



# NATIONAL TAX AGENCY REPORT 2011



# From the Commissioner



Our hearts go out to all the victims of the Great East Japan Earthquake.

Since the earthquake, the government has been working on various recovery and reconstruction activities. The Earthquake Special Measures Act (enforced on April 27) aims to extend filing and payment deadlines for taxpayer disaster victims, provide disaster related tax treatment, reduce tax burdens of victims, etc. Since immediately after the earthquake, the

National Tax Agency (NTA) has also actively provided information including about this Act, using pamphlets, the NTA website, etc.

The NTA also provides explanation meetings and consultation visits etc., corresponding to the actual situations of taxpayers. We will continue putting ourselves in the shoes of taxpayer disaster victims, and provide kind and courteous handling.

The NTA's mission is to "Help taxpayers properly and smoothly fulfill their tax duties." To fulfill this mission, we think it is important to gain the people's understanding of and trust in the NTA. To do this, in performing its tax administration, the NTA is working on various initiatives, with these basic concepts:

- ① Provide excellent services, so taxpayers can do "simple, convenient and smooth" filing and payments
- ② Do proper examinations and collections, while protecting taxpayer rights and interests
- ③ Provide easily understood information on the NTA's various initiatives, and improve tax administration based on evaluation and verification of the results of implementing various measures

Specifically, the NTA is enhancing provision of information on tax practice, laws, etc., which taxpayers need to correctly file and pay taxes themselves, providing e-Tax (online national tax return filing and tax payment system) and other highly convenient means of filing and tax payment using IT, and centralizing the contact points of Tax Offices.

The NTA is also working for proper examinations and collections, such as taking a strict stance against malicious taxpayers, while protecting taxpayer rights. For international transactions, it actively exchanges information with foreign tax authorities, based on tax treaties. For large companies, the NTA is also promoting initiatives for enhancing corporate governance over taxation.

The NTA publishes information on its creation and implementation of effective plans for issues, policies and various measures the NTA should work on. We also publish evaluations and verifications of implementation results, and are working to improve tax administration based on those evaluations and verifications.

Based on this thinking, the “National Tax Agency Report 2011” was created to provide easily understood explanations of the issues we face, and initiatives and results. We hope it helps deepen understanding of our activities.

September 2011

川北 力

Chikara Kawakita

Commissioner

National Tax Agency, Japan

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※1 The fiscal year ranges from April 1 through March 31 of the following year (i.e. fiscal year 2010: April 1, 2010 to March 31, 2011), while the operation year is from July 1 through June 30 of the following year (i.e. operation year 2010: July 1, 2010 to June 30, 2011).

※2 The content of this report was created based on laws and regulations as of June 1, 2011.

※ Explanation of cover photos

1 The top photo is of a filing consultation site during the tax filing period, where people can use the online national tax return filing and tax payment system (e-Tax).

2 The bottom photos are of one scene (work of a tax investigator) on Web-TAX-TV, which provides information about taxation on the NTA website, and the “International Seminar on Taxation” for developing country tax officers.

# I About the NTA

The NTA is the administrative agency 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 Regional Taxation Office, and the same applies hereinafter) and 524 Tax Offices throughout Japan. The NTA Head Office plans the tax administration, and supervises and oversees the administration of the Regional Taxation Bureaus and the Tax Offices. Each of the Regional Taxation Bureaus, which are supervised and overseen by the NTA, supervises and oversees the assessment and collection administration of Tax Offices in its jurisdiction. In addition, the Bureaus directly assess and collect taxes from large taxpayers. The Tax Offices under the guidance and oversight of the NTA and Regional Taxation Bureaus serve as the frontline organizations which assess and collect national taxes, and as the administrative bodies maintaining the closest relationships with taxpayers.

There is also the National Tax College which trains tax officials, while the National Tax Tribunal serves as a special body engaged in examining requests for review 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 “Realizing proper and fair assessment and collection of internal taxes.” To fulfill these duties, the NTA provides public relations activities and tax education (taxpayer services) to help taxpayers understand and perform their tax obligations, and reliably corrects taxpayers who fail to fulfill their tax obligations by providing proper guidance and tax examinations (promotion of the proper and fair tax administration) in order to prevent good taxpayers from feeling that taxation is unfair.

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

### (2) Missions of the NTA

The NTA believes that in carrying out these duties, it is critically important to gain the understanding and confidence of citizens, who are the taxpayers.

To this end, the NTA puts together standards of assigned duties and its code of conduct, which are provided to tax officials and released to the public as the Missions of the NTA (see page 6 on right).



NTA

# Missions of the NTA

**Mission: Help taxpayers properly and smoothly fulfill their tax duties**

## Assignment

- To achieve the above mission, the NTA carries out its duties as stipulated in Article 19 of the Ministry of Finance Establishment Act, while keeping in mind transparency and efficiency.

### 1 Achieving proper and fair assessment and collection of internal taxes

#### (1) Development of tax payment environment

- ① Provide and publicize easily understood accurate information on legal and regulatory interpretations and procedures concerning tax filing and payment.
- ② Respond quickly and accurately to inquiries or consultations from taxpayers.
- ③ Make efforts to obtain broad cooperation and participation of the relevant ministries, agencies, and citizens in order to build cooperation with tax administration and understanding of the roles of taxes.

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

- ① To achieve proper and fair taxation,
  - (i) Properly apply the relevant laws and regulations.
  - (ii) Work to achieve proper tax filing, and reliably correct errors by conducting examinations and guidance for people who filed improper returns.
  - (iii) Work to help taxpayers pay taxes by the due date, and implement procedures to collect taxes from delinquent taxpayers.
- ② Respond properly and promptly to taxpayers' requests for review, to address infringements of taxpayers' legitimate rights and interests.

### 2 Sound development of the liquor industry

- ① Stabilize the business foundations of the liquor industry, and ensure brewing technology research and development and the quality and safety of liquor.
- ② Work for effective use of resources related to liquor.

### 3 Proper administration of services by Certified Public Tax Accountants (CPTAs)

Work for proper administration of CPTA services, to ensure 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 for performing duties

- ① Maintain tax administration transparency, so that taxpayers are knowledgeable of the legal and regulatory interpretations and administrative procedures.
- ② Work to improve taxpayer convenience in filing and payment.
- ③ Work to improve the administrative processes in order to improve efficiency in tax administration.
- ④ Work to actively collect and use information and data, to accurately implement tax examinations and procedures against tax delinquencies.
- ⑤ Take strict action against taxpayers who engage in malicious tax evasion and tax delinquency.

#### (2) Code of Conduct for officials

- ① Respond to taxpayers in good faith.
- ② Maintain confidentiality about information acquired on the job, and maintain official discipline.
- ③ Work to gain the specialized 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, etc., while continuously reviewing and improving the organization and tax administration operation in order to meet taxpayer needs.

## 2 Concepts for management of tax administration

The NTA's mission is to "Help taxpayers properly and smoothly fulfill their tax duties."

To fulfill this mission with the people's understanding and trust, the NTA manages its tax administration based on these basic concepts:

- ① Provide excellent services, so taxpayers can do "simple, convenient and smooth" filing and payments
- ② Do proper examinations and collections, while protecting taxpayer rights and interests
- ③ Provide easily understood information on NTA's various initiatives, and improve tax administration based on evaluation and verification of the results of implementing various measures

The NTA carries out the following initiatives based on these basic concepts.

### NTA Initiatives

#### (1) Enhancement of services for taxpayers

- Use websites etc. to provide tax information needed for filing etc., and information to clarify interpretations of laws and regulations, so taxpayers make correct tax filing and payments themselves.
- Work to provide excellent filing and tax payment means that are highly convenient for taxpayers, using IT such as e-Tax and filing assistance on the NTA website.
- Respond to advance inquiries and advance pricing arrangement of transfer price taxation, so the taxpayer can predict in advance the tax treatment of its own economic activities.
- For the withholding tax system, provide more thorough information and publicity to withholding agents, to work for its proper administration. Provide payment guidance via written and phone inquiries as needed.
- CPTAs play important roles in proper filing and payment by taxpayers. Therefore, work on cooperation with tax accountants' associations, for wider use of e-Tax, use of the system of document attached by CPTAs to tax returns, etc.
- Based on the thinking that tax education should be worked on by the entire society, provide support for its enhancement, and cooperate with related ministries, agencies, educators, and private organizations such as tax accountants' associations.

#### (2) Proper tax examination and collection

- Perform proper examination and collection, such as taking a strict stance against malicious taxpayers, while protecting taxpayer rights and interests.
- Be fully aware that dispositions for taxation and delinquent tax are forcible procedures against taxpayer rights and interests. At the examination stage, correctly understand what the taxpayer asserts, objectively scrutinize it, and accurately confirm the facts, then apply the laws and regulations.
- Systematically work in response to increasingly complex economic transactions, etc. Work to enhance the system to collect information, and accurately prioritize issues such as response to the increasing diversity of asset investments and fraudulent refunds for consumption tax.
- For international transactions, exchange information with foreign tax authorities based on tax treaties, and take a strict stance towards tax avoidance etc. in which taxation problems are found.
- Corporate governance is important for maintaining and enhancing tax compliance of large companies. Therefore, advance initiatives such as exchanging opinions with company managers, and describing effective examples.



