

# **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

**5 Search Regional Taxation Bureau and the Tax Offices**

- Portal to the Regional Taxation Bureau pages

**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.

**7 Tax Answer System**

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

**8 Use of the website**

- Guide to using the website for the first time

**9 Web-TAX-TV**

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

**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)

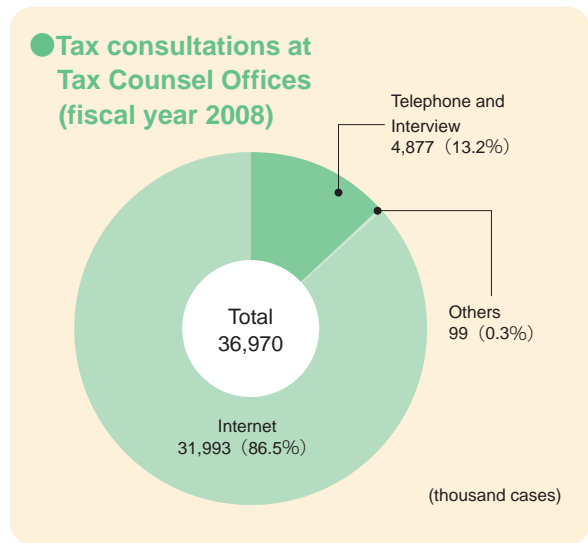
Various Briefings	
Frequency of Holding	31,104 Times
Number of Participants	1,491 Thousand persons

## (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.



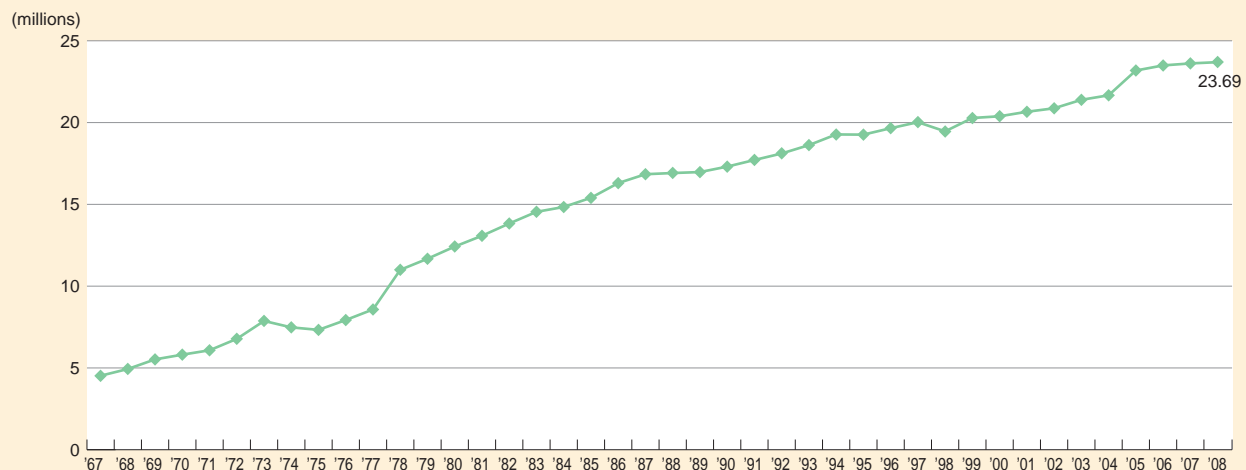
## II Promotion of Tax Filing and Payment by Proper Self-Assessment

### (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<sup>\*1</sup>.

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<sup>\*2</sup>, 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.

<sup>\*1</sup> Interest on refund is added if certain requirements are met.

<sup>\*2</sup> 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<sup>\*1</sup> 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

<sup>\*1</sup> 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.

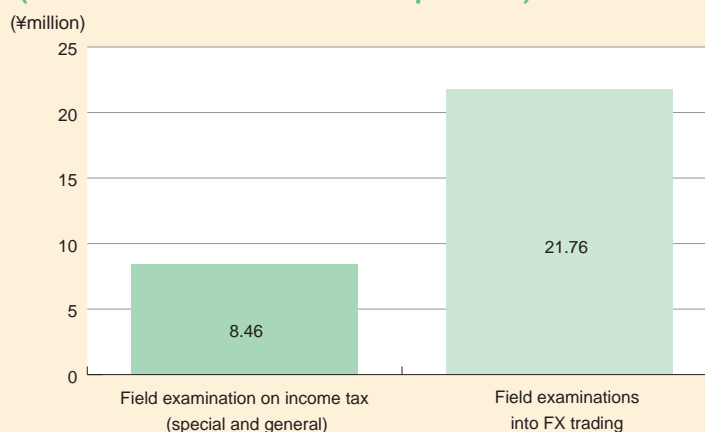
## c. Enhanced Examination

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.

