

The cover art is a composite image. The top half features a world map composed of small squares, overlaid on a background of concentric, wavy lines in shades of brown and tan. The middle section shows a globe with a grid of latitude and longitude lines, set against a blue and teal background with similar wavy patterns. The bottom section depicts a sunset or sunrise over a body of water, with a bright orange and yellow glow reflecting on the dark surface. The text 'NATIONAL TAX AGENCY REPORT 2008' is centered in the lower half of the image.

NATIONAL TAX AGENCY REPORT 2008

# From the Commissioner

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Since its establishment, the National Tax Agency (NTA) has administered the nation's taxation system with the aim of its mission of "realization of taxpayer's voluntary compliance." 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 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 workflow, raise the morale of tax officials, and revitalize the NTA organization.**

The environment surrounding tax administration is changing significantly. While the number of tax returns is largely increasing, with changes in Japanese society such as advancement in aging of the population and globalization of the economy, tax examination and collection work are becoming increasingly complicated and difficult. In addition, with the advent of a lawsuit society, it is becoming more necessary to make efforts to secure further transparency and consistency of tax handling, improving the reviewing process. On the other hand, the number of NTA employees is more strictly limited. Under these circumstances, in order for the NTA to perform its assignment of the "achievement of proper and fair taxation," it is necessary to meet public mandate by dealing firmly with the malicious taxpayer while improving the transparency of tax administration and convenience for the taxpayer.

For the purpose of ensuring adequate workload for tax examination and collection, given the limited resources available to us, it is required to attain both improvement in the convenience for all taxpayers and simplification as well as higher efficiency of internal operation by utilizing the electronic national tax return filing and tax payment system (e-Tax) and at the same time, making efforts towards the integration of back office works and centralization of telephone consultation.

As to improving convenience for 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 tax return preparation software.

As for e-Tax, the NTA is making it a top priority to popularize e-Tax through various initiatives at the entire NTA headquarter, regional taxation bureaus, and tax offices levels. For improvement in function, operation has so far been advanced based on the "Action Plan for Encouraging Online Services" for national tax, and by collaborating with tax accountants' associations and relevant private organizations, the NTA continues to make efforts to promote e-Tax.

For more efficient operations, the NTA has been taking measures including the integration of back office works at each tax office and centralization of telephone consultation services at the regional taxation bureau level. The integration of back office works means integrating internal operations in a cross-sectional manner, by eliminating NTA's rather vertically divided back office works (e.g., division by individual taxation, corporation taxation, revenue management and collection) that have been handled by different departments for each tax item, and handling the same type of

work at one department in an integrated fashion.

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

Efforts are being made to conduct effective and efficient tax examination. For example, the contents of tax returns filed, related data, and information are analyzed and studied in detail, based on the latest social and economic conditions and state of business, and conducting in-depth examinations on the taxpayer who really needs to be investigated. Particularly with regard to progressively more complex and widely ranging economic transactions, the NTA is striving to form an organizational structure and develop a technique of examination that can deal with such transactions accurately.



In this connection, with globalization of the economy in recent years, 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 such as international conferences. In addition, the NTA has been facing problems, such as international tax avoidance that manipulates 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 reducing delinquent taxes, the NTA is working on various measures aimed at ensuring tax payment within the due date. With respect to already-delinquent national tax, on the other hand, the NTA is endeavoring to steadily advance reduction on the whole, based on the fundamental policy of prioritizing the collection of delinquent consumption tax, the resolution of large-scale and unscrupulous tax delinquency, as well as effective and efficient reduction of small-amount tax delinquency in the context of the actual situation of each taxpayer concerned.

The National Tax Agency Report 2008 presents our activities to taxpayers clearly, and explains the following points:

- (1) **The NTA's current tax administration policy;** and
- (2) **Areas for improvement in the current tax administration.**

Again, the NTA's mission is to realize taxpayer's voluntary compliance under the self-assessment system. I hope that this National Tax Agency Report 2008 deepens taxpayers' understanding of their taxes.

August 2008

石井道遠

**Michito Ishii**  
Commissioner  
National Tax Agency, Japan

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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 provide various services necessary for the lives of the people. Tax covers the expenses of the services.

The Constitution of Japan stipulates that tax payment is an obligation of the citizen of Japan, and the NTA is responsible for collecting tax so that these public services can be provided smoothly.

In order to achieve proper and fair taxation, the NTA provides tax information, tax education, and other services to taxpayers. On the other hand, the NTA conducts examination and other activities against non-compliance so that honest taxpayers do not feel injustice.

The NTA has also made efforts 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"\* that summarizes the mission mentioned above, and has furthermore released it to the public.



National Tax Agency

\* The "Mission" 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

### Realization of taxpayer's voluntary compliance

#### Assignment

■ The NTA carries out the duties provided in Article 19 of the Ministry of Finance Establishment Law, paying attention to transparency and efficiency.

#### 1. Achievement of proper and fair taxation

##### (1) Improvement of the tax payment environment

- (i) Customer -friendly publicity of the interpretation of laws and procedures to taxpayers.
- (ii) Prompt and accurate response to taxpayers' inquiries and consultations.
- (iii) Cooperation with other government agencies and citizen in order to gain a wide scope of understanding and cooperation regarding the roles of taxes and tax administration.

##### (2) Promotion of proper and fair tax administration

- (i) For proper and fair taxation:
  - a. Proper enforcement of the rules and regulations.
  - b. Effective tax examinations and guidance for taxpayers who don't report tax amount properly.
  - c. Efficient collection of delinquent tax by implementing a procedure for tax delinquency against taxpayers failing to pay tax by the due date.
- (ii) Rapid completion of reinvestigation process to protect taxpayers' right and interests.

#### 2. Sound development of the liquor industry

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

#### 3. Proper management of CPTAs' service

Proper management of CPTAs' service to maintain the proper self-assessment system.

#### Code of Conduct

##### 1. The code of conduct upon performing duties

- (1) Improvement and maintenance of the transparency of tax administration to inform taxpayers of the interpretation of laws and regulations, and administrative procedures.
- (2) Improvement of the convenience of taxpayers.
- (3) Improvement of the operation to increase efficiency of tax administration.
- (4) Positive collection and utilization of information to conduct tax examination and implement procedures against tax delinquency properly.
- (5) Strict enforcement to malicious tax evasion and tax delinquency.

##### 2. The code of conduct for officials

- (1) Faithfulness to taxpayers.
- (2) Maintenance of the confidentiality and official discipline.
- (3) Endeavor to learn the expert knowledge needed to perform the duties.

#### Challenges

■ The NTA continuously review and improve the organization and operations of tax administration in order to catch up a highly information-oriented society and globalization economy, and to meet the needs of taxpayers.

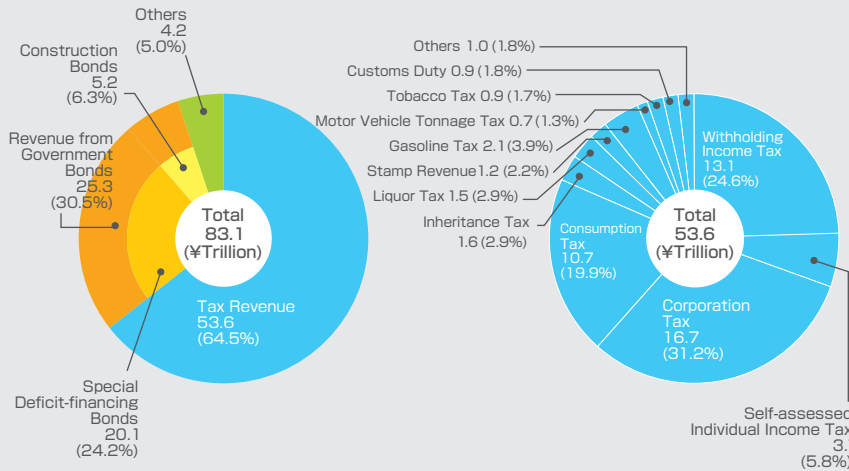
# National Revenue and Taxes

The national revenue (general account revenue budget) in fiscal 2008 is ¥83,061 billion. Of this revenue, ¥53,554 billion is from taxes and stamps. Deducting tax from customs and stamp revenue from the Japan Post, revenue from national taxes alone amounts to ¥46,970 billion (about 88%).

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

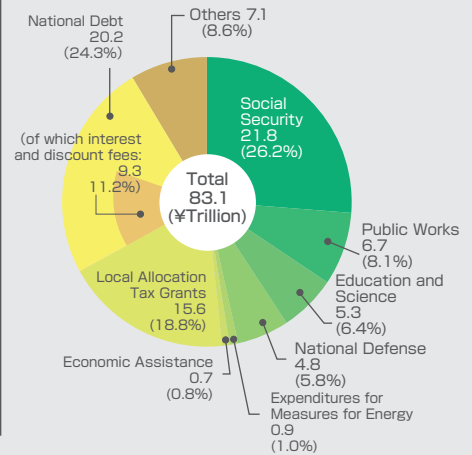
## ● National Revenue

Fiscal 2008 General Account Revenue (Budget)



## ● National Expenditure

Fiscal 2008 General Account Expenditure (Budget)



Note: "Revenue from government bonds" is revenue from construction bonds, which are issued to cover public works expenditure, and special deficit-financing bonds, which are issued to cover shortfalls in revenue. All revenue from government bond issues constitutes a debt that must be repaid in future.

# NTA Budget and Personnel

The fiscal 2008 NTA budget is ¥722 billion, the majority of which will be spent on personnel expenses. Recently, the NTA has prioritized efficiency of operations and improvement of taxpayer services, leading to a higher percentage of IT (information technology)-related expenditures, including expenditures on the Kokuzei Sogo Kanri System [NTA Comprehensive Information Management System] (hereinafter called "KSK").

The NTA workforce numbered around 52,000 from the 1970s through the first half of the 1980s. With the introduction of consumption tax in 1989, personnel figures increased, peaking in 1997, but declined over nine years up to 2006 by more than 1,000.

From 2007 on, personnel figures turned upward, and in 2008, NTA staff numbered 56,216.

	1975	1997	2008	(Reference) 2008/1975
Budget (¥Billion)	236.0	654.8	722.7	306.2%
Number of personnel	52,440	57,202	56,216	107.2%
(1) Number of Income Tax Returns Filed (Thousand cases)	7,327	20,023	23,616	322.3%
(2) Number of Corporations (Thousand cases)	1,482	2,793	3,005	202.8%
(3) Number of Establishments Subject to Commodity Tax (Thousand cases)	117	—	—	—
(4) Number of Enterprises Subject to Consumption Tax (Thousand cases)	—	2,521	3,701	—
(1)+(2)+(3)+(4)	8,926	25,337	30,322	339.7%

The number of income tax returns filed (1) in fiscal 2008 represents the figure for the year 2007.

The number of corporations (2) in fiscal 2008 represents the figure as of the end of June 2007.

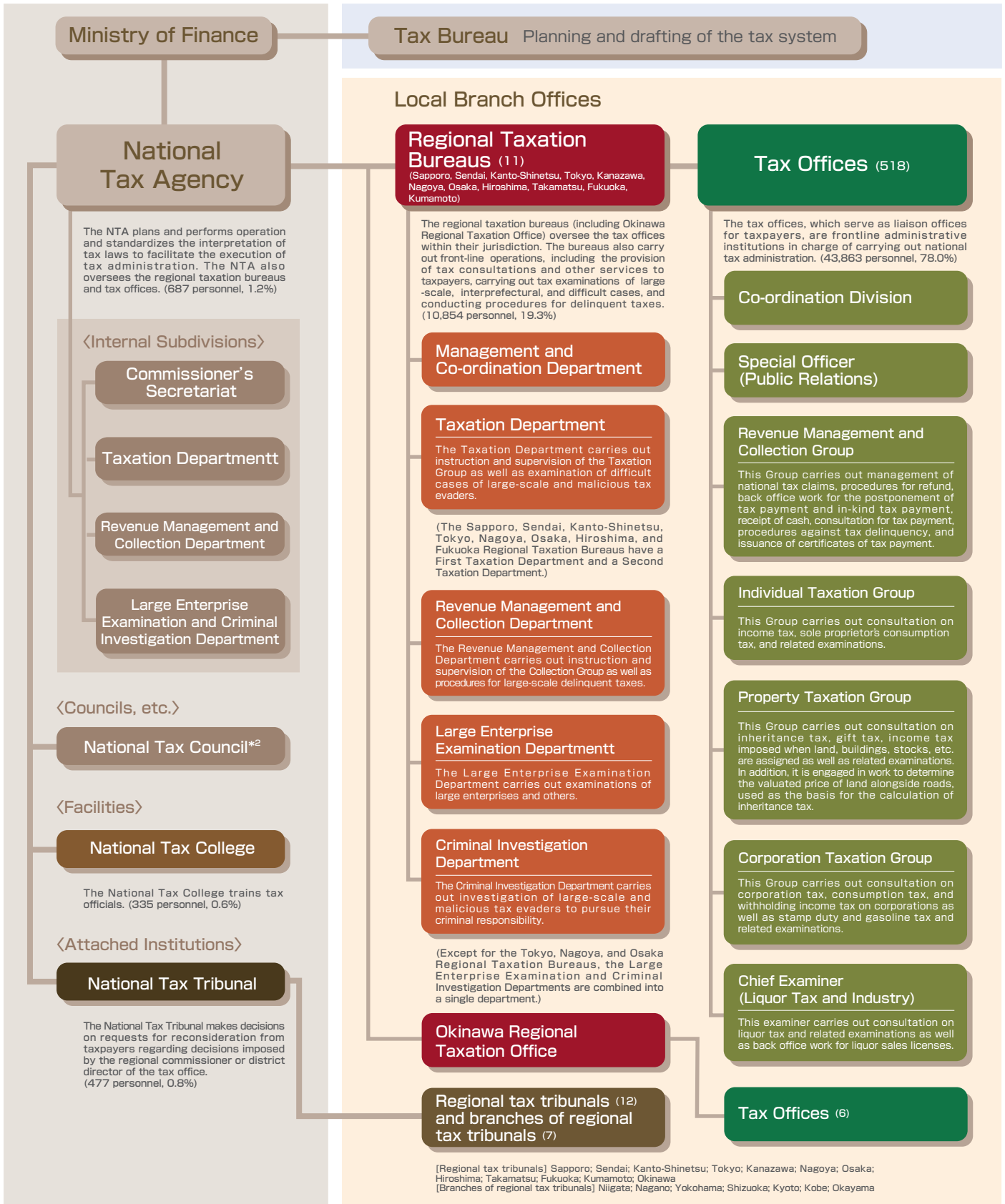
The figures for item (4) represent the number of Notifications of Taxable Enterprise Status submitted. Fiscal 2008 data represent the figures as of the end of March 2008.

