



NATIONAL TAX AGENCY REPORT 2009



From the Commissioner



Today, the National Tax Agency (NTA) faces a large stream of changes, including a declining birth rate and aging of the population, the rapid progress of globalization, information technology (IT) and the abrupt shifts in domestic and foreign economy which raise a variety of different issues that must be solved.

To assure the nations' revenue, which supports the activities of the state despite the harsh circumstances, we are determined to respond to the national mandate entrusted to the NTA by correctly achieving our duty to enable proper and fair taxation and tax collection.

To that end, it is important for us to maintain public confidence in the impartiality of the tax administration by ensuring that each of the tax officials maintain high morals; implement proper taxation under laws and regulations; and take resolute action against tax evasion or delinquency. Meanwhile, it is necessary for all of us to prevent waste, and streamline administrative jobs by introducing the use of IT under the limited headcount and budget, while improving public convenience.

While tax examinations are becoming increasingly difficult due to globalization and the introduction of IT for transactions, in order to materialize proper and fair taxation we are working to collect a variety of information to establish an examination structure that will meet the real status of transactions and to carry out effective tax examinations and criminal investigations. At the same time, when levying taxes, we properly determine fact finding and application of the laws and regulations to assure transparency and uniformity in taxation.

In order to assure the proper and fair collection of taxes, we endeavor to implement a variety of measures aimed at ensuring tax payment within the due date.

We are working to reduce outstanding delinquencies by focusing on large-scale, malicious and consumption tax delinquencies in the context of the actual situation of each taxpayer concerned.

Under the self-assessment system, having taxpayers fulfill the tax obligations voluntarily and appropriately is critically important.

In order to improve convenience for taxpayers, we are enhancing taxpayer services by utilizing IT such as e-Tax (online tax return filing and tax payment system) and making available tax information through the NTA website. We have installed call centers for counseling service at each of the Taxation Bureaus and centralized telephone counseling at all the Tax Offices effective on November 2008. In addition, we had been moving forward with the integration of back office work, which has been implemented at all Tax Offices since July 2009.

We believe that these will lead to further enhance of administrative work.

The National Tax Agency Report 2009 was drafted for the purpose of achieving accountability under the editorial policy of easy-to-understand explanations of the issues we face, the way to address such issues, and the results produced.

We sincerely hope that the National Tax Agency Report 2009 will be of any means for taxpayers to deepen their understanding of our activities.

September 2009

加藤 治彦

Haruhiko Kato
Commissioner
National Tax Agency, Japan

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The fiscal year ranges from April 1 through March 31 of the following year (i.e. fiscal year 2007: April 1, 2007 to March 31, 2008), while the operation year is from July 1 through June 30 of the following year (i.e. operation year 2007: July 1, 2007 to June 30, 2008).

I About the NTA

The NTA is in charge of the assessment and collection of internal taxes. The Agency was organized in 1949 as an external organ of the Ministry of Finance.

The NTA supervises 12 Regional Taxation Bureaus (including the Okinawa Taxation Office, and the same applied hereinafter) and 524 Tax Offices throughout Japan. The NTA, which plans the tax administration, supervises and oversees the administration of the Regional Taxation Bureaus and the Tax Offices. The Regional Taxation Bureaus, which are supervised and overseen by NTA, supervises and oversees Tax Offices in its jurisdiction. In addition, the Bureaus directly levy and collect taxes from large taxpayers. The Tax Offices under the guidance and oversight of NTA and Regional Taxation Bureaus represent the frontline enforcement organization as well as the administration body maintaining the closest relationships with taxpayers.

In addition, there are National Tax College which train tax officials, while the National Tax Tribunal as a special body engaged in reviewing requests for reinvestigation or reconsideration from taxpayers.

1 Assignment and Missions of the NTA

(1) Assignment of the NTA

Article 19 of the Act for Establishment of the Ministry of Finance provides that the NTA achieves its duties of “proper and fair assessment and collection of internal taxes.” To achieve the duties, the NTA carries out its activities to support taxpayers in understanding their tax obligations through public relations activities and tax education (taxpayer services), and corrects taxpayers who fail to fulfill their tax obligations by providing proper guidance or tax examinations (promotion of the proper and fair tax administration).

In addition, the NTA works to carry out its duties as set forth in Article 19 of the same Law: “Sound development of the liquor industry” and “proper administration of the Certified Public Tax Accountants (CPTAs) service.”

(2) Missions of the NTA

The NTA believes that when carrying out its duties, gaining understanding and confidence of the citizens are critically important.

To this end, the NTA puts together easy-to-understand standards of assigned duties and code of conduct, which are disseminated to tax officials and released to the public as the Missions of the NTA.



NTA

Missions of the NTA

Realization of taxpayer's voluntary compliance

Assignment

- The NTA carries out its duties as stipulated in Article 19 of the Ministry of Finance Establishment Law by keeping in mind transparency and efficiency.

1 Realize proper and fair taxation and collection

(1) Tax Payment Environmental arrangement

- Disseminates and publicizes an interpretation of laws and procedures to taxpayers in an easy-to-understand way.
- Responds quickly and accurately to inquiries or consultations from taxpayers.
- Make efforts to encourage cooperation and assurance of involvement from the relevant ministries, agencies, and citizens in order to gain the understanding and cooperation of the roles of taxes and tax administration.

(2) Promotion of proper and fair tax administration

- To realize proper and fair taxation,
 - Properly apply the relevant laws and regulations.
 - Try to realize the process of proper tax filing and correct errors by conducting examinations and guidance with persons who have filed improper returns.
 - Endeavor to help taxpayers pay the tax by the due date and implement a procedure to collect taxes from delinquent taxpayers.
- Respond properly and promptly to taxpayers' requests for a reinvestigation to address infringements of taxpayers' legitimate rights and interests.

2 Sound development of the liquor industry

- Stabilize the management base of the liquor industry's business and assure research and development of brewing technologies and the quality and safety of liquor.
- Assure the effective use of resources related to liquor.

3 Proper administration of the Certified Public Tax Accountants (CPTAs) service

Assure that, CPTAs play important roles in the proper and smooth administration of the self-assessment system based on the missions assigned.

Code of Conduct

- The above duties shall be carried in accordance with the following Code of Conduct.

1 Code of conduct upon performing duties

- Maintain tax administration transparency so that taxpayers are knowledgeable of the interpretations of the laws and regulations and administrative procedures.
- Work to improve taxpayer convenience.
- Work to improve the administration processes in order to improve efficiency in tax administration.
- Work to actively collect and use the information and data so as to effectively implement tax examinations and procedures against tax delinquencies.
- Implement stern measures to enforce the law with taxpayers who are engaged in malicious tax evasion and tax delinquency.

2 Code of conduct for officials

- Respond to taxpayers in good faith.
- Maintain confidentiality about information acquired on the job and maintain official discipline.
- Work to gain the professional knowledge required to accomplish assigned tasks.

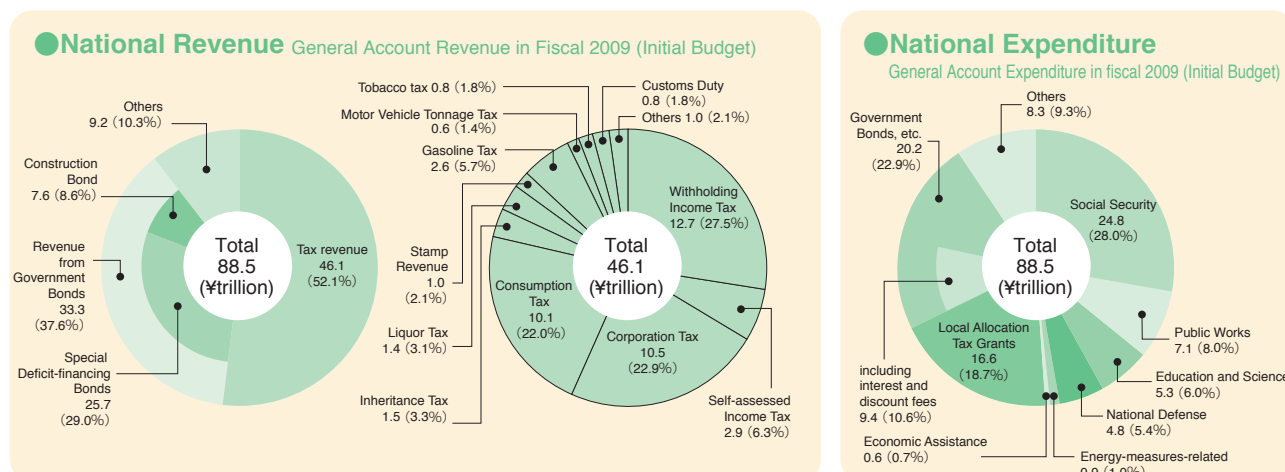
Challenges

- The NTA correctly and flexibly copes with changes in an economic society faced with the advanced use of IT and globalization, while continuously reviewing and improving the organization and tax administration operation in order to meet taxpayer needs.

2 Overview of the National Tax Organization

(1) National Revenue and Taxes

National revenue (budget for general account revenues) in fiscal 2009 stands at ¥88,548 billion, of which ¥46,103 billion is from the taxes and stamp revenues. Deducting from them Customs tax revenues and stamp revenues from Japan Post Holdings Co., Ltd., leaves ¥40,143 billion (about 87%) as national tax revenues. The income tax, corporation tax, and consumption tax account for about 80% of the tax revenues.



※ Revenue from the government bonds are from the construction bonds issued to cover public works spending and special deficit-financing bonds issued to make up for short falls in revenue. They are all debts that have to be repaid in the future.
The amount of sub-total in each item of accounts does not accord with the amount indicated in the grand total as fractional figures are rounded off.

(2) NTA Budget and Number of Personnel

The NTA budget (initial) in fiscal 2009 stands at ¥720 billion, the majority of which is accounted for by salary costs. In recent years, spending in the budget is prioritized on the budget to operate the Kokuzei Sogo Kanri System[NTA Comprehensive Information Management System] (hereinafter called “KSK”) and the e-Tax to keep administrative process efficient and improve services for taxpayers.

The headcount at NTA stayed at around 52,000 from the 1970s through the first half of the 1980s. Thereafter, the number increased, as the consumption tax introduced in fiscal 1989. After hitting a peak in fiscal 1997, the headcount has decreased by more than 1,000 over 9 years until fiscal 2006.

The workforce has turned to increase since fiscal 2007 with the latest number at 56,240 in fiscal 2009.

In the face of the tough financial situation of today, the NTA is trying to save the administrative expenses and streamline the headcount, while securing the budget and headcount necessary to get the NTA's duties done.

	FY 1975	FY 1997	FY 2009	(Reference) FY 2009/FY 1975
Budget (¥billion)	236.0	654.8	720.5	305.3%
Headcount (persons)	52,440	57,202	56,240	107.2%
①Number of income tax returns filed (1,000 persons)	7,327	20,023	23,693	323.4%
②Number of Corporations (1,000 cases)	1,482	2,793	3,003	202.6%
③Number of establishment subject to commodity tax (1,000 cases)	117	—	—	—
④Number of enterprises subject to consumption tax (1,000 cases)	—	2,521	3,637	—
①+②+③+④(1,000 cases)	8,926	25,337	30,333	339.8%

※①Number of income tax returns filed in fiscal 2009 represents the figure for 2008.

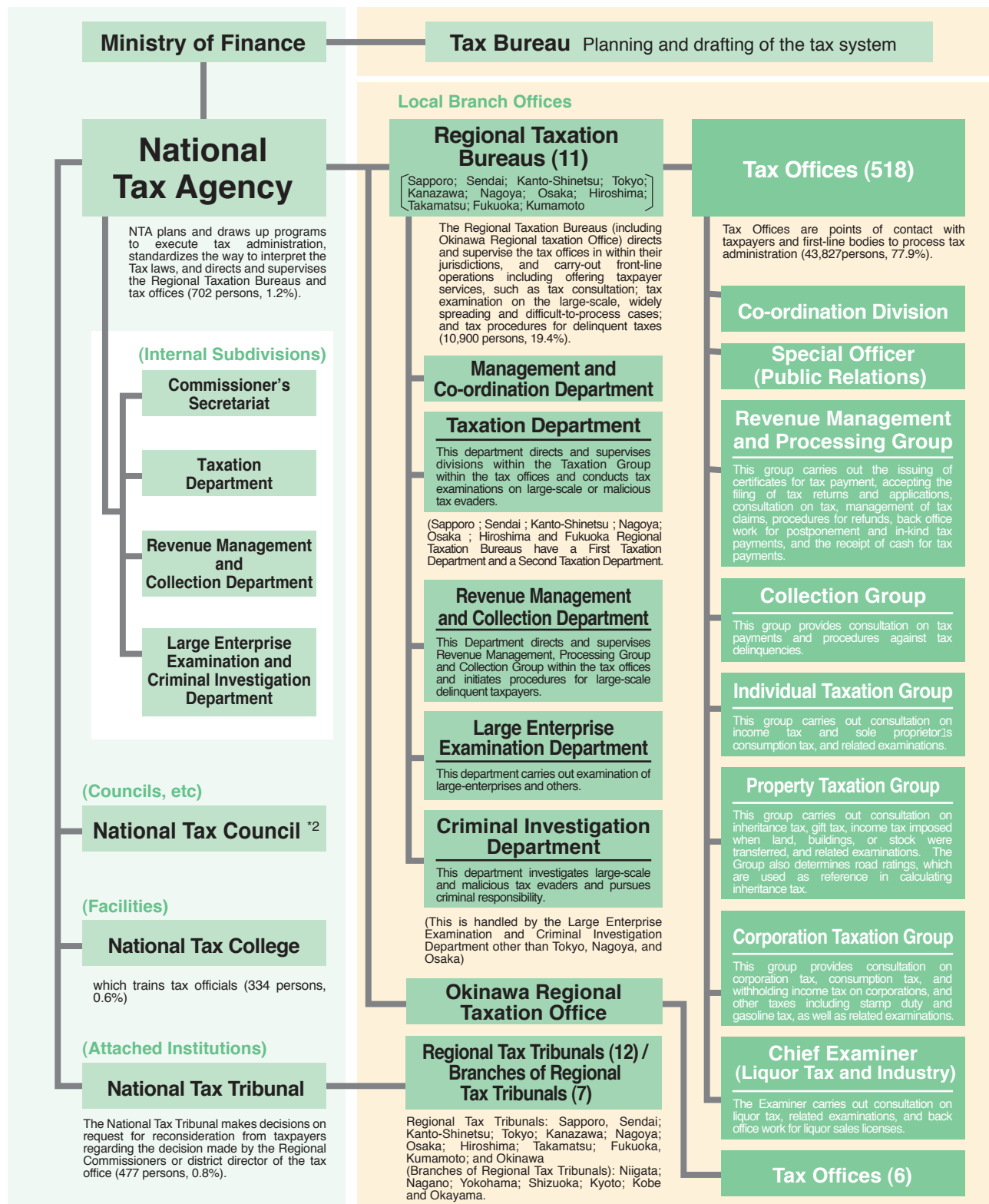
②Number of corporations in fiscal 2009 represents the figure as of July-end 2008.

④They represent the number of Notifications of Taxable Enterprise Subject to Consumption Tax. The figure in fiscal 2009 represents the figure as of March-end 2009.

(Reference) indicates the percentage for fiscal 2009 with fiscal 1975 as 100.

(3) Organizational Structure of NTA

The NTA supervises 12 Regional Taxation Bureaus (including Okinawa Regional Taxation Office) and 524 Tax Offices to process tax administration throughout Japan. ^{*1}



^{*1} The headcount and percentage indicated in each department represents the prescribed number of personnel in fiscal 2009 and the percentage accounting for the overall number of personnel in the NTA.

^{*2} The National Tax Council addresses the following: ① studies and deliberation on matters requested by the NTA Commissioner where the Director-General of the National Tax Tribunal determines the case by making different interpretation of laws from the notification issued by the NTA Commissioner; ② implementation of CPTAs examination and decision on the disciplinary actions applied to CPTAs; and ③ deliberations on the establishment of labeling standards for liquor and other matters.

II Promotion of Tax Filing and Payment by Proper Self-Assessment

Japan adopts a self-assessment system for most of national taxes. Under this system, taxpayers themselves determine the amount of tax and pay it. On the other hand, for local taxes, the official assessment system is generally adopted.

For the national taxes, the official assessment system was used in the past, and tax authorities who calculated the tax amount based on income notified taxpayers. Meanwhile, the self-assessment system was introduced to the three different taxes for income, corporations, and inheritance in 1947, and this method has been adapted to many of the national taxes.

In order for the self-assessment system to function properly, it is necessary for taxpayers to have a high level of awareness regarding tax payment and to adequately fulfill the obligation of tax responsibilities as provided by the constitution and law. To this end, the NTA offers a variety of services for taxpayers to help them file and pay taxes by themselves. They include public relations activities relating to the meaning of taxes; knowledge about the tax law; tax education; interpretation and handling of laws and regulations; clarification of procedures; and tax consultation, improvement of convenience for taxpayers in filing income tax returns, etc.

In order to confirm that the tax returns filed by taxpayers are correct, not only provision of guidance or tax examinations, but also cooperation and coordination with CPTAs and relevant private organizations are needed. Furthermore, if national taxes are not paid by the due date, it is necessary to implement procedures for tax delinquencies. The NTA provides guidance or examinations of taxpayers who need corrective action and executes firm and proper procedures to collect delinquent taxes based on laws and regulations, while considering the individual circumstances of each taxpayer. In this way, the NTA promotes proper and fair tax administration.

1 Enhancement of services for taxpayers

To have taxpayers voluntarily file a proper tax return, it is absolutely essential for them to realize the meaning of tax obligations. We therefore provide information for this purpose and make response to questions asked by taxpayers.

The NTA conducts public relations activities under the basic principles of “whenever making available the information as taxpayers want to learn without visiting the tax offices,” “contents of public relations activities are described in an easy-to-understand way in perspective of taxpayers,” and “widely seek opinions from taxpayers and reflect them in the improvement of administrative work.”

Specifically, centered on the NTA website (104,074 thousand accesses in fiscal 2008), the NTA provides a variety of information on the meanings and roles played by taxes and a system of taxes. The information is provided through a mass media such as TV, newspapers, etc., other public relations activities media of pamphlets made available at the tax offices as well as municipality offices, and various explanatory meetings.

The NTA also responds to general inquiries and consultations related to taxes on the telephone, while providing information on the interpretation and handling of general tax law through the NTA website, etc. Furthermore, it responds to advance inquiries or questions where there are any questions in tax application to transactions taxpayers are going to make.

(1) Information provided on the NTA website

The NTA website has the following functions by improving such functions as searches and guides for taxpayers to use. Attention is also paid to assist people who have vision disorders and the elderly by making available magnified letters and voice readings.

- ① Tax information
- ② Taxpayer service utilizing IT such as “e-tax” and “filing assistance on the NTA website”

③ Taxpayer service receiving opinions and requests from taxpayers

The NTA provides the following information on the NTA website:

- Q&A related to the tax law, notification to interpret laws and regulations and case examples of written responses for advance inquiries and questions
- Information on tax affairs and activities addressed by the NTA
- Road price rating map and evaluation coefficient table, which become the standards for the taxation of inheritance taxes, etc.
- Information regarding auctions conducted by the Regional Taxation Bureau and Tax Offices, etc.

Overview of the NTA Website

※ The following image is as of June 2009.

Information User Guide

- Laying out the information under the five categories by clicking the buttons on the top page;
- Laying out the portals to the most accessed information on the left of the page;
- User guides in dark blue color on the top of the page and on the left are commonly displayed to enable users to easily access the information as they want.