### (3) Proper management of liquor administration

- 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, because concern regarding security and safety of food remains high among consumers.
- To respond to social demands, such as preventing underage drinking, work to ensure proper sales control of liquor, so there is proper compliance with the duty of assigning liquor sales managers and signs in liquor display locations.
- Implement a survey on the status liquor business transactions based on the Guidelines on Fair Liquor Trade, to encourage of liquor business operators to push forward voluntary activities to ensure a fair trade environment for liquor. If transactions such as setting irrational prices are found, provide guidance for improvement, and work together with the Fair Trade Commission when necessary.

### (4) Promotion of administrative work efficiency and enhancement of organizational foundations

- To appropriately perform the NTA's duties under harsh fiscal conditions, work to secure the necessary structure, staff and budgets, appropriately allocate them, and take the taxpayers viewpoint in working to boost efficiency and cut costs.
- Constantly review to simplify and boost efficiency, for example by computerization of clerical processes. Especially for the income tax return filing period when filings are concentrated in a short period, work to encourage use of e-Tax which contributes to enhancing taxpayer convenience.
- Accurately assign personnel corresponding to their experience and abilities, while paying attention to hiring and promoting female staff. To enhance needed specialized knowledge, provide excellent guided development policies such as training.
- Thoroughly control administrative documents and information.

### (5) Policy evaluation and improvement of tax administration

- To gain the people's understanding and trust, provide easily understood information on the NTA's creation and execution of effective plans for issues the national tax authorities should work on, about policy initiatives and various measures, and on evaluations and verifications of results of their execution. Work to improve tax administration, based on evaluation and verification of the results of execution of various measures.

## 3 Overview of the national tax organization

### (1) National revenue and taxes

National revenue (initial budget for general account revenues) in fiscal 2011 stands at ¥92,411.6 billion, of which ¥40,927 billion is from taxes and stamp revenues. Deducting from them customs tax revenues and stamp revenues from Japan Post Holdings Co., Ltd., leaves ¥35,774 billion (about 87%)<sup>1</sup> as national tax revenues.

The income tax, corporation tax, and consumption tax account for about 80% of tax revenues.

### (2) NTA budget and number of personnel

The NTA budget (initial) in fiscal 2011 stands at ¥718.5 billion, mostly comprised of salary costs. In recent years, budget priorities are the Kokuzei Sogo Kanri System (the NTA Comprehensive Information Management System, hereinafter called “KSK”) and the e-Tax ,etc., to improve administrative efficiency and services for taxpayers.

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

The workforce began to increase again since fiscal 2007, with the latest number at 56,263 in fiscal 2011.

In the face of the tough fiscal situation of today, the NTA is trying to cut administrative expenses and streamline the headcount, while securing the budget and headcount necessary to perform the NTA’s duties.

	FY 1975	FY 1997	FY 2011	(Reference) FY 2011/FY 1975
Budget (¥billion)	236.0	654.8	718.5	304.4%
Headcount (persons)	52,440	57,202	56,263	107.3%
① Number of income tax returns filed (1,000 persons)	7,327	20,023	23,150	316.0%
② Number of corporations (1,000 cases)	1,482	2,793	2,998	202.3%
③ Number of establishments subject to commodity tax (1,000 cases)	117	–	–	–
④ Number of enterprises subject to consumption tax (1,000 cases)	–	2,521	3,370	–
①+②+③+④ (1,000 cases)	8,926	25,337	29,518	330.7%

※ ① Number of income tax returns filed in fiscal 2011 shows the figure for 2010.

② Number of corporations in fiscal 2011 shows the figure as of June-end 2010.

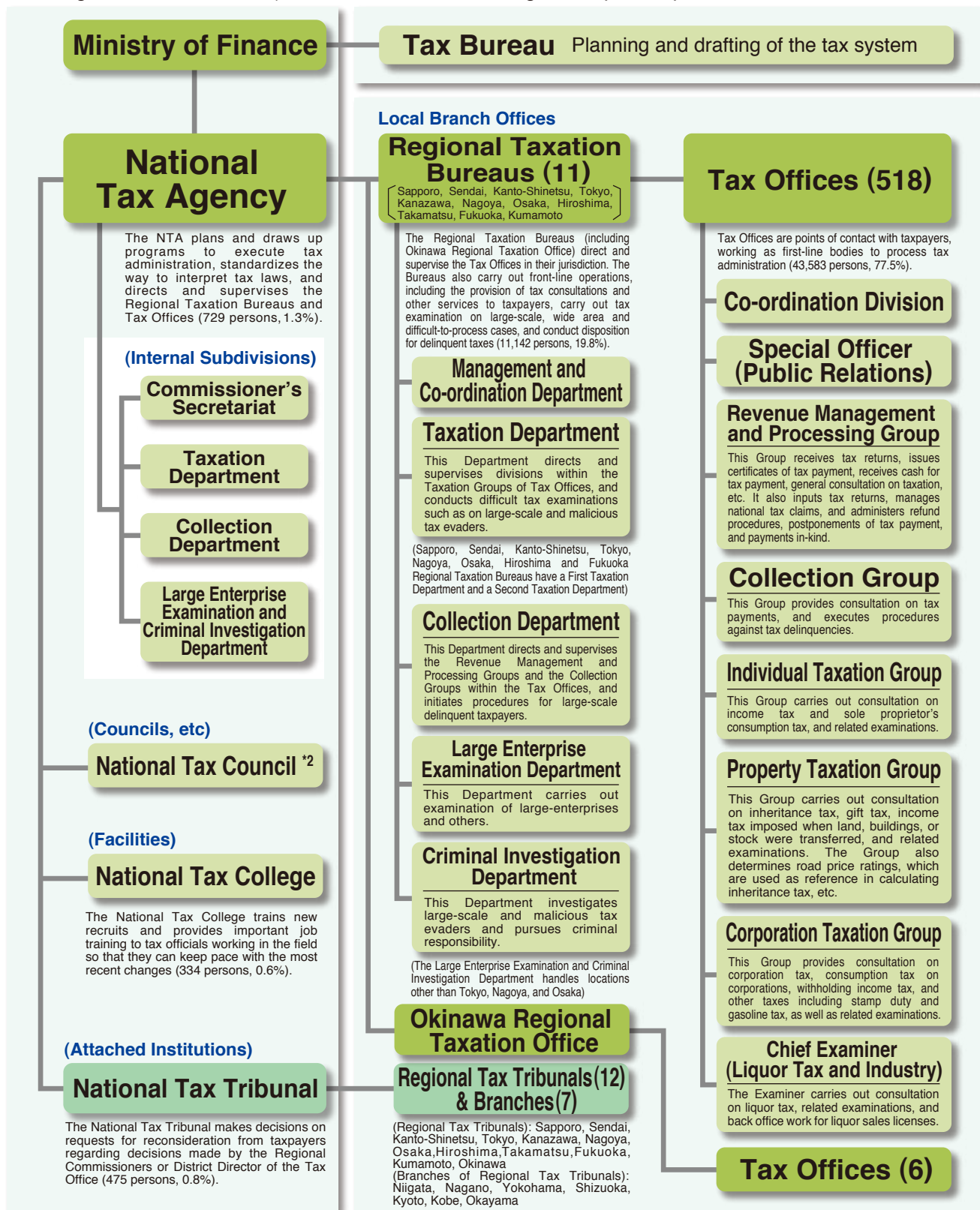
④ This shows the number of submissions of Notification of Opting to Taxable Status for Consumption Tax. The figure in fiscal 2011 shows the figure as of March-end 2011.

(Reference) Indicates the percentage for fiscal 2011, with fiscal 1975 as 100.

<sup>1</sup> Tax revenue of the national tax organization is calculated based on the ratio of the NTA revenue final account amount divided by the taxes and stamp revenue final account, from April 1, 2009 to March 31, 2010.

### (3) Organizational structure of the NTA

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



\*1 The headcount and percentage indicated in each department represents the prescribed number of personnel in fiscal 2011, and its percentage of 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 interpreting laws differently 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.

## Column Response to the Great East Japan Earthquake (As of end of May, 2011)

### 1 Disaster and recovery status

The Great East Japan Earthquake struck at 14:46 on Friday, March 11. This was right before the income tax filing deadline, it hit while many taxpayers were visiting a filing site. The tsunami flooded the first floor of the Ofunato Office of Sendai Regional Taxation Bureau. There was also damage to many government buildings with Taxation Bureaus and Tax Offices: interior and exterior walls cracked or peeled, ceiling panels fell, bookcases fell over, window glass broke, etc.

As a result, soon after the earthquake, on March 14, operations were suspended at 10 offices under the Sendai Regional Taxation Bureau and Kanto-Shinetsu Regional Taxation Bureau, and 34 offices could only serve as contact points. On April 18, all offices reopened for normal operations, except for the Ofunato Office and Sukagawa Office which are in unusable government buildings.

Also, due to effects of the Fukushima nuclear power plant accident, from March 14 to 28, there were rolling blackouts at a total 150 offices under the jurisdictions of Kanto-Shinetsu Regional Taxation Bureau, Tokyo Regional Taxation Bureau, Nagoya Regional Taxation Bureau. This prevented use of the KSK System, etc., which affected some operations, such as issuance of certificates of tax payment.