The figures under (Reference) represent the fiscal 2008 percentages, based on a value of 100 in the 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 personnel for each department shows the prescribed staff number for fiscal 2008, and the percentage shows its proportion of the prescribed staff 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, globalization of the economic society, etc.

In fiscal 2007, the NTA promoted online tax return filing and tax payment (e-Tax), took measures to address globalization, and strove for efficient and simplified operations in order to reduce administrative costs.

## 1 Online Procedures

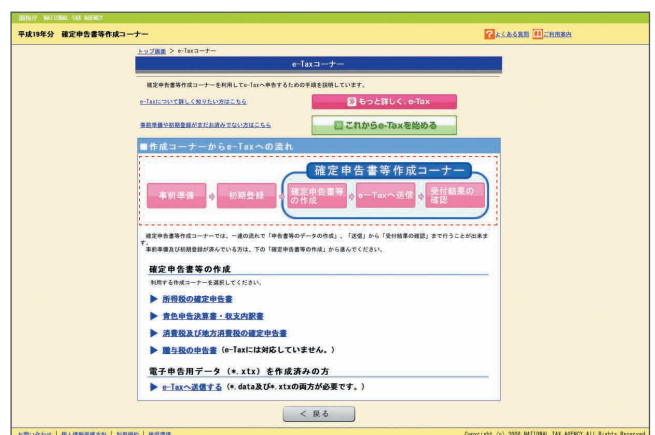
In order to improve convenience for taxpayers, the NTA has been promoting the utilization of IT such as the e-Tax system for online tax return filing and tax payment and “preparation software” on the NTA website.

The NTA made efforts to improve usability of e-Tax for the convenience of taxpayers, in accordance with the “Action Plan for Encouraging Online Services” (hereinafter called the “Action Plan”) for national tax as decided in March 2006 (revised in March 2007). (For more information, see page 15.)

With respect to “preparation software,” based on taxpayer’s needs, the NTA compiled an “Operation Manual” and put it on its website, adding functions to enable those who use it for the first time to conduct input easily in preparing final income tax returns. (For more information, see page 16.)



Poster for e-Tax (2007)



The screen of “preparation software” on the NTA website

## 2 Internationalization

Japan has been facing international tax avoidance that manipulates international gaps in taxation systems or tax treaties. The NTA deals with such international tax evasion or tax avoidance schemes 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.

With respect to the transfer pricing issues arising from transactions between corporations and overseas affiliates, the NTA strives to realize the proper and smooth enforcement of transfer pricing taxation through the endeavor to clarify our administration policy, e.g., the public release of “Reference Case Studies on Application of Transfer Pricing Taxation.” (For more information, see page 33.)

In order to avoid double taxation resulting from a taxation rule gap among countries, the NTA actively participates in international conferences for tax authorities, as it is important to develop common rules. In addition, the NTA also strives to properly and promptly complete mutual agreement procedures under tax treaties and provide technical assistance to developing countries.



Forum on Tax Administration (FTA) of the Organization for Economic Cooperation and Development (OECD)

## 3 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 a “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 formulated 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 integration of back office works, the centralization of tax consultation, a reduction in systems-related expenses, and the promotion of an open KSK System\* in order to ensure the transparency of government 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.

\* “promotion of an open system” means constructing a system based on common standards or specifications over systems that have been uniquely developed by specific manufacturers.

## II Self-Assessment System

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

Japan adopts a self-assessment system for its national taxes. Under this system, each taxpayer himself or herself 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, on the other hand, 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 must properly and voluntarily fulfill the tax responsibilities prescribed by the constitution and law. 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, and, at the same time, so are the cooperation and coordination with certified public tax accountants and related private organizations as well. 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 a 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, etc.

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 when they need without visiting the tax office,” “Public relations of tax information should be provided from the taxpayers' viewpoint in clear and plain words,” and “taxpayers' opinions should be widely sought and reflected in the improvement in the administrative work operations.”

As concrete PR activities, the NTA provides various information, such as the meaning, roles, and structures of taxes, mainly through the NTA website (accessed 109,779 thousand times in fiscal 2007), as well as mass media including TV and newspapers, various public relations media such as brochures available at tax offices and municipalities, and various briefing sessions.

The NTA responds to general questions and consultations in relation to tax on the telephone, and, in addition, provides information on the general interpretation and handling of tax laws as well.

### (1) Information provided on the NTA website

On the NTA website, information is provided on tax-related matters near at hand, particulars of the services of the Agency, statistical information, materials released to the press, general interpretation of tax laws useful to taxpayers, and tax-related questions and answers, and tax return forms, etc. can also be downloaded. In addition, the NTA website not only provides information, but also functions as a provider of taxpayer services utilizing IT such as “e-Tax” and “preparation software” on the NTA website.

In this sense, the NTA is paying due attention to improving its functions as a search engine and guide, and to convenience for those with visual impairment and the elderly by providing the functions of magnifying letters and reading with voice.

# Items of information provided on the NTA website

- "Tax Answer System" posting tax information on matters near at hand
- Road rating map and evaluation coefficient table that are used as the basis for the evaluation of land etc. in the taxation of inheritance tax
- Leaflets and guidebooks such as "Tax Information for Daily Life," "Income Tax Guide," and "How to Conduct Year-end Year-end Adjustment"
- Guide to General Tax Consultation
- Examples of questions and answers on tax and responses in writing to taxpayer advance inquiries
- Guide to inquiry and consultation in relation to the Authorized NPO Corporation System and list of authorized NPO corporations

## How to Use the NTA Website

※ The posted image is as of May 2008.

### User Guidance for Information

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

### ① Check for each tax item

- Providing information on the contents that a taxpayer wishes to search "for each tax item" and "for each posted content"

コンテンツ	所得税	法人税	贈与税	相続税	酒税	消費税	印紙税	酒税	酒税	酒税	酒税	酒税
所得・法人税等に関するお問い合わせ	●	●	●	●	●	●	●	●	●	●	●	●
贈与税に関するお問い合わせ	●	●	●	●	●	●	●	●	●	●	●	●
相続税に関するお問い合わせ	●	●	●	●	●	●	●	●	●	●	●	●
酒税に関するお問い合わせ	●	●	●	●	●	●	●	●	●	●	●	●
消費税に関するお問い合わせ	●	●	●	●	●	●	●	●	●	●	●	●
印紙税に関するお問い合わせ	●	●	●	●	●	●	●	●	●	●	●	●

### ② 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."

### ③ Mail Magazines

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

### ④ Text Enlargement / Text-to-Speech

- Services for elderly or visually impaired users



### ⑤ Check for regional taxation bureaus or tax offices

- Entrance to the regional taxation bureau pages

### ⑥ Online national tax return filing and tax payment system (e-Tax)

- Information for supporting tax return filing, tax payment utilizing e-Tax for "Advance preparation," "Initial Registration," and "Flow of Procedure".

### ⑦ Tax Answer

- Entrance to "Frequently Asked Questions on Tax" posting general answers to them

### ⑧ How to Use the NTA Website

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

### ⑨ Web-TAX-TV

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

### ⑩ Let's Learn about Taxes

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

## (2) Tax Education

The NTA provides supportive measures, aiming to improve tax education for the purpose of having school children and students who will be major players in the next generation understand the meanings and roles of taxes that constitute the bedrock of democracy, and fostering their awareness to pay taxes as constituent members of society, have interest in how they are used and, in addition, voluntarily consider as taxpayers what our society or nation should be like.

Based on the idea that society should tackle tax education, the NTA, in the area of school education, holds lectures on taxes, prepares and distributes tax education materials, and also holds a writing contest, backed mainly by the Council for the Promotion of Tax Education, which consists of teachers and representatives from central and local governments, established in each prefecture, with the cooperation of related private organizations over a wide range.

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 set up "Tax Space☆UENO" at the Tokyo Ueno Tax Office exclusively for tax education purposes.

Many people such as schoolchildren, university students, and workers wishing to visit the tax office or learn more about taxes visit this facility.



Tax Space☆UENO

## Diffusion of tax knowledge by "Tax Museum"

In the Tax Museum on the Wako Campus of the National Tax College, which is the sole specialized facility owning a wide range of historical reference materials on tax in Japan, such materials are made public.

In addition, as specialized staff members are engaged in the study of historical materials collected and ancient tax systems, not only specialists studying the history of tax, but also many people ranging from junior and senior high school students to members of society, use the museum.

In this connection, please view the National Tax College part on the NTA website, for detailed information such as interpretation of historical reference materials in museum collections.

<http://www.nta.go.jp/ntc/english/index.htm>



Tax Museum

## (3) 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 revised tax laws, and briefings for newly established corporations.

### ● Number of Briefings and Participants (July~December 2007)

Briefings	
Number of Briefings	17,991
Number of Participants (thousand persons)	939

## (4) Tax Consultations

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 general tax consultations by telephone or otherwise. Consultations in English are provided at the tax counsel offices of the Tokyo, Nagoya, and Osaka Regional Taxation Bureaus.

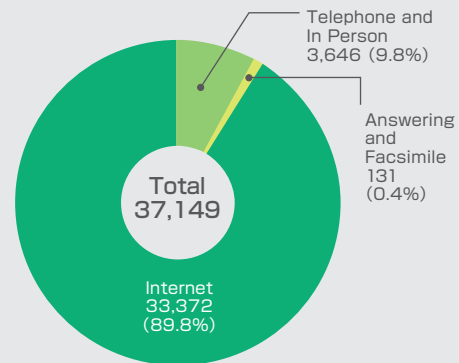
Furthermore, concerning tax consultations by telephone, which tax counsel offices and tax offices have dealt with individually, the NTA is making an effort to establish a system for accepting requests at the telephone consultation center to be placed in each regional taxation bureau in a concentrated manner, in order to further improve convenience for taxpayers, since it is considered that uniform, high-quality, and prompt responses can be provided by setting up a consultation system for each tax item in principle.

Telephone consultation centers had been established in all regional taxation bureaus by 2007. In 2007, centralized acceptance of telephone consultations was implemented in 284 out of 524 tax offices throughout the nation, and is scheduled to be in all tax offices in 2008.

In this connection, the NTA is striving to respond more

smoothly to complicated tax consultation requiring individual factual verification that is difficult to handle over the telephone, by accepting reservations and providing in-person consultation at the tax office.

● Tax Consultations at Tax Counsel Offices in Fiscal 2007 (Thousand cases, %)



## (5) Dealing with 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 by tax consultations at tax counsel offices.

Furthermore, if it is unknown how the tax laws apply to transactions actually conducted by taxpayers, tax offices respond to advance inquiries. Among such inquiries, if a taxpayer requests an answer in writing, the tax office concerned answers in writing when the prescribed requirements are met, as in the case where it is not made clear how a transaction of a similar kind is treated in the tax law. In addition, the contents of inquiries and answers as well as other related matters are also published on the NTA website so that they may be useful for other taxpayers. The number of inquiries for which taxpayers requested answers in writing was 60 in fiscal 2007.

In this connection, in order to make it clear beforehand how the tax law is to be applied to transactions, the NTA has revised the procedure since April 2008 by changing the definition of transaction from "the transaction actually conducted or will surely be conducted" to "the transaction actually conducted or anticipated to be conducted for which individual and specific materials can be submitted." Concurrently, the procedure have been revised so as not to disclose, in principle, items of related information from which the inquirer can be specified, such as his or her name, for example, in order to make the system easier for the taxpayer to use.

## (6) Integration of the Services Provided to Taxpayers over the Counter

With respect to the back office work conducted in each department of the tax office including the services provided to taxpayers over the counter, the NTA has been taking a measure referred to as the "integration of back office works" to eliminate its rather vertically divided back office works that have been handled by different departments for each tax item, and handle the same type of work at one department in an integrated fashion.

At present, a trial operation is being implemented in 61 out of all tax offices throughout the nation, aiming at implementation at all tax offices around summer in 2009.

For example, now at many tax offices, when a taxpayer receives certificates of tax payments, he or she has to submit an application form to each of the Individual Taxation

Group, Corporation Tax Group, and Management and Collection Group for each type (No.1 ~ No.4). After the completion of the integration, all offices offer several services, which are provided by separate groups, at one counter.

In addition, since acceptance of tax returns, application as well as tax payment, and general tax consultation are to be handled at one counter, it is expected that convenience will be improved from the viewpoint of the taxpayer.

## 2 Improvement of Convenience by IT

To ensure that the self-assessment system operates smoothly, the NTA is trying to improve convenience for taxpayers by promoting tax return filing and tax payment utilizing IT, such as the e-Tax system for online tax return filing and tax payment, and “preparation software” on the NTA website.

### (1) e-Tax

e-Tax is a system via which taxpayers can, through the Internet, implement procedures for applications and filing, such as the return filing of income tax, corporation tax, and consumption tax, submission of information returns, applications for 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 of all items by utilizing Internet banking and ATM connected with Pay-easy<sup>\*1</sup>.