1 Search by the tax category

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

2 Searching contents within the site

- Search engine function for text or related words
- See "How to use the search engine"

3 Mail magazine

- Registration of "What's new mail magazine delivery service"

4 Text enlargement/voice readings

- Functions for the elderly and those who have visual disorders

The screenshot shows the NTA website interface with the following callouts:

- 1: New information section on the left sidebar.
- 2: Search bar at the top right.
- 3: Mail magazine registration link on the right sidebar.
- 4: Text enlargement/voice readings link on the right sidebar.
- 5: Search Regional Taxation Bureau and the Tax Offices link on the left sidebar.
- 6: Online national tax return filing and tax payment system (e-Tax) link on the left sidebar.
- 7: Tax Answer System link on the left sidebar.
- 8: Home page usage link at the top.
- 9: Web-TAX-TV link at the bottom.
- 10: Tax learning section link at the bottom.

5 Search Regional Taxation Bureau and the Tax Offices

- Portal to the Regional Taxation Bureau pages

7 Tax Answer System

- Portal to the FAQ where frequently asked inquiry and general answers are posted

9 Web-TAX-TV

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

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

- Information to support filing tax returns and payment using e-Tax for "Prior preparation," "advanced registration," "flow of procedures," etc.

8 Use of the website

- Guide to using the website for the first time

10 Tax learning section

- Pages directed at children where they can learn about taxes
- Learning materials for tax education

II Promotion of Tax Filing and Payment by Proper Self-Assessment

(2) Tax education

For the purpose of helping children and students shouldering the next generation correctly understand the meaning and role of tax, pay taxes as members of society, develop an interest in the way taxes are used, and develop self-awareness to think of the society and state as taxpayers, the NTA provides support to enhance tax education.

The NTA thinks that the tax education should be addressed with the efforts of society. Centered on the Council for Promotion of Tax Education consisting of the state, local public bodies and education-related personnel, we are holding the tax workshops, drafting and distributing learning materials on tax education, and offering writing contests in schools, while developing cooperation from the relevant private organizations.

As a forum to help children and students find, learn, independently judge, develop the qualities and abilities to solve tax issues, the NTA has set “Tax☆Space UENO” as exclusive facilities for tax education in Tokyo-Ueno Tax Office.

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 through the “Tax Historical Materials Room”

The Tax Historical Materials Room on the Wako campus of the National Tax College, the only specialist facility in Japan, displays a number of valuable historical materials, which are being used by people who are directly involved in tax history as well as a wide range of students from junior and senior high schools to other members of society.

Specialized staffs are making research on the historical materials and the past tax system.

For explanation in detail, please visit the National Tax College on the NTA website at

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



Tax Historical Materials Room

(3) Briefings for taxpayers

To help taxpayers develop a full understanding of the tax procedures and revisions to the tax law, the NTA sponsors a variety of briefings regarding taxes, including explanations on the necessity of bookkeeping and maintaining accounting books; preparation of tax returns and financial statements; year-end adjustment subject to the withholding agent; explanation of revisions to the tax laws, and information for newly established corporations.

● Frequency of Briefings and Number of Participants (operation year 2007)

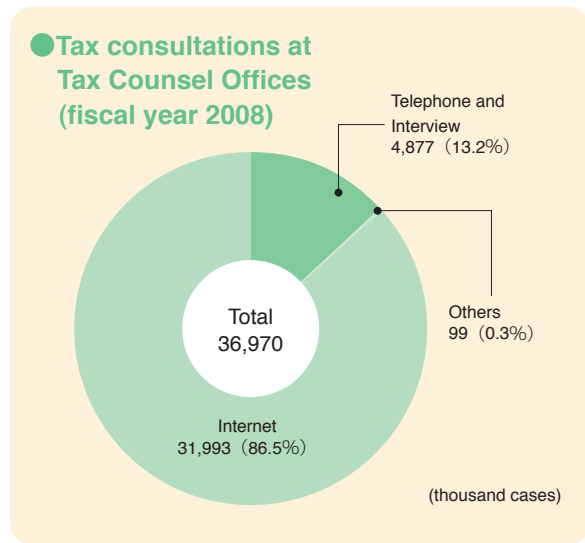
Various Briefings	
Frequency of Holding	31,104 Times
Number of Participants	1,491 Thousand persons

(4) Tax Consultation

Tax consultations are part of the taxpayer services that provide information on taxes and respond to inquiry from taxpayers to ensure the correct filing of tax returns and the tax payment. The NTA centralizes the accepting of general inquiry and consultation at call centers of every Regional Taxation Bureau placed across the country. For consultations on the telephone inquiries, tax counselor well versed in tax are responding to overall questions about tax at the call centers under each of the tax items in principle. At the call centers of Regional Taxation Bureaus in Tokyo, Nagoya and Osaka, English-speaking tax counselors provide tax consultation services for foreign nationals.

Information typical to inquiry related to taxes is offered via the website as tax answer system.

For tax consultations requiring verification of the facts in detail, tax offices under the jurisdictions accept them by appointment, which contributes to dissolving the problems of staying on waiting lists. Tax consultations are thus effectively and efficiently managed.



(5) Advance Inquiries

If there are questions about how the tax laws will apply to transactions actually made by taxpayers, the tax offices and Regional Taxation Bureaus respond to advance inquiries. Of such inquiries, if the taxpayer requests an answer in writing, responses are made in written form only when certain conditions are met, such as having not made clear the way to handle similar cases according to the tax laws. Such advance inquiries and responses are posted on the NTA website as reference information to be shared with other taxpayers. There were 118 cases of inquiries requesting responses in writing in fiscal 2008.

With respect to the definition of transactions subject to advance inquiries, such transactions used to be described as “transactions having been actually made or those scheduled to be definitely made.” However, effective in April 2008, they were revised to read “transactions having been actually made or those scheduled to be made in the future for which the submission of specific and individualized materials is possible,” in order to make clear the law application to taxpayers’ future transitions in advance. Concurrently, the procedures have been revised for taxpayers, for example, so as not to disclose information such as the name, in principle, which the inquirer can be specified.

2 Filing for Tax Return

The number of persons filing income tax returns is increasing every year.

The number of persons who filed income tax returns rose to 23 million in 2008, which is equivalent to one out of every five Japanese people filing tax returns. Of those filing returns, the number of filers who requested refunds topped 12 million, accounting for more than half of the persons filing income tax returns.

The NTA is responding to the growing and diversifying number of tax return filers, while minimizing costs related to filing tax returns in order to enhance the level of satisfaction of taxpayers, thereby using ideas to provide quality service.

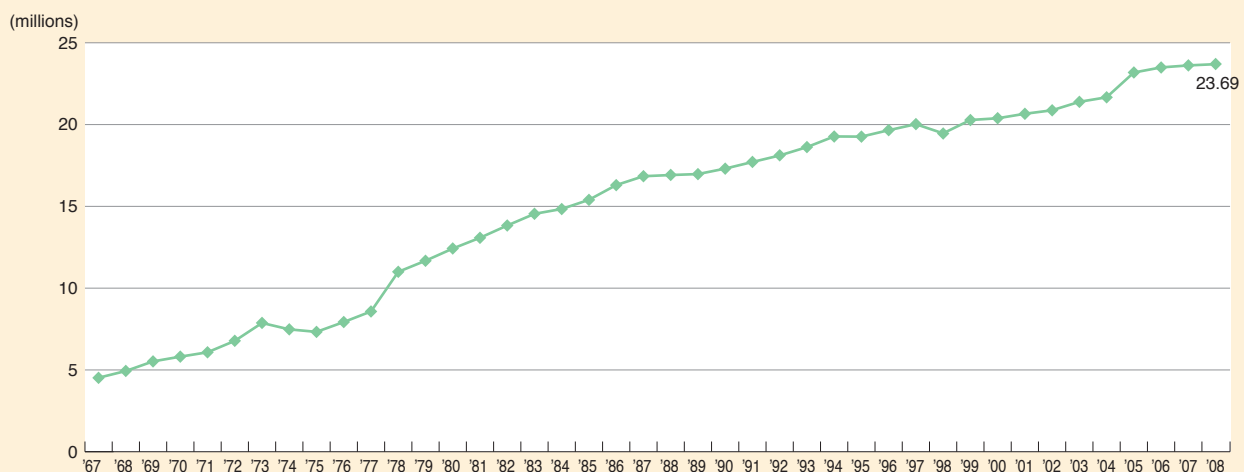
II Promotion of Tax Filing and Payment by Proper Self-Assessment

(1) Promoting Self-completion of Tax Returns

Self-completion of tax returns means that the taxpayers themselves prepare their tax returns and submit them to the tax offices. Under the principle of the self-assessment system in which taxpayers voluntarily file proper tax returns and pay the tax, it is very important for them to understand the tax system and prepare their tax returns by themselves. The NTA offers information related to taxes on the NTA website to enable more taxpayers to voluntarily and properly file tax returns from home, while making available on the same website IT services, such as the filing assistance on the NTA website and e-Tax. Also, in order to promote the introduction of self-completion of tax returns, we are trying to establish the proper structure of tax consultation and installing personal computers in the self-assessment consultation center of the tax offices to encourage taxpayers to use the online filing assistance on the NTA website.

At a time when income tax returns are filed, more than 20 million applications are submitted every year, so we are working to efficiently execute the overall process of accepting tax returns while improving convenience for taxpayers with a limited headcount.

● Trend of the individual tax return filers



(2) Tax Consultation on Weekend

In response to taxpayers' desire to accept requests for tax consultations on weekends during the filing period for final tax returns, some tax offices are accepting tax returns and respond to tax consultations on two Sundays during the filing period for final tax returns. This is highly rated by taxpayers every year.

For the 2008 tax returns, the offices were open on February 22 and March 1, 2009, during which 256,000 income tax returns were filed.

Reference Filing Returns for Refund and Request a Correction

If the amount of withholding tax or estimated tax prepayments are larger than the amount based on real annual income, taxes overpaid are refunded by filing returns for refund^{*1}.

In case the amount for taxes was excessively filed for tax return because of incorrect calculation, taxpayers are entitled to request a correction to the tax return^{*2}, if either taxes were overpaid or the amount of the refund was too small.

The NTA properly applies the relevant laws and properly processes them.

Reference When taxpayers suffer disasters

- (1) If the occurrence of a natural disaster prevents taxpayers from filing tax returns and paying taxes by the due date, taxpayers can apply for postponement to the district director of tax offices under the jurisdictions. Upon approval, the due date is postponed within a range of two months since the day when the reason ceases to exist.
- (2) When earthquakes, fire, windstorm, flood, and any other natural disaster cause damage to taxpayers' houses and household goods, taxpayers can make a choice for filing tax returns: ① the deduction for casualty losses pursuant to the Income Tax Law, ② tax reduction or exemption of taxes pursuant to the Law relating to Tax Reduction and Postponement of Collection for Disaster Victims, whichever is favorable to taxpayers, to have their income taxes reduced in whole or in part.
- (3) In the event disasters caused considerable damage to properties, taxpayers can submit an application to the district director of tax offices within two months from the day when such disasters ended, and the tax payment is postponed to no later than one year from the due date for tax payment upon approval.
- (4) If taxpayers are prevented from paying taxes at one time as a result of a disaster or theft, the tax payment is postponed by applying to the district director of tax offices no later than one year within the limit of the amount that will be recognized as unpayable at one time upon approval.

Cooperation with the local tax authorities

Some of the local taxes have the same tax base as that of national taxes and are paid by the same taxpayers as for national taxes. In order to simplify the filing procedures for taxpayers, coordination is maintained between the national and local tax authorities in the aspect of the tax system and execution of tax administration. For example, taxpayers who file an income tax return are not required to file the same for business tax or inhabitant's tax, both of which are local taxes in the aspect of the tax system. Also, the same procedures can process tax-return filing for consumption tax and local consumption tax. In the execution of tax administration, many municipalities provide tax consultations for income tax. In addition, the national tax authorities and local tax authorities work together holding briefings for tax return filing or to publicize tax-related information. 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 is added if certain requirements are met.

*2 Requests for the correction to the tax return can be filed during the required period of time by submitting to the tax offices the request containing the incorrect descriptions.

3 Promotion of Proper and Fair Tax Administration

In order to realize proper and fair taxation, the NTA conducts tax examinations of large-scale and malicious taxpayers by making full use of its organizational strengths. Meanwhile, a balance is struck between human and material resources through a combination of brief contacts for insignificant corrections.

A variety of strict tax examinations are conducted for taxpayers that attempt to evade their tax obligations.

The subjects of tax examinations are selected through the KSK system, which contain data related to income tax returns, corporation tax returns, and a variety of information sources, from the viewpoint of type, form, and scale of industries. With the information, recognized as important to realize proper and fair taxation, we have in place a structure to efficiently collect information of high value.

● Number of Cases related to Tax Examinations

(thousands)

Operation year	2005	2006	2007
Number of examination	439	474	466
Number of cases by brief contact	687	658	698

Tax examinations aim to check the content of tax returns based on taxpayers' records, and if any mistakes are discovered, to ask taxpayers to correct them. We place great importance on the examination of malicious taxpayers using a sufficient number of days for the procedures. The field examination in operation year 2007 proved that unrecorded income per case was ¥9.65 million^{*1} for self-assessed income tax and ¥11.07 million for corporation tax.

● The unrecorded income amount of self-assessed income tax and corporation tax found in the field examinations per case



(1) Priority matters addressed in the tax examinations

a. Diversified asset management and response to globalization

For the taxpayers whose income is expected to increase but whose filing for tax returns was either low or none, we are addressing tax examinations keeping in mind diversification and globalization of asset management. There are cases where high income earners, in particular, are not filing income returns on profits earned through overseas investments or foreign exchange margin trading (hereinafter called "FX trading"): consequently, we select subjects for examinations through various analyses.

In response to increasingly active FX trading, requirements on the records of future transactions were introduced by a revision to the tax law in fiscal 2008. As a result, the submission of payment

^{*1} It represents the amount related to the special and general field examinations.

records to settle speculations on margins related to financial futures traded over the counter was required after January 1, 2009 after such transactions were completed. The submitted payment record will be used to acknowledge the information on the filed tax returns.

b. Response to the tax return of fraudulent refunds for consumption tax

Consumption tax is one of the important taxes similar to a deposit, which attracts the attention of the public. Therefore, proper tax administration is necessary. In particular, as there are cases where consumption tax refunds were claimed through the filing of false returns, we work to prevent the filing of fraudulent refunds by instituting sufficient examinations of the facts. As a result, if the reasons for a tax refund are not clear, we make contact through tax examinations and try to prevent fraudulent refunds.

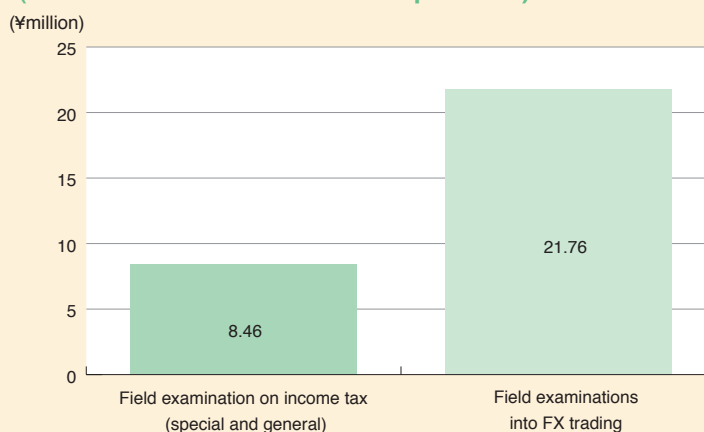
c. Enhanced Examination

To verify the trust placed on the tax administration, it is important that tax laws are applied with the proper interpretation of laws and regulations upon fact finding. To this end, we try to process taxes after correctly interpreting the assertions made by taxpayers and studying the laws and regulations based on correct fact finding. On this occasion, we are thoroughly adhering to the procedures and processes to ascertain whether all legal requirements are properly met.

Results of field examinations into FX trading

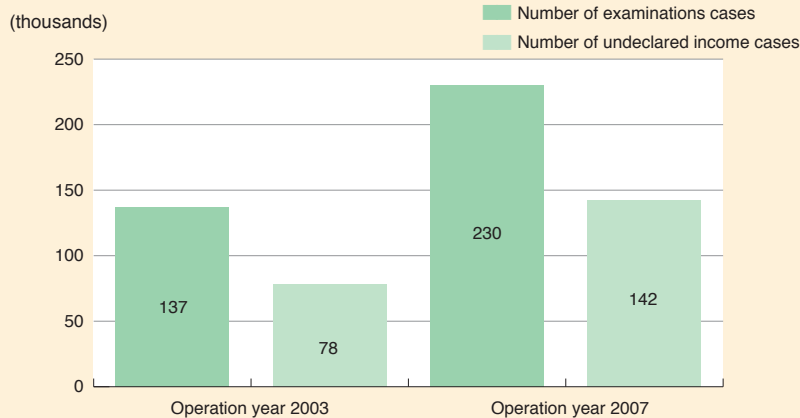
- In operation year 2006, intensive field examinations were conducted with respect to FX traders who were suspected of undeclared income or failure to file tax declaration (1,030 cases were examined). Their unrecorded income totaled ¥22.4 billion, with unrecorded income amount of ¥21.76 million per case. The field examination on income tax (both special and general) in operation year 2006 revealed unrecorded income of ¥8.46 million per case. This indicates that unrecorded income amount per case of FX traders is 2.6 times larger by comparison.

● Results of examinations into FX trading (amount of undeclared income per case)



Examination of Consumption Tax

● Examination of Consumption Tax (Individual and Corporation)



○ Example of vicious fraud in the consumption tax

- Pretending to have acquired the fixed assets such as real estate, machines and equipment by fraud, a false tax refund was claimed.
- Although salary costs in company or sole business proprietor are not deductible from taxable sales, pretending the costs are the deductible costs associated with outsourcing of labor from affiliated companies (temp agencies, etc.) through fraud, false consumption tax refunds were claimed.

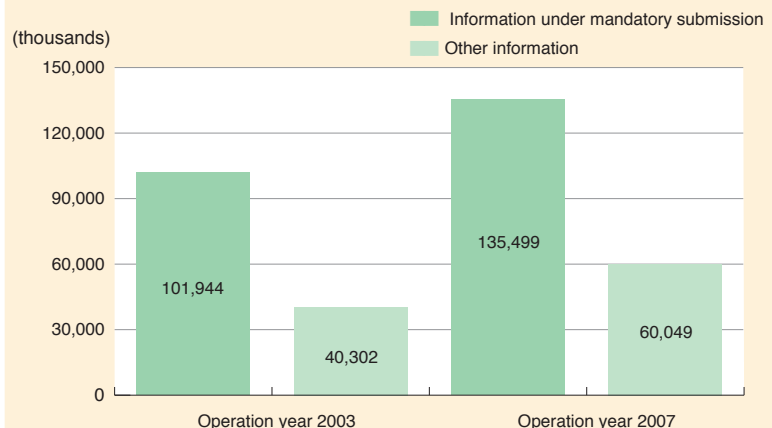
(2) Proper Withholding Tax System

The Withholding Tax System finalizes the taxation process through year-end adjustments, which eliminate the procedures for tax returns for many wage earners, up to 50 million persons. The Withholding Tax System is as important in tax administration as the self-assessment system. To have a withholding agent properly process withholding tax procedures and pay taxes, the NTA holds briefings to make the year-end adjustment and distributes guidebooks and pamphlets. For withholding agents who have not paid by the due date, we remind them of the payment by letter or telephone call. Stricter actions are being initiated against large-scale, vicious, and difficult-to-handle cases.

(3) Information Collection

The NTA collects a variety of information on off-the-books or fake transactions obtained in the course of tax examinations, in addition to the withholding record of employment income, payment record of interest, and others whose submission is required pursuant to the provisions of the tax laws.

● Item number of information



The items of information collected by the NTA totals 190 million a year, and the information and data on tax returns are centralized and maintained in the KSK system and used for guidance as well as tax examinations. In order to keep pace with the economy and society, globalization, and introduction of the advanced use of IT in recent years, we are aggressively addressing the collection of information on new forms of business transactions, overseas investment, and electronic commerce (e-commerce) via the Internet.

