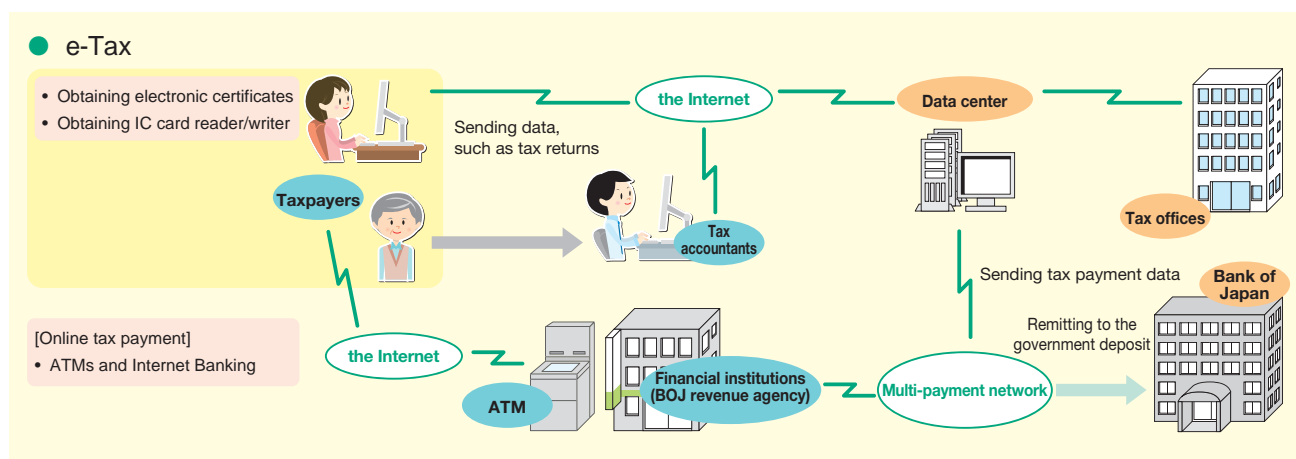
The NTA took various measures to diffuse e-Tax in accordance with "Action Plan for Promoting the Utilization of Online Procedures" for national tax as decided in March 2006 (revised in March 2007), aiming to achieve the goals set forth in the said Action Plan.

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.

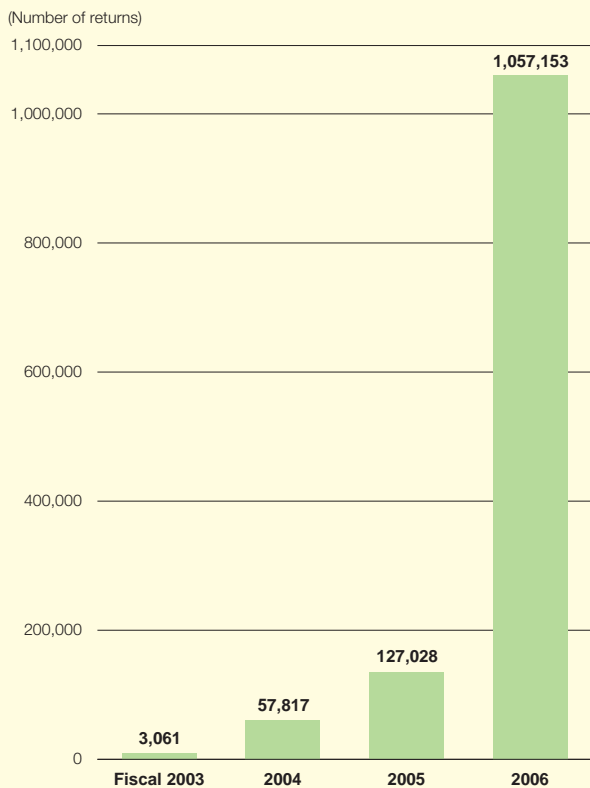
During the filing period for final tax returns, when many taxpayers use the e-Tax system, the NTA operates the e-Tax system 24 hours a day (the system is usually closed at 9:00 p.m.) and extends the office hours of the NTA help desks.

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.

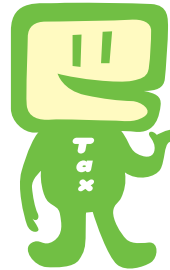


^{*1} "Pay-easy" means a settlement service by which taxpayers can pay public utility charges, etc. that have been paid at the counters of financial institutions and convenience stores via the ATMs of financial institutions or Internet Banking.

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



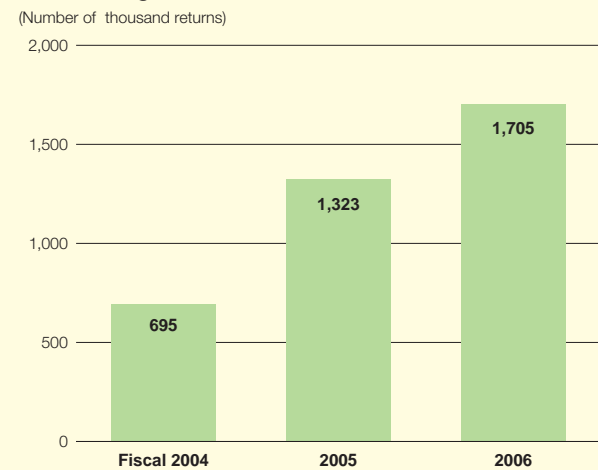
Note: 1 The figure represents all users who used the online services that the government has been promoting in accordance with the "Action Plan for Promoting the Utilization of Online" for national tax-related procedures.
2 The figure for fiscal 2003 represents the total of the figure for February and 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.