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.

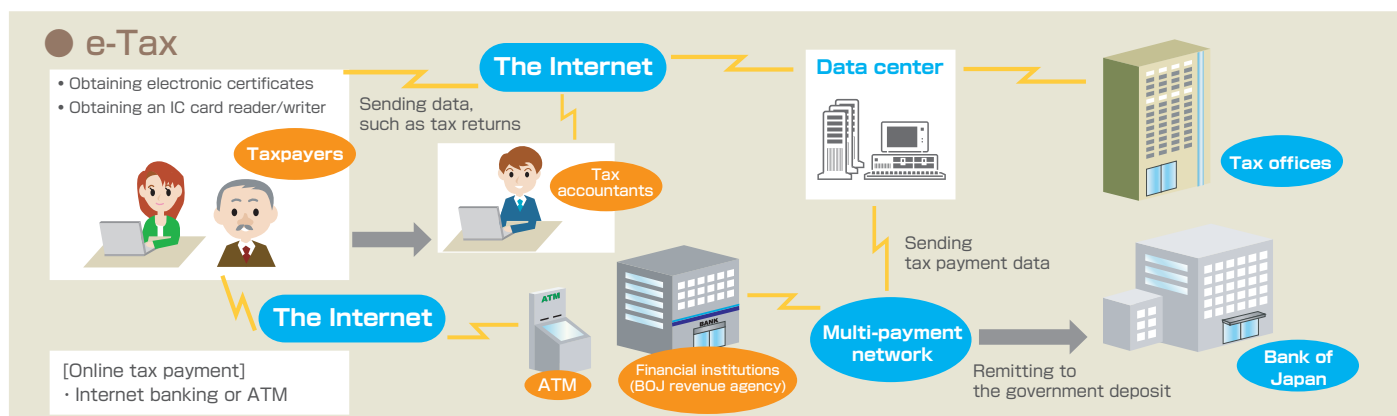
The NTA has taken various measures vigorously to diffuse e-Tax in accordance with the “Action Plan.” The main effort made since January 2008 allows the individual taxpayer to deduct 5,000 yen (limited to the amount of income tax for that year), when he himself or she herself sends the final tax return, utilizing e-Tax, for the income tax for either 2007 or 2008, within the filing period <sup>\*2</sup>, attaching a digital signature and electronic certificates.

Furthermore, the taxpayer can file the tax return without certain documents being prepared by a third party such as the receipt of medical expenses and withholding record of employment income, if a taxpayer inputs the items stated on the document. <sup>\*3</sup> This has improved convenience for the taxpayer.

In addition, while it is necessary for utilizing e-Tax to obtain a user identification number by submitting in advance the “Notification of Start Using e-Tax,” for those who submitted the Notification of Start online, the user identification number is to be issued online. In this way, the NTA tried to make the procedure implementation quicker and simpler, and in the final tax return for 2007, personal computers were installed in tax offices to let taxpayers who come to the office operate them and actually experience the convenience of e-Tax, and, in addition, prepare tax returns utilizing “preparation software.” This measure has just been introduced, aiming to let taxpayers utilize e-Tax on the personal computer at home or elsewhere from the following year on.

Moreover, during the filing period for final tax returns, when many taxpayers use the e-Tax system, the NTA has operated the e-Tax system 24 hours a day (the system is usually closed at 9:00 p.m.), advancing the schedule to start from the previous year.

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 for taxpayers in future, the NTA will make it more user friendly so that increasing numbers of taxpayers and tax accountants may use the e-Tax system.



<sup>\*1</sup> “Pay-easy” means a service by which taxpayers can pay public utility charges, etc. via ATM or Internet banking that have been paid at the counters of financial institutions and convenience stores.

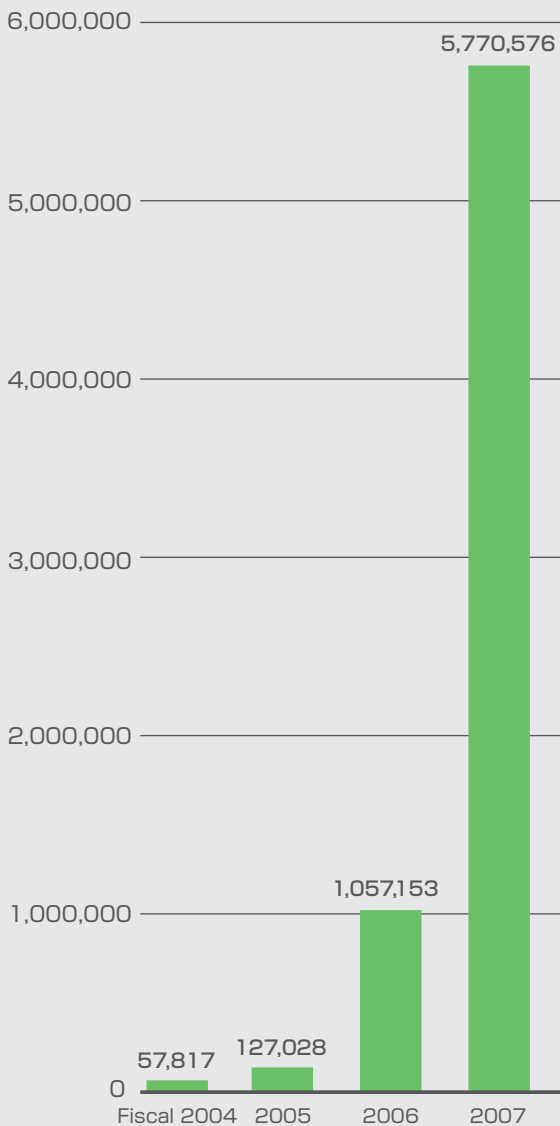
<sup>\*2</sup> The designated period is from January 4 to March 17, 2008 and from January 5 to March 16, 2009 for returns for 2007 and 2008, respectively.

<sup>\*3</sup> When it is necessary for the purpose of confirming the contents of input, a request may be made by the tax office for submission or presentation of the originals of these documents for three years from the statutory due date of filing a tax return.



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

(Number of returns)

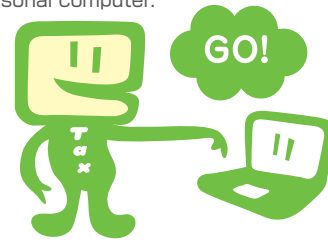


\*The figure represents all users who used the online services that the government has been promoting in accordance with the "Action Plan for Promoting the Utilization of Online" for national tax-related procedures.

## "Mr. e-Ta"

"Mr. e-Ta" is an image character for e-Tax.

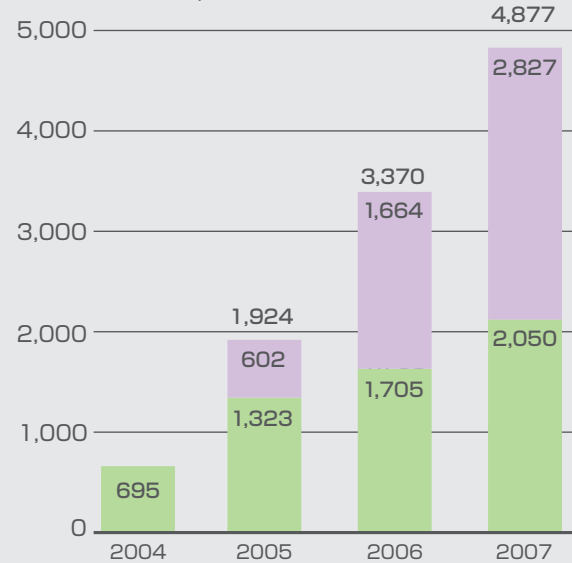
"Mr. e-Ta" is named after e-Tax, and the design is conceived by borrowing motifs from the "e" of e-Tax and the monitor screen of a personal computer.



## ● Trends in the number of tax returns prepared by preparation software

■ Number of tax returns filed (Tax office)  
■ Number of tax returns filed (Website)

(Number of returns)



\*These figures represent those submitted by March 31 of the following year.  
The preparation software for those placed in the tax office began to be used from those returns for 2004, though the number of tax returns filed in this way has not been grasped as yet.  
The number of tax returns filed for 2003 and before is not grasped as yet.  
The number of tax returns for 2007 includes those that utilized e-Tax.

## (2) Tax Return Preparation Software

The preparation software on the NTA website allows taxpayers to complete their tax returns on income tax, individual consumption tax, and gift tax as well as financial statements for blue 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.

In addition, data for e-Tax returns can be prepared as well, and such data so prepared can be filed online directly from the site of preparation software, utilizing e-Tax (except for gift tax).

Furthermore, the taxpayer can print out the tax return, using a printer, and submit it as it is by mail or otherwise.

Since the preparation software service was released 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 returns prepared on the site of preparation software on the NTA website and submitted reached around 2.05 million during the filing period for the 2007 final tax return, including those submitted using e-Tax. In this connection, personal computers were installed at the consultation sites in tax offices so that as many people as possible among those who visited may use these computers, prepare tax returns using the preparation software service, experience the convenience provided by e-Tax in addition, and, after the following year, file tax returns with the personal computer at home without visiting the consultation site. As a result of such effort, the number of tax returns filed using this system reached 2.83 million.

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 preparation software on the NTA website, based on user

requests, so that it becomes easier to use and available for many more taxpayers.

# 3 Making the Filing of Returns More Convenient

The number of taxpayers who filed a final income tax return for 2007 reached 23.62 million, meaning one in every five Japanese citizens filed such tax returns. In particular, more than 12 million filed a return for refund, accounting for more than half of all the final returns submitted.

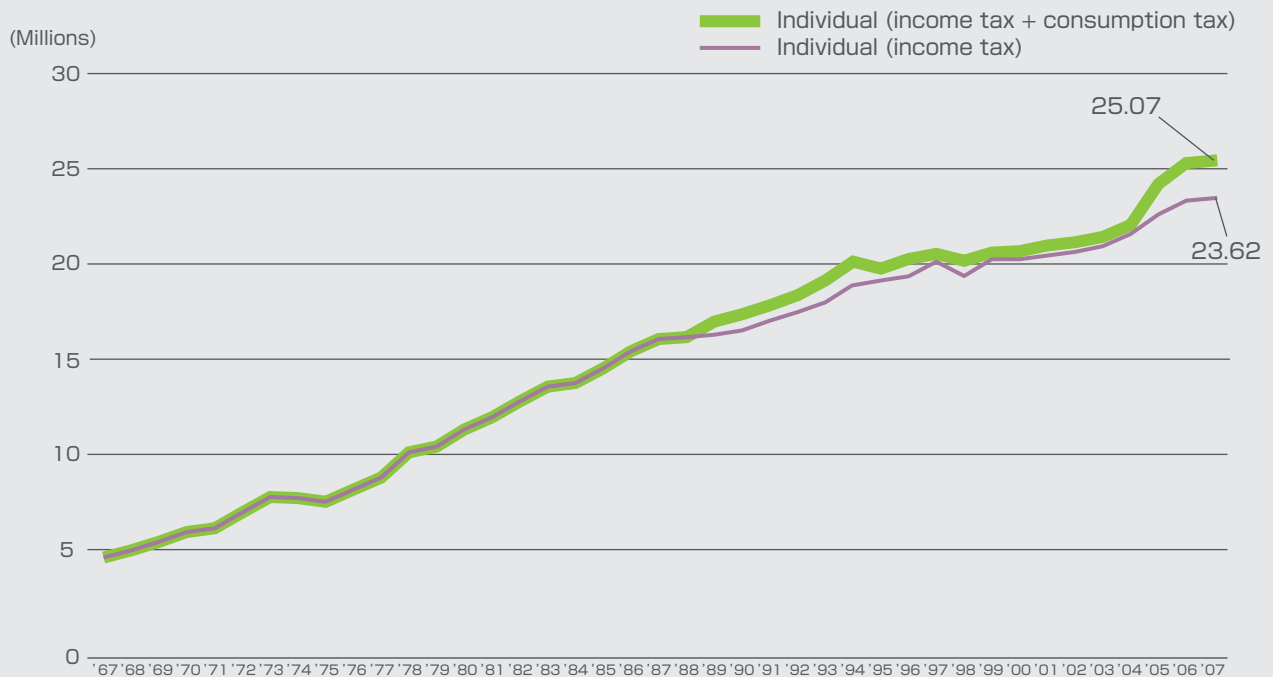
To respond to the increase and diversification of the number of income tax filers and to enhance taxpayer satisfaction, the NTA attempts to reduce the costs related to filing tax returns as much as possible and to provide even higher-quality services than before.

## (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 prepare their tax returns by themselves. NTA officials encourage taxpayers visiting the return filing consultation center in the filing period for final tax return to complete their own return forms by themselves. 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 expected that many final tax return forms will continue to be submitted. To deal with these circumstances, the NTA plans to take various measures using IT, including e-Tax and “preparation software” on the NTA website, so that more taxpayers can file their final 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.

### ● Number of Final Tax Returns Filed by Individuals



## (2) Weekend Tax Consultations

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

In the fiscal 2007 filing period for final tax returns, several tax offices jointly held consultation outside tax offices, which was based on a review of the consultation services of the preceding year. On February 24 and March 2, 2008, 228 tax offices provided return filing consultation services at joint venues both inside and outside tax offices.

A questionnaire survey on the two Sundays’ services indicated that many taxpayers, mainly salaried persons, used the services for consultation on medical expenses and housing loan deductions, and those users gave high ratings to the weekend services.

The NTA will fully review the information gathered on the weekend consultations to date and announce future plans before the filing period for the 2008 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

- (1) If a taxpayer cannot file a tax return or pay tax by the deadline due to a disaster or for a 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 added if certain conditions are met.