(4) Criminal Investigation

To impose correct taxes on taxpayers who intentionally evaded taxes using illegal measures, such as fraud, and to pursue criminal responsibility for such antisocial behavior, the NTA may conduct tax examinations using methods similar to those used in criminal investigations by exercising its 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 public prosecutors launch public prosecution of tax evaders. This is known as the criminal investigation system, and it pursues criminal responsibility of large-lot and malicious tax evaders. Taking advantage of the fact that punishing one serves as a warning to all, this system has an important mission in enabling proper and fair taxation and maintaining the self-assessment system.

The departments of criminal investigation at Regional Taxation Bureaus throughout the nation are strengthening coordinated efforts to work with the relevant divisions as well as prosecutors and others. The NTA is actively working on such cases that will have growing ripple effects on society and the economy, including international cases in addition to the conventional cases of the income tax and corporation tax.

In fiscal 2008, the NTA commenced 211 criminal investigations, processing 208 cases, including those carried over from the previous year, of which it charged 153 cases that were forwarded to public prosecutors. The total amount of tax evasion stood at about ¥35.1 billion with an average amount of tax evasion at ¥163 million.

Notable methods of tax evasion were intentionally concealing sales and booking costs at unreasonably high amounts. Meanwhile, there were cases of tax evasion involved in overseas transactions, financial and securities transactions, and filing no returns.

In fiscal 2008, 154 cases were all convicted at the court of first instance with an average prison sentence of 16.1 months and average fines amounting to about ¥22 million. Nine persons were sentenced to prison without probation. Prison sentences without probation have been handed down every year since 1980.

● Status of Criminal Investigations

Fiscal year	Number of cases conducted	Number of cases closed	Number of cases referred to the prosecutor	Total amount of tax evasion (including : reference to the prosecutor)	Amount of tax evasion per case (including: reference to the prosecutor)
	cases	cases	cases	¥million	¥million
2007	220	218	158	35,340 (30,888)	162 (195)
2008	211	208	153	35,070 (24,942)	169 (163)

* Figures of tax evasion include additional tax.

II Promotion of Tax Filing and Payment by Proper Self-Assessment

● Ruling Status of Criminal Investigation Cases

Fiscal year	Number of rulings (1)	Number of Convictions (2)	Percentage of Cases Convicted (2)/(1)	Number of Convictions with prison sentences without probation (3)	Amount of tax evaded per case (4)	Term of prison sentence per person (5)	Amount of fines per case (6)
	cases	cases	%	persons	¥million	months	¥million
2007	189	189	100.0	22	127	16.1	31
2008	154	154	100.0	9	79	16.1	22

* (3)~(6) exclude those combined with non-tax crimes.

"Amount of tax evaded" is the tax amount evaded through fraud and other illegal acts.

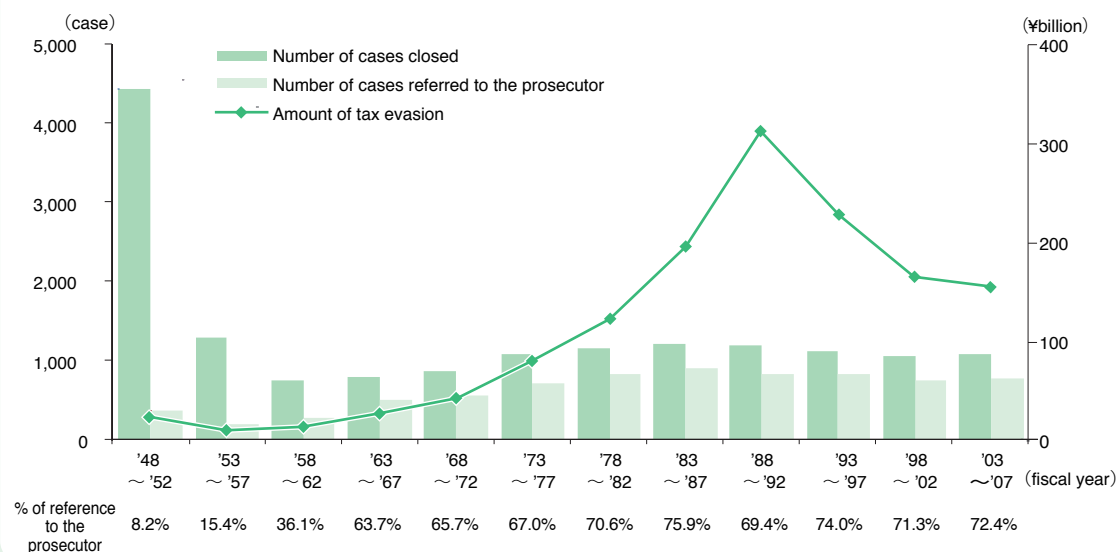
《Column》 60th Anniversary of the Criminal Investigation System

The Criminal Investigation System was started when the Criminal Investigation Departments were placed in the Tax Bureau and in the Finance Bureau of the Ministry of Finance in July 1948. The System observed its 60th anniversary in July 2008.

At the beginning of their placement, the major emphasis was to ensure tax revenue by a thoroughgoing capture of profits by earners in the wake of inflation right after the war. Thereafter, as the economy and society of this country stabilized, the principle of today's detection of large-scale and malicious tax evaders has been established after discussions were held regarding the criminal investigation system. Under the coordination of the Legal Affairs and Prosecutor's offices, the Criminal Investigation System has played a major role as the last resort in the self-assessment system of Japan.

Over the past 60 years, while keeping abreast of the latest changes in the economy of Japan, the System has played its expected role of criminal investigation by detecting a wide range of cases considered significantly serious and socially meaningful.

● Trends in the Amount of Tax Evasion, Number of Cases Closed, Number of Cases Referred to the Prosecutor, and Percentage of Reference to the Prosecutor Since Establishment of the Criminal Investigation



Web-TAX-TV

Internet broadcasts by the National Tax Agency

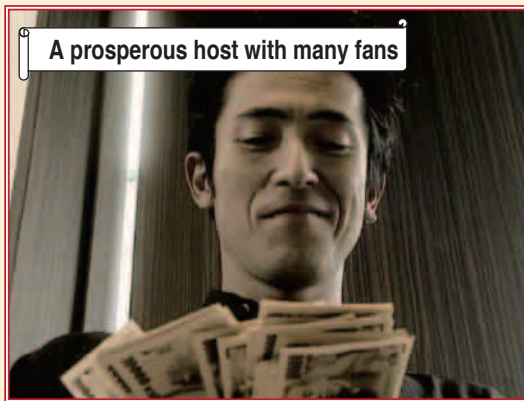
Tax guides with a wide choice of categories

Streaming contents available from the official website
of the National Tax Agency!

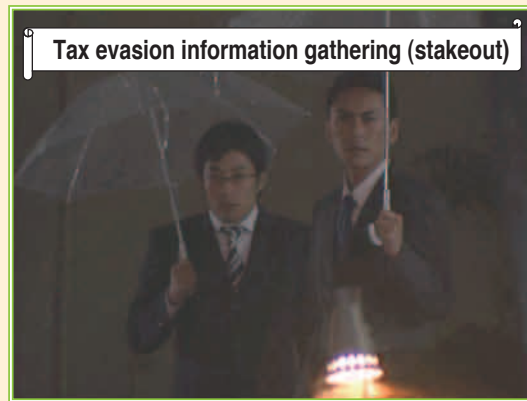


Duties of the investigator

These video clips present how investigators keep watch on potential tax evaders in a drama format!



A prosperous host with many fans



Tax evasion information gathering (stakeout)



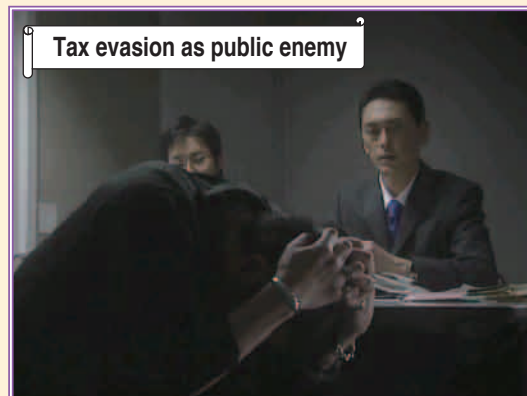
Planning session on the day before criminal investigation



Criminal investigation started!



Hidden assets uncovered!



Tax evasion as public enemy

Reference Tax Examination

The NTA provides taxpayers with proper tax examinations and guidance to enable them to properly file tax returns.

(1) Advance notice of tax examinations

In principle, taxpayers are notified in advance as to the date of tax examinations by telephone so that we can confirm taxpayers' availability. If there is a need for us to confirm the actual state of business affairs, no prior notice is given.

Advance notice is given in about 80% of the income tax examinations and in about 90% of corporation tax examinations.

(2) The way to conduct tax examinations

When tax officials visit the residence or office of taxpayers to conduct a tax examination, they present identification cards as tax officials with their photos and their names.

The process of tax examinations will proceed quickly and smoothly if taxpayers cooperate by presenting books and other documents that account for daily transactions to tax officials and respond accurately to inquiries regarding the tax returns.

In order to minimize the burden on taxpayers, we conduct tax examinations as rapidly as possible. In principle, tax examinations are conducted in the presence of taxpayers.

Taxpayers may also have their CPTAs designated as tax proxies attend the tax examination.

(3) Action taken after the completion of tax examination

When errors are found in tax returns, examiners explain the content of errors, etc., to taxpayers. When recommending taxpayers to file amended returns for the purpose of correcting errors in tax returns, the tax offices provide a document titled "About amended returns," which explains that a reinvestigation or reconsideration of the 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, the contents are explained, with the intention of providing taxpayers with opportunities to develop more in-depth knowledge of taxes and to encourage them to file tax returns and pay tax voluntarily in the future.

If taxpayers do not cooperate with the tax offices' requests for the amended returns, etc., the district director of the tax offices makes the correction or determination and sends a Notice of Correction or Notice of Determination to the taxpayers. When no errors are found in tax returns after a tax examination, the tax office performs the following:

- ① If no errors are found in the returns and no guidance is needed, the tax office sends a written notification of "Tax examination findings" to the taxpayers.
- ② If there is no need for submission of amended returns, but guidance is needed regarding future tax returns, record keeping, or maintenance and storage of books and documents, the tax offices provide explanations to the taxpayers. The tax office also clearly communicates that the tax examinations are closed.

Reference Strict Control of Information

Income, 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, taxpayers cannot be expected to cooperate with the NTA. This may negatively affect smooth tax examinations.

Tax officials who have leaked confidential information obtained through tax examinations are subject to a criminal penalty (up to two years in prisons or up to ¥300,000 in fine) under the tax law, which is heavier than the penalty (up to one year in prison or up to ¥500,000 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 consider their privacy and refrain from interviewing them in their storefronts or in front of their homes.

Meanwhile, based on the purpose of the "Act on the Protection of Personal Information Held by Administrative Organs," the NTA is striving to conduct strict control of taxpayer information by making a periodic inspection of the maintenance of administrative documents.

Reference Treatment 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 income tax, corporation tax, etc., if tax returns are not properly filed or taxes are not paid by the due date. There are also cases where an additional tax for a deficient return, and for no return, or an additional tax for fraud are imposed.

Delinquent Tax	Up to two months from the day after the due date	Annual rate of 4.5% (in 2009) *
	After two months from the day after the due date for tax payment	Annual rate of 14.6%

*The annual rate may change due to financial conditions.

Additional Tax		Regular Case	Fraud Concealment Case
	Returns are filed by the due date, but tax amount is understated.	Additional tax for deficient return (10% or 15%)	Additional tax for fraud case (35%)
	Returns are not filed by the due date	Additional tax for no return (15% or 20%)	Additional tax for fraud case (40%)

Where legitimate reasons are recognized with no causes attributable to taxpayers, additional tax for deficient return or additional tax for no return will not be imposed.

Meanwhile, where certain requirements are met, namely, taxpayers may have been granted postponement of tax payments due to disasters or may have failed to file returns or pay taxes due to erroneous guidance by NTA officials, taxpayers may be exempted from all or part of a delinquent tax corresponding to the grace period. The NTA has set up rules where no additional tax is imposed and has published the rules on the NTA website (Japanese only).

4 Assurance in Tax Payment

(1) Establishment of 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 2007, the tax amount of national taxes filed to tax offices (the amount determined for collection) was around ¥52,540 billion, while the amount of tax paid within the said fiscal year was around ¥52,170 billion with the ratio of paid tax at 99.3%.

For national taxes, taxpayers file tax returns by themselves and pay the tax amount by the due date under the self-assessment system, in principle. Therefore, the NTA makes efforts to carry out public relations activities to ensure that taxpayers will not allow the tax payment deadline to pass by mistake. As for self-assessed income tax and sole business proprietors' consumption tax 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. In addition, from 2004, taxpayers can perform tax payment procedures at their homes or offices with e-Tax. Since January 2008, it has become possible to pay taxes at convenience stores. Today, the NTA is working to introduce a new scheme of direct payment^{*1} with the aim of further improvement in taxpayer services.

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

Tax Payment at Convenience Stores

For the payment of national taxes, the handling has been started since January 21, 2008 at the trustees (convenience stores) consigned to receive tax payment as designated by the NTA Commissioner.

As this tax payment at convenience stores was introduced, taxpayers are able to make tax payments at night or on holidays at more than 40,000 convenience stores when financial institutions or the tax offices are closed. The number of tax payments made at convenience stores came to about 850,000 cases from January through December 2008 with about ¥36,000 per case. The usage ratio on holidays is about 20%. A usage zone of hours is accounted for by 30% using the convenience stores while the tax offices are closed.

When making a tax payment, a tax payment slip with bar codes is needed with the amount limited to less than ¥300,000. The bar-coded vouchers are issued by the Regional Taxation Bureaus and tax offices as indicated below:

- ① Where the determined tax amount is notified before the due date (estimated income tax prepayment, etc.)
- ② Where the tax payment is demanded by letter or telephone (for all tax items)
- ③ Where the tax payment is under the official assessment system (for various additional taxes)
- ④ Where a taxpayer requested the issuance of tax payment slips for the determined tax amount (for all tax items)

^{*1} Direct payment is a new method of online tax payment: with prior notification by taxpayers to the tax offices, tax payment is instantly finalized with the specified amount of tax paid from the notified accounts of taxpayers by way of the e-Tax and financial institutions' systems. The NTA is stepping up efforts to introduce the new method effective September 2009.

(2) Reduction of tax delinquency

Tax delinquency means that national taxes were not paid by the due date, for which a payment demand letters were sent. The amount of tax delinquencies was about ¥1,615 billion at the end of fiscal 2007. Considering that delinquencies should be prevented first of all, the NTA is making all-out efforts to prevent delinquencies and to step up early collection of taxes throughout the national tax bodies. Leaving delinquencies intact results in unfairness for the majority of citizens paying national taxes by the due date, which runs counter to the principle of proper and fair tax collection. We are addressing this issue with the following basic policies to reduce outstanding delinquencies:

a. Delinquency on the consumption tax

The ratio of consumption tax delinquencies is rising year by year, and the collection of the delinquent taxes is being handled on a priority basis.

b. Large-scale, malicious, and hard-to-deal-with cases

These cases are being strictly handled upon detection of the early and assured policies of handling. In particular, for malicious and hard-to-handle cases of accumulated and long-term delinquencies, apart from conducting appropriate asset investigation and collection of tax delinquency through seizure and public auction, the NTA is taking aggressive action to organize a project team and resort to legal methods to propose indicting plaintiffs, such as litigation for rescission of fraudulent acts.*1

In the meantime, the NTA requests law enforcement authorities to charge particularly unscrupulous taxpayers who conceal assets with the intent to evade the procedure for collection of delinquencies, based on the penal provisions for evading delinquency disposition.*2

c. Cases of small-scale delinquencies

For these cases, the NTA is efficiently handling the cases by reminding delinquent taxpayers through the Office of Tax Collections Call Center.

As a result of these efforts, the total amount of collection of delinquent taxes came to ¥951 billion*3 in fiscal 2007, which, however, remains high. Further efforts are being made to accelerate the reminder process.

Actions against tax delinquencies such as seizure, auction, etc., have particular strong impacts on the taxpayers' rights and obligations. When taking action to collect delinquent taxes, the NTA is handling cases after correctly comprehending relevance of the facts. Meanwhile, the NTA is also responding to the facts in consideration of personal reasons of the delinquent taxpayer including the application of easing measures such the postponement of tax payment, suspension of conversion into cash, etc.

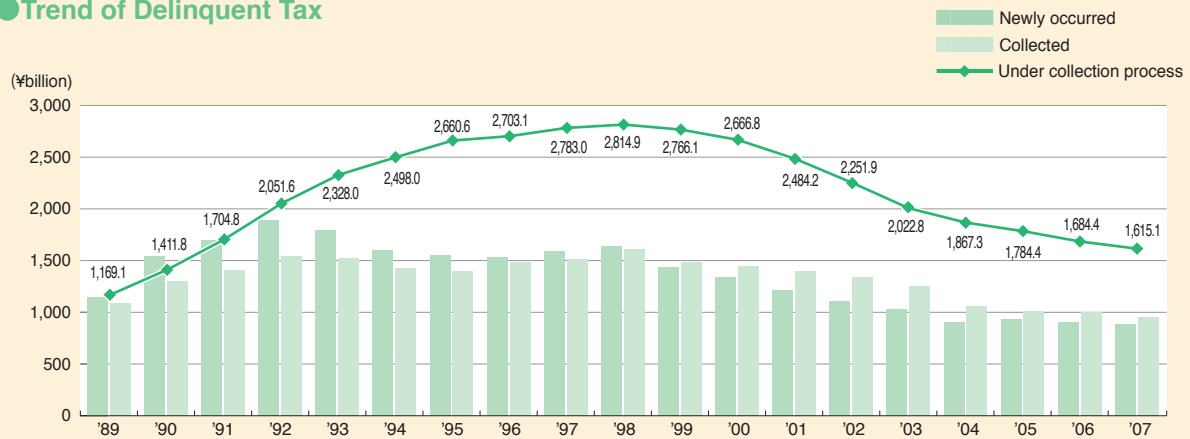
*1 Litigation for rescission of fraudulent acts: This means a lawsuit demanding that the effect of legal act between delinquent taxpayer and third party, which is prejudicing the creditor (state), should be denied and assets departed from the taxpayer should be recovered from the third party (Refer to Article 42 of Act on General Rule for National Taxes, and Article 424 of the Civil Code).

*2 Penal provisions for evading delinquency disposition (Article 187 of the National Tax Collection Act) : This means penalties (prison term up to three years or fines up to ¥500,000) subjected to taxpayers who try to conceal their assets with the intention of escaping from the delinquent collection action such as seizure.

*3 The amount collected was about ¥220 million per revenue officer.

II Promotion of Tax Filing and Payment by Proper Self-Assessment

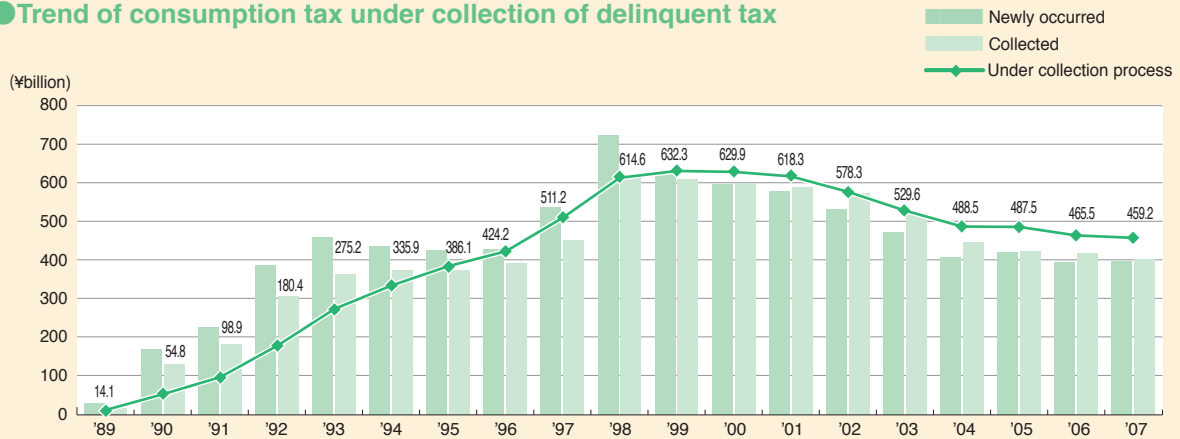
● Trend of Delinquent Tax



*1 Figures represent current cases in the process of collection of delinquent taxes.