### 2 Outline of response to earthquake, etc.

#### (1) Extension of national tax filing deadline, etc.

3/12 Extension (designated regions) for national tax filing and payment deadlines, etc. in Aomori, Iwate, Miyagi, Fukushima and Ibaraki prefectures was announced.

3/14 Specific examples (individual designations) of extensions of filing and payment etc. due to interruption of transport means, communication means or lifelines (including rolling blackouts) announced.

3/15 Notification of designated regions published in the official gazette.

#### (2) Response as result of enforcement of the Earthquake Special Measures Act

4/28 Announcement regarding provision of timely and appropriate notification, publicity and consultation for special measures such as refunds based on the Earthquake Special Measures Act.

#### (3) Response for evacuated taxpayers

3/22 Developed and announced a system enabling responses at Tax Offices throughout Japan, for taxpayers evacuated to evacuation centers, etc.

#### (4) Disaster related tax treatment

3/24 Current main disaster related tax treatment (treatment of asset restoration costs and disaster condolence payments, etc.) announced.

3/25 Special measures for treatment of liquor manufacturing permits etc. concerning damaged liquor manufacturing sites etc. announced.

4/6 Relaxed system for tax payment if damaged by disaster announced.

4/15 Special measures such as refund of amount corresponding to liquor tax on liquor damaged by disaster announced.

4/20 Corporate tax treatment of earthquake related costs announced.

4/28 Information on the Earthquake Special Measures Act and various existing taxation measures (calculation of casualty loss deduction by shortcut method, reduction or waiver of motor vehicle tonnage tax, stamp tax, etc.) announced.

#### (5) Tax treatment of contributions and donations

3/15 (Along with designation of designated donations,) Relaxation of confirmation procedures for tax treatment of donations etc. through fundraising organizations announced.

3/18 Announcement of general tax related matters if donations were paid.

#### (6) Manpower support for local government by the NTA officials

3/19 onwards: Officials dispatched to the following local governments.

In Iwate Prefecture: Iwate Prefecture, Miyako City, Ofunato City, Kamaishi City, Kuji City, Noda Village

In Miyagi Prefecture: Miyagi Prefecture, Sendai City, Tomiya Town, Natori City, Iwanuma City, Watari Town, Yamamoto Town, Ishinomaki City, Higashi Matsushima City, Shiogama City, Shichigahama Town, Tagajo City, Matsushima Town, Osaki City, Kesenuma City, Kurihara City, Tome City

In Fukushima Prefecture: Aizu Wakamatsu City, Koriyama City, Iwaki City, Sukagawa City

#### (7) Status of operations at disaster area offices of Sendai Regional Taxation Bureau

Ofunato Office and Sukagawa Office are performing operations in temporary buildings, because it is difficult to continue operations in their government buildings.



## Special tax measures if damaged by the Great East Japan Earthquake

In order to reduce the burdens of victims of the Great East Japan Earthquake, “Act on Temporary Special Measures of National Tax Related Acts for Victims of the Great East Japan Earthquake” (hereinafter referred to as “Earthquake Special Measures Act”) was enforced on April 27, 2011.

In this Earthquake Special Measures Act, the main taxation measures applied to people victimized by the Great East Japan Earthquake are as follows.

- For ① casualty loss deduction methods determined in the Income Tax Act, and ② methods of tax reduction or release determined in the Act on Reduction or Release, Deferment of Collection and Other Measures Related to Tax Imposed on Disaster Victims, people with housing and household assets damaged by the Great East Japan Earthquake can choose to receive these reduction measures etc. for either 2010 or 2011.
  - For losses of inventory assets and business use assets etc. due to the Great East Japan Earthquake, such loss amounts can be included in necessary expenses when calculating amounts of business income for 2010.
  - If a dwelling was receiving application of special credit for loans relating to a dwelling, but can no longer be lived in due to the Great East Japan Earthquake, application of the special credit for loans relating to a dwelling can continue to be received, during the remaining application period of special credit for loans relating to a dwelling, for that dwelling.
  - Due to damage by the Great East Japan Earthquake, from March 11, 2011 to March 10, 2012, if payouts are received from property accumulation residence (pension) savings, and if a document confirmed and issued by the Tax Office is submitted to the financial institution, then the interest etc. becomes non-taxable.
  - For loss amounts due to earthquake related to inventory assets which are part of the corporation loss amount for the business year which ends in the period from March 11, 2011 to March 10, 2012, the corporation can carry it back to the income amount of a business year which began within the previous two years, and request refund of corporate income tax.
  - If a corporation’s interim period ends in the period from March 11 to September 10, 2011, it can receive refund of the portion of withholding tax which is too large to be deducted from corporation tax, within the scope of earthquake loss amount, according to the interim report by tentative settlement.
  - If a vehicle was damaged by the Great East Japan Earthquake and scrapped within the valid period of its motor vehicle inspection certificate, then the owner can do the procedure for Permanent Deletion Registration or for notice of demolishing or dismantling at a Transport Branch Office or Light Motor Vehicle Inspection Organization, and submit a request for refund of motor vehicle tonnage tax, and thereby obtain refund of motor vehicle tonnage tax.
  - If a person who was a user of a disaster damaged motor vehicle acquires a replacement vehicle and obtains a motor vehicle inspection certificate during the period until April 30, 2014, then by having a tax waiver notice for motor vehicle tonnage tax submitted to a Transport Branch Office or Light Motor Vehicle Inspection Organization, the motor vehicle tonnage tax which pertains to the initially obtained motor vehicle inspection certificate is waived.
  - Stamp tax on a “contract on consumer loan” is waived for a money loan to a person victimized by the Great East Japan Earthquake, at conditions which compared to conditions of other money loans are specially advantageous, by a local government or government related financial institution, etc.
  - For cases such as a building acquired to replace a building demolished and removed because it was destroyed or damaged by the Great East Japan Earthquake, the stamp tax is waived for “contracts on transfer of real estate” and “contracts on contracting of construction work” made by that victimized person.
- ※ For other measures and details, see the NTA website [www.nta.go.jp](http://www.nta.go.jp) or visit a nearby Tax Office.

# 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 national taxes, the official assessment system was used before World War II, in which tax authorities calculated income, and notified taxpayers of the tax amount. In 1947, in order to democratize the tax system, the self-assessment system was adopted for three taxes (income, corporation, and inheritance), and this method has since 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 proactively and properly fulfill the obligation of tax responsibilities as provided by the constitution and law. To this end, the NTA is working to enhance a variety of services for taxpayers to help them correctly file and pay taxes by themselves. These include (1) public relations activities and tax education relating to the significance and function of taxes and knowledge about the tax law, (2) clarification of legal interpretation and of practices and procedures, etc., and (3) efforts to improve taxpayer convenience in tax consultation and filing returns.

In order to check that the tax returns filed by taxpayers, and to guide them to file correctly, there is a need to provide accurate tax examinations and guidance, and cooperation and coordination with Certified Public Tax Accountants (CPTAs) and relevant private organizations. Furthermore, if national taxes are not paid by the due date, the NTA encourages voluntary tax payment, and if they are still not paid, then it is necessary to work on certain collection of national taxes, e.g. by implementing disposition for delinquent tax. To this end, the NTA provides accurate guidance and 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

For taxpayers to proactively and properly file and pay taxes, they first of all must understand their tax payment duty.

To this end, the NTA carries out public relations activities to enhance a variety of services for taxpayers to help them correctly file and pay taxes. These include significance of tax payment, provision of information regarding tax law and procedures, tax workshops and efforts to enhance convenience of tax consultations and tax procedures.

As specific public relations, focused on the NTA website [www.nta.go.jp](http://www.nta.go.jp) (accessed 125,459,000 times in fiscal 2010), the NTA provides a variety of information on the significance and roles played by taxes, and on the tax system. The information is provided through mass media such as TV and newspapers, public relations media such as pamphlets made available at the Tax Offices as well as municipal 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 where there are questions in tax application to transactions taxpayers are going to make. The NTA thus works for proper self-assessment by taxpayers.

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

The NTA website provides information on tax filing and payment procedures, etc. To enable anyone to easily use it, the NTA is working to enhance the website's guidance functions according to user aims, and pays attention to convenience for the visually disabled and elderly by providing text enlargement, voice reading functions, etc.

To give people easy access to the information they want to know, the NTA website's top page is designed to give entry to various information as shown below.

# Overview of the NTA website ※ The following diagram is as of May 2011.

- 1 Tax Answer System**
  - ◆ Portal to the FAQ where frequently asked inquiry and general answers are posted
- 2 Search for Regional Taxation Bureaus and Tax Offices**
  - ◆ Portal to the pages of each Regional Taxation Bureau
- 3 Filing assistance on the NTA website**
  - ◆ In this system, if a taxpayer follows the screen guidance and inputs monetary amounts etc., taxes are automatically calculated, and tax returns for income tax, consumption tax and gift tax can be prepared
  - ◆ Prepared tax returns can be submitted by e-Tax (except for gift tax)
- 4 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.
- 5 Road price rating map**
  - ◆ Road price rating information for 3 years throughout Japan



- 6 Auction information**
  - ◆ Auction properties of Regional Taxation Bureaus and Tax Offices throughout Japan, auction procedure information, etc.
- 7 Tax learning section**
  - ◆ Section to have fun learning about taxes, with games and quizzes for both children to adults
  - ◆ Provides tax education learning materials for school teachers
- 8 Web-TAX-TV**
  - ◆ Internet program giving easily understood explanations using videos and diagrams, with information on taxes related to scenes of everyday life
  - ◆ Specific explanations of tax procedures, how to prepare tax returns, e-Tax use, etc.
  - ◆ Shows the NTA activities like tax examination and collection, in an easily understood drama format
- 9 Email magazine**
  - ◆ Registration of "What's new? and Email magazine delivery service"
- 10 Text enlargement / voice readings**
  - ◆ Support functions for the elderly and those who have visual disorders

\*1 Newly created to provide information on the Great East Japan Earthquake.  
 \*2 The NTA website and the free video sharing site "YouTube" deliver videos with information on the NTA activities (including publicity activities of each Regional Taxation Bureau and Tax Office) and support for self-assessment procedures.