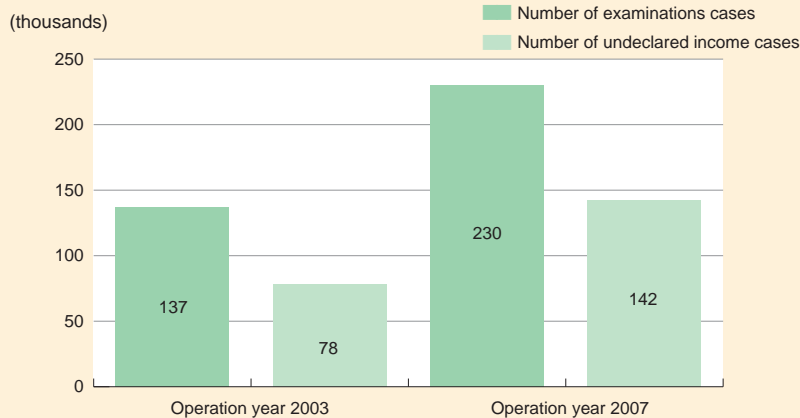
### ●Results of examinations into FX trading (amount of undeclared income per case)





### 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.

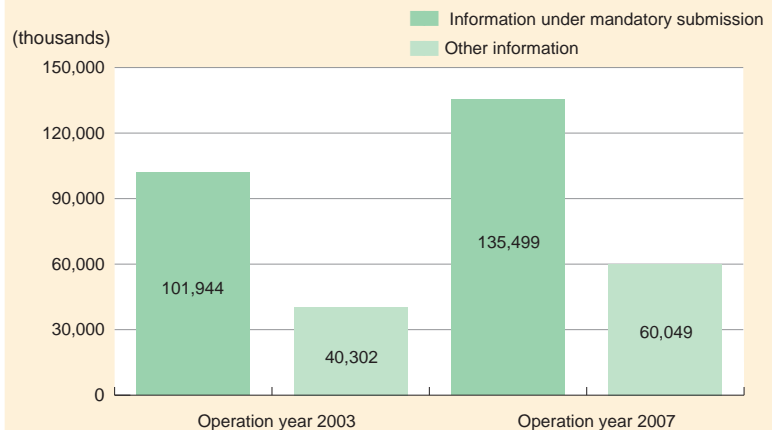
## (2) Proper Withholding Tax System

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.

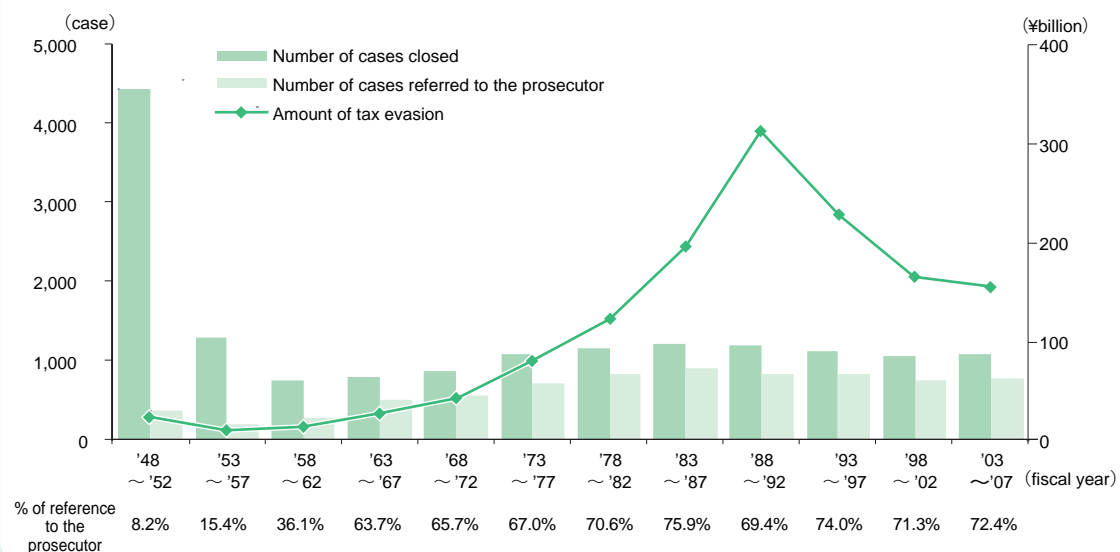
### 《Column》 60th Anniversary of the Criminal Investigation System