\*2 Taxpayers may request corrections by submitting written requests, specifying the details of any errors, etc., to the tax office within a specified time.

# 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 tax returns with information gathered from various sources. If, as a result, there is any negligence or understatement, the tax office requests the taxpayer to submit a return or amend the return filed. If the taxpayer

does not comply voluntarily, the tax office issue an assessment notice under the authority of the district director of the tax office. \*1\*2

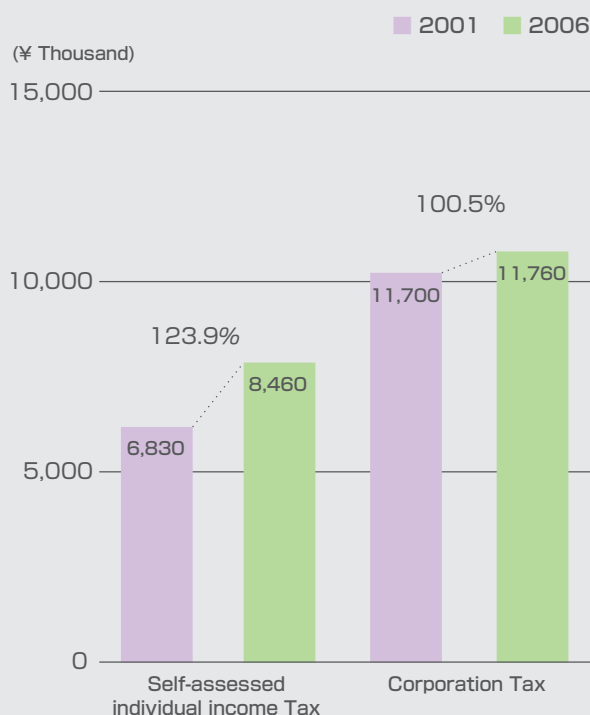
## (2) Strict Treatment of Unscrupulous Taxpayers

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 invest a sufficient number of days on such cases.

Understated income discovered through field examination averaged ¥8,460 thousand per case for self-assessed individual income tax return\*3 and ¥11,760 thousand for corporation tax in the year from July 2006 to June 2007. Comparing this result to the figures of five years ago, the amount of understated income per field 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.

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



\*1 If the tax and other figures declared in the tax return are too high or low, a "correction" will be issued by the tax authority.

\*2 If a taxpayer who must submit a tax return fails to file by the deadline, "determination" confirming the amount of tax will be issued by the tax authority.

\*3 The data represent the amount of understated income taxes identified in special and general field 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

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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% of income tax examinations and about 90% of corporation tax examinations.

## (2) How to Conduct Tax Examinations

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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.

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

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When an error is found in a tax return in the tax examination, the examiner explains the contents of the error, the tax amount payable, delinquent tax and additional tax for deficient returns, additional tax for no return, or additional tax for fraud to the taxpayer.

When recommending a taxpayer to file an amended return for the purpose of correcting the error in the tax return, the tax office provides a document titled "About amended return," which explains that reinvestigation or reconsideration for amended return cannot be requested and describes the delinquent tax as well as additional tax. Furthermore, when there is a need for guidance in respect of future return filing and bookkeeping, their contents are explained, with the intention of providing 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 after tax examination, 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 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 consideration to their privacy and refrain from interviewing them at their shop fronts or at the front door of their homes.

Furthermore, in consideration of the purport of the "Act on the Protection of Personal Information Held by Administrative Organs," the NTA is enhancing the strict control of the 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 in addition to self-assessed individual income tax, corporation tax, and so forth, if tax returns are not filed or taxes are not paid properly by the due date. There are also cases where an additional tax for deficient returns, an additional tax for no return, or an additional tax for fraud is imposed.

### ● Delinquent Tax

Up to two months from the day after the due date	Annual rate of 4.7% (in 2008)*
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 Concealment
The return is filed by due date, but tax amount is understated.	For a deficient return (10% or 15%)	For a fraud case (35%)
The return is not filed by the due date.	For no return (15% or 20%)	For a 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 erroneous guidance given by NTA officials, the taxpayer may be exempted from all or part of a delinquent tax corresponding to the grace period. The NTA has set up rules for cases where no additional tax is imposed and has published the rules on its website (Japanese only).

## (3) Collecting Information

The NTA collects various information on off-the-book or fake transactions, obtained in the course of examination, in addition to the withholding record of employment income, payment record of interest, and others whose submission is obligatory under the provisions of the tax law .

The NTA collects 180 million items of information a year, and all the information is managed together with tax return data by the KSK System, and used for proper guidance and tax examination.

To keep pace with geographical expansion of business, globalization, and the use of highly networked information in an economic society in recent years, we collect information on new forms of transactions, striving to gather information on transactions with overseas entities, overseas investment, and electronic transactions utilizing the Internet.

## (4) Examination of Business Groups

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

In examining an business group (including business groups filing consolidated tax returns), 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 transaction. 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.

In examining business groups expanding business in a wide area, 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 regional taxation offices) and tax offices.

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

### Consolidated Taxation System

A consolidated taxation system was introduced to the Corporation Tax Act as part of the fiscal 2002 tax reforms in response to the current situation, where corporations are expanding their operations as business groups and corporate disclosure is primarily performed via consolidated financial statements.

The consolidated taxation system was introduced in August 2002. This system views an business group as a single corporation for the purposes of levying corporation 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. The number of consolidated groups of which consolidated tax payment has been approved is 724 (7,187 parent companies and subsidiaries in total), increasing by about 100 every year. When examining consolidated business groups, a tax office for parent companies and those for subsidiaries maintain close communication and cooperation to conduct integrated examinations. In the year from July 2006 to June 2007, examinations covered 80 business groups.

### ● Consolidated Taxation Returns

Consolidated Returns	Number of Returns	581
	Percentage of Returns Declaring a Surplus	41.5%
	Reported Income (¥ Billion)	3379.1

\*The figure represents the number of corporations that filed consolidated tax returns between July 2006 and June 2007.

## (5) Electronic Commerce

In recent years, the number of transactions utilizing the Internet has remarkably increased, and electronic commerce transactions across borders are conducted widely on an individual level, while the forms of electric commerce transactions have been increasingly diversified, as utilization of electronic settlement has also rapidly increased.

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) 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 antisocial 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 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 criminal investigation system, and it pursues the criminal responsibility of large-scale and malicious tax evaders. Taking advantage of the fact that punishment serves as a warning to others, this system has an important mission in realizing proper and fair taxation and maintaining 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 2007, the NTA commenced 220 criminal investigative examination cases and referred 158 cases to the public prosecutor. The total tax evaded was about ¥35.3 billion, with an average evaded tax sum of ¥195 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 fiscal 2007, 189 cases were resolved at the court of first instance, and in all cases, a guilty ruling was handed down. The average prison sentence was 16.1 months, and the average fine was about ¥31 million per case. Prison sentences without probation were given to 22 people. Prison sentences without probation have been handed down every year since 1980.

### ● Details of Criminal Investigation

Fiscal Year	Number of Cases Conducted	Number of Cases Closed	Number of Cases Prosecuted	Total Tax Evasion (The number in parentheses represents total tax evasion in prosecuted cases.) (¥ Million)	Tax Evasion per Case (The number in parentheses represents tax evasion per prosecuted case.) (¥ Million)
2006	231	221	166	30,398(27,755)	138(167)
2007	220	218	158	35,340(30,888)	162(195)

\* Tax evasion figures include additional tax.

### ● Results of Criminal Investigation Cases

Fiscal Year	Number of Judgments (1)	Number of Convictions (2)	Percentage of Cases Convicted (2)/(1)%	Convictions with Prison Sentences without Probation (3)	Amount of Tax Convicted per Case (¥ Million) (4)	Average Prison Sentence per Person (Months) (5)	Average Fine per Case (¥ Million) (6)
2006	160	160	100.0	14	107	16.4	27
2007	189	189	100.0	22	127	16.1	31

\* Figures (3) to (6) exclude those combined with non-tax crimes.

The "Amount of Convicted Tax" is the amount of tax evaded through fraud and other illegal activities.



# 5 Tax Collection

## (1) Voluntary Tax Payment

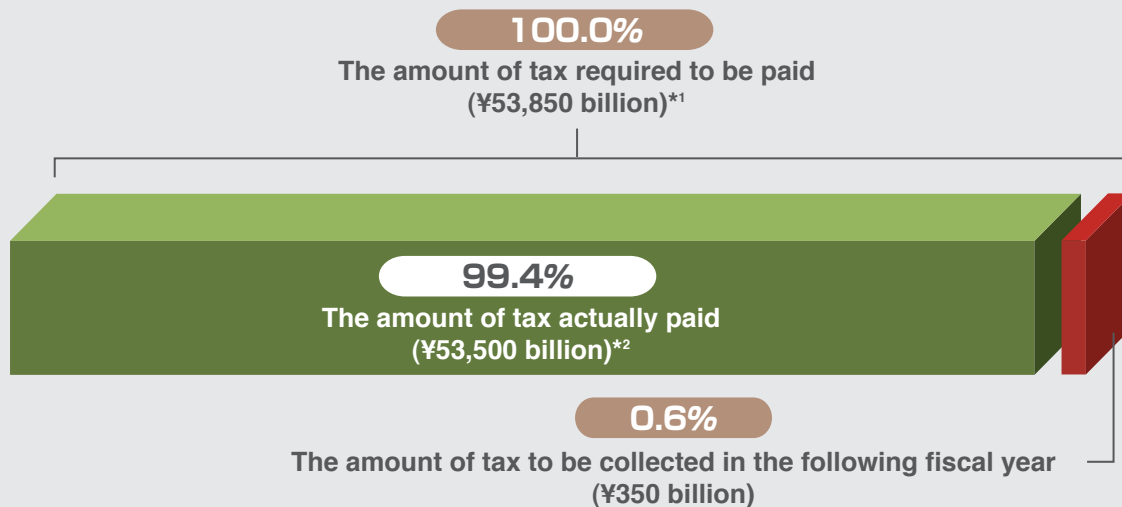
National taxes for which returns were filed are treated as tax revenue only when they are actually paid to the national treasury. In fiscal 2006, the tax amount of national taxes filed to tax offices (the amount determined for collection) was around ¥53,850 billion, while the amount of tax paid within the said fiscal year was around ¥53,500 billion. Accordingly, the rate of paid tax was 99.4%.

For national taxes, taxpayers file a tax return themselves and pay the tax by the due date under the self-assessment system in principle. Therefore, the NTA makes efforts to carry out publicity activities to ensure that taxpayers do not allow the tax payment deadline to pass by mistake. As for self-assessed individual income taxes and sole proprietor's consumption taxes that involve declaring and paying taxes on an ongoing basis, the NTA is publicizing 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 convenience stores will be newly introduced. Thus, the NTA is improving taxpayer services.

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.

### ● Payment of national tax (fiscal 2006)



\*1 The amount taxed based on the filed return, etc. (the amount determined for collection)

\*2 Breakdown of the amount of tax paid

- The amount paid before a payment demand letter is issued (98.3%) [¥52,950 billion]
- The amount of tax delinquency collected during fiscal 2006 (1.0%) [¥550 billion]

## (2) Reducing 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 delinquency was around ¥1,684 billion as of the end of fiscal 2006.

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 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, with the aim of accelerating the reduction of tax delinquency effectively and efficiently. In addition, the NTA makes efforts to reduce tax delinquency, implementing public auctions for seized properties in various ways including “public auction on the Internet.” As a result, the amount of tax delinquency as of the end of each fiscal year has declined for eight 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.

### Tax payment at convenience stores

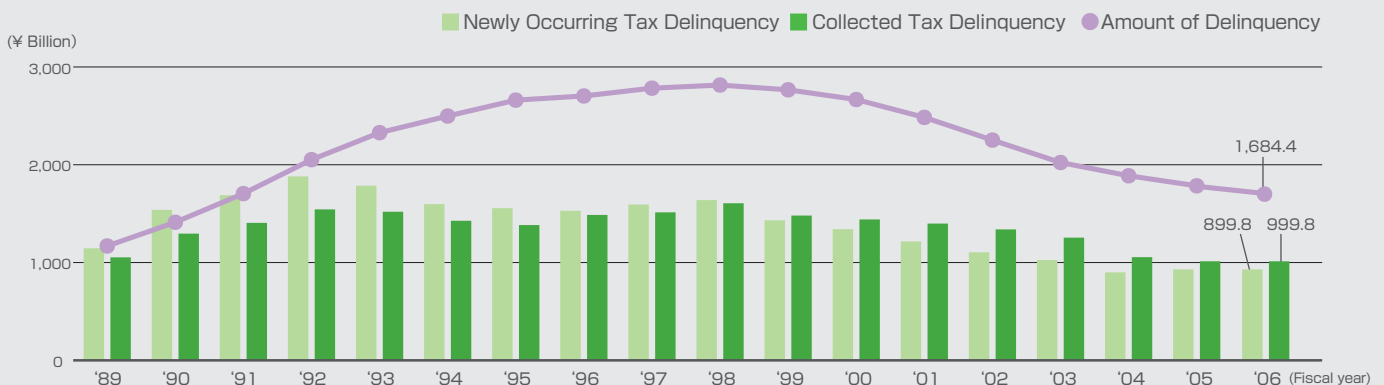
With respect to the payment of national taxes at convenience stores, the handling started from January 21, 2008 at the store consigned to receive tax payment (convenience store), designated by the NTA commissioner.

As this tax payment at convenience stores is introduced, the taxpayer can go through the procedure for tax payment at night or on holidays when financial institutions or tax offices are closed. Furthermore, the procedure for the payment of national taxes can be processed newly at more than 40,000 convenience stores in addition to about 40,000 offices of financial institutions that have so far handled the procedure, contributing to improvement in convenience for the taxpayer.