About the NTA  
 Promotion of Tax Filing and Payment by Proper Self-Assessment  
 Improvement of Taxpayer Convenience and Administrative Efficiency  
 Tax Administration Under Increasing Globalization  
 Remedy for Infringement of Taxpayer Rights  
 Administration of the Liquor Industry  
 Statistics



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

### (2) Tax education

Under the thinking that tax education should be solidly provided in basic school education, and that it should be worked on by the entire society, the NTA is working to develop an environment and provides support for solid tax education, so that children and students etc. who will serve as the next generation correctly understand the significance and roles of taxation which forms the country's basis, and to foster sound taxpayer consciousness.

Specifically, focused on the Councils for Promotion of Tax Education established in each prefecture (comprised of the national government, local government, people involved in education, etc.), with the broad cooperation of related private organizations, based on requests from schools, tax officials are sent to lecture, tax education supplementary teaching materials are prepared and sent, essay writing contests held, etc. There are also lectures held for schoolteachers.

Also, the Tax Learning Section is set up in the NTA website. It presents pages with easily understood explanations of the significance and roles of taxes, and its content includes quizzes and games for children and students to have fun learning about taxes. It also provides Tax Education Teaching Materials in Power Point, which can be used by school teachers and people guiding tax education.

Also, the Tax☆Space UENO facility for tax education is set up in the Tokyo-Ueno Tax Office. [www.nta.go.jp/tokyo/shiraberu/gakushu/taiken/01.htm](http://www.nta.go.jp/tokyo/shiraberu/gakushu/taiken/01.htm) (in Japanese language)

Tax☆Space UENO contacts for questions or to apply to use it  
Special Officer (Public Relations), Tokyo-Ueno Tax Office  
Tel 03-3821-9001 (Ext 361, 362)



Tax☆Space UENO

### Providing tax knowledge through the Tax Museum

The Tax Museum, located on the Wako campus of the National Tax College, displays in its facilities numerous historical documents and materials regarding national taxes, and welcomes wide varieties of visitors of all ages, from specialists on tax history to high school students and other people. The Museum is recognized as a unique facility specialized in the history of Japanese taxes.

The Museum is also engaged, with its historian staff, in the research of its accumulated archives and the past tax system.

For further information, please visit the National Tax College section within this website, ([www.nta.go.jp/ntc/english/index.htm](http://www.nta.go.jp/ntc/english/index.htm))



Tax Museum

### (3) Briefings for taxpayers

To help taxpayers better understand the tax procedures and tax system revisions, the NTA holds briefings at Tax Offices throughout Japan.

Specifically, a variety of briefings are held to provide information on taxes, including: 1) briefings on the necessity of bookkeeping and maintaining accounting books, with guidance on how to prepare tax returns and financial statements, 2) year-end adjustment briefings for withholding agents, 3) briefings on revisions to the tax laws, and 4) briefings for newly established corporations.

#### ● Frequency of briefings and number of participants (operation year 2009)

Various briefings	
Frequency held	22,866 times
Number of participants	1,092 thousand people



## (4) Tax consultation

Tax consultations are provided as part of taxpayer services, so that taxpayers can do proper self-assessment and tax payment themselves. These provide information on taxation, and answer general questions on taxation. The NTA established Phone Consultation Centers in Regional Taxation Bureaus to answer taxpayer questions and provide consultation on taxes. These provide centralized handling of general phone consultations.

Groups of Tax Counselors with a wealth of experience in taxation overall are assigned to Phone Consultation Centers. In principle, they handle questions according to type of tax, and provide high quality and fast replies, in an effort to enhance taxpayer convenience.

For foreigners, there are also Tax Counselors who can handle tax consultation in English, who are assigned to Phone Consultation Centers at Regional Taxation Bureaus in Tokyo, Nagoya and Osaka.

Also, the NTA website provides information in its “Tax Answers,” which posts general answers to frequently asked questions (it also provides a mobile phone site).

When consultation by interview is required, for example if it is necessary to check specific documents or facts, there is an appointment system at the Tax Office with jurisdiction. This serves to eliminate wait time at the Tax Office, as part of our efforts for effective and efficient operation which matches the content of consultations.



Phone Consultation Center

### ● Phone Consultation Center: Number of Consultations and number of times Tax Answer was accessed (thousands)

Fiscal year 2010	Number of Phone Consultation Center consultations	Number of times Tax Answer accessed
Number of cases	5,039	40,760

## (5) Advance inquiries

If there is unclear tax treatment of a transaction the taxpayer will actually do, the NTA responds to an advance inquiry at a Tax Office or Regional Taxation Bureau. Of these, if there is a request seeking a written reply, a reply is provided under certain requirements, and the content of that inquiry and reply is published on the NTA website, serving to enhance predictability for other taxpayers. From the viewpoint of enhancing the convenience of advance inquirers, in March 2011, this written reply procedure was revised so that ① Generally within one month, the advance inquirer is orally told the possibility of a written reply and the estimated process time, as viewed from the study status until that point, and ② Publication of the inquiry content and reply content can be extended up to a maximum of one year (period was within 180 days before the revision), if there are sufficient reasons in the request from the advance inquirer.

Also, of the cases in which the NTA gave oral replies to inquiries from taxpayers, those which serve as Q&A examples which other taxpayers can reference are posted on the NTA website, as an initiative to enhance the predictability of application of tax law, etc.

### ● Advance inquiries by written reply procedure: Number received

Fiscal year	2009	2010
Number of inquiries received	146	150

### ● Number of Q&A examples posted on website

Fiscal year	2009	2010
Number of Q&A posted	1,631	1,678

\* Number posted at end of each accounting year.

## 2 Filing for tax return

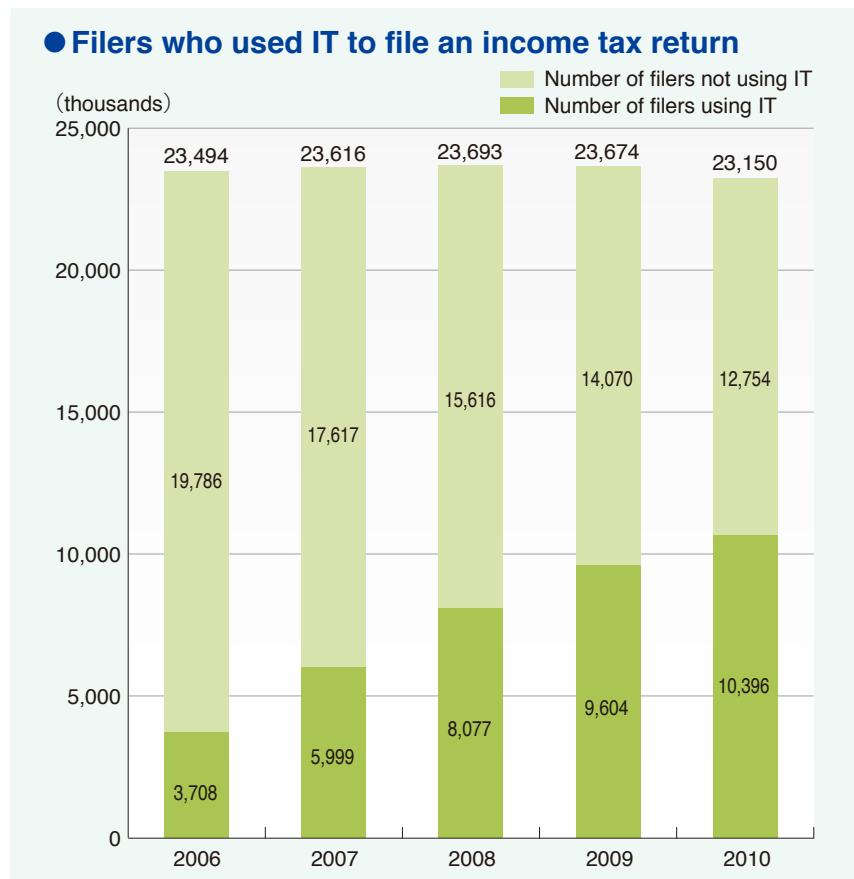
Tax filing is a procedure under the self-assessment tax system, in which the taxpayer calculates income and tax amount for a one year period, and files and pays taxes. In addition to persons obligated to file, there are people who file taxes to obtain an income tax refund, for example because they paid large medical bills. 23,150,000 people filed their income taxes for 2010, thus one out of five residents filed taxes. Of these, over 12,670,000 people filed for refunds, comprising over half of people filing income tax returns.