*2 Figures for local consumption tax are not included.

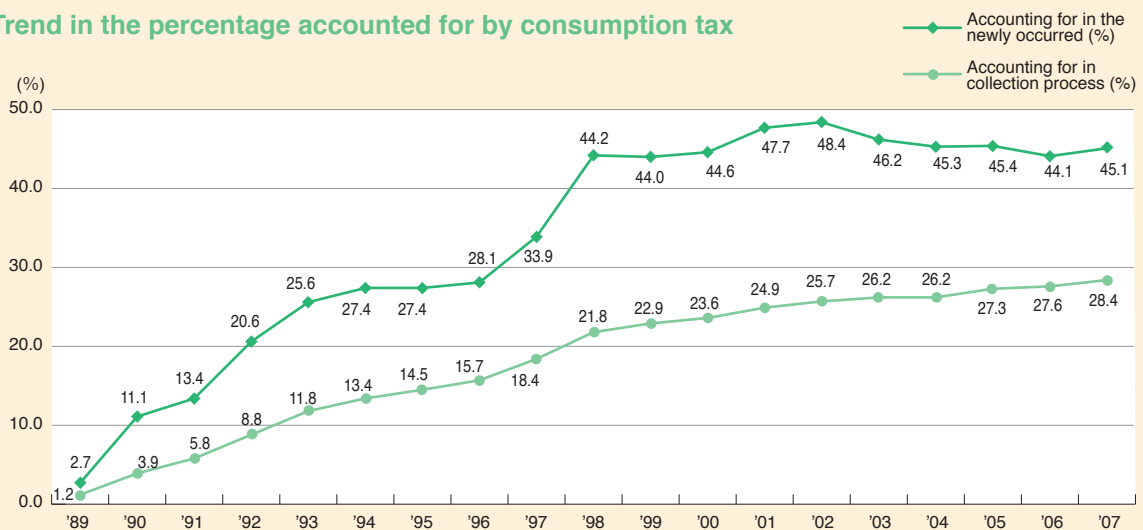
● Trend of consumption tax under collection of delinquent tax



*1 Figures represent current cases in the process of collection of delinquent taxes.

*2 Figures for local consumption tax are not included.

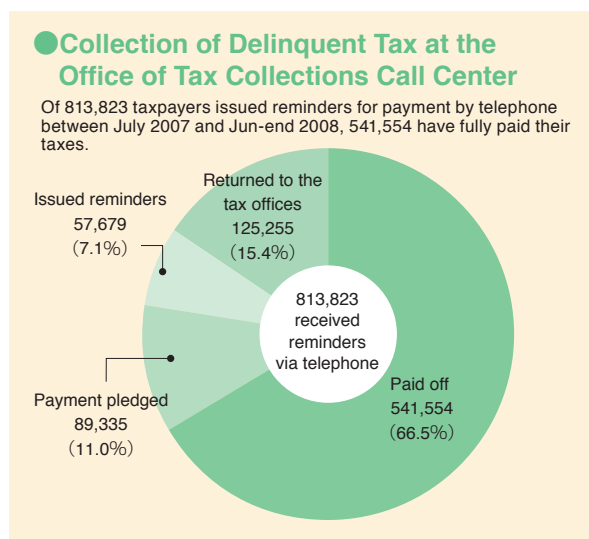
● Trend in the percentage accounted for by consumption tax



* Figures for local consumption tax are not included.

(3) Office of Tax Collections Call Center

At the Office of Tax Collections Call Center (Tax Payment Call Center), tax officials make demand notifications efficiently and effectively for tax payment to delinquent taxpayers by telephone while referring to taxpayer information displayed on computer screens. The calls are placed automatically by a computer system that simultaneously displays the data for any delinquent tax. Of the 810,000 delinquents, about 540,000 taxpayers (66.5%) have finalized all payment of taxes for one year from July 2007 to June 2008, and 90,000 (11.0%) taxpayers are paying taxes on an installment plan.



Office of Collection Call Center

(4) Auction by Internet

The NTA uses online the civil-sector auction website, which does not require participants to visit the auction sites. The interested participants can propose to buy the goods online around the clock during an auction period. The NTA has started using the relevant website since June 2007. Internet auctions are featured with a high degree of convenience soliciting a number of participants. It is among the effective means to sell the assets or goods of high value that have been seized. In fiscal 2008, the NTA held four auctions via the Internet with a total of 11,000 participants involved, at which about 500 items including the art picture, precious metals, motor vehicles, real estate, etc., were sold off, resulting in about ¥200 million.

(5) Management of Payment and Refund of Taxes

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, there are about 45 million tax payments mainly of income taxes, the majority of which are paid at financial institutions or by account transfer. To efficiently process such a large number of payment, 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 tax payment by transfer account^{*2} through the exchange of magnetic

^{*1} "OCR (optical character reader) processing" converts characters printed on tax payment slips into electronic data, thereby enabling paperless operations.

tapes for self-assessed individual income tax and sole business 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 transfer by magnetic tapes 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 a cornerstone of taxation and tax collection. We will continuously strive to improve services by conducting procedures speedily and accurately through the advanced application of the system and delivering returns to taxpayers as quickly as possible.

5 Certified Public Tax Accountants (CPTAs) System

Certified Public Tax Accountants (CPTAs) are professional specialists on taxes, whose roles are to help taxpayers properly file for tax returns and pay taxes. The CPTA Law provide their public missions in effect "Based on their independent and fair standpoint, they shall respond to person with a tax obligation trust in line with the principles of the self-assessment system and achieve proper tax compliance as provided for in the Tax Law." As of March-end 2009, 71,177 persons are registered as the CPTAs, while 1,750 professional tax firms are established.

Taxpayers are able to have CPTAs prepare their tax returns or file returns and pay tax properly by receiving professional advice from them. As business transactions get complex, and the number of taxpayers largely increase, the roles played by CPTAs are becoming increasingly important.

In addition, because corporations and sole business proprietors often ask CPTAs to process accounting books or seek advice on accounting, they are playing significant roles in promoting bookkeeping that constitute the correct bases for filing tax returns.

CPTAs shall satisfy certain qualifications. CPTAs' services; ①tax proxy, ②preparation of tax documents, ③Tax consultation service. These operations must not be performed by persons other than CPTAs even for no charge. At the same time, they are required to fulfill various obligations and responsibilities.

By cooperating closely with tax accountants' associations as the Japan Federation of CPTAs' Associations, the NTA is working to ensure that CPTAs properly conduct their duties and gain national trust.

(1) Promotion of Document attached by CPTAs to Tax Returns

The documents attached by CPTAs to tax returns as provided for in the Certified Public Tax Accountant Act clarify the roles played by them in filing tax returns. The NTA is respecting such roles played by them. This system allows CPTAs to attach to tax return filing the documents regarding the calculation, audit, or consultation service that they provided for the preparation of tax returns. If the tax offices intend to conduct a tax examination on taxpayers who have filed tax returns along with such documents, the CPTAs possessing the certificate evidencing the authority of tax proxy must be given the opportunity to give their opinions on the item written in the attached documents before taxpayers are notified about the tax examination.

Because this system contributes to the correct development and filing of tax returns, facilitation and simplification of tax administration, and eventually establishment of the trusted CPTAs System, the NTA is working to have consultation with the tax accountants' associations with an aim to enhance the components and volume in document to be attached, and to make the use of opportunities of having public hearings, thereby further promoting and establishing this system.

*2 Tax payment by transfer account is a method of tax payment whereby the tax offices send tax payment slips to financial institutions designated in advance by taxpayers and debit the amount of tax payment from their bank accounts. If it is necessary to send tax payment slips to financial institutions in large quantities, the tax offices send magnetic tapes containing data for an account transfer to the financial institutions in order to perform the work of account transfer efficiently. After the financial institutions process the data, they record the processing results on the magnetic tapes and return the tapes to the tax offices.

(2) Promotion of e-Tax

Given the extremely significant role played by CPTAs in diffusing e-Tax, the Japan Federation of CPTAs' Associations is trying hard to promote the use of e-Tax with the specific objectives established.

The NTA also is aiming to have e-Tax used by CPTAs. In January 2007, the NTA allowed digital signatures to be exempted where CPTAs prepare taxpayers' tax returns and filed them online at their request. The NTA is working together with tax accountants' associations to hold briefings on e-Tax, dispatching instructors on such occasions. (Please refer to the e-Tax on page 30)

(3) Guidance and Supervision on CPTAs

In order to ensure national trust in the CPTA system, the NTA is providing its guidance and supervision for CPTAs. The NTA is trying to take every opportunity to call for their attention by having consultation meetings to prevent misconduct of CPTAs. Meanwhile, the NTA collects a variety of information to properly examine pursuant to the Certified Public Tax Accountant Act. It takes disciplinary action against those who violated the Law or indict the generally known "fake CPTAs."

In March 2008, from the standpoint of ensuring the transparency of the disciplinary actions taken against CPTAs, the NTA made public the "Concept of Disciplinary Actions Against CPTAs and Professional Tax Firms," and decided to disclose the names of the disciplined in the official gazette and via the NTA website.

Tax accountants' associations and Japan Federation of CPTAs' Associations

Tax accountants' associations are such organization that is specified in the Certified Public Tax Accountant Act, aiming to provide guidance, liaison and supervision to its branch offices in order to secure the compliance of the CPTAs and professional tax firms and contribute to improvement and development in CPTA's duties. Currently, there are 15 tax accountants' associations in Japan. CPTA and professional tax firms are members of tax accountants' associations that has jurisdiction over the areas where their offices are located.

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 instructors 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 guidelines, liaison, and supervision for tax accountants' associations and their members. It also handles the administration to register members, and conducts research on the CPTA system. For further details, please visit the website of the Federation at <http://www.nichizeiren.or.jp>

6 Cooperation with Private Organizations

The NTA is implementing measures not only to provide information on taxes directly to taxpayers but also to convey information on taxes having cooperation from the 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 spreading 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 titled "Think About Tax Week."

II Promotion of Tax Filing and Payment by Proper Self-Assessment

Blue Return Taxpayers' Associations

The blue return taxpayers' associations are organized for the purpose of spreading the blue return system and promoting the submission of proper tax returns through honest bookkeeping and are formed mainly by sole business proprietors who use the system. At present, there are about 3,800 associations nationwide, and the total number of members is about 980,000. Each blue return taxpayers' association performs wide range of activities including the guidance on bookkeeping, holding seminars, and the spreading of the blue return to people outside the association. For further details, please contact the nearest blue return taxpayers' associations.

Corporations Associations

The Corporations Associations are organized for the purpose of spreading knowledge of tax and establishing a proper self-assessment system. At present, there are 483 corporations associations at the prefectural level under the control of the National General Federation of Corporations Association, and membership stands at about 1.04 million corporations. Each corporations association engages in a wide range of activities including holding of seminars and workshops on taxes, and contribution to the sound development of corporate management and the society. For further details, please visit the website of the National General Federation of Corporations Associations at <http://www.zenkokuhojinkai.or.jp> (Japanese only)

Indirect Tax Associations

The Indirect Tax Associations was organized for the purpose of contributing to the spreading of knowledge about indirect taxes and realizing a fair taxation and proper administration through the self-assessment system. At present, there are 566 associations nationwide with the membership of 95,000 persons. The Indirect Tax Associations is making its suggestions to the government on ways to enhance the indirect tax system and to improve tax enforcement, to spread knowledge about the consumption tax and to prevent tax delinquency. For further details, please visit the website of the National Federation of Indirect Tax Associations at <http://www.kanzeikai.jp> (Japanese only)

Savings-for-Tax Associations

The Savings-for-Tax Association was organized with taxpayers aiming at continuing to complete payment of tax within the due date by means of savings. The Associations were established pursuant to the Savings-for-Tax Association Law, having the membership of about 54,000 associations. They are promoting the utilization of tax payment by transfer account and completion of tax payment within the due date, and are doing a wide range of activities such as spreading of e-Tax, holding seminars on the tax law and soliciting to join the contest of "Composition Writing About Tax." For further details, please visit the website of the National Federation of Savings-for-Tax Associations at <http://www.zennoren.jp> (Japanese only)

Tax Payment Associations

The Tax Payment Associations were organized under the jurisdiction of the tax offices of the Osaka Regional Taxation Bureau for the purpose of aiming to spread knowledge about taxes, promote proper filing returns and paying tax, and enhance compliance. At present, there are about 83 Tax Payment Associations (incorporated companies) under the control of the Federation of Tax Payment Associations. The membership counts about 260,000 combined with the individuals and corporations. The Association is doing activities to spread knowledge about taxes and to hold various briefings, which are similar to activities performed by the Blue return taxpayers' associations and Corporations associations. For further details, please visit the website of the Federation of Tax Payment Associations at <http://www.nouzeikyokai.or.jp> (Japanese only)

III Improvement of Taxpayer Convenience and Administrative Efficiency

To improve convenience for citizens and achieve simplification, efficiency enhancement, reliability, and transparency in government affairs by introducing the use of IT to the areas of government administration and reviewing the operations and systems, the decision was made in July 2003 to implement the e-Government Establishment Plan. Since then, the government has been addressing the improvement of convenience and services for citizens with its commitment to make administrative reforms through IT.

At the NTA, while making efforts to improve convenience for taxpayers, we have been working to increase simplification and improve the efficiency of administration through an overall review of the administrative affairs process and operating expenses.

Particularly, the NTA regards e-Tax, which enables the filing of tax returns and payments via the Internet, as the primary driver to reform the tax administration in an IT-oriented era, while pursuing further convenience.

The NTA has drawn up a mid-term plan to realize the optimization of administrative tasks and systems. It is addressing the optimization of the administrative structure, work processing, and related systems to flexibly cope with changes in the environment surrounding the tax administration, while tackling new issues.

1 e-Tax

The NTA is improving convenience for taxpayers and administrative tasks by pushing forward tax returns and payments through the use of IT, such as e-Tax and filing assistance on the NTA website.

(1) e-Tax

The e-Tax system is a way for taxpayers to implement the procedures for filing such as notifications, income tax returns, corporation tax returns, consumption tax returns, submission of information returns, and applications for filing the blue returns, which used to be processed in writing. Taxes can also be paid via Internet Banking and ATMs in which all the taxes are processed via Pay-Easy.*1

The use of e-Tax makes it possible for taxpayers and CPTAs to file tax returns and payments from their homes or offices without having to visit tax offices or financial institutions. In addition, tax and accounting software compatible with e-Tax can electronically process a series of tasks from accounting to data preparation and filing of tax returns, thereby realizing the savings of administrative tasks and making the process paperless.

This also makes it possible for the NTA to expect the effects of cutting the costs for receiving tax returns, processing mailed returns, entering data, and administering documentation. Thus, it makes the document search easy and it cuts down the cost of document management, thereby maintaining the efficiency of tax administration.

To spread e-Tax, the NTA has been strongly advocating “The Action Plan for Promoting the Utilization of the Online Procedure” to process national tax procedures, which were determined in March 2006 (revised in March 2007). For example, IT introduction allows the taxpayer to leave out the presentation or submission*2 of some of the attached documents prepared by third parties, such as receipts for medical expenses, in relation to individual income tax. Personal computers installed in the self-assessment consultation center to explain the filing of tax returns enabled taxpayers to prepare and submit tax returns through the filing assistance on the NTA website using e-Tax. If CPTAs file tax returns electronically for taxpayers, digital signatures of taxpayers,

*1 “Pay-Easy” is a service where taxpayers can pay public utility charges via Internet banking and ATMs, which used to be paid at the counters of financial institutions and convenience stores.

*2 When skipping the presentation or submission of documents prepared by third parties, descriptions in such documents have to be entered and submitted online along with the tax return forms.

In order to check on the entries of descriptions, if it is needed, the tax offices may ask taxpayers to present or submit original copies during a three-year period from the legally required due date for filing.

III Improvement of Taxpayer Convenience and Administrative Efficiency

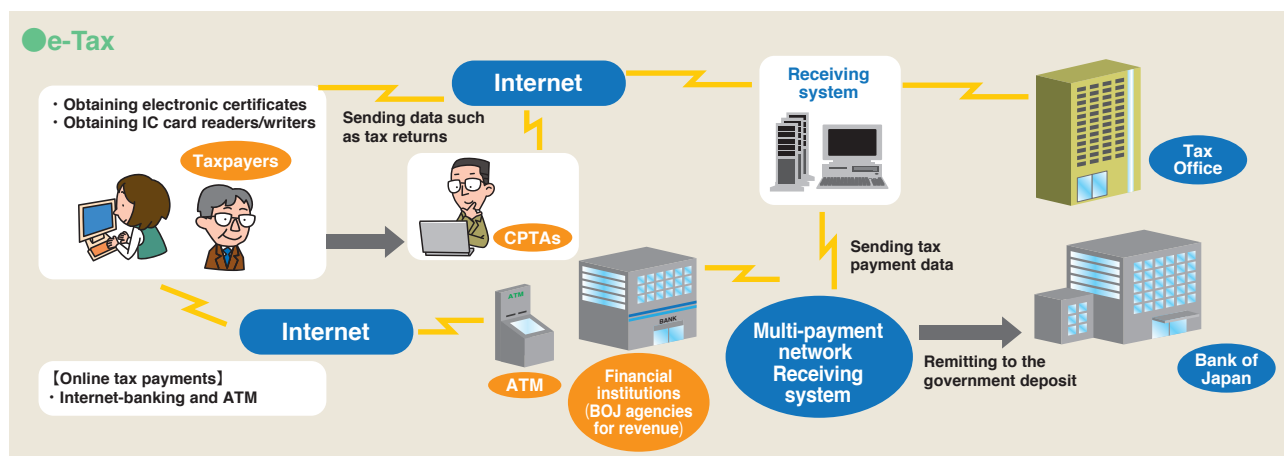
which used to be required, can be skipped.

In addition to these activities, in fiscal 2008, the NTA improved the operation of e-Tax, and strengthened support for taxpayers by making available wider use of the help desk. As a result, the usage rate of e-Tax substantially increased from 23% in fiscal 2007 to 37% in fiscal 2008.

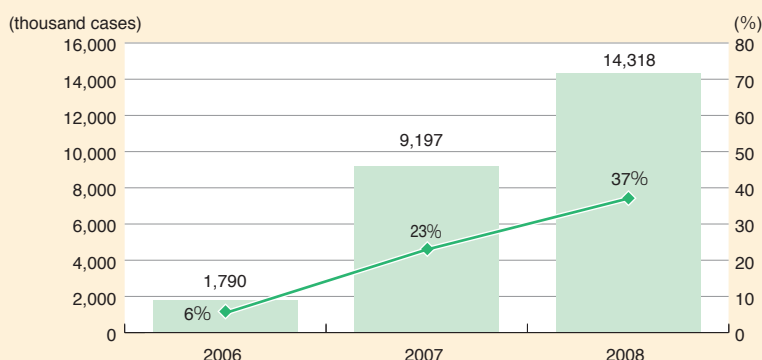
When income tax return forms are filed using e-Tax, the program for a maximum 5,000-yen tax credit was extended to fiscal 2010 if the returns are filed by the due date with digital signatures and electronic certificates attached (only once during a period between fiscal 2007 and fiscal 2010).

In September 2008, the Japanese government decided on a new action plan (Action Plan for Promoting the Utilization of Online) setting goals for major procedures in fiscal 2013. This plan calls for implementing the following as future issues to spread the use of e-Tax: ①expanding the base for personal certification, ② spreading the local tax portal system (eLTAX) by local public bodies, and ③facilitating the acceptance of electronic documentation by the private enterprises, under which the government plans to make across-the-board efforts.