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

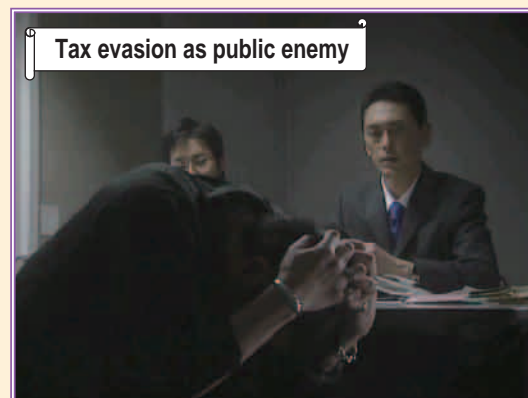
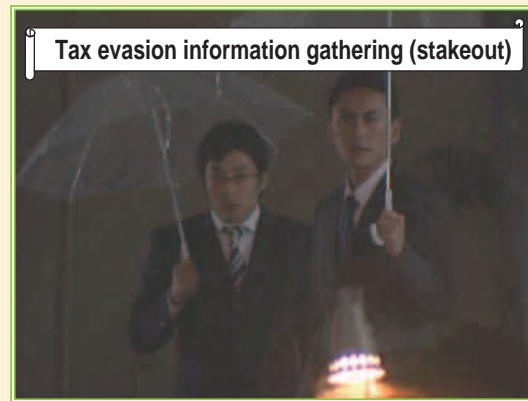
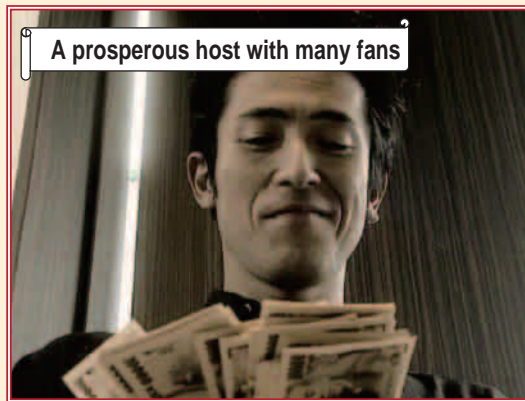
Tax guides with a wide choice of categories

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!



### 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<sup>\*1</sup> 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)

<sup>\*1</sup> 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.

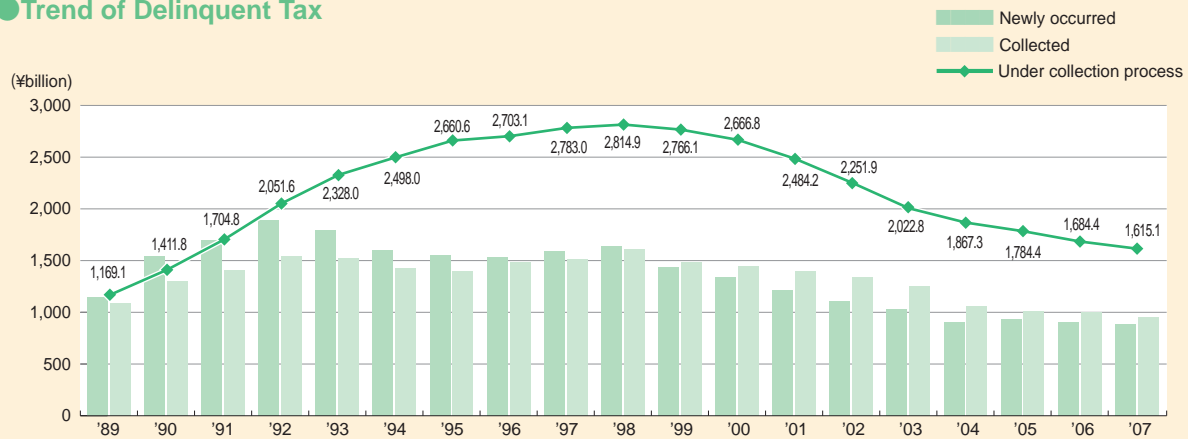
\*1 Litigation for rescission of fraudulent acts: This means a lawsuit demanding that the effect of legal act between delinquent taxpayer and third party, which is prejudicing the creditor (state), should be denied and assets departed from the taxpayer should be recovered from the third party (Refer 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