In response to diverse needs of many taxpayers who file tax returns, the NTA is working to provide diverse services, to reduce the burden of filing and to enable simple and convenient filing.

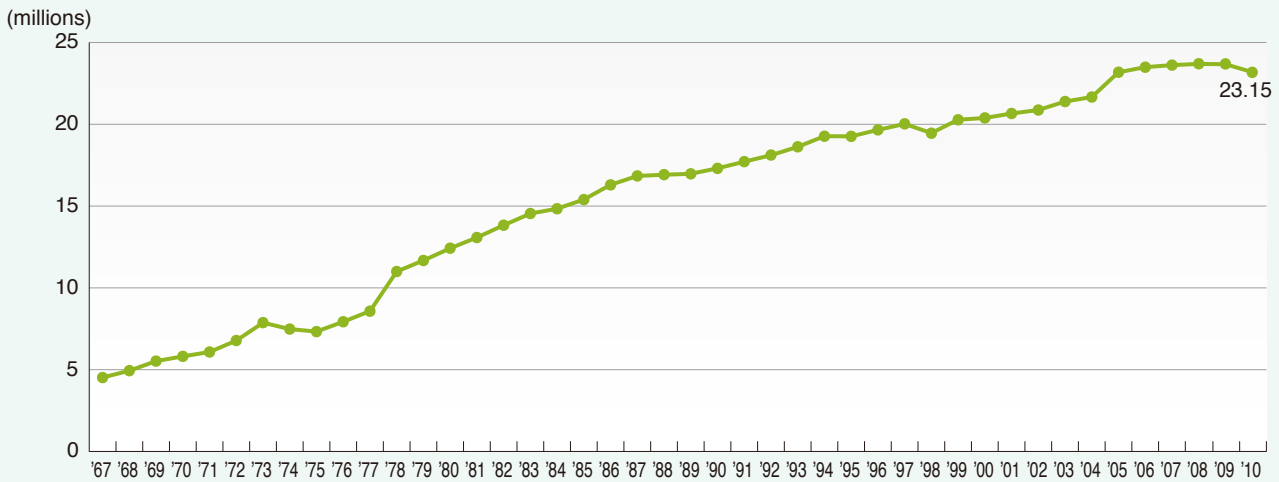
### (1) Promotion of filing using IT

The NTA is actively using the advances in computerization in recent years to provide taxpayer services, using IT to enable filing from home, etc. By using IT such as filing assistance on the NTA website and e-Tax, taxpayers can file taxes simply and conveniently without visiting Tax Offices, anytime and without calculation errors.

To this end, the NTA carries out various activities such as publicity and briefings etc., so more taxpayers file using IT. Also, at consultation sites of Tax Offices, there are PCs where people can use filing assistance on the NTA website, and taxpayers who came to consult about filing use the PCs to prepare tax returns and transmit them using e-Tax, experiencing the convenience of filing using IT.



● Trend of individual tax return filers



(2) Response to diverse taxpayer needs

Taxpayers said that “It’s a problem that filing consultations can only be handled on weekdays; I would like it if they were also provided on days when government offices are closed.” In response, the NTA receives tax returns and provides filing consultations on two Sundays during the tax return filing period at some Tax Offices, inside the Tax Office and at joint meeting sites outside the Tax Offices.

For the 2010 tax return filing period, the offices were open on February 20 and 27, 2011, during which 276,000 income tax returns were filed.

Also, to provide needed information and various forms without visits to the Tax Office, the NTA meets diverse taxpayer needs: the NTA website provides a variety of information on filing taxes, and provides tax filing briefings for people receiving pension income, free consultation meetings by CPTAs for small businessmen, etc. These help the NTA to smoothly and efficiently provide reliable filing operations overall, despite its limited staff.

Cooperation with the local tax authorities

Among local taxes, tax mechanisms and taxpayers subject to local taxes are often the same as for national taxation. Therefore, in an effort to simplify taxpayer filing procedures, the NTA is working on close cooperation between national taxation (the NTA) and local tax (authorities) in system aspects and execution aspects. For example, in the case of income tax filings, the NTA provides such information to local tax authorities, so there is no need to file for individual enterprise tax and individual inhabitant tax, which are local taxes.

Also, starting January 2011, as an initiative for much more efficient national and local tax operations, the NTA has been providing data such as income tax filings to local public bodies. Such increased use of IT is an effort to boost efficiency and reduce the costs of administrative operations of national government and local public bodies.

### 3 Promotion of proper and fair tax administration

In order to achieve proper and fair taxation, the NTA takes care of its administration processes in a prioritized manner by balancing its allocation of limited human and material resources. For example, it makes full use of its organizational strengths to conduct accurate examinations of large-scale and malicious taxpayers, while making only brief contacts for correcting simple mistakes.

Especially for taxpayers who try to illicitly evade tax burdens, the NTA analyzes information from various angles, chooses subjects to examine, and executes strict examinations.

Specifically, the subjects of tax examinations are selected through the KSK system, which contains data related to income tax returns, corporation tax returns, and a variety of other data and information, from the viewpoints of business type, business form, and business size. Data and information are recognized as important to achieve proper and fair taxation, so we have in place a structure to efficiently collect information which is very effective for examinations.

#### ● Number of cases related to tax examinations, etc.

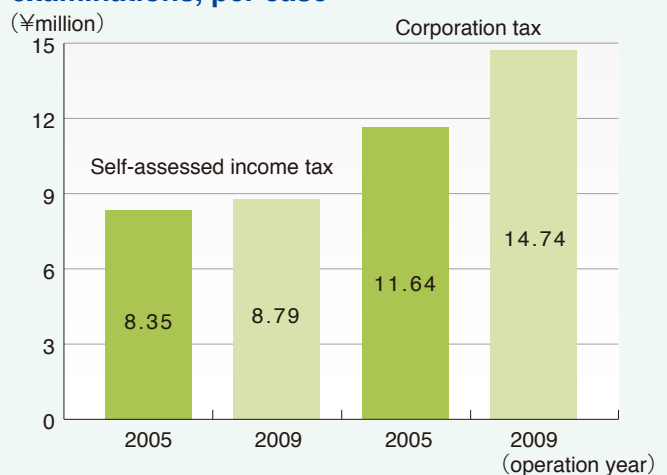
Operation year	2007	2008	2009
Number of examinations	466	332	312
Number of cases by brief contact	698	732	644

(thousands)

Tax examinations aim to check the content of tax returns based on taxpayers' records, and if 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 examinations in operation year 2009 found ¥8.79 million<sup>1</sup> of undeclared income per case for self-assessed income tax, and ¥14.74 million for corporation tax.

#### ● Undeclared income amount of self-assessed income tax and corporation tax found in field examinations, per case



<sup>1</sup> Amount related to special and general field examinations.



## (1) Priority matters addressed in the tax examinations

### a. Response to increasingly diverse and international asset management

For taxpayers who expect a high income but who filed a low income or did not file, we are addressing tax examinations keeping in mind diversification and globalization of asset management.

### b. Response to tax returns for fraudulent consumption tax refunds

Consumption tax is one of the main taxes, and is similar to a deposit, which is why it attracts the strong attention of the public. Therefore, proper tax administration is especially necessary. In particular, as there are cases where fraudulent 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, etc.

### c. Proper examinations

To build faith in the tax administration, it is important that taxation is applied with the proper interpretation of laws and regulations upon correct fact finding.

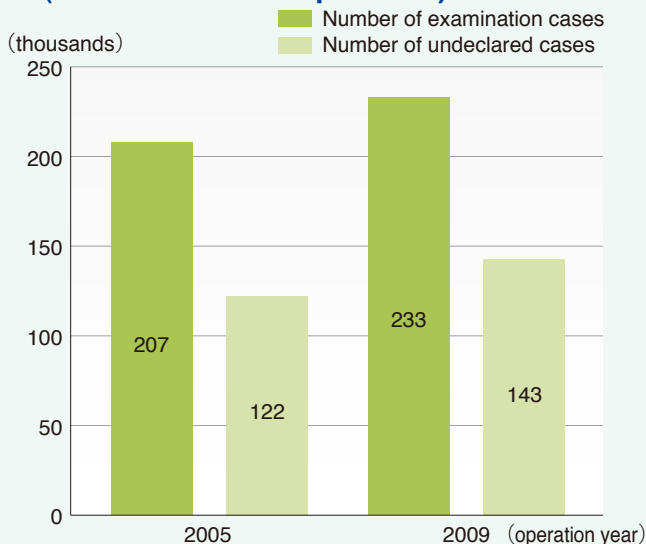
To this end, we always try to properly process taxation after correctly interpreting the assertions made by taxpayers and studying the laws and regulations based on accurate fact finding. On this occasion, we are thoroughly adhering to the procedures and processes to ascertain whether all legal requirements are properly met.

## Examination of consumption tax

### ○ Examples of malicious fraud in the consumption tax

- Consumption tax refunds were illicitly received by the trick of falsifying books etc., to disguise domestic sales as tax exempt export sales.
- Personnel costs paid by a business are not tax deductible transactions, but by pretending that the costs were outsourcing costs for affiliated companies (temp agencies, etc.) which are deductible transactions, fraudulent consumption tax refunds were received.