It is necessary for paying tax at a convenience store to use a bar-coded tax payment slip issued by the regional taxation bureau or tax office in the case of a payment amount for ¥300 thousand or less and in the cases stated below.

- (1) The case where the determined tax amount is notified before the due date (estimated income tax prepayment and so forth)
- (2) The case where the tax payment is demanded by letter or telephone (for all tax items)
- (3) The case where the tax payment is under official assessment system (for various additional taxes)
- (4) The case where a taxpayer requested the issuance of a tax payment slip for the determined amount (for all tax items)

### ● Trends in Tax Delinquency



### (3) Office of Tax Collection 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 the 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 tax per

call. Out of 820 thousand people subject to demand notification in the year from July 2006 to June 2007, approximately 558 thousand people (68.0%) have completely paid their tax. The Office of Tax Collection Call Center is contributing to improving the efficiency of collecting delinquent tax.



Office of Tax Collection Call Center

### (4) Proper and Efficient Management of Tax Payments and Refunds

The NTA manages a vast number of national tax payments and refunds by processing tax returns. In 1966, we started to introduce a computer system to properly and efficiently manage these payments and refunds. In 2001, the KSK System was introduced at tax offices nationwide, and tax payments and refunds have since been managed via this integrated system.

Every year, about 45 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\*2 through the exchange of magnetic tape for self-assessed individual income tax and sole proprietors' consumption tax. 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 payments and refunds 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 a 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 CPTAs (Certified Public Tax Accountants) System

Certified public tax accountants (CPTAs) play important roles in the smooth operation of the self-assessment system.

CPTAs are professionals in 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 2008, there are 70,664 certified public tax accountants (CPTAs) registered and 1,548 professional tax firms established 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 closely 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 public trust.

### (1) The 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 the 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 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 e-Tax

In consideration of the extremely significant role played by CPTAs in the diffusion of e-Tax, which the NTA is working on as the most important immediate task, the Japan Federation of CPTAs’ Associations is making efforts to promote the utilization of e-Tax by CPTAs, setting up an autonomous target.

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 at their request. In addition, the NTA is cooperating with tax accountants’ associations to hold briefings on e-Tax and sends 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 consultative meetings, to attract attention and prevent misconduct of CPTAs. Furthermore, the NTA collects various information and appropriately conducts examination under the CPTA Law to deal strictly with CPTAs who are in breach of the law by

taking disciplinary action against them.

In addition, in March 2008, from the viewpoint of ensuring transparency of these disciplinary actions, the NTA compiled and made public the "Concept of Disciplinary Actions against CPTAs and Professional Tax Firms," deciding, at the same time, to post the names of those against whom disciplinary actions were taken not only in the official gazette but also on the NTA website.

### Tax accountants' associations and Japan Federation of CPTAs' Associations

Tax accountants' associations are organizations specified in the 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 the 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 duties of the Federation, 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 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 knowledge of tax and establishing a proper self-assessment system. At present, there are 483 corporations associations (incorporated companies) nationwide including federations organized at the prefectural level under the control of the National General Federation of Corporations Association, and membership stands at about 1.07 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 565 associations nationwide, and membership stands at about 98 thousand 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

## Savings-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. They are established under the Savings-for-Tax Association Law, and there are currently about 64 thousand such associations. Savings-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 tax law and soliciting "Compositions on Tax" from junior high school students. For further information, please access the website of the National Federation of Savings-for-Tax Associations.

<http://www.zennoren.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 270 thousand, 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, to spread knowledge about taxes and hold various briefings. For further information, please access the website of the Federation of Tax Payment Associations.

<http://www.nouzeikyokai.or.jp> -- Japanese only

# III Tax Administration Using IT

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

In order to provide more convenient services for the public and manage administrative operations in a more simplified, efficient, advanced, and transparent manner 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 a “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” (revised in August 2007) 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.

The number of people estimated to be using the Internet, the foundation of the coming information network society, is approximately 87.54 million at the end of 2006, and diffusion of the Internet is steadily advancing in national life.

The “New IT Reform Strategy” aims to achieve a society in which the network can be used anytime anywhere and the world’s most convenient and efficient e-Government 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 convenience for taxpayers and promoting wider dissemination of e-Tax.

## (1) 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 transparency of procurement.

In terms of simplification and efficiency of the operation among the basic policies, the NTA manages back office work in a more integrated manner and centralizes telephone consultation services to call centers, and makes efforts to enhance the system for national taxes, paying attention to information security, as it improves the system for dealing with the globalization of economic society and highly networked information, in order to further enhance tax examination and collection of delinquent tax from the viewpoint of system sophistication.

Furthermore, in terms of improvement in convenience for the taxpayer, the NTA managed to exempt the attachment of documents prepared by a third party, such as the “withholding record” and “receipt of medical expense,” in the procedure of final return for income tax utilizing e-Tax, improve the function and operation of e-Tax, perform online issuance of user identification numbers, and diversify means of paying national taxes to allow the taxpayer to pay at convenience stores.

In addition, for cost reduction purposes, the NTA is striving to make the KSK System an open system for a shift to a system of high interchangeability, have the software adopted as a general-purpose product, and integrate items of equipment at the time of their renewal.

Through efforts for such optimization of back office works and systems, the NTA simplifies administrative processes, improves the operational efficiency and convenience of taxpayers, and is striving to enhance its tax examination, collection of delinquent tax and improve taxpayer compliance (observance of laws), with a view to properly fulfilling the NTA’s missions to achieve proper and fair taxation.

## (2) Adoption of an Open System

With respect to the KSK System, the NTA is making efforts to realize the shift to a system that can take in products of multiple makers over a wide range (open system), from the viewpoint of reducing cost and ensuring transparency in procurement.

Concretely, while the KSK System comprises 24 operational systems, such as management of taxpayers' data, tax claims, income tax, corporation tax, transactional information, and examinations, the NTA is striving to promote

open systems step by step in respect of 15 operational systems among them, which were recognized to be suited to open systems and are expected to achieve cost reduction by making them open systems in the "Examination of the Possibility of Renewing the KSK System" implemented in fiscal 2003.

By fiscal 2006, six operational systems had been made open systems, and by fiscal 2010, an additional six operational systems will be made open systems.

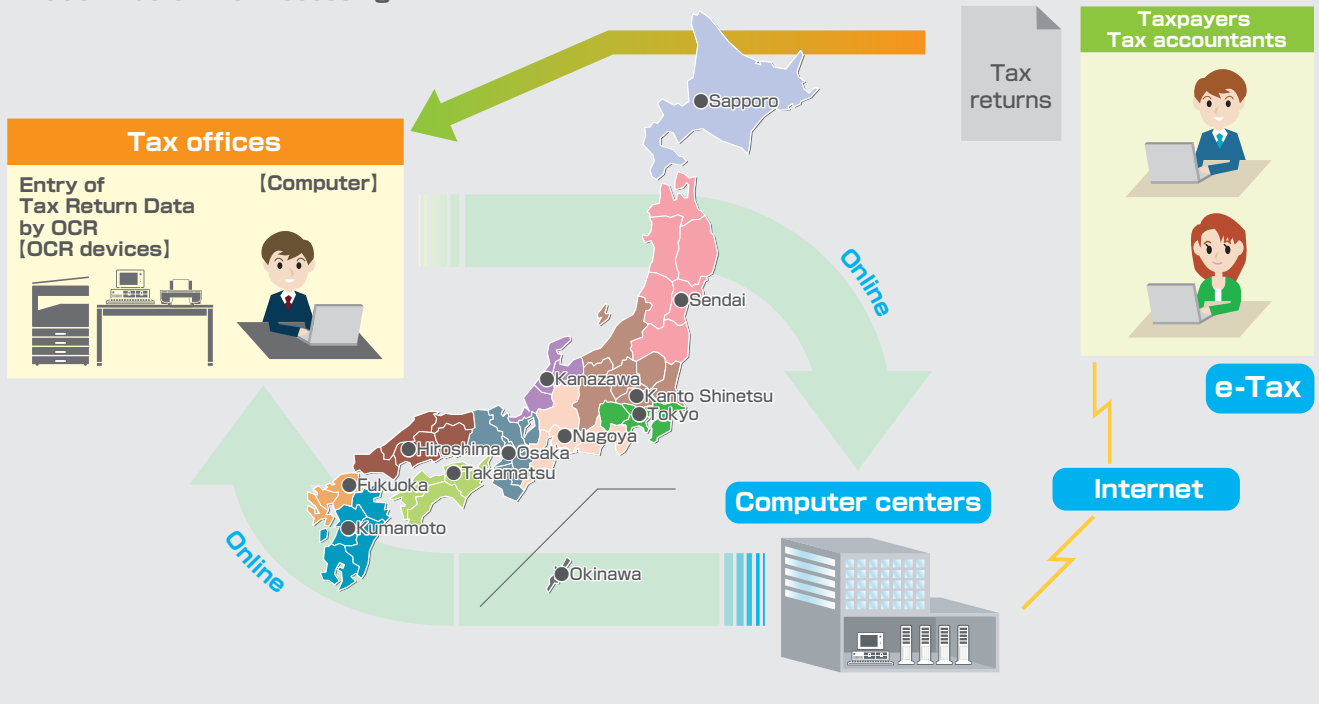
### Stability and Reliability of the System and Information Security

As national tax-related tasks are closely connected with public rights and obligations, system failure could have 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 renewal of system equipment.

Since national tax-related systems store 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 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 (NTA Comprehensive Information Management System)

##### Nationwide Online Processing



### KSK System

The KSK System, which links all regional taxation bureaus 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.



# 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 other countries' 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. In 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 examination framework.

## 1 Addressing International Transactions

Concerning tax evasion and tax avoidance through the exploitation of cross-border transactions, the NTA implements proper taxation from the viewpoint of securing the taxing rights of our country, 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 taking every opportunity available to collect information helpful to taxation through means such as grasping the flow of funds to foreign countries and making the best use of the exchange of information under the tax treaties. Furthermore, the NTA is properly handling transfer pricing issues arising from transactions between corporations and overseas affiliates through examinations.

### (1) Organization and staff for International Taxation

As cross-border business and investment activities of corporations and individuals expand, the importance of examination in relation to international taxation is increasing.

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 international examination divisions in the Tokyo, Osaka, Nagoya, and Kanto-Shinetsu Taxation Bureaus. In recent years, international taxation problems have begun to extend not only from large enterprises and corporations that have many overseas subsidiaries but also to wealthy individuals as well. In order to deal with such circumstances, the NTA established the

“Project Team to Deal with Internationalization” in the four regional taxation bureaus referred to above and is endeavoring to grasp or elucidate such tax avoidance schemes and collect information on financial assets held overseas by tax evaders.

Furthermore, from July 2007, the NTA has employed legal and financial specialists as senior examiners (international taxation) under fixed-term contracts to deal with complicated taxation problems.

In addition, the National Tax College, which is the organization for training staff, provides training courses on international tax law, tax treaties, financial transactions, and foreign languages with the aim of improving the capability of tax officials to examine international taxation.

## (2) International Tax Avoidance

International tax avoidance involving reducing tax liability by cleverly exploiting differences between national tax systems and tax treaties is developing into a major issue. Finance specialists, legal counsels, and tax experts have possibly 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 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 recognizable problems for taxation purposes, the NTA conducts close examinations and deals strictly with tax evaders, so that no partiality is generated for taxpayers. If any tax avoidance scheme arises that is difficult to deal with under the existing laws, the department in charge is to be requested to improve the system concerned.

## (3) Transfer Pricing Issues

If a company sets a price for a transaction with an overseas affiliated company different from the normal price for transaction with a third party (transfer price), it becomes possible to transfer the domestic profit to a foreign country. Under the transfer pricing taxation system, the profit is taxed after such a transfer price is changed to a normal price (this is called an “arm’s length price”) in calculation to prevent income from escaping abroad through transactions with overseas affiliated companies.

As the globalization of business activities develops, increasing numbers of transactions are subject to transfer

pricing taxation and the transactions have become more complicated. The NTA is striving to realize proper international taxation through the accurate implementation of the transfer pricing taxation system in order to deal with such changes in economic conditions and prevent the taxable income of our country from escaping abroad. At the same time, the NTA is endeavoring to clarify the operation of the system and improve the environment for using APA with the purpose of ensuring operational transparency and predictability for the taxpayer.

### (1) Improvement in Operational Transparency

While the NTA has endeavored to clarify application standards and operational policy for the transfer pricing taxation system through setting up and revising the directives concerning the interpretation of the laws and administrative guidelines for operation, the criteria for judgment were newly presented in June 2007 in relation to transactions for intangible assets and rendering of service in the “Commissioner’s Directive on the Operation of Transfer Pricing (Administrative Guidelines)” from the viewpoint of enhancing predictability for the taxpayer. At the same time, “Reference Case Studies on Application of Transfer Pricing Taxation” was newly prepared as its supplementary volume and made public after the procedures for solicitation of public comments were completed. This supplement describes the treatment for transfer pricing taxation purposes of a number of cases under certain preconditions.

### (2) APA

Based on the application from the taxpayer, the tax authority confirms in advance the method of calculating the arm’s length price for a transaction with an overseas affiliated company. Reflecting the increase in international transactions in recent years, the number of applications for APA is increasing. The NTA provides pre-filing consultation before the application for APA so that the taxpayer can smoothly use the APA process. The NTA has set up a counter in charge of pre-filing consultation in each of the regional taxation bureaus, and is endeavoring to improve the environment for the use of APA, such as posting an outline of the APA process and procedure for pre-filing consultation on the NTA website.

Considering the characteristics of 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 consultations in the MAP.