Hereafter, the NTA is determined to press forward to achieve the goals set in the new action plan by working together with other relevant government bodies, while making efforts to further improve taxpayers' convenience. At the same time, we will keep reviewing the administrative tasks and systems so that the effect of maximum administrative streamlining can be demonstrated through the spread of e-Tax.

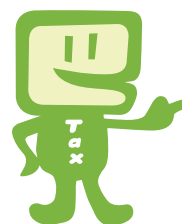


Trend of number of filing cases and usage rate by using e-Tax



* Figures represent the number of cases and usage rate on important procedures described in the "Action Plan for Promoting the Utilization of Online".

"Mr. e-Ta"



"Mr. e-Ta" is an image character for e-Tax. He is named after e-Tax, and the design is based on the "e" motif in e-Tax and the monitor screen of a personal computer.

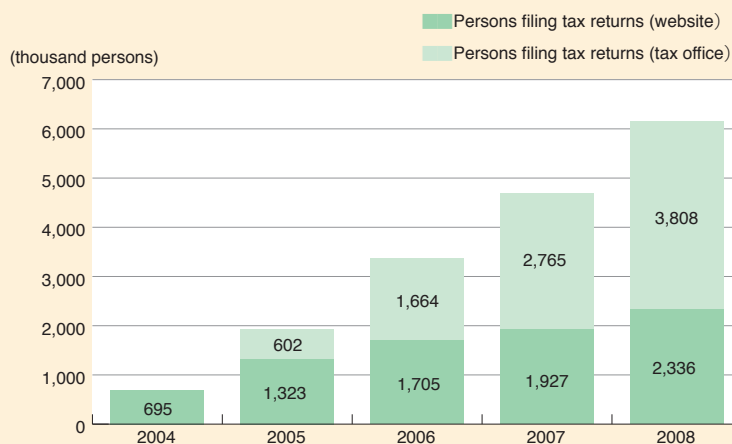
(2) Filing assistance on the NTA website

Entry of amounts and other necessary information into the filing assistance on the NTA website according to screen guides for personal computers allows taxpayers to complete their tax returns for income tax, individual consumption tax, and gift tax as well as financial statements for blue returns. The prepared data can be directly electronically filed as tax returns from this corner (excluding gift tax), and can be printed out.

Since the system was introduced in filing period for 2002 final tax return, the number of users has increased each year. For 2008, taxpayers, who have submitted returns from homes, offices, or consultation sites in tax offices using this system, totaled 6 million cases, or 25% of the total taxpayers who filed tax returns. Of these, about 60% of the submissions were made by e-Tax.

We will continue our efforts to improve the system to make it more easy-to-use based on feedback from users so that it can be used by as many taxpayers as possible.

● Trend in tax return submissions prepared in the filing assistance on the NTA website



* Figures represent those submitted by the end of March of the following year.

The use of personal computers installed in the tax office started from those for tax returns for 2004.

However, the number of taxpayers who submitted returns using this method remains unaccounted for.

The number of taxpayers who submitted tax returns before 2003 remains unaccounted for.

The number of taxpayers who submitted tax returns after 2007 includes cases using e-Tax

② Optimization of Operations and Systems

Based on the e-Government Establishment Plan determined in July 2003, the NTA now reviews administrative tasks on the assumption that advanced IT systems will be used in order to further upgrade taxpayer convenience. Under the following basic principles of ①simplification and improvement of efficiency of administrative tasks to correctly get the work done; ②improvement of convenience for taxpayers by using IT; ③sophistication of systems to process tax examination and collection of delinquent tax using IT; ④assurance of the stability, reliability, and information security of systems; and ⑤reduction of systems-related expenses and assurance of transparency in purchasing, the NTA in March 2006 (revised May 2008) announced the Optimization Plan of Operations and Systems related to National Tax Administration, and works on it.

Over the past year, in view of realizing the simplification and improvement of efficiency of administrative tasks, we have concentrated telephone consultations for tax affairs on tax consultation service call centers and integrated back office work in July 2009 at the tax offices across Japan. We are also pushing to further the paper-less concept as e-Tax spreads.

From the standpoint of improving convenience for taxpayers, we have improved the easy-to-use features of e-Tax and are now working to realize direct tax payments as a new method of paying national taxes.

In view of sophisticating the systems, we are improving the systems to keep abreast of globalization and the advanced use of IT in a socio-economic society in order to further enhance the ability to examine and address collection of delinquent tax.

With regard to the reduction in system operating expenses and assurance of transparency in purchasing,

III Improvement of Taxpayer Convenience and Administrative Efficiency

we are pushing forward to turn the KSK systems into open systems^{*1} where the interchangeability of systems is enhanced, have the software adopted as a general purpose product, and integrate equipment when replaced or updated.

Facing tight financial conditions, the NTA believes that optimizing administrative tasks and systems will help reduce operating expenses, simplify administrative processes, and enhance work efficiency and improve convenience for taxpayers. In order to fulfill the NTA's duty to achieve proper and fair taxation, we are striving to enhance tax examination and collection of delinquent tax.

Stability and Reliability of Systems and Assurance of Information Security

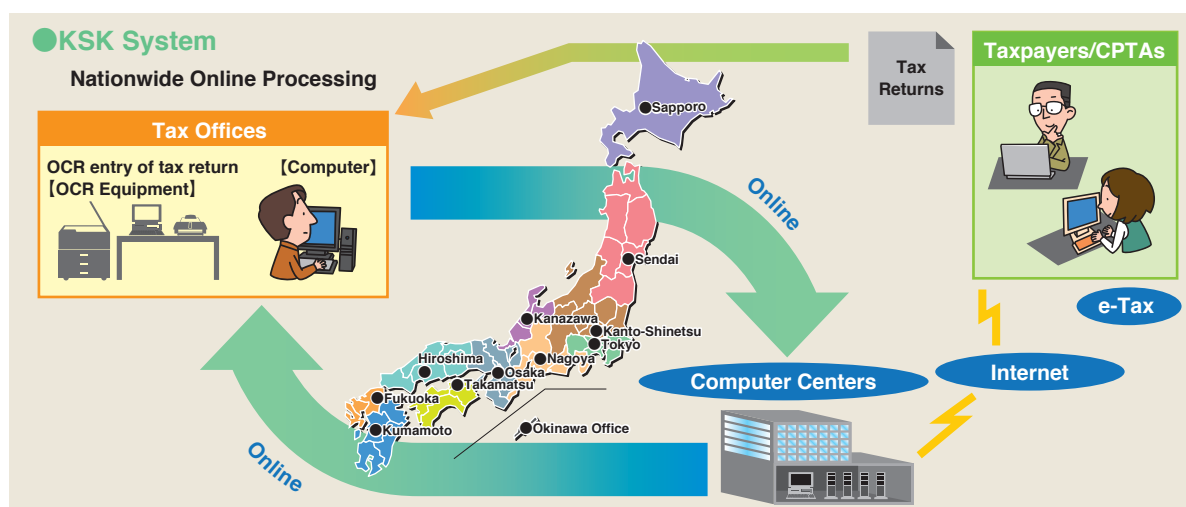
Because the national tax-related administrative tasks are closely connected to public rights and obligations, system failure is likely to have a significant impact on citizens and impair the credibility of tax administration. Therefore, the NTA is working to maintain stable operation of the systems related to national taxes by regularly updating equipment and devices.

As the national tax-related system stores a significant amount of taxpayer's information, the NTA is paying very close attention to prevent unauthorized use and leaks of the information. To ensure security, the NTA has set up a system where officials are allowed to access only the data necessary for their duties and has established official directives for information security for thoroughly implementation. In addition, the NTA is trying to assure information security by conducting security audits with outside experts.

Reference KSK System

The KSK System, which links all Regional Taxation Bureaus and Tax Offices, is a computer system introduced to handle a variety of different administrative tasks. The entry of tax returns, tax payment records, and a variety of information enables the centralization of the administration of taxes receivable. Analyzed data is used in tax examination and collection of delinquent tax. The computer system centralizes information management across geographical regions and items of taxes to realize sophisticated, efficient administration constituting the basis of tax administration.

The full-fledged development of the KSK System was started in 1990. The NTA phased in the introduction of the KSK System starting in 1995 and nationally in 2001.



^{*1} Turning into Open Systems means to shift to the use of systems with a high degree of interchangeability that can accept widely available products rather than relying on specific manufacturer.

3 Centralized Telephone Consultation and Integrated Office Counter Help

(1) Centralized telephone consultation

The tax counsel offices and tax offices receive a great variety of requests for tax consultation service on income tax, inheritance tax, and consumption tax, etc. The divisions in charge at these offices have responded to such inquiries and provided counseling. On the other hand, as taxpayers increase in number, the number of inquiries and requests for counseling are growing. In order to cope, the NTA is trying to integrate the divisions in charge of tax consultation service so that they can more efficiently respond to the growing need for counseling with a limited number of officials.

Specifically, it was decided in fiscal 2006 that general inquiry and counseling on taxes relating to some tax offices would be accepted and processed at telephone counseling centers in every Regional Taxation Bureau. In November 2008, telephone consultation of all tax offices started to be centralized.

At the telephone counseling centers, tax counselor with extensive experience accept inquiries by tax item in principle. Their prompt, quality response helps shorten the counseling hours, while further improving convenience for taxpayers. For more specific counseling, the tax offices are introducing the appointment system to effectively and efficiently meet taxpayer needs.



Telephone Counseling Center

(2) Integrated office counter service for taxpayers

The NTA has implemented the “Integration of back office work” in all tax offices since July 2009. The administrative tasks used to be processed by each department depending on the tax item in the tax offices, such as the processing of tax returns, revenue management, and basic information on taxpayers. But by this system, the same nature of administrative tasks mentioned above is processed in a single division using IT, thereby upgrading administrative efficiency.

In addition, a major part of the office counter service at the tax offices will also be integrated and processed by a single division. For example, in order to get certificates of tax payment, taxpayers used to submit applications to the different divisions’ counter in the tax office. As a result of integration of back office work, a single divisions’ counter can issue the certificates regardless of the request.

In addition, the submission of tax returns, application related to tax, payment of taxes, and counseling on general questions about taxes can now be processed at a single office counter. We expect taxpayers to experience a significant improvement in convenience.

IV Tax Administration Under Growing Globalization

With the economic society becoming increasingly borderless, corporations and individuals conduct a variety of cross-border economic activities, which make tax administration more challenging than ever. Elimination of international tax avoidance and double taxation risks emerging from such an environmental change has become major issues for each tax authority. In this respect, the NTA fosters cooperative relations by sharing information and experience with other tax authorities and conducts mutual agreement procedures (MAP) to eliminate double taxation. Furthermore, from the standpoint of providing greater certainty to taxpayers with regard to transfer pricing taxation, the NTA endeavors to clarify its application standards and administrative policies and to properly and promptly process requests for advance pricing arrangements, while developing more robust governance structure to review transfer pricing taxation cases.

1 Addressing International Transactions

(1) Organization and officials for international taxation

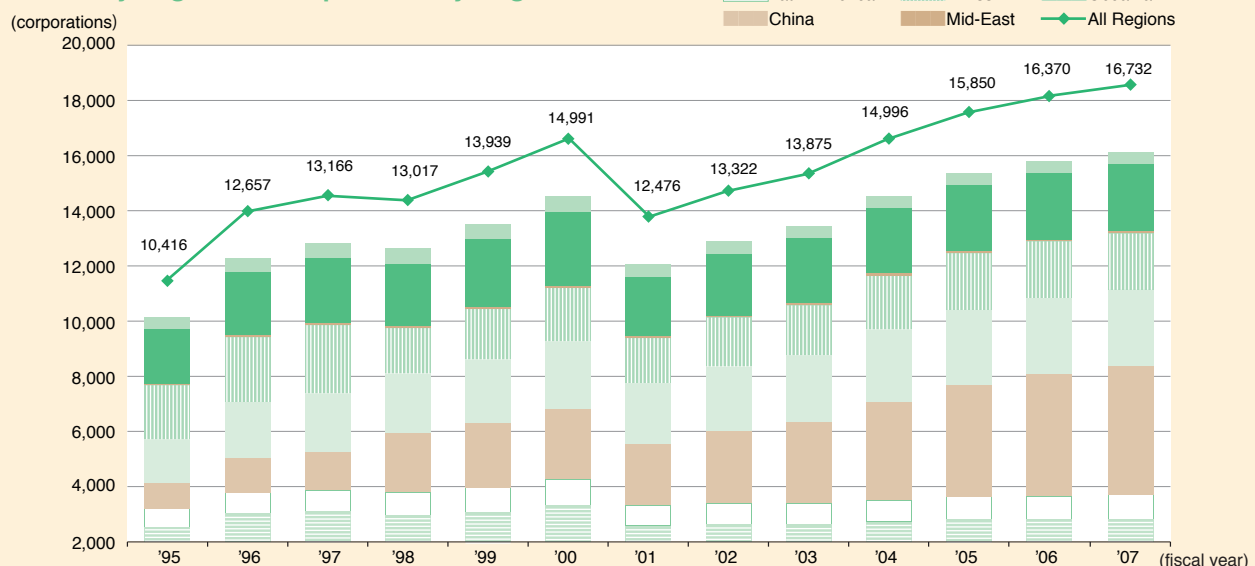
a. Environment involving the international taxation

Along with the progress in economic globalization, cross-border business and investment activities by individuals and corporations are becoming increasingly more active.

① Status of overseas advances by Japanese corporations

The following is the status of overseas advances by Japanese corporation. The number of locally organized corporations increased from 10,416 in 1995 to 16,732 in 2007, an increase of 1.6 times, with a particularly rapid growth of advance into China.

● Trend in the Number of the Locally Organized Corporation by Region



Note 1: "ASEAN4" representing Malaysia, Thailand, Indonesia, and the Philippines.

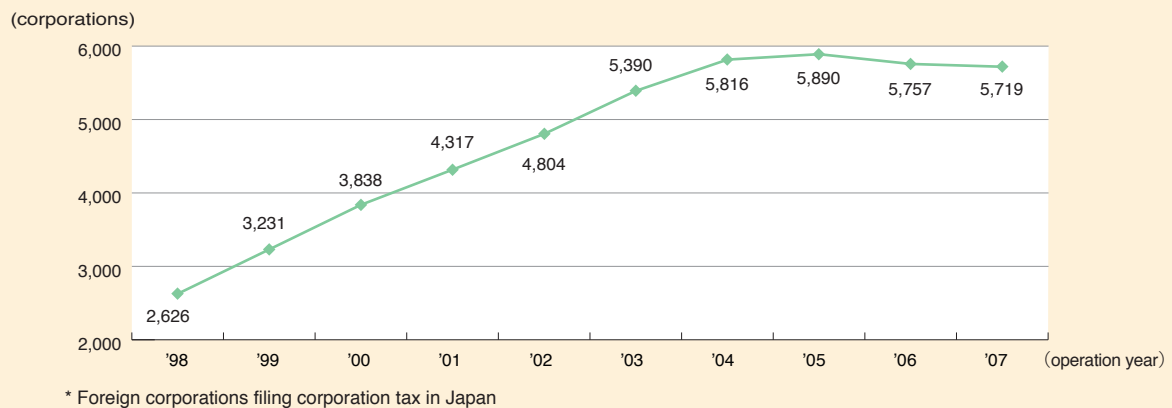
Note 2: "NIEs3" representing Singapore, Taiwan, and South Korea.

(Source: Basic Research on Overseas Business Activities by the Ministry of Economy, Trade and Industry.)

② Trend in the Number of Foreign Corporations

The following is the trend in the number of the foreign corporations operating in Japan. Foreign corporations decreased by 38 on the year to 5,719 in fiscal 2007. The growth rate is 2.2 times greater than 10 years ago, although it slowed down.

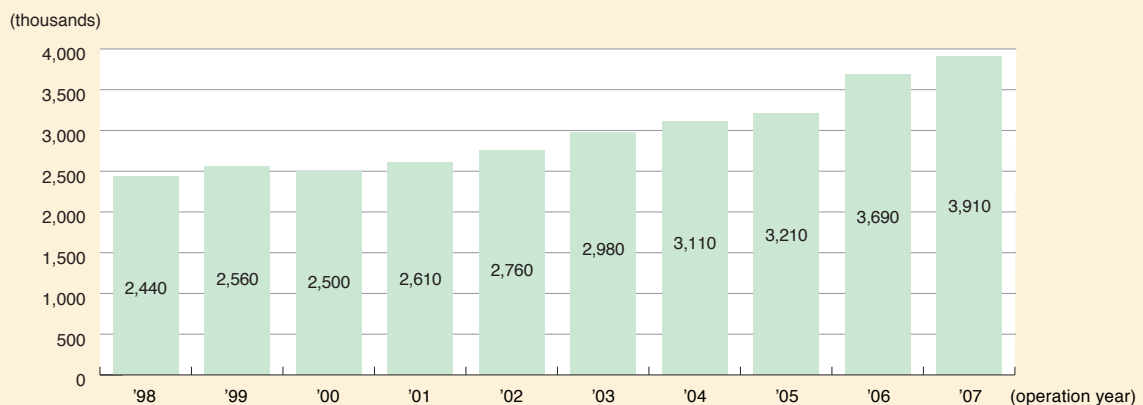
● Trend in the number of foreign corporations



③ Trend in the number of record of remittance and receipt related to foreign countries

The following is the number of record of remittance and receipt related to foreign countries.*¹ The number increased 220 thousand to 3,910 thousand in operation year 2007. It is increasing every year, up 70% from operation year 1998.

● Trend in the number of record of remittance and receipt related to foreign countries



b. Activities related to the international taxation

As the corporations and individuals step up their business activities, the tax examinations related to international taxation are gaining in importance. The NTA has increased the number of Senior Examiner (International Taxation), while organizing the International Examination of Large Enterprise Division and Project Team to Deal with Internationalization in the Regional Taxation Bureaus in Tokyo, Osaka, Nagoya, and Kanto-Shinetsu in order to improve and strengthen examination structures.

Since July 2007, the NTA has recruited experts specialized in legal and financial affairs with limited assignment terms to deal with complicated tax issues.

In addition, officials are improving examination skills and abilities related to international taxation at the National Tax College (NTC), a training institute in which personnel learn about legislation and tax treaty related to international taxation and financial transactions, as well as foreign languages.

c. Performance of examinations related to international taxation

The NTA is actively working to examine taxpayers who conduct overseas transactions, and those

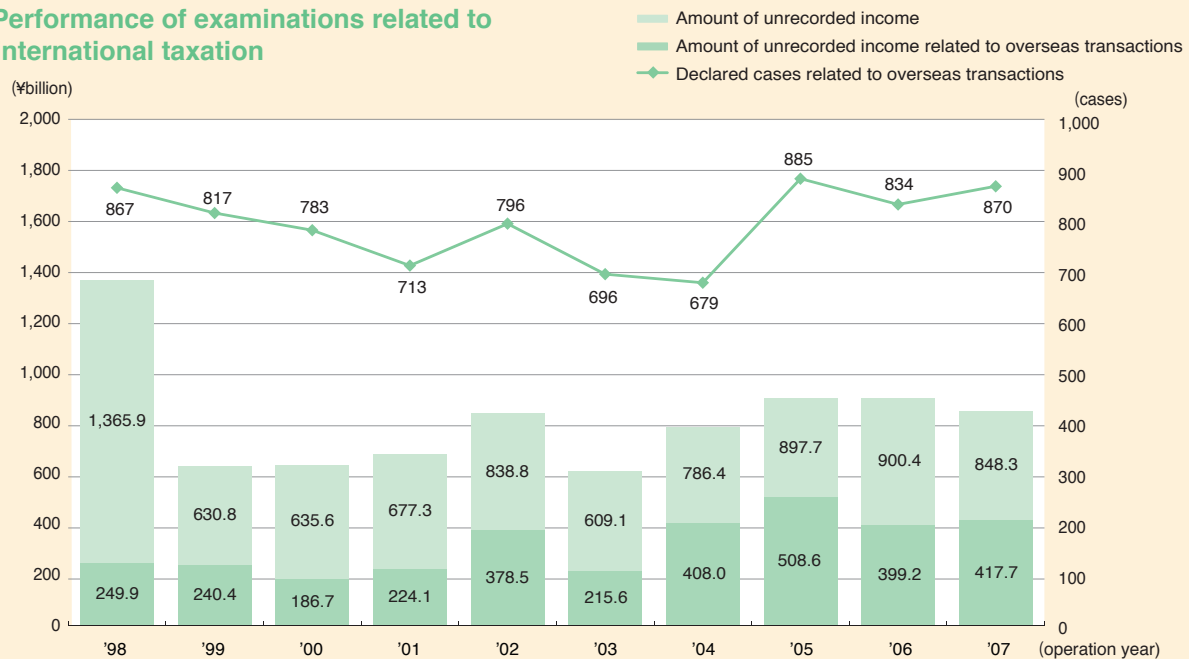
*¹ The record of remittance and receipt related to foreign countries is a report legally required to be submitted to the tax offices by financial institutions and which indicate the amount was remitted to or received from overseas nations exceeding more than ¥2 million (the amount was decreased from more than ¥2 million to more than ¥1 million in April 2009).