### ● Examinations of consumption tax (individual and corporation)



### (2) Proper withholding tax system operation

In the withholding tax system, withholding agents finalize the taxation process by doing year-end adjustments, which eliminate the procedures for tax returns for a large portion of the over 50 million wage and salary earners. The withholding tax system is as important in tax administration as smooth operation of the self-assessment system.

To have withholding agents properly process withholding tax procedures and pay taxes, the NTA provides information and publicity about the withholding tax system by holding briefings about year-end adjustment, distributing guidebooks and pamphlets, etc.

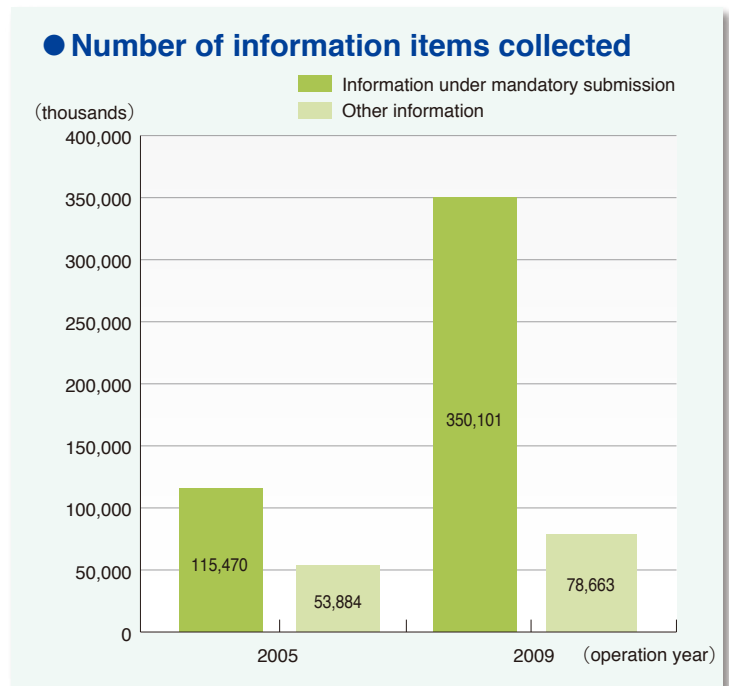
Withholding taxes are deposits, and for withholding agents who have not paid these by the due date, we provide efficient payment guidance, reminding them of the payment in writing or by telephone calls. Strict and accurate actions are being initiated against large-scale, malicious, and difficult-to-handle cases.

### (3) Information collection

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

The NTA currently collects 400 million items of information a year, and this information and data on tax returns are centrally managed in the KSK system and used for accurate guidance as well as tax examinations.

The NTA constantly focuses on changes in illicit forms and the increasing globalization, computerization, complexity and geographic scope of business transactions in recent years. We actively collect information on new asset investment techniques and transaction forms, and collect information on overseas investments, information on transactions with overseas companies, electronic commerce transactions using the internet, etc.



## (4) Criminal investigation

The tax criminal investigation system pursues criminal responsibility for malicious tax evaders, and uses the effect of punishing one to serve as a warning to all, with the aim of contributing to the achievement of proper and fair taxation and to maintaining the self-assessment system. In order to achieve this goal, the NTA examines taxpayers who deliberately evaded taxes by falsehood and other illegal acts, exercising compulsory authority equivalent to normal criminal investigation differently from general tax examination, and files the accusation to prosecutor seeking for prosecution, in addition to imposing the correct taxation on them.

With broader and globalized business transactions and more diverse financial transactions, the means of tax evasion and methods of concealing illegal funds are becoming more complex and sophisticated. Thus the criminal investigation system operates in an increasingly difficult environment. In these conditions, in order to achieve the aims of the criminal investigation system and continually fulfill their duty to the public, investigators placed throughout Japan act strictly against malicious tax evaders, taking all efforts to expose them.

In fiscal 2010, the NTA commenced 196 criminal investigations, processing 216 cases, including those carried over from the previous fiscal year, of which it charged 156 cases that were forwarded to public prosecutors. The total amount of tax evasion cases was ¥24.8 billion, with the average amount of tax evasion at ¥137 million per case.

Illegally posting higher costs was commonly seen as a tax evasion technique. There were also cases which used international transactions, such as posting false outsourcing costs paid to a corporation established in a tax haven. It was common that funds obtained by tax evasion were stored as cash, deposits or securities.

In fiscal 2010, 152 cases were all convicted at the court of first instance, with an average prison sentence of 13.8 months and average fines of ¥20 million. Six 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 with accusation filed to the prosecutor	Total amount of tax evasion cases (portion with accusation filed to the prosecutor)	Amount of tax evasion per case (portion with accusation filed to the prosecutor)
	Cases	Cases	Cases	¥Million	¥Million
2009	213	210	149	29,026 (25,475)	138 (171)
2010	196	216	156	24,819 (21,315)	115 (137)

\* Figures of tax evasion include additional tax.

### ● Ruling status of criminal investigation cases

Fiscal year	Number of rulings ①	Number of convictions②	Percentage of cases convicted②/①	Number of convictions with prison sentences without probation ③	Amount of tax evaded per case ④	Term of prison sentence per person⑤	Amount of fines per person(company)⑥
	Cases	Cases	%	Persons	¥Million	Months	¥Million
2009	141	141	100.0	7	86	14.6	17
2010	152	152	100.0	6	80	13.8	20

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

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

### Reference Tax examination

The NTA provides taxpayers with proper tax examinations and guidance to achieve properly filed tax returns.

#### (1) Advance notice of tax examinations

In principle, taxpayers are notified in advance as to the date and time of tax examinations by telephone so that we can confirm the taxpayers' availability. However, 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) Tax examinations methods

When tax officials visit the residence or office of a taxpayer 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 to examiners books and other documents that account for daily transactions, 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 a tax examination finds errors in tax returns, examiners explain the content of errors, etc., to the taxpayer.

When recommending that a taxpayer files an amended return for the purpose of correcting errors in the tax return, the examiner provides a document titled "About amended returns, etc.," 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 are guidance items for future return filing and bookkeeping, the contents are explained, using the tax examination as an opportunity to provide taxpayers with more in-depth knowledge of taxes and to help them to voluntarily and properly file tax returns and pay tax in the future.

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

If 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 District Director of the Tax Office sends a written notification of "Tax Examination Findings" to the taxpayer.
- ② If there is no need for submission of amended returns, but guidance is needed regarding future tax returns, record keeping, or preparation and storage of books and documents, examiners provide explanations to the taxpayer. Examiners also clearly communicate that the tax examination is closed.



## Reference Strict control of information

The NTA has a variety of information such as on personal income. If that information is easily leaked, taxpayers cannot be expected to cooperate with the NTA, which would hinder smooth examinations.

This is why tax officials who have leaked confidential information obtained through tax examinations are subject to a criminal penalty (up to two years in prison or up to a ¥1 million fine) under the tax law, which is heavier than the penalty (up to one year in prison or up to a ¥500,000 fine) under the National Public Service Act. The NTA conducts regular training of tax officials to thoroughly inform them of such penalty provisions. When interviewing taxpayers, tax officials consider taxpayers' privacy and refrain from interviewing them in their storefronts or in front of their homes.

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

## Reference Treatment and exemption from additional tax and delinquent tax

To encourage taxpayers to properly file tax returns and pay taxes, 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, or for no return, or an additional tax for fraud are imposed.

Delinquent Tax	Up to two months from the day after the due date for tax payment	Annual rate of 4.3% (in 2011)*
	Starting on the date two months from the day after the due date for tax payment	Annual rate of 14.6%

\* May change each year due to financial conditions.

Additional Tax		Regular Case	Fraudulent 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.

Also, where certain requirements are met, namely, taxpayers have been granted postponement of tax payments due to disaster or have failed to file returns or pay taxes due to erroneous guidance by the NTA officials, taxpayers may be exempted from all or part of a delinquent tax. The NTA has set up rules for when no additional tax is imposed, and has published the rules on the NTA website.

### 4 Reliable tax payment

#### (1) Establishment of voluntary tax payment

Self-assessed national tax becomes revenue when paid into the national treasury. In FY2009, about ¥44.5 trillion of taxation (amount determined for collection) was self-assessed in Tax Offices, etc. Of this, about ¥43.6 trillion of tax (collected amount) was paid into the national treasury within the fiscal year, for a 98.1% collection ratio.

Under the self-assessment system, national tax is in principle assessed by taxpayers themselves, who themselves pay that tax amount by the deadline. Therefore, the NTA works on publicity so taxpayers do not forget the deadline and make a late payment. Explanation is also provided on how to use transfer tax payments from a deposit account for self-assessed income tax and sole proprietors' consumption tax, which are continually filed and paid. Moreover, diverse payment means have been introduced to enhance taxpayer services, with payment at convenience stores (started January 2008), online payment such as internet banking (started June 2004), and direct payment (started September 2009).

A written notice is sent in advance to taxpayers who paid after the due date the previous time. After the due date is passed, a phone call is placed to taxpayers before the payment demand letter is sent. The NTA is thus working to prevent delinquencies.

#### Direct payment (direct type online payment of national tax)

By submission in advance to the Tax Office, after using e-Tax for online filing or payment information registration, etc., instead of via the financial institution's internet banking, one can do a simple click operation to pay immediately or on a specified date by transfer from the registered deposit account.