### Reference Case Studies on Application of Transfer Pricing Taxation

In the Reference Case Studies on Application of Transfer Pricing Taxation, 26 examples mainly in relation to transactions involving intangible assets such as patent and know-how are taken up, using examples from recent taxation practices. After presenting a schematic of business relations, a summary of business and a summary of the foreign-related transactions, functions and activities of corporations and overseas affiliates for each example as preconditions, not only treatment for the purpose of transfer pricing taxation but also points aimed at and checked by the staff in charge of examination and APA review, are presented.

## (4) 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 authorities of each country have 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 2007, a new Information Exchange Section was established in the International Operations Division of the NTA. Thus, the NTA has set up a system to respond to requests from foreign countries promptly and also proactively request their cooperation.

In addition, at the Joint International Tax Shelter Information Centre (JITSIC), of which Japan, U.S., Canada, Australia, and U.K. are members, efforts are actively made to elucidate tax avoidance schemes, consistent with the provisions of exchange of information under the bilateral tax treaties.

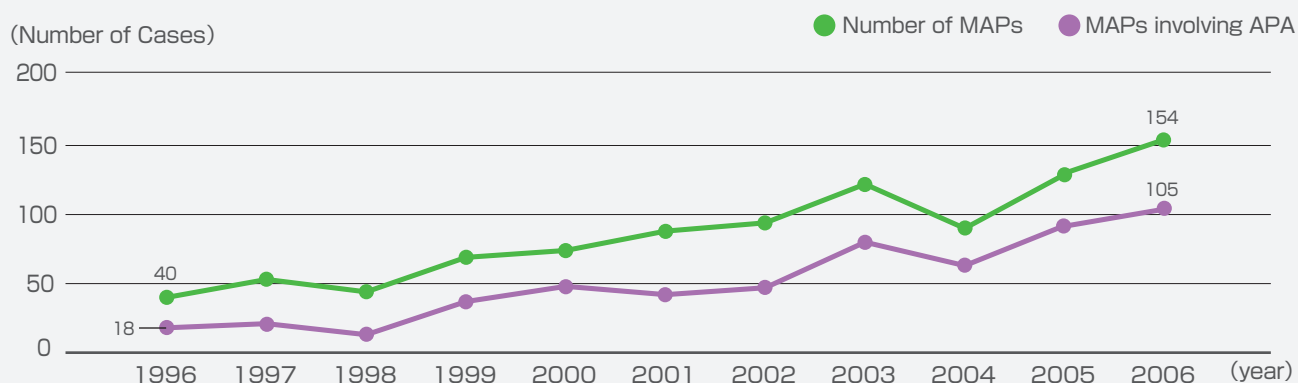
## 2 Mutual Agreement Procedure (MAP)

Using a system of mutual agreement procedures\* based on tax treaties, the NTA is striving to smoothly handle taxation issues, such as the prevention of international double taxation.

The number of cases of MAP is tending to increase in recent years, and more than 90% of cases are related to transfer pricing. As for cases of transfer pricing, an increasing number of cases involve APA. In the year from July 2006 to June 2007, 154 cases of MAP occurred, of which 140 cases were related to transfer pricing and 105 involving APA for transfer pricing. Compared to statistics of 10 years ago, the number of cases of MAP has increased approximately fourfold, while cases of MAP involving APA have also increased, approximately sixfold. The number of countries with which the NTA was under negotiation for MAP was 12 at the end of June 1997 and it increased to 25 at the end of June 2007.

Likewise, APAs with MAP have been recently increasing in relation with Asian countries, which have little experience in APAs. In order to resolve MAP-related cases properly and promptly, the NTA is enhancing cooperative relations with foreign tax authorities and engaging in discussion more effectively.

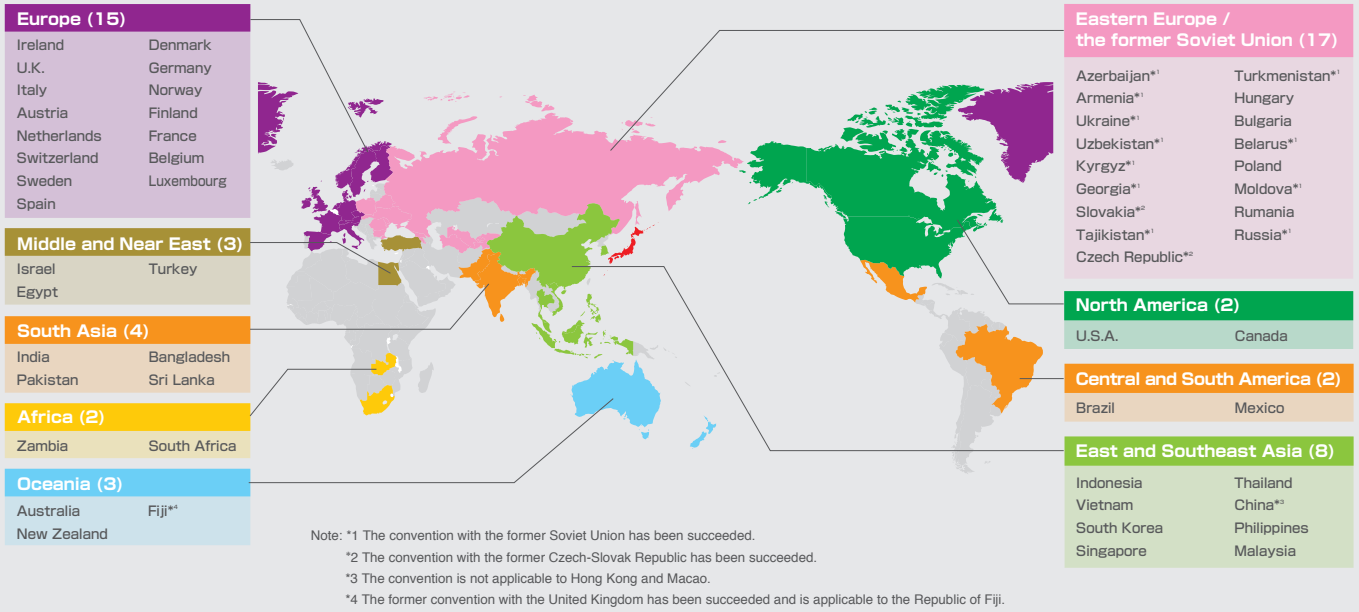
### ● Trends in the Number of Cases of MAP



Note: The figure represents the number of MAPs that occurred in a year from July to the following June.

\* “Mutual agreement procedure (MAP)” refers to a negotiation procedure between the tax authorities of contracting parties on a tax treaty to eliminate taxation incompatible with the applicable tax treaty when a taxpayer is or is 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.

## ● Japan's Tax Convention Network (45 conventions applied in 56 countries, as of April 2008)



# 3 Cooperation and Coordination with Foreign Tax Authorities

## (1) Technical Assistance to Developing Countries

The NTA is positively engaging in technical cooperation with developing countries. In cooperation with the Japan International Cooperation Agency (JICA), the NTA holds the International Seminar on Taxation (ISTAX) and has conducted country-specific projects. Especially in the fields of tax examination, taxpayer services, organizational management, and so forth, the NTA is sending its tax officials as experts to ASEAN countries and others, 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 and these activities will also

contribute to improving region-wide tax administration and enhancing regional cooperative relationships.



Practicum at the NTA

## Outline of Technical Cooperation

### 1 Dispatch of Tax Officials as Experts

#### (1) Long-term Dispatch

Based on the practice and experience in the NTA, its tax officials are dispatched to foreign tax authorities as experts to be stationed for an extended period in order to provide continuous advice that will contribute to improvement in the tax administration of the country concerned. In fiscal 2007, they were dispatched to Indonesia, Malaysia, and Vietnam.

#### (2) Short-term Dispatch

In consideration of the needs of the tax authorities of developing countries, our tax officials are dispatched as experts in fields such as tax examination, international taxation, and staff training for a short period. In fiscal 2007, they were dispatched to Cambodia, Indonesia, Laos, Malaysia, Thailand, Vietnam, and so forth.

## 2 Implementation of Training within Japan

### (1) International Seminar on Taxation (ISTAX)

ISTAX is a seminar for training tax officials mainly from Asia and also from Africa and Central and South America on expertise in the Japanese tax system and administration as a part of official development assistance (ODA), in cooperation with JICA. The seminar includes a general course for middle-level tax officials (number of participants: about 20; training period: about two months) and a senior course for management-level tax officials (number of participants: about 10; training period: about 1 month).

### (2) Short-term Seminar for Foreign Tax Officials

With respect to Asian countries who have a close relationship with Japan, short-term training courses (training 1-3 weeks) are provided in line with requests from their tax authorities in order to respond to their specific needs. In fiscal 2007, training was implemented for each of Cambodia, Indonesia, Mongolia, Thailand, Vietnam, and so forth, and, in addition, Asian international taxation training was also implemented, in which multiple countries in the Asian region participated jointly.

### (3) Training of Foreign Tax Officials during Their Study in Japan (NTA Practicum)

Training is provided to tax officials of developing countries who are studying for a master's degree at a graduate school in Japan, under World Bank and other scholarships. This training is designed to meet the needs of practical knowledge, and is for learning expertise in the Japanese tax system and administration and improving the tax administration in each of the participating countries. In fiscal 2007, this training was provided to 17 students studying in the graduate schools of Keio University, Yokohama National University, National Graduate Institute for Policy Studies, and Hitotsubashi University.

## (2) International Conferences

Adaptation to the environmental change surrounding tax administration, including economic globalization and highly networked information, has been a common issue for tax authorities worldwide, despite gaps in their taxation systems. In this context, the tax authorities of different countries are endeavoring to study measures and share their experiences in dealing with various common issues, such as reinforcement of compliance (observance of laws) and improvement of taxpayers' services.

The OECD Committee on Fiscal Affairs provides a forum where OECD member countries 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 countries share their knowledge and experiences. The NTA has been actively participating in such activities of the OECD Committee on Fiscal Affairs. For further information, please access the website of the NTA.

<http://www.nta.go.jp/sonota/kokusai/oced/oced.htm>  
-- Japanese only

The Leeds Castle Group (Tax Administrators Meeting), consisting of 10 major nations, namely 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 15 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.



The Leeds Castle Group (Tax Administrators Meeting)  
held in January 2008

## (3) Cooperation 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. At the end of March 2008, the NTA has

liaison officers in 13 countries (18 regions) to collect information on the tax systems and tax administration in the country in which they are placed. They also serve as an important pipeline when cooperation with foreign tax authorities is needed.

# V Protection of Taxpayer Rights

## Reinvestigation, Reconsideration and Litigation: The system to remedy 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 a request 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 dissatisfaction remains with the disposal taken after the decision made by the director-general of the National Tax Tribunal, an appeal to the court may be made to seek remedies, as in other general administrative cases.

### (1) Reinvestigation

Requests for reinvestigation represent the first stage of administrative dispute procedures regarding dispositions concerning national tax. To appeal against correction, determination or seizure made by the district director of the tax office or the regional commissioner, a taxpayer may lodge a request for reinvestigation with the district director of the tax office or the regional commissioner 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 divisions 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. In this way, the NTA is endeavoring to execute uniform tax administration under the correct interpretation of the tax laws nationwide and deal with requests for reinvestigation from taxpayers properly and promptly.

### (2) Reconsideration

Taxpayers who wish to appeal against 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 and associate appeals judges, with specialized knowledge and vast experience, examine and review the case from a neutral standpoint.

For the posts of director-general of the National Tax Tribunal as well as the chief appeals judges of the Tokyo and Osaka Regional Tax Tribunals, former justices and former public prosecutors have been appointed.

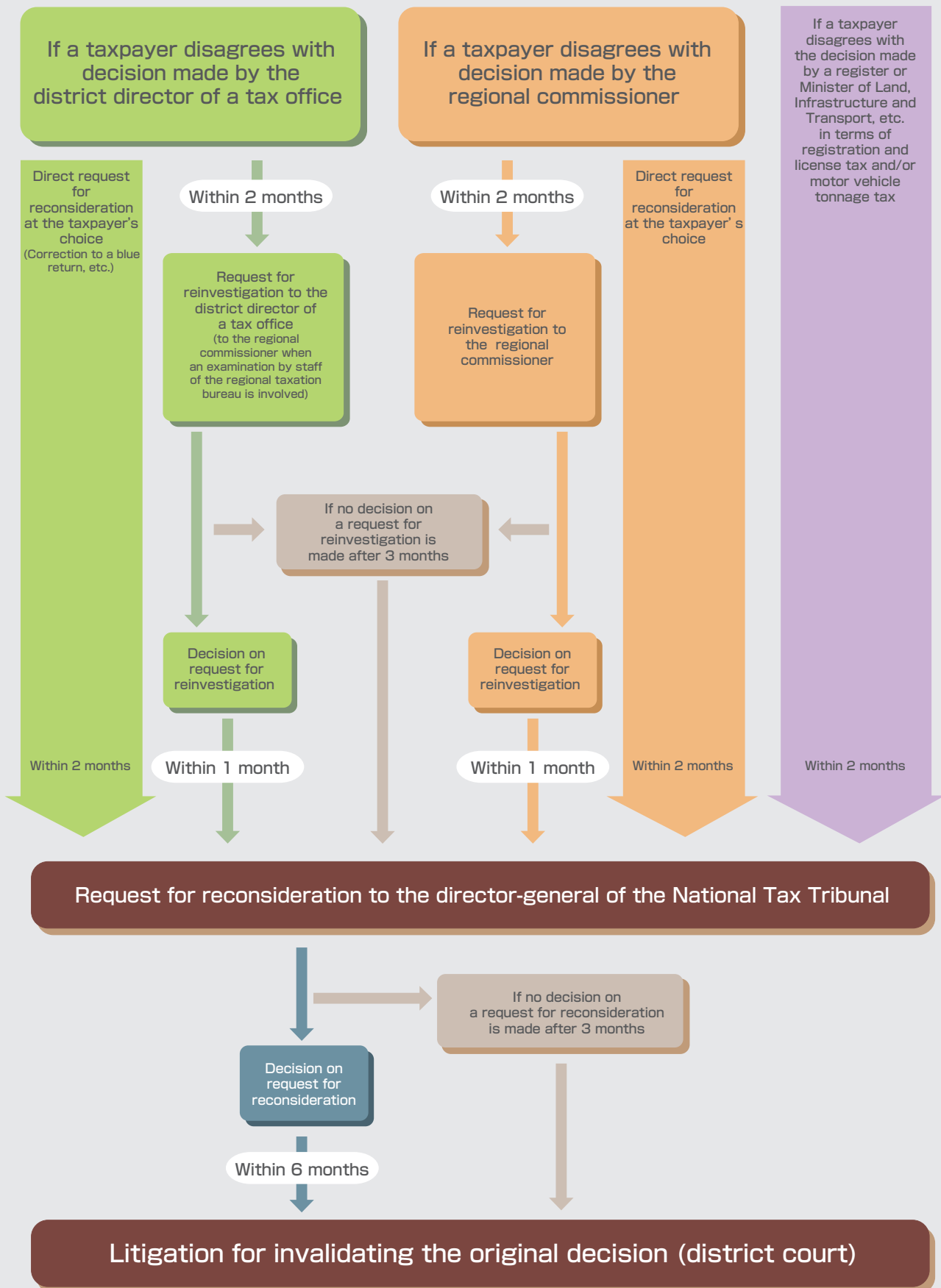
Furthermore, since July 2007, former certified public tax accountants and others who have worked as experts in the

private sector have been appointed as appeals judges.