IV Tax Administration Under Growing Globalization

who own assets overseas. The performance of the examinations is showed on chart below.

In operation year 2004, the percentage of unrecorded income related to overseas transactions, which account for the majority of unrecorded income by large-scale corporations (handled by Large Enterprise Examination Department of the Regional Taxation Bureau), exceeded 50%. Thereafter the trend remains high in the amount of both unrecorded income and ratio of unrecorded overseas business transactions.

● Performance of examinations related to international taxation



* Taxation status of corporations (with more than ¥100 million in capital stock in principle) examined by the Large Enterprise Examination Department

(2) International Tax Avoidance

International tax avoidance in an attempt to reduce the tax burden by taking advantage of differences in the individual countries' tax systems and tax treaty is becoming problematic on a global basis. Specialists in finance, law, and taxes are involved in international tax avoidance by organizing a variety of entities, such as the silent partnership (Tokumei Kumiai), contracts or partnerships, and using new and complicated financial techniques.

In recent years, this type of taxation problem has spread not only among major corporations with many overseas subsidiaries but also among wealthy individuals. As such, it is necessary for the NTA to keep track of international tax avoidance, conduct carefully planned examinations, and respond harshly to such acts with a view to ensuring fairness among taxpayers.

To this end, the NTA established project teams to counter international tax avoidance, while the specialist project teams and examination support teams in the major Regional Taxation Bureaus conducted in-depth tax examinations.

Meanwhile, we are finding transactions and related problems with new techniques by integrating and analyzing information collected in the course of tax examinations. The variety of information collected and methods of examinations are shared with other divisions to enhance the accuracy of tax examinations. When discovering any matters that require revision of tax laws, we request tax reform accordingly.

In recent years, the amount of investments through funds has increased as the capital market grew active. We are reacting to increasingly complicating economic transactions by establishing project teams that analyze the actual status of investment funds and develop methods for examinations to keep up with

them. Through the Joint International Tax Shelter Information Centre (JITSIC), Japan, the U.S.A., Canada, Australia, and the U.K., as members, are trying to share information on the mechanism of tax avoidance and ways that member nations can address the issue.

(3) Transfer Pricing Issues

The Transfer Pricing Taxation System requires that taxable income shall be calculated on the basis that transactions with a foreign affiliated company are deemed to be made at the “arm’s length price,” which means the price for transactions with the third party, when the prices of such transactions differ from those with a third party and make the taxable income of the corporation in Japan lower.

With the development of global business activities, transactions that may be subject to transfer pricing taxation have been increasing in terms of volume and have become more complicated as well. In order to respond to such changes, the NTA discloses information on the administration of the system and is trying to properly enforce transfer pricing taxation by strengthening the mechanism to review transfer pricing cases.

a. Clarification of administering the system and strengthening the structure of the review system

The NTA is trying to clarify application standards and administrative policies on transfer pricing taxation by updating and publishing the directives on interpretation of law and on the Operation for Transfer Pricing (the Administrative Guidelines), which ensure certainty for taxpayers. In October 2008, the NTA revised its administrative guidelines after inviting public comments, and the revision includes clarification of the treatment of provision of services, donations, and payments for price adjustments.

In the same operation year, the NTA updated its operating structure, making the divisions in charge of review or the mutual agreement procedure (MAP) (refer to Page 39) involved in matters related to the transfer pricing taxation cases early on implement proper taxation and promptly relieve double taxation.

Outline of the revised administrative guideline for operation

《clarification of treatments of the provision of services, donations, and payments for price adjustments》

- 1 Clarifying the criteria to determine whether intra-group activities fall under the provision of services subject to the transfer pricing taxation, based on the descriptions contained in the OECD Transfer Pricing Guidelines.
- 2 Explaining that the possibility of taxation of donations in a given situation, for example, when a corporation in Japan does not receive appropriate compensation for services provided by a foreign affiliated company.
- 3 Explaining that the possibility of taxation of donations in a given situation, for example, when the corporation in Japan retrospectively increased compensation related to transactions with a foreign affiliated company and the difference was paid to a foreign affiliated company in the name of a price adjustment, without reasonable grounds.

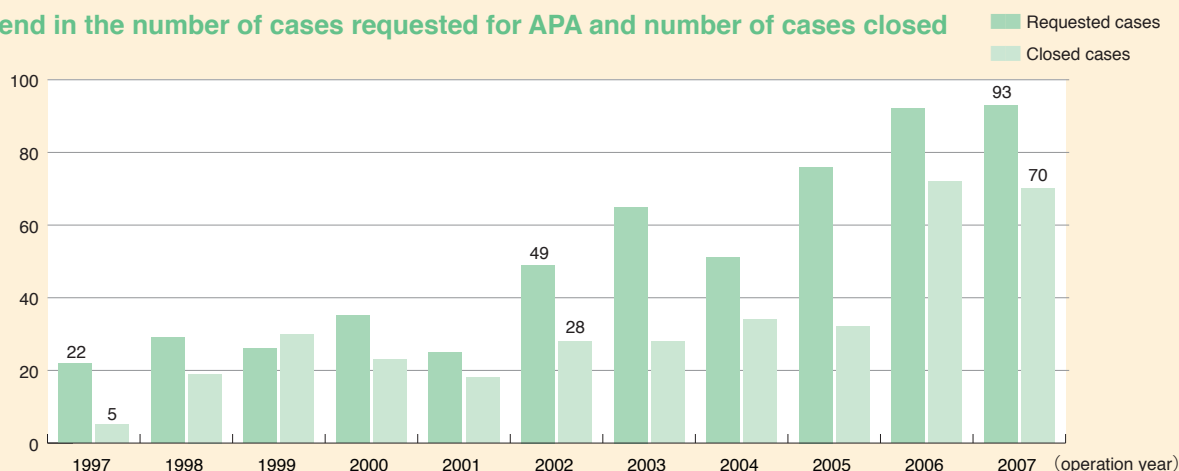
b. Advance Pricing Arrangement (APA)

APA on transfer pricing taxation is a procedure that when requested by taxpayers, the tax authorities confirm in advance the method of calculation of the arm's length price for transactions with foreign affiliated companies. Reflecting the growth of global transactions, the number of APA requests is increasing. Office counters in charge of pre-filing consultations prior to filing a request for APA are placed at each of the

IV Tax Administration Under Growing Globalization

Regional Taxation Bureaus to enable taxpayers to follow APA procedures. In July 2008, the division in charge of examining the APA requests was established within the Osaka Regional Taxation Bureau following the Tokyo, and the number of overall officials in charge was increased.

● Trend in the number of cases requested for APA and number of cases closed



* The number of cases requested for APA does not include the number of cases for which changes were made after the request. Meanwhile, the number of APA cases (refer to page 40) out of the cases subject to mutual agreement procedure (MAP) includes cases of changes acknowledged after being requested (because MAP is made again with regard to changes). Therefore, the figures do not match.

In relation to transfer pricing taxation cases, a system to provide a grace period for national tax payments has been established since fiscal 2007 (for local tax since fiscal 2008).

(4) Exchange of information under the tax treaty

There are cases that it is difficult for the NTA to clarify the global transactions by individuals and corporations only with the information gained within Japan. In such a case, the exchange of information under a bilateral tax treaty makes it possible to acquire the necessary information. The NTA is recently exchanging information on more than 200,000 cases a year.

2 Mutual agreement procedure (MAP)

As globalization progresses with individuals and corporations advancing into foreign markets, double taxation, where both Japan and a foreign country impose income tax, may arise. The transfer pricing taxation described above may also cause double taxation. The NTA is addressing the global issue of double taxation by making use of mutual agreement procedures (MAP^{*1}) with foreign tax authorities based on tax treaties.

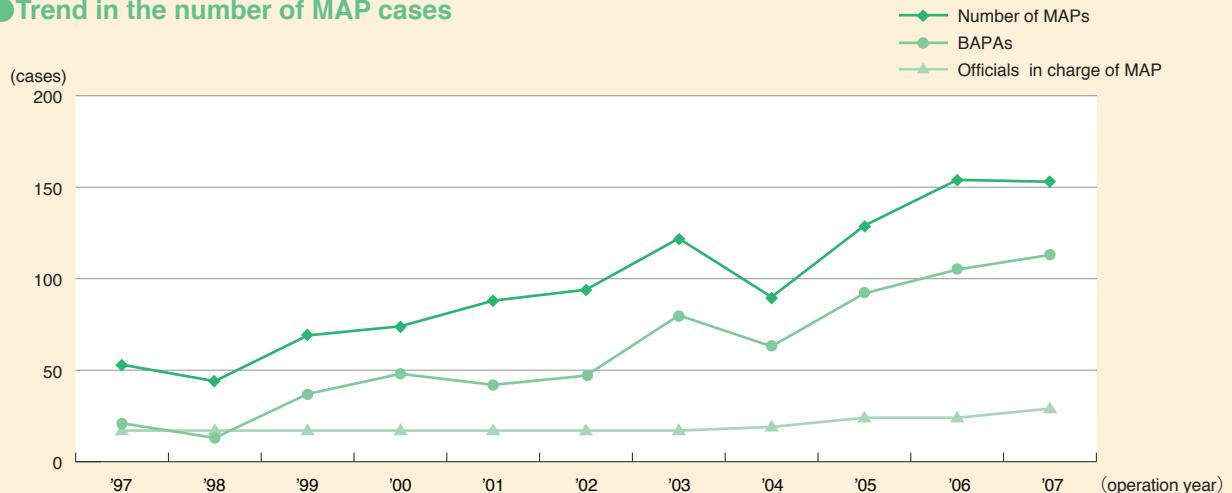
The number of MAP cases has increased in recent years, with more than 90% of MAP cases being related to transfer pricing. Among MAP cases, to assure predictability about transfer pricing, which has spread globally, the number of MAP cases related to APA is increasing. During operation year 2007, the NTA received 153 cases of MAP, of which 144 cases were related to transfer pricing and 113 cases were related to APA. Compared to 10 years ago, the number of MAP cases has increased by a factor of approximately three, and the number of Bilateral Advance Pricing Arrangements (BAPA; APA accompanied by MAP) cases has increased by a factor of approximately five.

^{*1} "Mutual Agreement Procedure (MAP)" means the negotiation procedure between the tax authorities of countries party to a tax treaty to relieve taxpayers from taxation that is not in accordance with the provisions of the treaty where the actions of one or both of the countries result in or will result in taxation that is not in accordance with the provisions of the tax treaty.

The number of countries with which the NTA was involved in MAP negotiations is increasing along with the increase in the number of MAP cases. While 14 countries were involved 10 years ago, it increased to 24 as of the end of June 2008. Likewise, BAPA cases have increased in recent years with Asian countries, which have little past experience in APA.

In an attempt to properly and promptly solve MAP cases, the NTA is strengthening its structure by increasing officials and putting an emphasis on APA, while deepening working relations with the foreign tax authorities for more efficient negotiations.

● Trend in the number of MAP cases



* The number of MAP cases represents where taxpayers claimed MAP or where the foreign tax authorities proposed MAP negotiation. The number of MAPs regarding change for agreed BAPA etc. is counted in the operation year in which re-negotiation was made.

● Tax treaty Network of Japan (45 treaties applied in 56 countries as of April 2009)

European Region (15 countries)

IRELAND
the U.K.
Italy
Austria
NETHERLANDS
SWITZERLAND
SWEDEN
SPAIN

DENMARK
GERMANY
Norway
Finland
FRANCE
BELGIUM
LUXEMBOURG

Middle East (3 countries)

Israel
Egypt
Turkey

South/Central Asia (4 countries)

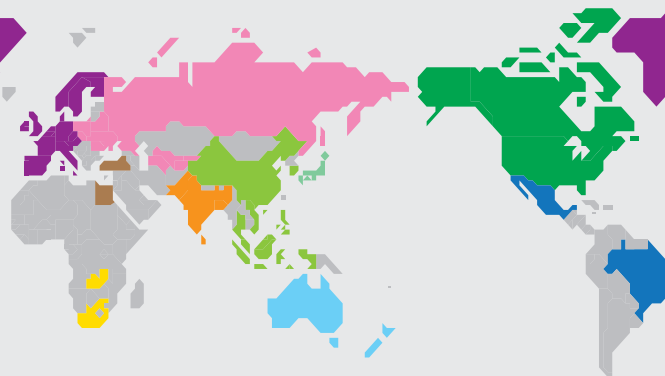
INDIA
Pakistan
Bangladesh
Sri Lanka

African Region (2 countries)

Zambia
South Africa

Pacific Region (3 countries)

AUSTRALIA
NEW ZEALAND
Fiji^{*4}



East Europe / the Former Soviet Union (17 countries)

Azerbaijan^{*1}
Armenia^{*1}
Ukraine^{*1}
Uzbekistan^{*1}
Kyrgyz^{*1}
Georgia^{*1}
Slovakia^{*2}
Tajikistan^{*1}
Czech Republic^{*2}

Turkmenistan^{*1}
HUNGARY
Bulgaria
Belarus^{*1}
Poland
Moldova^{*1}
Romania
Russia^{*1}

North America (2 countries)

U.S.A.
CANADA

Latin America (2 countries)

Brazil
MEXICO

East/South East Asia (8 countries)

INDONESIA
Vietnam
SOUTH KOREA
SINGAPORE

THAILAND
CHINA^{*3}
Philippines
MALAYSIA

Capitalized are the names of countries (24) conducting MAP with the NTA as of the end of June 2008. Underlined are the names of countries (18) conducting BAPA.

* 1 The treaty with the former Soviet Union is taken over.

* 3 The treaty does not apply to Hong Kong and Macao.

* 2 The treaty with former Czech/Slovakia is taken over.

* 4 Fiji takes over the former treaty with the U.K.

③ Cooperation and Coordination with Foreign Tax Authorities

(1) Cooperation for the developing countries

Under the framework of technical assistance by the Japan International Cooperation Agency (JICA), the NTA is actively involved in technical assistance primarily for Asian countries, in consideration of the economic ties between Japan and such countries.

Technical cooperation aims at improving tax administration in developing countries and the development of persons who understand Japanese tax administration. The program consists of two components: ① lectures in developing countries by dispatching NTA officials as instructors and ② training in Japan by inviting tax officials from the developing countries.



NTA Practical Training Course (Practicum)

Overview of Technical assistance

1 Dispatch of Tax officials to the developing countries

Considering the needs of tax authorities for training in the developing countries, tax officials are dispatched as instructors to give lectures on tax examinations, international taxation, staff training, and other tax subjects. In fiscal 2008, instructors were dispatched to lecture on the tax administration of Japan to Cambodia, Malaysia, Thailand, Vietnam and other countries.

With a view to giving continued advice on tax administration to developing countries, the NTA is dispatching tax officials in the capacity of long-term experts from JICA. In fiscal 2008, our tax officials remain in Malaysia, Indonesia, and Vietnam.

● Performance of Dispatched Personnel

Operation year		'04	'05	'06	'07	'08
Short-term expert	Countries dispatched	8	10	9	10	10
	Numbers dispatched	25	55	52	50	40
Long-term expert	Countries dispatched	2	4	4	3	3

2 Training in Japan

(1) International Seminar on Taxation (ISTAX)

ISTAX is a seminar for tax officials in developing countries on the tax system and tax administration of Japan. It has two courses: the general course for mid-career officials and the senior course for management-level officials. A total of 30 tax officials in the two courses combined participated in fiscal 2008.

(2) Country-Focused Training Courses in Tax Administration and Counterpart Training

The courses are given to tax officials in the specified developing countries at their request. Tax officials from China, Indonesia, Mongolia, Philippines, Thailand, Vietnam, and so on participated in the course in fiscal 2008.

(3) International Taxation for Asian Countries

Training is directed at tax official in Asian countries (China, Indonesia, Malaysia, Philippines, Thailand, and Vietnam) on the subject of international taxation. Twelve persons from six countries participated in fiscal 2008.

(4) NTA Practical Training Course (Practicum)

Training on the Japanese tax system and tax administration in general is provided for tax officials from developing countries who are studying in master courses at the graduate schools of Japanese universities on a

scholarship program from the World Bank. A total of 21 foreign students studying at graduate schools of Keio University, Yokohama National University, National Graduate Institute of Policy Studies, Hitotsubashi University, and Waseda University participated in fiscal 2008.

● Status of training conducted in Japan

Operation year		'04	'05	'06	'07	'08
International Seminar on Taxation (ISTAX) General Course	Countries accepted	18	22	17	18	18
	Persons accepted	19	22	20	19	20
International Seminar on Taxation (ISTAX) Senior Course	Countries accepted	10	11	11	10	10
	Persons accepted	11	11	11	10	10
Country-Focused Training Courses in Tax Administration	Countries accepted	3	3	3	3	4
	Persons accepted	25	23	30	32	60
Counterpart Training	Countries accepted	3	4	4	4	3
	Persons accepted	13	58	71	89	31
International Taxation for Asian Countries	Countries accepted	Newly launched	Newly launched	6	6	6
	Persons accepted	in 2008	in 2008	11	12	11
NTA Practical Training Course (Practicum)	Countries accepted	13	12	13	10	9
	Persons accepted	17	18	18	17	21

(2) Participation in international conferences among the tax authorities

New modes of business transactions are expanding with the progress of economic globalization and the advanced use of IT. Under such circumstances, the tax authorities of each country are faced with double taxation risk due to differences in the tax rules of the different countries and the problem of taxation loopholes of being untaxed by any country as a result of tax avoidance. For the purpose of promoting cooperation and sharing experiences among the tax authorities to deal with such risks and problems, the NTA participates in a variety of international conferences.

The OECD Committee on Fiscal Affairs (CFA) is a forum where OECD-member countries review the Model Tax Convention and Transfer Pricing Guidelines, and the tax authorities aim to share knowledge and experience. At the Forum on Tax Administration (FTA), which is a tax-administrator level meeting of the OECD-member countries with the inclusion of major non-OECD economies, the participants discussed the impact of the global financial crisis on tax administration, the responses to tax avoidance using tax havens, and measures to have financial institutions and high net worth individuals improve tax compliance. The NTA has been actively participating in such activities of the CFA. For further details, please visit the NTA website at <http://www.nta.go.jp/sonota/kokusai/oecd/oecd.htm> (Japanese only)

The Leeds Castle Group (Tax Administrators Meeting), consisting of 10 major nations, namely Japan, the U.S.A., Canada, Australia, the U.K., France, Germany, China, South Korea, and India, discusses urgent issues faced by each country, such as international tax avoidance. Its latest meeting was held in January 2009 in Kyoto hosted by Japan. Moreover, the Study Group on Asian Tax Administration and Research (SGATAR), consisting of tax administrations in 15 countries and regions, provides a forum for promoting cooperation and sharing the knowledge and experience in Asia.



[OECD Forum on Tax Administration] Held in May 2009

V Remedy for Infringement of Taxpayer Rights

If taxpayers disagree with the district director of the tax office concerning corrections made during tax examinations with which they remain dissatisfied, there is a system to review cases inside the administration (to appeal) before litigation is filed in court. This review system is a procedure to easily and promptly remedy the infringement of rights and interests of taxpayers. The process consists of requests for reinvestigation and reconsideration.