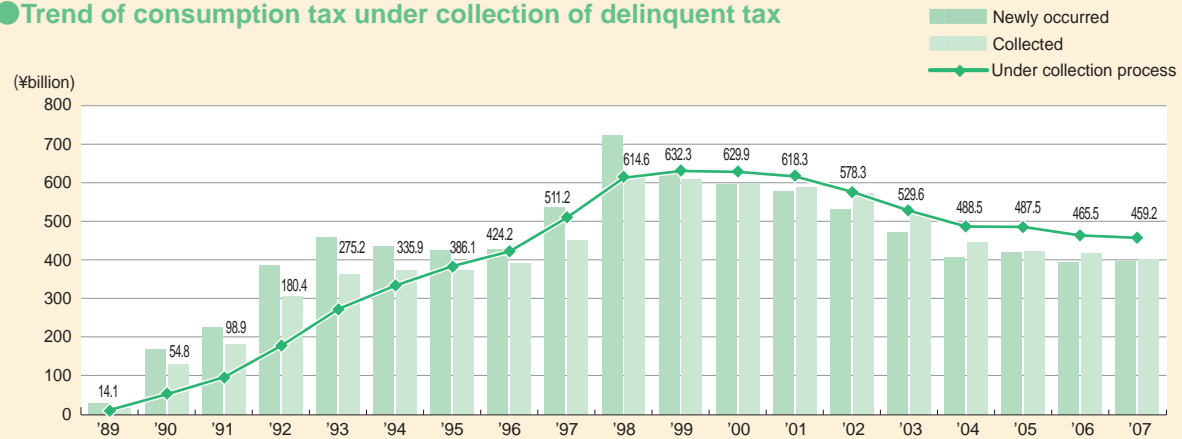
### ● Trend of Delinquent Tax



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

\*2 Figures for local consumption tax are not included.

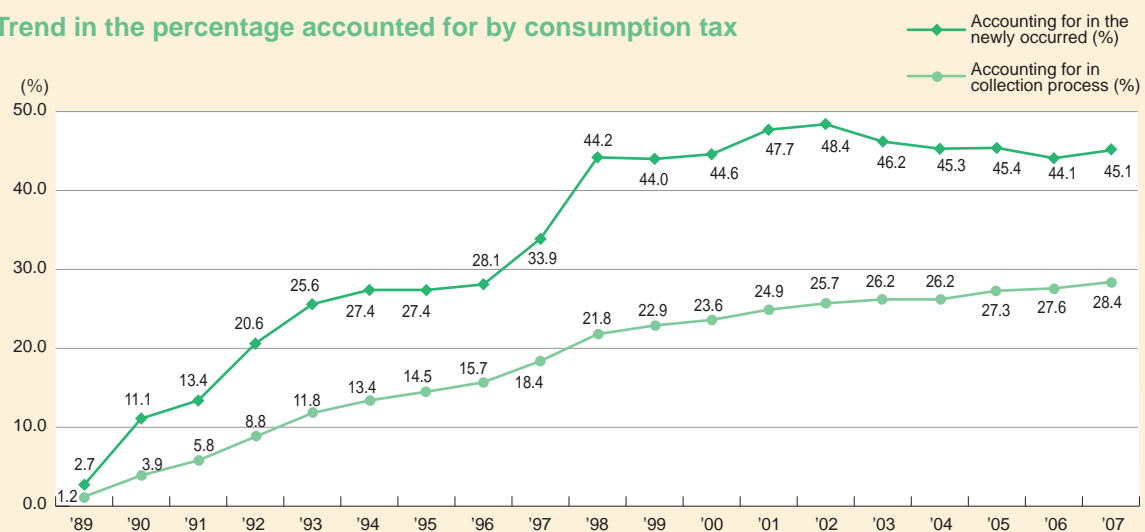
### ● Trend of consumption tax under collection of delinquent tax



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

\*2 Figures for local consumption tax are not included.

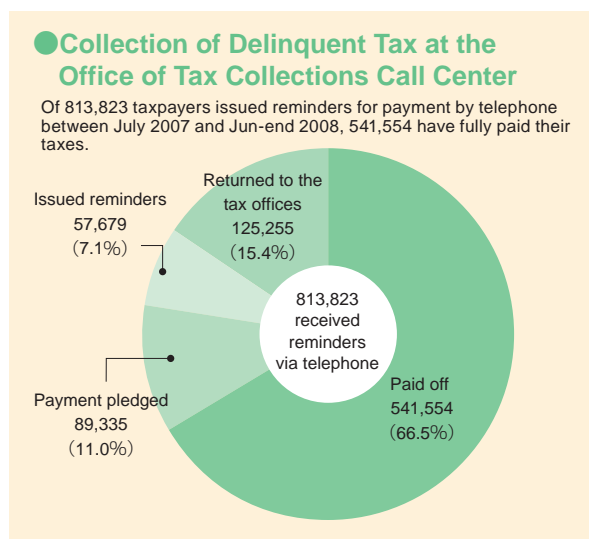
### ● Trend in the percentage accounted for by consumption tax



\* 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<sup>\*1</sup> of tax payment slips by the Bank of Japan. We have also streamlined administrative operations by introducing tax payment by transfer account<sup>\*2</sup> through the exchange of magnetic

<sup>\*1</sup> "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)