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 against 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) Results

The NTA endeavors to process every request for reinvestigation within three months in principle. The total number of reinvestigation request cases processed was 4,956 (4,224 for taxation and 732 for collection) in fiscal 2007. In about 11.2% of the request cases, taxpayers' claims were totally or partially endorsed due to new findings.

As for reconsideration request cases, the National Tax Tribunal endeavors to complete processing within one year in principle. The number of requests for reconsideration processed totaled 2,404 (2,030 for taxation and 374 for collection) in fiscal 2007. In about 12.6% of the request

cases, taxpayers' claims were totally or partially endorsed.

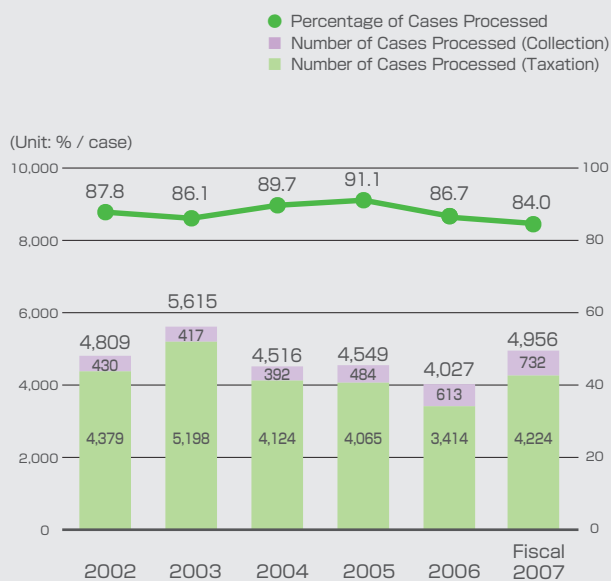
As for litigation cases, there were 387 cases closed (289 cases of taxation, 98 cases of collection) in fiscal 2007. In about 14.2% of the cases, taxpayers' claims were totally or partially endorsed.

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.

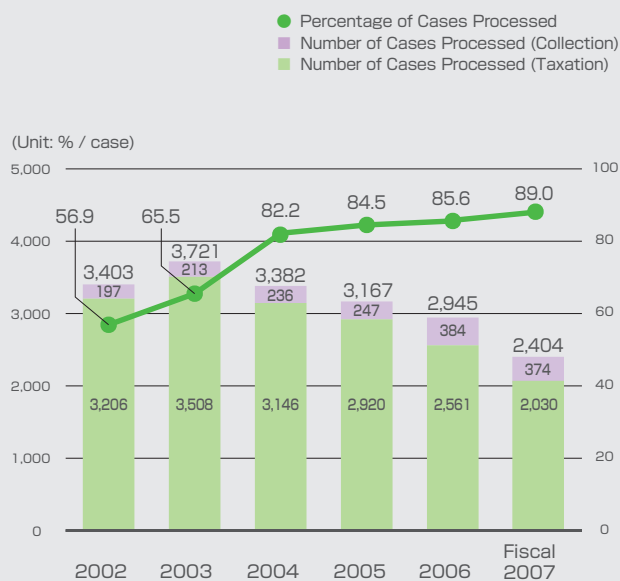
<http://www.kfs.go.jp> -- Japanese only

※ The figures represent preliminary data as of the end of April 2008.

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



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



## Reference Response to Complaints from Taxpayers

Not only requests to appeal against 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 in earning 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 2006, liquor tax accounted for 2.9% (¥1,547.3 billion) of the total revenue of tax. 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 2,876 manufacturers and 158,043 distributors (as of the end of March 2007), and most of them are small and 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 socioeconomic 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 Aimed at Improving 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 on 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 at 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.

As Japanese cuisine has 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 support 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) Fair Trade Environment

For sound development of 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. On its part, the liquor industry is also voluntarily promoting fair trading, such as

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

Furthermore, the NTA examines actual liquor trade practices, provides guidance for improvement when transactions going against these guidelines are detected, and is working with the Fair Trade Commission as well when necessary.

### (3) 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 and personnel exchange with the public sector and universities. 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. For details, see the NRIB website at <http://www.nrib.go.jp/English/index.htm>.

### (4) Social Demands

In order to meet various social demands, such as preventing underage drinking, the NTA attempted to ensure thorough compliance with the obligations to appoint liquor sales managers, attend liquor sales management training, and present at venues displaying liquor beverages. Furthermore, "liquor sales management cooperators" were publicly sought to consign such management to, and the efforts were strengthened to confirm the state of compliance with the obligation of display.

Moreover, the efforts, not only of the liquor industry, but

also of each of families, schools, communities, and the government, are crucial to addressing social issues such as the problem of drunk driving. The NTA is cooperating and coordinating its efforts with related government ministries and agencies, members of the liquor industry, and others.

In accordance with the resolution of the World Health Assembly\* held in May 2005, the NTA is considering, with the relevant government agencies 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) Liquor Sales License

On August 31, 2006, the designated emergent adjustment districts in accordance with the "Emergency Measures Law on Improving Business Operations of Liquor Retailers" lost their 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.

\* 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 complying 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 with 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 the 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 a 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 a 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 refusal to accept such demand, such behavior would adversely affect the profitability of liquor suppliers, have 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 guidance provided to the extent 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 measures should be taken to keep the liquor tax revenues

### 3. Addressing Violations of the Antimonopoly Law

If a regional commissioner finds any violation of the Antimonopoly 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 officers in the regional taxation bureau in charge of managing market-related information are newly appointed.

# VI 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 is 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 diversification of employment and family structures. The remarkably advanced use of IT and expansion of the cross-border activities of individuals and enterprises, along with the economic development of Asian countries and economic internationalization, are seen in economic activities. In addition, accounting standards penetrate both internationally and mutually.

The environment surrounding 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, 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 schemes are becoming increasingly shrewd, alongside progress in the use of IT and internationalization of the economic society, meaning that operation of tax examination and collection are becoming ever more difficult. With this in mind, the environment surrounding 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 consideration 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 filing return and 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 back office work of tax offices, attempts to outsource administrative work that can be handled by persons other than tax office officials, and is 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 tax administration.

### (1) Assistance for Voluntary Compliance

The NTA is improving taxpayer services so that taxpayers themselves are able to file 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 the

e-Tax and the preparation software 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 now available independently at each of the tax counsel offices and tax offices, the NTA is taking measures to accept phone calls from taxpayers at the telephone consultation centers in a more centralized manner.

### (2) Integration of Back 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 back office work at tax offices by reforming duties through the advanced use of IT.

Specifically, back office works, 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 offices' counter work, have been separately handled by

different divisions in tax offices. However, the NTA will try to centralize the majority of such works to a single division to be processed in an integrated fashion and improve the efficiency of the work by using IT systems (i.e., the integration of back office works). 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) Reviewing 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 and electronic commerce, by developing a system to deal with business groups engaged in such wide-area transactions, and is also reviewing 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

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

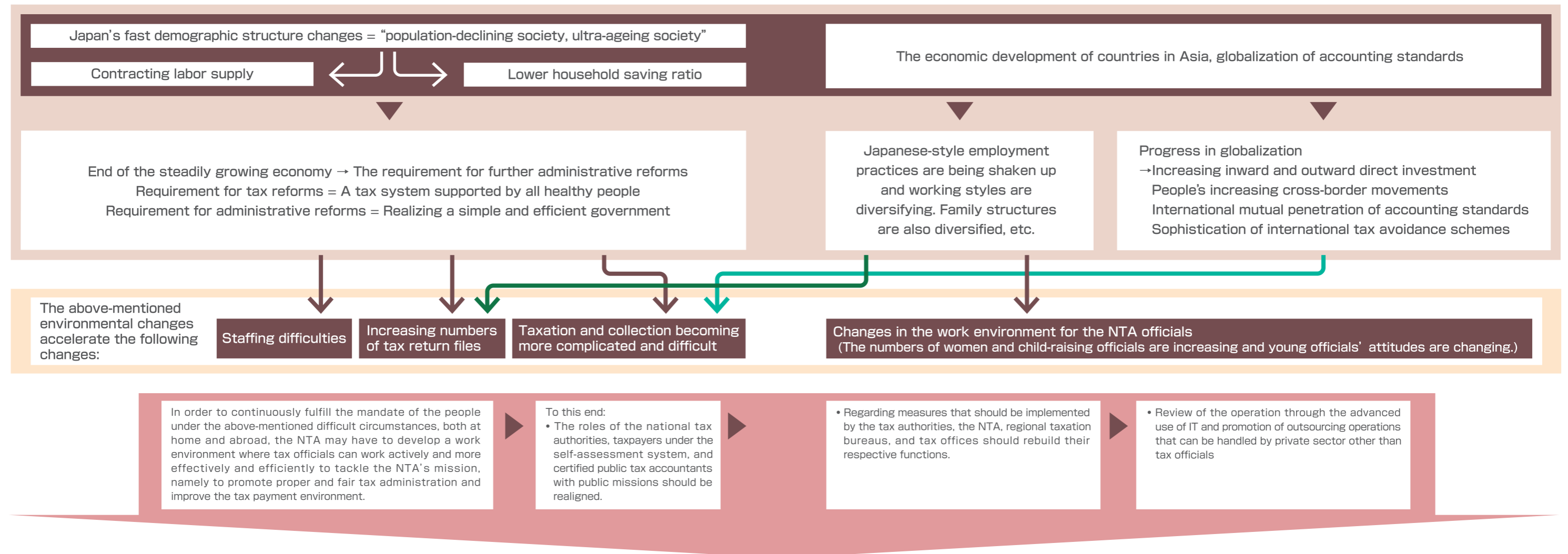
activity on April 1 2005. In order to promote further good balance between childcare and work, this plan was reviewed in the third year as stipulated beforehand, based on the state of ongoing various measures and opinions of the staff. The amended plan, "Comfortable Childcare Support Plan," was released and has been implemented since April 1 2008.

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 placement of the right people in the right jobs.**

# Changes in the Environment Surrounding Tax Administration

# and NTA's Responses to Such Changes



## Assistance for Voluntary Compliance

- 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) Promotion of the advanced use of IT for providing information 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; Spreading the utilization of e-Tax, expansion of the preparation software 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 at the Telephone Consultation Center

## Integration of Back Office Works

- Basic stance  
With consideration given to ensuring appropriate operations, the tax authorities should promote improvement in efficiency and streamlining of operations including operational reforms responding to highly networked information and the outsourcing of administrative work that can be handled by private sector other than tax officials.
- (1) Increasing the efficiency of back office works
    - (a) Efforts for integration of back office work at all Tax Offices
    - (b) Examining possible approaches for efficient back office work through trial of centralization
  - (2) Increasing efficiency in operations related to general affairs, etc.  
Promoting IT utilization, the centralization and outsourcing of accounting, health and welfare, and remuneration - related works

## Reviewing Tax Examination and Collection Operation

- Basic stance  
To maintain and improve taxpayers' compliance, the tax authorities should view the tax examination and collection systems to implement tax examination and collection more effectively and efficiently.
- (1) Improving tax examination and collection duties
    - (a) Considering a review of the tax examination and collection systems, based on sharing of roles between regional taxation bureaus and tax offices
    - (b) Using more sophisticated systems, such as sharing various information
  - (2) Roles of CPTAs with public missions  
Promotion of the system of attaching documents, and so forth
  - (3) Addressing cutting - edge areas
    - (a) Addressing the international taxation, including fighting against international tax avoidance schemes-Responding to advanced information regarding corporate activities
    - (b) Securing taxpayers' predictability - Improving responses to taxpayer inquires - Utilizing advance price arrangement regarding transfer pricing taxation
    - (c) 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.
- (1) Endeavoring to realize a gender-equal society
    - (a) Promoting a personnel policy to optimally exploit female officials' abilities and attitudes
    - (b) Promoting the NTA action plan (Comfortable Childcare Support Plan) to achieve a balance between childcare and work
  - (2) Improving the guidance and fosterage measures for young officials
  - (3) Reforming training systems in response to changes in the environment surrounding tax administration
  - (4) Improving the work environment

To promote the above measures, the NTA endeavors to attain the optimum distribution of its limited staff resources, distribute budget based on quantitative results, and place the right people in the right jobs. For the government as a whole, the NTA will move forward with a phased approach for the "Optimization Plan of Operations and Systems related to National Tax Administration" (issued in March 2006, revised in May 2007) by fiscal 2010.