Direct payment requires that the financial institution used by the taxpayer is compatible with direct payment. This is why the NTA is working to expand the number of financial institutions in which direct payment can be used, by requesting that non-compatible financial institutions become compatible, etc. As of the end of March 2011, it was usable in 66 financial institutions.

#### National tax payment at convenience stores

For the payment of national taxes, taxpayers are able to make tax payments at night or on holidays at convenience stores when financial institutions or the Tax Offices are closed. Tax payments were made at convenience stores in about 1.12 million cases from January through December 2010.

When making a convenience store tax payment, a tax payment slip with bar code is needed, with the amount limited to ¥300,000 or less. The bar-coded vouchers are issued by the Regional Taxation Bureaus and Tax Offices with jurisdiction, in the following cases:

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

## (2) Reduction of tax delinquency

Delinquency signifies that the national tax was not paid by the due date and a payment demand letter was sent. At the end of FY2009, the tax delinquency amount was about ¥1,495.5 billion.

The NTA considers it important to first of all avoid delinquency. In order to work for certain collection of national tax, the entire national tax organization is working to prevent delinquency and for early collection.

Therefore, for delinquent national taxes, from the viewpoint of fairness with the great majority of taxpayers who pay within the due date, the NTA is working for early start and early completion, and works to resolve delinquencies under the following basic policy.

Executing disposition for delinquent tax greatly impacts taxpayer rights and interests. Therefore, in collection of delinquent tax, appropriate action is taken based on laws and regulations, while considering the actual situation of each delinquent taxpayer, based on an accurate understanding of the facts. Seizure or auction or other disposition for delinquent tax can be done. On the other hand, tax payment relief measures can be provided, such as postponement of tax payment, or suspension of conversion into cash.

### a. Strict and resolute handling of large and malicious delinquent cases

When collecting delinquent tax in a large and malicious delinquency case, strict and resolute action is taken, such as executing strict and accurate disposition for delinquent tax by search, seizure, auction, etc.

Particularly strict action is taken in especially malicious cases with an attempt to hide assets or otherwise evade execution of disposition for delinquent tax. This crime of evading disposition for delinquent tax<sup>1</sup> is aggressively referred to the prosecutor.

### b. Priority handling of difficult to handle cases

For difficult to handle cases, for example those needing large amounts of office work to develop procedures for a party subject to examination with a broad scope of assets, there is a need for large amounts of office work and use of advanced collection techniques to develop the procedures. Therefore, the NTA takes organizational action such as disposition for delinquent tax by management over a wide geographic area, with timely project team formation. The NTA can also take legal action, such as a lawsuit to demand the rescission of a fraudulent act<sup>2</sup>. The NTA thus actively uses legal means to collect delinquent taxes.

### c. Certain handling of consumption tax delinquency cases

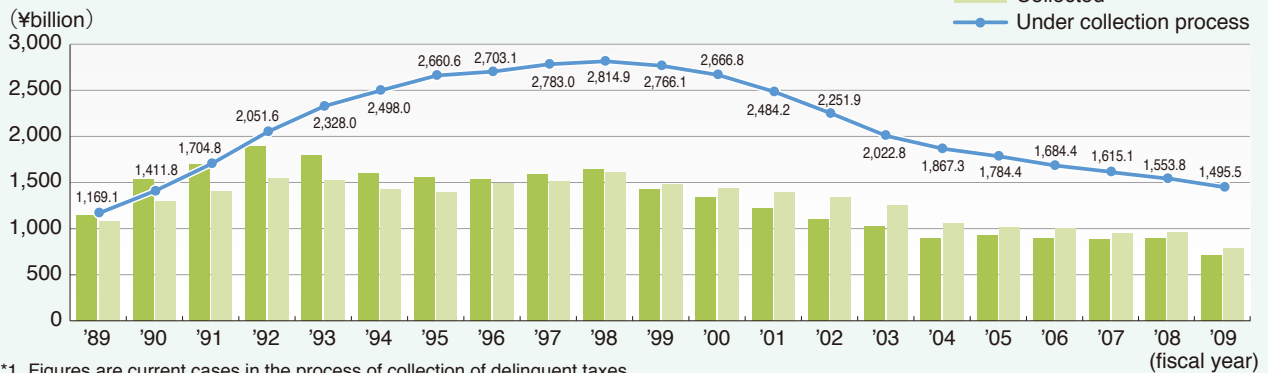
The public is strongly aware of delinquent consumption tax, and delinquent consumption tax is an increasingly large percentage of all delinquencies each year. Therefore, certain handling is executed through Regional Taxation Bureaus and Tax Offices in order to conclude delinquency cases containing delinquent consumption taxes. The NTA is working to reduce the balance of delinquent consumption taxes.

1 If actions such as hiding of assets are done to evade seizure or other disposition for delinquent tax, up to 3 years in prison or up to a ¥2.5 million fine can be imposed.

2 A lawsuit to demand the rescission of fraudulent act is a lawsuit to negate the validity of a legal act (fraudulent act) between the delinquent person and third party, where such act harms the claimant (country). The lawsuit aims to take back from the third party that asset separated from the delinquent taxpayer, and return it to the delinquent taxpayer (refer to Act on General Rules for National Tax, Article 42, and the Civil Code, Article 424).

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

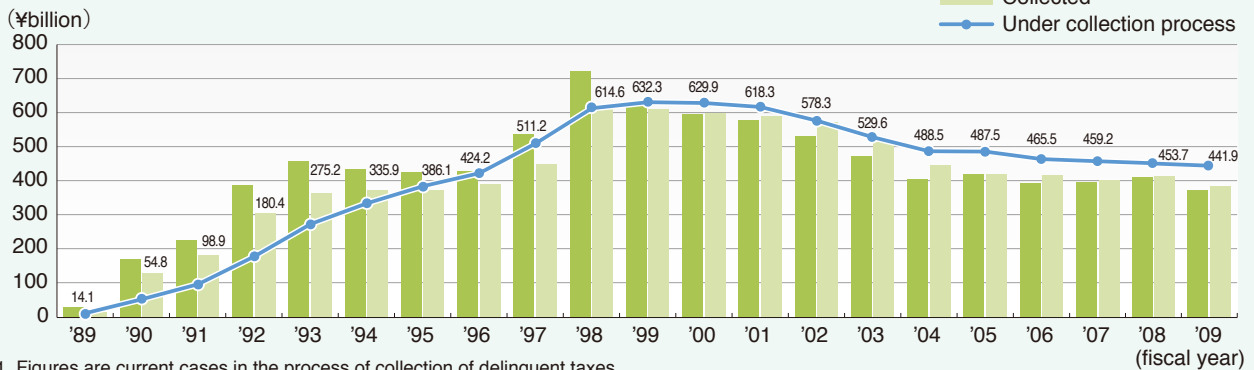
### ● Trend of collection of delinquent tax, for all tax items



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

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

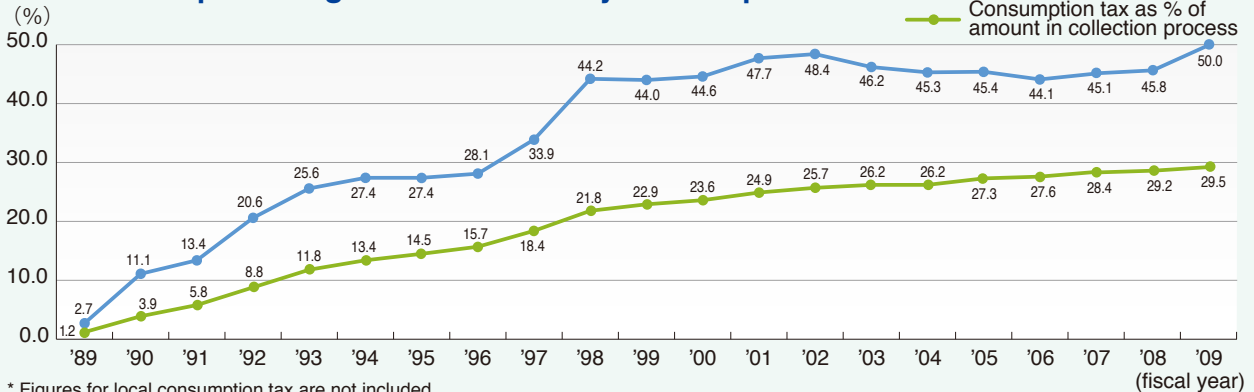
### ● Trend of collection of delinquent consumption tax



\*1 Figures are 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

The Office of Tax Collections Call Center is broadly in charge of new delinquency cases. This office provides phone notification reminders using a centralized phone notice system, for effective and efficient collection of delinquent tax.

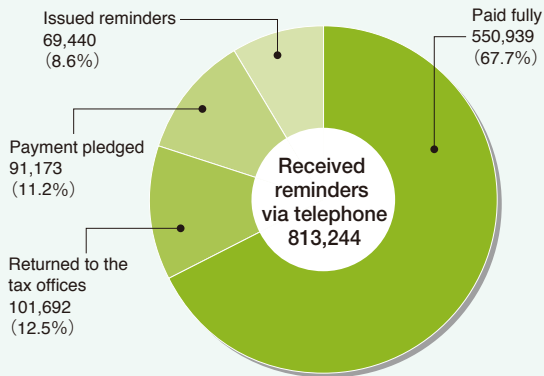
Over the year from July 2009 to June 2010, this office provided notifications to about 810,000 people, of which about 550,000 people (67.7%) fully paid, and 90,000 people (11.2%) pledged payment.