In principle, taxpayers who are dissatisfied with corrective actions are entitled to first submit a request for a reinvestigation to the district director of the tax offices, while a request for reconsideration is submitted to the director general of the National Tax Tribunal, established as an independent institute. In addition, if the taxpayer remains dissatisfied even after the decision by the director general of the National Tax Tribunal, taxpayers are entitled to appeal to the court as in general administrative suits.

(1) Request for reinvestigation

A request for reinvestigation is the first stage in the administrative appeal filed with regard to national taxes. In case the district director of the tax office took action for a correction, determination, or seizures with which taxpayers remain dissatisfied, they are entitled to request that the ruling be revoked or changed.

In recent years, cases requesting a reinvestigation are increasingly complicated involving geographical expansion and globalization of economic transactions. They involve difficulties in proving the relevance of facts and the interpretation and application of law in increasing numbers of cases. In response, the NTA has established Rulings and Legal Affairs Divisions and assigned to Special Officers (legal affairs) in each Regional Taxation Bureau. The NTA is addressing the uniform enforcement of tax laws across the country based on a correct interpretation. The NTA is also providing various training to develop tax officials, who are skilled in reviewing and endeavoring to properly and promptly handle the requests for reinvestigations.

(2) Request for reconsideration

Taxpayers, who remain dissatisfied with the determination made in relation to the above request for a reinvestigation, are entitled to file a request for reconsideration with the director general of the National Tax Tribunal.

The National Tax Tribunal, which aims to remedy the legitimate rights and interests of taxpayers, makes its decisions on request for reconsideration as fair third parties between the district director of the tax offices and claimants as taxpayers. The appeals judges and associate appeals judges of the National Tax Tribunal with specialized knowledge and experience examine and review the cases.

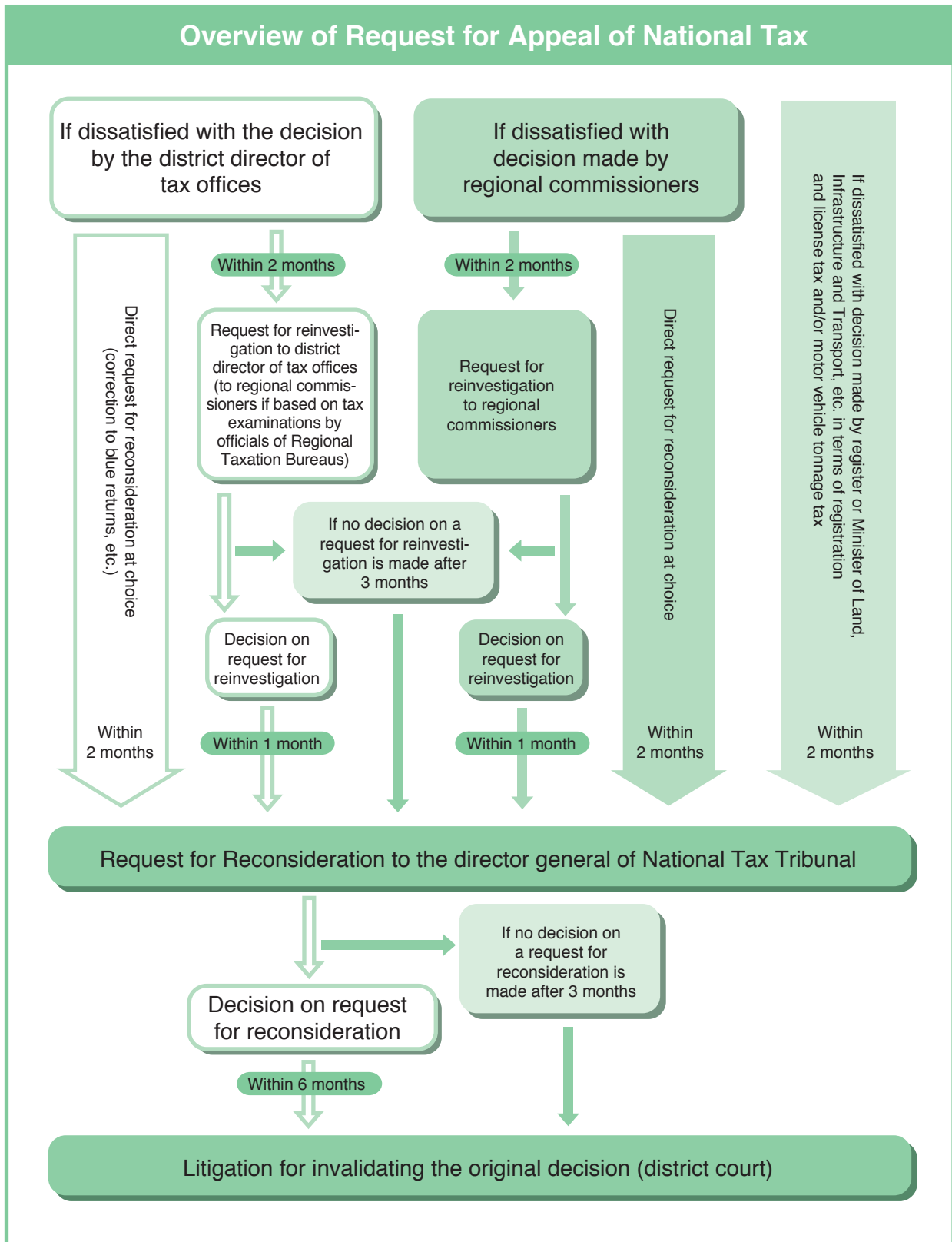
The posts of the director general for the National Tax Tribunal, as well as for the Tokyo and Osaka Regional National Tax Tribunal, are appointed from among those who have been justices or public prosecutors. Appeals judges for the National Tax Tribunal are also appointed from among those who have been specialists such as CPTAs in the private sector.

The National Tax Tribunal promptly contacts the claimants and the tax offices early on to have a good grasp of mutual points of view. It drafts a chart outlining the positions of each party at an early point in time after sorting out their arguments. The Tribunal strives to quickly and rapidly remedy any violation of the rights and interests of taxpayers by seriously listening to the views and positions of each party and conducting its own tax examinations when necessary.

Decisions by the director general of the National Tax Tribunal will not become more disadvantageous to taxpayers than those made by the district director of the tax office. The decision is a final award given within the NTA, against which the district director of the tax office is not entitled to file litigation, even if dissatisfied.

(3) Litigation

Even after the decision by the director general of the National Tax Tribunal, taxpayers, who may remain dissatisfied, are entitled to file litigation with the court seeking a legal remedy.



(4) Case Trends

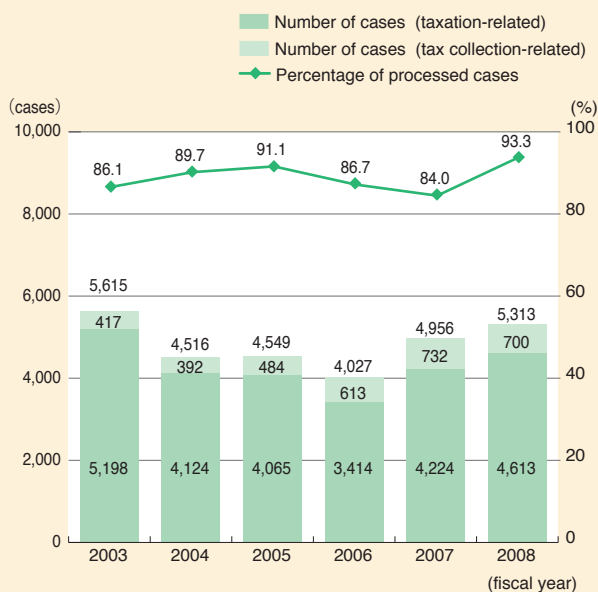
The NTA is striving to finish processing requests for reinvestigations within three months in principle. The total number of reinvestigations requested was 5,313 (4,613 in taxation and 700 in tax collections) in fiscal 2008. Of these, about 8.8% of taxpayer claims were proved in whole or in part by new facts.

With respect to the request for reconsideration, the NTA is working to finish processing within one year in principle. The total number of requests for reconsideration was 2,814 (2,517 in taxation and 297 in tax collection) in fiscal 2008. Of these, about 14.7% of taxpayer claims were proved in whole or in part.

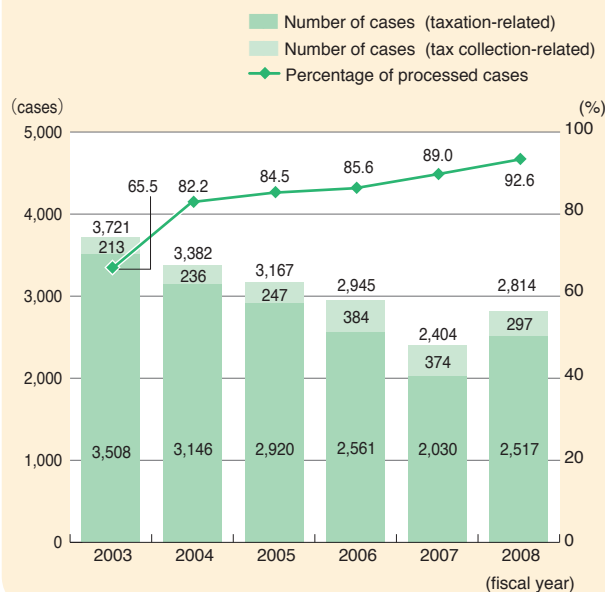
For litigation, a total 356 cases were closed (271 in taxation, 84 in tax collections and 1 in the National Tax Tribunal) in fiscal 2008. Of these, about 10.7% of taxpayer claims were proved in whole or in part.

The NTA and the National Tax Tribunal are disclosing on the website overviews of the requests for appeal and litigation, or court decisions to obtain understanding about remedies for infringement of taxpayer rights.

● Percentage of processed requests for reinvestigation within three months and number of processed requests for reinvestigation



● Percentage of processed requests for reconsideration within one year and number of processed requests for reconsideration



Reference Response to Complaints from Taxpayers

The NTA receives from taxpayers such reactions as complaints, requests, criticism, or consultation on problems they have not only with regard to appeal with the decision by the NTA but also about tax administration in general including the attitude of officials to attend to the inquirers or the methods of tax examinations. The NTA believes it essential to sincerely accept a variety of opinions from taxpayers in order to obtain their understanding and confidence and to give a prompt, accurate response from the perspective of taxpayers. In July 2001, the NTA appointed taxpayer support officers to properly respond to taxpayer complaints on decisions made in relation to taxpayers' rights and interests and to explain the procedures for remedy for infringement of taxpayer rights.

VI Administration of the Liquor Industry

The Liquor Tax has been a major source of government revenue, as well as the land tax since the Meiji Restoration in 1868, and surpassed the land tax at one point to become the primary source of national tax revenue. Thereafter, direct taxes, such as income tax and corporation tax, have come to account for a greater proportion of total revenues. In fiscal year 2007, the liquor tax accounted for 2.9% (¥1,524 billion) of total tax revenues. Meanwhile, the liquor tax, which is less influenced by changes in the economy and ensures stable tax revenue, continues to play an important role in Japan's tax system today.

The liquor industry is composed of 2,878 manufacturers and 162,861 distributors (as of the end of March 2008), most of which are small and medium enterprises.

The arrival of a decreasing population, rising concern about health and food safety of the people, and changes in the lifestyle are causing great changes in the environment surrounding the liquor business today.

In order to adapt to these changes in the socio-economic conditions, the NTA is implementing a variety of measures to ensure the sound development of the liquor industry as a whole from a comprehensive perspective.

Since the recent incident of the illegitimate distribution of contaminated rice has raised concern about food safety, the NTA is making a variety of efforts to assure the safety and quality of every process from production to consumption of liquor in order to supply consumers with safe, high quality liquor.

(1) Activities to assure the safety and quality of liquor

Offices of analysis and brewing technology in Regional Taxation Bureaus provide technical guidance to liquor brewers and conduct surveys on the liquor distributed in the market (investigation of safety, quality, and labeling), and assure the quality and safety of domestically available liquor. For catching up with the new brewing technology to assure the safety and quality of liquor and for acquiring advanced technologies, such as research and development related to analytical methods, the NTA is exchanging information and cooperating with the National Research Institute of Brewing (NRIB).

From the standpoint of protecting consumers' interests, the NTA has established labeling criteria to which the liquor business operators must comply and is trying to ensure appropriate liquor labeling within the industry through compliance examinations.

National Research Institute of Brewing (NRIB)

NRIB was originally established in 1904 as the National Research Organization of Technology for Liquor within the Ministry of Finance. In April 2001, it shifted from the NTA's Research Institute of Brewing to an independent administrative agency. Furthermore, in April 2006, the NRIB became an independent administrative agency, in which all staff members are treated as non-government employees, with a view to accelerating the exchange of researchers and joint research between the private sector and universities. Today, as Japan's only comprehensive liquor-related research institute, the NRIB conducts advanced analyses and examinations to realize proper and fair taxation of liquor and also conducts research and surveys on liquor, provides training courses for small and medium-size liquor manufacturers, and seminars for consumers. For further details, please visit the NRIB website at <http://www.nrrib.go.jp/English/index.htm>.

(2) Activities for the sound development of liquor Industry

In order for the liquor industry to realize sound development, it is necessary to consider the principle of change from quantity to quality and consumer perspectives. High quality and safe liquor must be produced from the standpoint of consumers and under proper quality control, and the product must be offered to consumers along with proper disclosure of information. To achieve them, it is important that

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both industry and government work together to address issues that may arise in each process from production to the distribution of liquor.

To this end, the NTA provides support for the liquor industry by conducting research on industry trends, offers training courses by experts in business management, and makes available information on examples of successful management improvement and on government programs offered for small and medium-size enterprises.

Meanwhile, a growing boom in Japanese foods overseas is also helping raise the appraisal of Japanese liquor as part of Japanese culture. The NTA is supporting the establishment of more favorable export conditions, such as offering information on export procedures for liquor and rules and regulations implemented in other countries.

(3) Ensuring a fair trade environment

For the sound development of the liquor industry, ensuring a fair trade environment is essential. In August 2006, the NTA reviewed and updated the guidelines and set forth the Guidelines on Fair Liquor Trade. Through its publicity activities about the new guidelines, the NTA is encouraging liquor business industry to make their own efforts to ensure fair trade. The industry itself is voluntarily promoting fair trade practices, such as reasonable pricing by the cost plus method or establishing its own standards regarding transaction terms to move forward with fair trade.

The NTA examines the status of the liquor trade. If any transactions run counter to the above guidelines, the NTA will provide guidance for improvement and work together with the Fair Trade Commission when necessary.

(4) Response to Social Demands

In order to meet the social demand for the prevention of underage drinking, the NTA is thoroughly ensuring the appointment of liquor sales managers, encouraging attendance at training courses, and ensuring the obligation to adhere to the labeling of liquor. Furthermore, the NTA has liquor sales management cooperators publicly appointed to monitor liquor shops in order to thoroughly confirm that the liquor suppliers comply with the obligation of displays.

In addition, in order to respond to the social demand for the prevention of drunken driving, as it is very important that families, schools, local communities, and government as well as liquor industry address such issues, the NTA is tackling the issues in partnership with them.

In accordance with the resolutions of the World Health Organization (WHO) in May 2005, the NTA, with the relevant government authorities and liquor industry, is continuing to consider how to reduce the adverse effects that the harmful use of alcohol may have on health and society.

(5) Proper handling of application for liquor sales license

Liquor is an article subject to a high rate of tax. Therefore, to ensure the taxation and collection of the liquor tax and to smoothly shift the tax burden onto consumers, the licensing system is adopted to manufacture and distribute liquor.

The NTA is working to properly operate the administrative affairs to issue licenses for the manufacture and distribution of liquor in accordance with purpose of the system, keeping the procedures for the issue of licenses transparent and uniform. For the new licensees, the NTA properly guides and instructs them to maintain their obligation to appoint liquor sales managers for retail operations and other matters of compliance.

Guidelines on Fair Liquor Trade (Established on August 31, 2006)

Purposes

To assure liquor tax revenue and stabilize liquor trade (Article 1 of The Law concerning Liquor Business Associations and Measures for Securing Revenue from the Liquor Tax)

Execution of trade complying with guidelines

Sound management and improvement on consumers' interests

Sound development of the liquor industry

① Recent liquor market

- Changes in the business environment (arrival of the decreasing population society, etc.)
→ Difficulty with further total volume growth of liquor consumption in the domestic market
- Diversification in liquor retail (convenience stores, supermarkets, drugstores, etc.)
→ Gaps in trade volume and price among traders

② Issues for the Sound Development of the Liquor industry

- "Shift from quantity to quality", "Consumers' perspectives",
"Sales Management", and "Assurance of Fair Trade"

③ Considering the applicability of Article 84 of The Law concerning Liquor Business Associations and Measures for Securing Revenue from the Liquor Tax 《Recommendation or orders to assure the liquor tax》, the NTA makes suggestions on fair liquor trade practices and ways to cooperate with the Fair Trade Commission.

- Facilitating voluntary efforts to assure fair trade

1. Fair trade related to liquor

(suggestions of how liquor trade should be from the standpoint of securing the liquor tax)

1 Setting of the rational price

- ① The rational retail price should be "purchase price + SGA expense + profit." In addition, the liquor prices should be rational from the viewpoint of liquor's unique characteristics.
- ② In light of its unique characteristics, it is inadequate practice to use liquor as a "loss leader" for attracting customers, which should be improved;
- ③ Production should be kept at proper level based on a correct supply-demand outlook.

2 Fair treatment of business clients, etc.

Discriminatory treatment of the selling price and trade conditions according to the trade clients or sales territories without rational reasons is likely to become one of the factors in distorting market prices.

3 Setting of fair trade conditions

It might erode supplier operations and affect the collection of receivables by manufacturers, which is likely to cause problems in securing the liquor tax, when large-scale operators, such as supermarkets, unilaterally return products at their discretion, refuse to accept products with a private brand, demand to dispatch employees, demand payment of contributions and excessive center fees, or treat suppliers unfavorably because of refusal to accept such demands.

4 Transparent and rational rebates

Rebates that lack transparency and rationality should be eliminated.

2. Conducting Survey on Actual Trade Practices and Collaborating with the Fair Trade Commission (Measures by the NTA)

1 Conduct of the status survey on effective trade practice, etc.

- ① Conducting tax examinations focused on liquor business operators who are largely influential on the market;
- ② Conducting follow-up surveys on liquor business operators for which guidance for improvement was issued;
- ③ Disclosing the inappropriate trades and their case examples for improvement results as much as possible for preventing other operators for engaging in the same kind of trade.

2 Measures to secure the liquor tax

- ① Judging the existence of excessive competition provided for in Paragraph 1 of Article 84 of the Law concerning Liquor Business Associations and Measures for Securing Revenue from the Liquor Tax in reference to 1 "Fair trade related to liquor."
- ② Taking the minimum but essential actions to solve the problem if measures should be implemented to maintain liquor tax revenues.

3 Response to Violations of the Antimonopoly Law

The regional commissioners, who find the liquor business operators violate the Antimonopoly Law, will inform the Fair Trade Commission of such facts.

4 Collaboration with the Fair Trade Commission

- ① The NTA consults with the Fair Trade Commission issues related to distribution of liquor.
- ② Officials are appointed in Regional Taxation Bureaus in charge of centralizing the administration of liquor market information.

VII Future Challenges

Changes in the Environment Surrounding the Tax Administration

The socio-economic structure of Japan is undergoing rapid changes with the falling birth rate and the aging population in recent years. These changes in the socio-economic structure are having a major impact on the environment surrounding the tax administration.