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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 Expenditure

### Budget and Actual Amounts of Tax and Stamp Revenues for Fiscal 2006

	Item	Budget	Actual
General Account	Withholding income tax	Million yen 11,881,000	Million yen 11,494,252
	Self-assessed individual income tax	2,689,000	2,559,842
	Corporation tax	15,809,000	14,917,877
	Inheritance tax	1,490,000	1,518,585
	Consumption tax	10,485,000	10,463,331
	Liquor tax	1,572,000	1,547,297
	Tobacco tax	940,000	927,169
	Gasoline tax	2,156,000	2,117,375
	Liquefied petroleum gas tax	14,000	13,973
	Aviation fuel tax	87,000	90,493
	Petroleum and coal tax	476,000	511,726
	Motor vehicle tonnage tax	737,000	734,953
	Customs duty	906,000	944,021
	Tonnage due	9,000	9,306
	Others*	—	728
	Stamp revenue	1,217,000	1,218,125
	Subtotal	50,468,000	49,069,052
	Income tax (transferred)	3,009,400	3,009,400
	Local road tax	309,800	305,652
	Liquefied petroleum gas tax (transferred)	14,000	13,973
	Aviation fuel tax (transferred)	15,800	16,453
	Motor vehicle tonnage tax (transferred)	368,500	367,476
	Special tonnage due	11,300	11,632
	Crude oil customs duty, etc.	500	3,314
	Power resources development promotion tax	354,000	362,963
	Gasoline tax	739,300	739,300
	Special tobacco tax	223,700	217,639
	<b>Total</b>	<b>55,514,300</b>	<b>54,116,856</b>

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

### NTA Budget for Fiscal 2008

	Item	Budget
General Expenditures	IT-related Expenses	Million yen 48,150
	Expenses to improve convenience for taxpayers*1	12,554
	Expenses related to internationalization measures	908
	Expenses to improve work environment**2	7,670
	Expenses related to tax reforms	2,068
	Expenses for various taxation forms and communication expenses	15,758
	General operating expenses**3	47,056
	Expenses for National Tax College	2,794
	Expenses for National Tax Tribunal	441
	Expenses for National Research Institute of Brewing	1,171
Subtotal	138,569	
Personnel expenses	584,104	
<b>Total NTA budget</b>	<b>722,673</b>	

Notes: \*1 "Expenses to improve convenience for taxpayers" include expenses related to the development of e-Tax, the preparation software, and so forth.

\*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.

# Number of Tax Return etc.

## Income Taxpayers

(2007 calendar year)

		Thousand persons
Total population		127,770
Workforce		63,820
Number of final returns for income tax*		23,620
Refund*		12,690
Tax payment*		7,770
Details by income earner category	Business income earners	1,800
	Other income earners	5,970
	Real-estate income earners	1,090
	Employment income earners	2,640
	Miscellaneous income earners	1,910
	Others	330

Notes: "Total population" and "workforce" represent the figure as of fiscal 2006.

## Inheritance Tax

(2006 calendar year)

Number of deceased persons	1,084,450
Number of deceased persons subject to taxation	45,322
Number of heirs subject to taxation	134,722
Taxable amount	10,405,600 Million yen
Amount of tax	1,223,400 Million yen

## Gift Tax

(2006 calendar year)

Number of persons subject to taxation	369,763
Value of property acquired	2,028,800 Million yen
Amount of tax	118,300 Million yen

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

## Withholding Agents and Withholding Income Taxation

(2006 business year)

Income Classification, etc.	Number of Withholding Agents*		Amount of Tax Million yen
	Thousands	Million yen	
Employment income (wages and salaries)	3,846	10,782,700	
Retirement income	—	273,000	
Interest income, etc.	40	521,400	
Dividend income	126	2,580,300	
Capital gains etc. from selling listed shares managed in special accounts	7	224,700	
Income from remuneration, etc.	3,070	1,285,700	
Income paid to non-residents and foreign corporations	25	362,200	
Total	—	16,029,900	

Notes: The number of withholding agents represents the figure as of the end of June 2007.

## Number of Corporations and Number of Corporation Tax Returns Filed

(2006 business year)

Number of corporations*	3,005 Thousands
Number of tax returns filed	2,787 Thousands
Percentage of corporations filing	89.9%
Percentage of returns declaring a surplus	32.4%
Amount of self-assessed income	57,082,800 Million yen
Amount of self-assessed loss	16,494,900 Million yen
Amount of tax	14,457,800 Million yen

Notes: The number of corporations represents the figures as of the end of June 2007.

## Consumption Tax

(2006 fiscal year)

Number of Returns	Tax Payment		Tax Refund	
	Thousand cases		Thousand cases	
	Individual	1,533	36	
Corporation	1,984	116		
Total	3,516	152		
Amount of tax		10,004,100 Million yen	2,483,800 Million yen	

## Liquor Tax and Liquor Production

(2006 fiscal year)

Classification	Volume of production Thousand kl	Amount of Tax Million yen
Sake	513	80,304
Sake compound	49	5,420
Continuous distillation Japanese spirits (shochu)	436	99,042
Simple system distillation Japanese spirits (shochu)	584	131,106
Mirin (rice cooking wine)	113	2,249
Beer	3,536	768,826
Fruit wine	65	6,163
Sweet fruit wine	10	833
Whisky	61	23,253
Brandy	7	2,633
Sparkling liquor	1,594	211,687
Alcohol and spirits for material	114	9,364
Liqueurs	755	67,003
Other brewed liquors Powder liquor and miscellaneous liquor	1,056	83,076
Total	8,892	1,490,960



## Tax Examinations

### Examinations for Self-assessed Income Tax

(2006 business year)

	Number of Cases	Total Understated Income		Total Additional Tax Revenue Collected	
		Million yen	Thousand yen	Million yen	Thousand yen
Field examinations	Thousands				
Special,*1 General	63	533,700	8,460	99,500	1,580
Focusing*2	183	328,100	1,800	15,300	80
Brief contact*3	549	54,800	100	9,500	20
Total	795	916,600	1,150	124,300	160

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

(2006 business year)

Number of Cases Examined	Of Which, Number of Illegal Cases	Total Additional Tax Revenue Collected
Thousands	Thousands	Million yen
202	56	63,500

### Field Examinations for Corporation Tax

(2006 business year)

	Number of Cases	Total Understated Income		Total Additional Tax Revenue Collected
		Million yen	Thousand yen	Million yen
All corporations	Thousands	Million yen	Thousand yen	Million yen
	147	1,724,700	11,762	440,200
Of which, corporations handled by the Large Enterprise Examination Department	5	900,400	190,917	236,500

### Examinations for Consumption Tax

(2006 business year)

	Number of Cases	Number of Cases with Understated Income	Total Additional Tax Revenue Collected	
			Million yen	Thousand yen
Individuals	Thousands	Thousands	Million yen	Thousand yen
	96	69	25,600	270
Corporations	139	77	72,200	520

### Field Examinations for Inheritance Tax

(2006 business year)

Number of Cases	Number of Cases with Understated Income	Total Understated Inheritance		Total Additional Tax Revenue Collected	
		Million yen	Thousand yen	Million yen	Thousand yen
Thousands	Thousands	Million yen	Thousand yen	Million yen	Thousand yen
14	12	407,600	28,990	93,900	6,680

### Information Returns Collected

(2006 business year)

Name of Information under Mandatory Submission	Number of Returns Collected
	Thousands
Withholding record of employment income	19,819
Payment record of interest and others	1,200
Payment record of dividend, distribution of surplus and interest on guaranty capital	5,580
Withholding record of public pension, etc.	32,715
Payment record of remunerations, fees, contract payments, and prizes	8,859
Payment record of consideration for transfer of stocks, etc.	9,148
Record of remittance to foreign countries	3,688
Others	44,196
Total	125,205

## Criminal Investigations

### Criminal Investigations

(2007 fiscal year)

Number of Cases Conducted	Number of Cases Closed	Number of Cases Prosecuted	Total Tax Evasion		Total Tax Evasion (in Prosecuted Cases)	
			Million yen	Million yen	Million yen	Million yen
220	218	158	35,300	162	30,900	195

### Large-Scale Cases

(2007 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
158	20	7

### Prosecuted Cases by Tax Item

(2007 fiscal year)

Tax Item	Number of Cases	Total Tax Evasion	
		Million yen	Million yen
Income tax	57	9,300	163
Corporation tax	62	8,100	131
Inheritance tax	4	8,200	205
Consumption tax	30	4,400	147
Withholding income tax	5	900	18
Total	158	30,900	196

## Reduction of Tax Delinquency

### Tax Delinquency Cases of 100 Million Yen or More by Industry

(as of the end of the 2007 fiscal year)

Industry	Number of Persons		Amount of Tax	
		%	Million yen	%
Manufacturing industry	55	4.1	11,336	3.1
Distribution industry	85	6.4	35,802	9.7
Real-estate and construction industry	376	28.2	92,026	24.8
Food and beverage industry	84	6.3	15,494	4.2
Financial industry	23	1.7	12,764	3.4
Other industries*1	347	26.1	92,474	24.9
Others*2	362	27.2	111,037	29.9
Total	1,332	100.0	370,933	100.0

Notes: \*1 "Other industries" includes hospitals (doctors), the service industry, and the leisure industry.  
\*2 "Others" includes salaried workers and pension recipients.

### Seizure of Property

(2006 business year)

	Number of Delinquent Taxpayers	Number of Objects Seized	Appraisal Value
Movable property	552	21,587	Million yen 3,315
Claims	54,859	70,750	79,797
Immovable property, etc.	10,116	31,845	168,535
Others	3,820	431,820	4,517
Total	69,347	556,002	256,164

## Reinvestigation, Reconsideration and Litigation

### Requests for Reinvestigation

Classification	Number of Requests for Reinvestigation	Number of New Requests for Reinvestigation (1)	Number of Cases Processed (2)	Number of Requests Approved (3)	Percentage [(3)/(2)]
					%
Taxation	4,781	3,729	3,414	408	12.0
Tax collection	697	572	613	3	0.5
Total	5,478	4,301	4,027	411	10.2

### Requests for Reconsideration

Classification	Number of Requests for Reconsideration	Number of New Requests for Reconsideration (1)	Number of Cases Processed (2)	Number of Requests Approved (3)	Percentage [(3)/(2)]
					%
Taxation	4,117	2,003	2,561	353	13.8
Tax collection	622	501	384	8	2.1
Total	4,739	2,504	2,945	361	12.3

### Requests for Litigation

Classification	Number of Litigation Cases	Number of the First Instance Newly Filed (1)	Number of Cases Closed (2)	Number of Lost in Litigation and Partial Defeat Cases (3)	Percentage [(3)/(2)]
					%
Taxation	704	172	371	73	19.7
Tax collection	139	59	75	7	9.3
Total	844	231	447	80	17.9

Notes: The "Number of Requests for Reinvestigation" and the "Number of Requests for Reconsideration" are the figures for the 2006 fiscal year.  
The "Number of Litigation Cases" is the total number of litigation cases for each level of trial for the 2006 fiscal year.  
The "Total" Number of Litigation Cases" includes the cases for the National Tax Tribunal.

## Tax Consultations

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

(2007 fiscal year)

Number of Tax Consultations		Thousand cases
	Income tax	1,982
	Corporation tax	237
	Property tax	641
	Consumption tax	94
	Other indirect taxes	90
	Tax collection	144
	Others	458
	Subtotal	3,646
Tax Answer System	33,503	
Total	37,149	

### Number of Complaints Received at Tax Counsel Offices

(2007 fiscal year)

Income tax	748
Corporation tax	415
Property tax	83
Consumption tax	41
Other indirect taxes	25
Tax collection	47
Others	335
Total	1,694

## International Taxation

### Fraudulent Income through Overseas Transactions

(2006 business year)

Number of cases of fraudulent overseas income	105 cases
Amount of fraudulent overseas income	22,200 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).

### Transfer Pricing Taxation

(2006 business year)

Number of cases closed	101 cases
Amount of taxable income	105,100 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]

(2007 fiscal year)

Ranking	Tax Item	Topic	Thousand cases
1	Income tax	Obligation to file returns and filing procedures, etc.	345
2	Income tax	Medical expenses deduction	200
3	Income tax	Preparation of tax returns, statements of accounts, and other forms	195
4	Income tax	Year-end adjustment	178
5	Income tax	(Special) exemption for spouse, and exemption for dependents	118

#### [Tax Answer System]

(2007 fiscal year)

Ranking	Tax Item	Topic	Thousand cases
1	Income tax	Cases in which funds are spent on medical expenses (medical expenses deduction)	965
2	Income tax	Tax rate of income tax	729
3	Income tax	Medical expenses subject to medical expenses deductions	550
4	Income tax	Exemption for spouse	483
5	Income tax	Acquisition of a dwelling and special measures for income tax (special credit for loans relating to a dwelling, etc. and special credit for home improvement loans relating to the specified purposes, etc.)	431

## Taxpayer Satisfaction

(2006 business year)

Item	High Satisfaction Rate	
	%	
Attitude of officials in providing services	80.0	
Convenience in using the tax office	61.8	
PR activities	71.6	
Activities to collect public opinions	83.7	
Consultations at tax counsel offices	In-person	91.1
	Telephone	72.9

\* "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.



# NATIONAL TAX AGENCY REPORT 2008

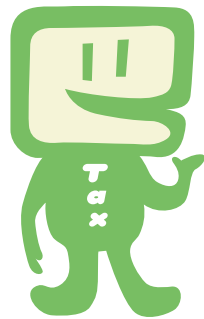
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