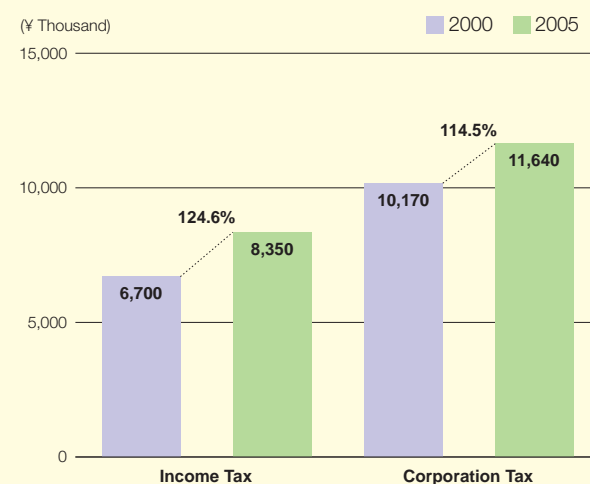
(2) Strict Treatment of Unscrupulous Taxpayers

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

Understated Income Discovered through Field Examination per Case for Self-assessed Income Tax and Corporation Tax



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.

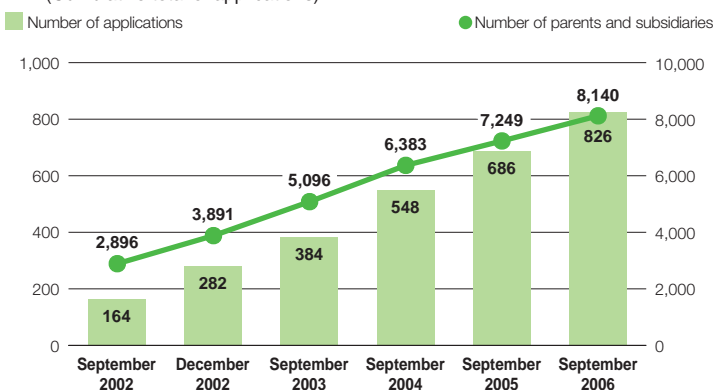
Businesses are rapidly expanding their area of activity in recent years along with internationalization and the increasing use of IT. The NTA will deal with examinations of enterprise groups and consolidated groups as an important issue for the future as well.

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

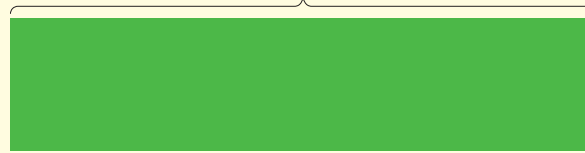
National taxes for which returns were filed are treated as tax revenue only when they are actually paid to the national treasury. In fiscal 2005, the tax amount of national taxes filed to Tax Offices (the amount determined for collection) was around ¥51,370 billion, while the amount of tax paid within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

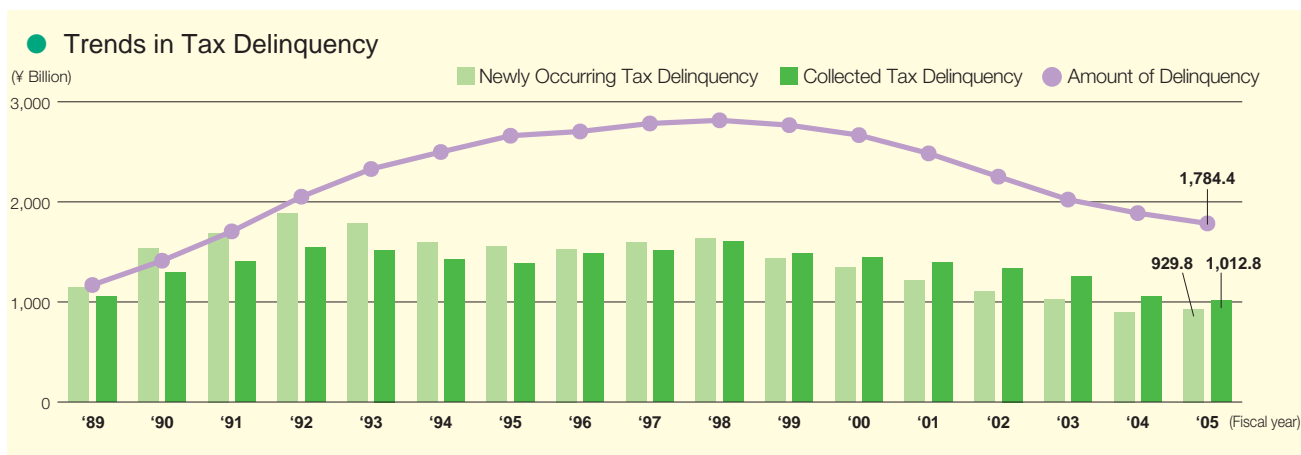
In the case that amount of the national tax is not paid within the due date and is demanded by issuing a payment demand letter and furthermore, in the case that no tax payment is made, even after the tax payment is demanded in writing or by telephone as necessary, the NTA may seize the assets of the 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).