The aging population, growing job mobility, and reforms in corporate legislation are causing the number of tax returns filed to grow, which in turn increases the administrative tasks processed at the NTA. In economic activities as well, the significant development of IT is causing cross-border economic and investment activities to increase not only by corporations but also by individuals. And such activities are making economic transactions more complicated and inducing the use of skillful acts to avoid taxes, which makes the NTA's responsibility to examine and collect tax more difficult than ever before. Under these circumstances, the environment surrounding the tax administration is becoming increasingly more difficult in both quantitative and qualitative terms.

Meanwhile, under the tight financial situation, it is difficult to expect a substantial increase in the number of officials at the NTA. We have to proceed with tax administration by more effectively and efficiently allocating human and material resources than in the past. In addition, we believe it is necessary to give consideration to operating the NTA to win the confidence of citizens and putting in place a work environment where officials are motivated.

Issues the NTA should address

Facing the above-described circumstances, the NTA is resolved to address the following issues in order to achieve its assigned missions:

1 Promotion of proper filing of returns and paying taxes and administration of the withholding tax system

The NTA will upgrade taxpayer services for the correct filing of tax returns and payments.

Specifically, the NTA will offer information to help taxpayers file tax returns and payments and clarify the interpretation of law, as well as further enhance the convenient means of filing tax returns and payments, such as e-Tax and filing assistance on the NTA website by using IT. At the same time, the NTA will push forward the responding to advance inquiries and conducting advance pricing arrangement (APA) related to transfer pricing (TP) system so that taxpayers are able to foresee tax treatment for their economic activities.

For the withholding tax system, the NTA will try to let the system work properly through further notification and public relations activities directed at withholding agents.

Given the importance of the roles played by the CPTAs in filing returns and paying taxes, the NTA will make efforts to cooperate and maintain close working relationships with the tax accountants' associations in spreading e-Tax and using the documents attached by CPTAs to tax returns.

2 Proper tax examinations and collection

In order to cope with the increasingly complication of economic transactions as described above, the NTA will try to strengthen its structure of gathering information and systematically address the prioritized issues that can correctly respond to changes in the socio-economic situation when conducting tax examinations and collecting taxes.

In that regard, the NTA will strike a balance with limited resources between humans and materials by effectively combining the method of in-depth tax examinations and brief contact.

For measures to address taxation and collection, the NTA fully recognizes them as compulsory actions imposed on taxpayers' rights and interests. The NTA is trying to determine the relevant facts and apply the laws and regulations after correctly interpreting the assertions made by taxpayers and objectively scrutinize information in the examination.

3 Proper management of the liquor administration

As concern increases over food safety among the consumers, the NTA will make efforts to assure the safety and quality of liquor in cooperation with the National Research Institute of Brewing (NRIB), in order to supply consumers with safe, high quality liquor.

In addition, for the purpose of encouraging liquor business operators to push forward voluntary activities to ensure a fair trade environment for liquor, the NTA will implement a survey on the status liquor business transactions based on the Guidelines for Fair Liquor Trade. If irrational transactions are recognized, the NTA will provide guidance for improvement and works together with the Fair Trade Commission when necessary.

Furthermore, responding to social demand such as the prevention of underage drinking, the NTA will assure proper sales management of liquor by having the relevant personnel attend the Liquor Sales Manager Training Courses and monitor proper labeling requirements in display areas.

4 Promotion of administrative work efficiency

In order to realize a proper and fair tax administration, it is necessary to conduct sufficient tax examinations and collection. Amid the increasing cases of filing tax returns, the NTA will conduct consistent reviews to simplify and streamline administrative tasks with limited human resources by employing electronic processing of tax administration based on e-Tax and outsourcing of clerical tasks that may be processed by personal other than the NTA officials.

Particularly during the period when filing income tax returns is concentrated at one time, the NTA will press forward with the use of personal computers and e-Tax, thereby improving convenience for taxpayers and aiming at efficient processing of administrative affairs.

For the optimization of administrative tasks and systems, the NTA will draft practical plans to optimize administrative tasks in order to save operating expenses and improve administrative efficiency under tight financial situations. While conducting evaluations and validating the performance of various measures, the NTA will steadily put such plans into operation.

5 Enhancement of the organizational base and work environment

In order for the NTA to achieve its assigned missions, it will make a proper allocation of resources while assuring the necessary organization, headcount, and budget under tight financial situations. On the other hand, it will endeavor to reduce administrative expenses to avoid wasting taxes from the perspective of taxpayers.

Meanwhile, to enable the organization to fulfill its potential with the limited number of officials, the NTA will assign the right employees to the right jobs according to their experience and abilities and strengthen the training and education programs to further improve the specialized knowledge necessary for the NTA.

In addition, the NTA will push for the Plan for Expanding Recruitment and Promotion of Female Officials and properly implement the Action Plan to develop a work environment to promote a balance between childcare and work, under which the NTA started an activity.

6 Enhancement of policy evaluation and public relations activities from a new perspective

In order to correctly cope with changes in the society, as well as the economy, by responding to the confidence and expectations placed by taxpayers, the NTA believes it necessary to clarify the issues to be addressed in the tax administration and tackle measures according to each issue.

In executing each measure, the NTA will strive to work out and implement effective plans and it will at regular interval evaluate and validate what have been implemented so that the effectiveness of measures can be demonstrated to the fullest.

Since 2001, the NTA has set the performance target it should achieve and evaluated the full disclosure of results achieved in relation to the objectives. The NTA will redouble its efforts to carry out effective public relations activities to enable taxpayers to understand the issues, policies, and measures of the NTA, and the results and evaluations that have been achieved.

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※ The time period of figures is indicated on the title line or at the top right of individual tables. The fiscal year ranges from April 1 through March 31 of the following year, (i.e. fiscal year 2007: April 1, 2007 to March 31, 2008) while the operation year is from July 1 through June 30 of the following year (i.e. operation year 2007: July 1, 2007 to June 30, 2008). The calendar year ranges from January 1 through December 31 of the same year during which income tax returns are filed. The amount of sub-total in each item of accounts may not accord with the amount indicated in the grand total as fractional figures are rounded off.

Tax Revenues and Budget

Budget and Final Accounts of Taxes and Stamp Revenues for Fiscal year 2007

	Item	Budget	Actual
		Million yen	Million yen
General Account	Withholding income tax	12,965,000	12,928,501
	Self-assessed income tax	3,133,000	3,151,542
	Corporation tax	15,963,000	14,744,398
	Inheritance tax	1,503,000	1,502,560
	Consumption tax	10,572,000	10,271,861
	Liquor tax	1,495,000	1,524,183
	Tobacco tax	926,000	925,346
	Gasoline tax	2,135,000	2,110,543
	Liquefied petroleum gas tax	14,000	13,666
	Aviation fuel tax	93,000	88,039
	Petroleum and coal tax	533,000	512,851
	Power resources development promotion tax	346,000	352,157
	Motor vehicle tonnage tax	716,000	739,857
	Customs duty	929,000	940,991
	Tonnage due	9,000	9,645
	Others *	–	261
	Stamp revenue	1,219,000	1,201,845
	Subtotal	52,551,000	51,018,246
	Local road tax	304,400	301,776
	Liquefied petroleum gas tax (transferred)	14,000	13,666
	Aviation fuel tax (transferred)	16,900	16,007
	Motor vehicle tonnage tax (transferred)	358,000	369,929
	Special tonnage due	11,300	12,057
	Gasoline tax	709,900	709,900
	Special tobacco tax	213,800	214,224
	Total	54,179,300	52,655,804

* "Others" include collection of delinquent tax, such as the commodity tax, land value tax, etc.

NTA Initial Budget for Fiscal year 2009

	Item	Budget
		Million yen
General Expenditures	IT-related expenses	47,445
	Expenses to improve convenience for taxpayers *1	13,847
	Expenses related to internationalization measures	870
	Expenses to improve work environment *2	7,426
	Expenses related to tax reforms	2,169
	Expenses for tax forms & communications	14,009
	General operating expenses *3	46,944
	Expenses for National Tax College	2,610
	Expenses for National Tax Tribunal	427
	Expenses for National Research Institute of Brewing	1,142
	Subtotal	136,889
	Salary costs	583,567
	Total NTA budget	720,456

*1 "Expenses to improve convenience for taxpayers" include expenses related to maintenance of the e-Tax and the filing assistance on the NTA website.

*2 "Expenses to improve work environment" includes expenses to improve facilities and health care.

*3 "General operating expenses" include wage expenses for part-timers, travel expenses, honoraria for hired bookkeeping instructors, and PR expenses.

Tax Returns and Taxation

Income Tax

(Calendar year 2008)

	Thousand persons
Total population	127,770
Persons engaged	64,120
Number of final returns for income tax	23,690
Refund	12,840
Tax payment	7,520
Breakdown by income earners	
Business income earners	1,660
Other income earners	5,860
Real estate income earners	1,090
Employment income earners	2,550
Miscellaneous income earners	1,970
Others	250

* "Total population" and "persons engaged" represent figures as of 2007.

Inheritance Tax

(Calendar year 2007)

Number of deceased	1,108,334 Persons
Number of deceased subject to taxation	46,820 Persons
Number of taxpayers (number of heirs)	137,957 Persons
Taxable amount	10,655,700 Million yen
Amount of tax	1,266,600 Million yen

Gift Tax

(Calendar year 2007)

Number of persons subject to taxation	358,832 Persons
Value of properties acquired	2,053,800 Million yen
Amount of tax	107,400 Million yen

* Figures include the taxation system for settlement at the time of inheritance.

Withholding Agents and Withholding Income Tax

(Operation year 2007)

Income etc. category	Number of Withholding Agents	Amount of tax
	Thousands	Million yen
Employment income (wages and salaries)	3,810	9,889,100
Retirement income	—	269,100
Interest income, etc.	48	757,700
Dividend income	130	2,293,200
Capital gains on listed shares etc. kept in special account	7	209,500
Income from remuneration, etc.	3,043	1,188,600
Income paid to non-residents and foreign corporations, etc.	25	385,500
Total	—	14,992,700

* The figures of withholding agents are as of the end of June 2008.

Number of Corporations and Corporation Tax

(Operation year 2007)

Number of corporations	3,003 Thousands
Number of Tax returns filed	2,799 Thousands
Percentage of corporations filing	89.9%
Percentage of returns declaring a surplus	32.3%
Amount of self-assessed income	55,287,100 Million yen
Amount of self-assessed loss	16,187,800 Million yen
Amount of tax	13,703,600 Million yen

* The number of corporations is effective as of the end of June 2008.

Consumption Tax

(Fiscal year 2007)

	Payment	Refund
	Thousand cases	Thousand cases
Number of tax returns		
Individual	1,455	38
Corporations	1,969	118
Total	3,424	156
Amount of tax	9,978,600 Million yen	2,752,100 Million yen

Liquor Tax and Liquor Production

(Fiscal year 2007)

Type	Volume of production	Amount of tax
	Thousand kl	Million yen
<i>Sake</i>	505	77,196
<i>Sake compounds</i>	53	5,468
Continuous distillation Japanese spirit (<i>shochu</i>)	419	93,799
Simple system distillation Japanese spirit (<i>shochu</i>)	580	136,244
<i>Mirin</i> (rice cooking wine)	116	2,269
Beer	3,470	755,741
Fruit wine	67	6,203
Sweet fruit wine	6	713
Whisky	56	21,146
Brandy	6	2,369
Sparkling liquor	1,528	204,467
Alcohol for raw materials & Spirits	157	11,215
Liqueurs	1,025	86,580
Other brewed liquor	835	67,862
Powder liquor and miscellaneous liquor		
Total	8,823	1,471,268

About the NTA

Promotion of Tax Filing and Payment by Proper Self-Assessment

Improvement of Taxpayer Convenience and Administrative Efficiency

Tax Administration Under Growing Globalization

Remedy for Infringement of Taxpayer Rights

Administration of the Liquor Industry

Future Challenges

Statistics

Tax Examinations

Examination of Self-assessed Income Tax

(Operation year 2007)

	Number of Cases	Amount of Unrecorded Income		Additional Tax Revenue Collected	
		Million yen	Per case Thousand yen	Million yen	Per case Thousand yen
Field examination	Thousands				
Special, General *1	60	582,800	9,650	112,100	1,860
Focusing *2	175	337,100	1,920	15,900	90
Brief contact *3	590	43,600	70	4,200	10
Total	827	963,500	1,170	132,200	160

*1 "Special, General" refers to a deep examination focused on the large amount and serious violations.

*2 "Focusing" refers to a quick examination to find unrecorded income, etc.

*3 "Brief contact" refers to correct tax declaration by telephone or by summoning taxpayers to the tax offices.

Examination of Withholding Income Tax

(Operation year 2007)

Number of Cases Examined	Number of Illegal Case	Additional Tax Revenue Collected
199 Thousands	57 Thousands	57,500 Million yen

Field Examination of Corporation Tax

(Operation year 2007)

	Number of Cases	Amount of Unrecorded Income		Additional Tax Revenue Collected
		Million yen	Per case Thousands	
Entire corporations	Thousands	Million yen	Thousands	Million yen
	147	1,625,900	11,072	391,600
Of which, corporations handled by the Large Enterprise Examination Department	4	848,300	211,241	203,600

Examination of Consumption Tax

(Operation year 2007)

	Number of Cases	Number of Undeclared Cases	Additional Tax Revenue Collected	
			Million yen	Per case Thousand yen
Individuals	91	66	25,900	280
Corporations	139	76	66,800	480

Field Examination of Inheritance Tax

(Operation year 2007)

Number of Cases	Number of Undeclared Cases	Amount of Unrecorded Inheritance		Additional tax revenue collected	
		Million yen	Per case Thousand yen	Million yen	Per case Thousand yen
Thousands	Thousands				
14	12	411,900	29,750	94,100	6,800

Collected Number of Statutory Information

(Operation year 2007)

Name of Statutory Information	Collected Number
	Thousands
Withholding record of employment income	19,659
Payment record of interest and others	2,415
Payment record of dividends, distribution of surplus, and interest paid on guaranty capital	6,356
Withholding record of public pensions, etc.	33,217
Payment record of remuneration, fees, contracts and prize money	9,359
Payment record of consideration for transfer of stocks, etc.	5,766
Record of remittance and receipt related to foreign countries	3,910
Others	54,817
Total	135,499

Criminal Investigation

Criminal Investigations

(Fiscal year 2008)

Number of Cases Conducted	Number of Cases Closed	Number of Cases Referred to the Prosecutor	Amount of Tax Evasion		Amount of Tax Evasion (Reference to the Prosecutor)	
			Million yen	Per case Million yen	Million yen	Per case Million yen
211	208	153	35,100	169	24,900	163

Large-scale Cases

(Fiscal year 2008)

Number of Cases Referred to the Prosecutor	Incl: over 300 million yen tax evasion	Incl: over 500 million yen tax evasion
153	14	7

Referred to the prosecutor by Tax Item

(Fiscal year 2008)

Tax Item	Number of Cases	Tax Evasion	
		Million yen	Per case Million yen
Income tax	40	4,000	100
Corporation tax	97	18,600	192
Inheritance tax	4	1,000	263
Consumption tax	12	1,300	106
Total	153	24,900	163

Delinquency

Tax Delinquency Cases of 100 million yen or more by Industry

(As of the end of fiscal year 2008)

Industry	Number of Persons		Amount of tax	
		%	Million yen	%
Manufacturing	54	4.2	11,587	3.3
Distribution	79	6.1	24,502	7.0
Real estate & construction	357	27.7	92,648	26.6
Food & beverage	82	6.4	16,168	4.6
Financials	29	2.2	16,674	4.8
Other industries *1	340	26.4	79,142	22.7
Others *2	348	27.0	107,997	31.0
Total	1,289	100.0	348,718	100.0

*1 "Other industries" refer to the hospital (doctors), service industry, leisure industry, etc.

*2 "Others" refer to wage earners, pensioners, etc.

Remedy for Infringement of Taxpayer Rights

Request for Reinvestigation

Category	Number of Requests for Reinvestigation	Number of New Requests for Reinvestigation ①	Number of Cases Processed ②	Number of Requests Approved ③	Percentage③/②
					%
Taxation-related	5,322	3,955	4,224	552	13.1
Collection-related	819	735	732	3	0.4
Total	6,141	4,690	4,956	555	11.2

Request for Reconsideration

Category	Number of Requests for Reconsideration	Number of New Requests for Reconsideration ①	Number of Cases Processed ②	Number of Requests Approved ③	Percentage③/②
					%
Taxation-related	3,997	2,441	2,030	298	14.7
Collection-related	552	314	374	6	1.6
Total	4,549	2,755	2,404	304	12.6

Litigation

Category	Number of litigation	Number of Cases filed for first instance ①	Number of Cases Closed ②	Number of Lost Cases and Partial Defeat ③	Percentage③/②
					%
Taxation-related	593	132	289	46	15.9
Collection-related	149	40	98	9	9.2
Total	742	172	387	55	14.2

*1 The figures for requests for reinvestigation and reconsideration are those of fiscal year 2007.

*2 The figures for cases for litigation are total numbers for each level of trial in fiscal year 2007.

*3 The figures indicated in the "total" litigation include those examined by the National Tax Tribunal.

Tax Consultations

Cases of Tax Consultation Received by Tax Counsel Offices and Cases of Responses in Tax Answer System

(Fiscal year 2008)

Tax Consultations		Thousand cases
	Income tax	2,678
	Corporate tax	272
	Property tax	686
	Consumption tax	132
	Other indirect taxes	149
	Tax collection	284
	Other	676
	Subtotal	4,877
	Tax Answer System	32,093
	Total	36,970

Cases of Complaints Received at the Tax Counsel Offices

(Fiscal year 2008)

Income tax	836
Corporation tax	439
Property tax	65
Consumption tax	34
Other indirect taxes	16
Tax collection	40
Others	237
Total	1,667

Top Five Tax Items Frequently Consulted

[Consulted by interview & telephone]

(Fiscal year 2008)

Ranking	Tax category	Items	Thousand cases
1	Income tax	Obligations and procedures to file tax returns, etc.	451
2	Income tax	Special credit for loans relating to a dwelling.	306
3	Income tax	Medical expenses deduction	277
4	Income tax	Year-end adjustment	236
5	Income tax	(Special) exemption for spouse and exemption for dependents	164

[Tax Answer System]

(Fiscal year 2008)

Ranking	Tax category	Items	Thousand cases
1	Income tax	When paid medical expense (medical expenses deduction)	1,110
2	Income tax	Medical expenses eligible for medical expenses deduction	612
3	Income tax	Tax rate of income tax	504
4	Income tax	Exemption for dependents	415
5	Income tax	Acquisition of a dwelling and special measures for income tax (special credit for loans relating to a dwelling and special credit for home improvement loans relating to the specified purposes)	408

International Taxation

Fraudulent Income through Overseas Transactions

(Operation year 2007)

Cases of fraudulent overseas income	89 Cases
Amount of fraudulent overseas income	11,200 Million yen

* The figures are for corporations under the supervision of the Large Enterprise Examination Division (with more than ¥100 million in capital in principle)

Transfer Pricing Taxation

(Operation year 2007)

Number of taxation cases	133 Cases
Amount of taxable income	169,600 Million yen

* The figures are for corporations under the supervision of the Large Enterprise Examination Division (with more than ¥100 million in capital in principle)

Cases of Advance Pricing Arrangement related to Transfer Pricing

(Operation year 2007)

Number of cases requested	93 Cases
Number of cases processed	70 Cases

* The figures are for corporations under the supervision of the Large Enterprise Examination Division (with more than ¥100 million in capital in principle)

Taxpayer Satisfaction

Items	Percentage of High-ranked Rating
	%
Attitude of officials in providing services	79.9
Convenience in using the tax office	62.6
PR activities	72.3
Activities to collect public opinions	86.6
Satisfaction level at the Tax Counsel Offices	Interview 90.9 Telephone 69.8

*1 The figures for "Attitude of officials in providing services" and "Convenience in using the tax office" are based on operation year 2007, while other figures are based on calendar year 2007.

*2 The percentage of high-ranked rating shows responses rated as "good" and "somewhat good" on a five point scale from "good" to "bad" in the questionnaire survey.

MEMO

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