\* At the Office of Tax Collections Call Center, the computer system automatically phones delinquent taxpayers, and staff refer to delinquent taxpayer information shown on the terminal screen, to provide effective and efficient payment reminders.



## ● Collection of delinquent tax at the Office of Tax Collections Call Center

Of 813,244 taxpayers issued reminders for payment by telephone between July 2009 and June-end 2010, 550,939 have fully paid their taxes.



Office of Collections Call Center

## (4) Auction by Internet

In its internet auctions, the NTA uses a private-sector auction website, which does not require participants to physically visit the auction site. The interested participants can offer to buy the goods online around the clock during an auction period. The NTA has done this since June 2007.

Internet auctions are very convenient, and can attract more auction participants. It is among the effective means to sell the assets or goods of high value that have been seized.

As a result of four internet auctions held in FY2010, a total of about 10,000 people participated, and about 700 paintings, precious metals, automobiles, real estate, etc. were sold, for a total sales value of about 400 million yen.

## (5) Accurate and efficient management of claims and liabilities

Tax filings and refund filings create a huge volume of work to manage national tax claims and liabilities. Tax Offices use the KSK System to accurately and efficiently manage these claims and liabilities.

There are about 41 million tax payments each year, focused on income tax. To efficiently process this huge volume of payments, the NTA is working on more efficient processing operations. There is optical character recognition (OCR)<sup>1</sup> processing of tax payment slips by the Bank of Japan, and income tax and sole proprietors' consumption tax payment by transfer account<sup>2</sup>. Online tax payment using internet banking etc. began in 2004, and direct online tax payment without passing through internet banking began in 2009. Transfer procedures to pay refunds used to be performed through written documents from Tax Offices, but the NTA centralized transfer processing in 2001 and developed paperless procedures for refund transfer by magnetic tapes, then adopted online transfer procedures in September 2006. In these ways, we are pursuing efficient and speedy payment processing.

Management of national tax claims and liabilities is a cornerstone of taxation and tax collection. We are striving to improve services by conducting procedures speedily and accurately through the advanced application of IT systems, delivering refunds to taxpayers as quickly as possible.

<sup>1</sup> OCR processing (optical character recognition processing) converts the characters written on a tax payment slip into electronic data. This electronic data is communicated between the Bank of Japan and the NTA, providing more efficient information transfer and paperless processing.

<sup>2</sup> 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.

### 5 Certified Public Tax Accountants (CPTAs) system

Certified Public Tax Accountants (CPTAs) are professional specialists on taxes. Their public mission is to respond to the trust of a person with a tax obligation in line with the principles of the self-assessment system, and achieve proper tax compliance as provided for in the tax laws and regulations, based on their independent and fair standpoint. CPTA services are ① tax proxy, ② preparation of tax documents, ③ tax consultation service. These operations must not be performed by persons other than CPTAs, even at no charge. At the same time, CPTAs are required to fulfill various obligations and responsibilities. For example, they are prohibited from providing tax evasion consultation and engaging in conduct which harms the credibility or dignity of CPTAs. As of March-end 2011, 72,039 persons are registered as CPTAs, and 2,140 CPTAs corporations are established.

Taxpayers are able to use CPTA services (tax return preparation or professional advice) to properly file returns and pay taxes. In addition, because corporations and sole business proprietors often ask CPTAs to process accounting books or seek advice on accounting, they also play important roles in promoting correct bookkeeping that constitutes the basis for filing tax returns. Amidst changes such as increasingly complex business transactions and large increases in the number of taxpayers, the roles played by CPTAs are becoming increasingly important.

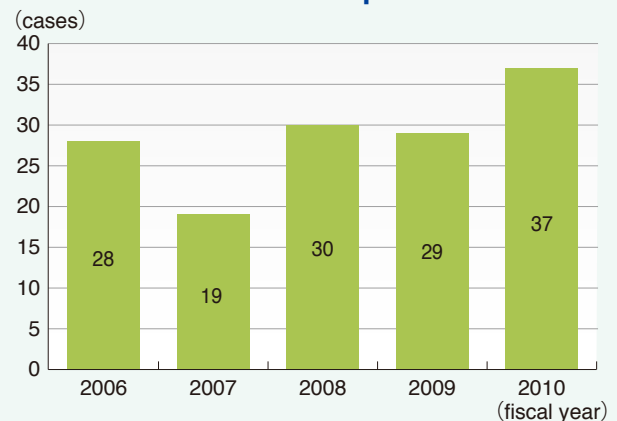
In cooperation with tax accountants' associations and the Japan Federation of Certified Public Tax Accountants' Associations, the NTA is working to ensure that CPTAs properly conduct their duties, by the following measures.

#### (1) Guidance and supervision of CPTAs

The NTA is striving to ensure national trust in the CPTA system, for example by holding consultation meetings with tax accountants' associations, taking every opportunity to call for their attention to prevent misconduct of CPTAs. The NTA also properly examines CPTAs, etc. It takes strict disciplinary action against and refers to the prosecutor the CPTAs who violated the Certified Public Tax Accountant Act, and "fake CPTAs" doing CPTA work.

The NTA discloses the names of disciplined CPTAs in the official gazette and via the NTA website. There were 37 cases of disciplinary actions against CPTAs and CPTAs corporations in FY2010.

#### ● Number of disciplinary actions against CPTAs and CPTAs corporations



#### (2) 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. Specifically, this system allows CPTAs to attach to tax returns the documents regarding the calculation, information arrangement, or consultation service that they provided for the preparation of tax returns. If the Tax Office intends to provide notification of the date, time and place it will conduct a tax examination to a taxpayer who filed a tax return along with such documents, then the CPTA possessing the certificate evidencing the authority of tax proxy must be given the opportunity to state an opinion on the items written in the attached documents, before the taxpayer is notified.

Because this system contributes to the correct preparation and filing of tax returns, facilitation and simplification of tax administration, and eventually establishment of a trusted CPTA system, the NTA is

actively consulting with tax accountants' associations with an aim to enhance the content of attachments and raise the percentage of returns with attachments. The NTA is also respecting this system. It is thereby further promoting and establishing this system.

### (3) Promotion of e-Tax usage

Given the extremely significant role played by CPTAs in wider use of e-Tax, tax accountants' associations and the Japan Federation of Certified Public Tax Accountants' Associations are trying hard to promote the use of e-Tax by CPTAs.

To encourage more use of e-Tax by CPTAs, the NTA is working to make e-Tax more convenient by extending its service hours until 10:30pm (it is usually until 9pm) during the four days at the end of May (except Sunday), when there are many CPTA customers' tax returns for corporation tax, etc. In cooperation with tax accountants' associations, the NTA holds e-Tax explanatory meetings and dispatches lecturers. (See p.32 regarding e-Tax)

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

In order to improve the work of CPTAs, tax accountants' associations are designated in the Certified Public Tax Accountant Act as organizations which provide guidance, liaison and supervision to CPTAs and CPTAs corporations. There are now 15 tax accountants' associations throughout Japan. Tax accountants' associations engage in a wide range of activities, including ① Training to enhance the qualities of CPTAs, ② Dispatch of lecturers for tax workshops in elementary and junior high schools, ③ Free tax consultation for small taxpayers.

The Japan Federation of Certified Public Tax Accountants' Associations is the only organization in Japan specified in the CPTA Act, consisting of member 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 [www.nichizeiren.or.jp](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 via cooperation from the relevant private organizations, such as blue return taxpayers' associations and corporations associations. These relevant private organizations are playing a large role in achieving a proper self-assessment system and in spreading knowledge about taxes.

The NTA is working to strengthen coordination and cooperation between these relevant private organizations, for example by holding various joint events to encourage use of e-Tax and for "Think About Tax Week."

#### Blue return taxpayers' associations

Blue return taxpayers' associations are organized to widen participation in the blue return system and promote the submission of proper tax returns through honest bookkeeping. They are formed mainly by sole business proprietors who use the system. There are about 3,700 associations nationwide, and the total number of members is about 940,000 (as of April 2010). Each blue return taxpayers' association performs a wide range of activities including the guidance on bookkeeping, holding seminars, and encouraging filing of blue returns by people outside the association. For further details, please contact the nearest blue return taxpayers' association.

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

### Corporations associations

Corporations associations are organized for the purpose of spreading knowledge of tax and establishing a proper self-assessment system. There are 483 corporations associations as incorporated associations, including the National General Federation of Corporations Association and prefectural level federations. Membership stands at about 950,000 corporations (as of December 2010). Each corporations association engages in a wide range of activities, including holding seminars and workshops on taxes, and campaigns to 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 [www.zenkokuhojinkai.or.jp](http://www.zenkokuhojinkai.or.jp)

### Indirect tax associations

Indirect tax associations are organized for the purpose of contributing to the spreading of knowledge about indirect taxes, and achieving fair taxation and proper administration in the self-assessment system. There are 566 associations nationwide with about 90,000 members (as of March 2010). Indirect tax associations make suggestions to the government on ways to enhance the tax system and to improve tax implementation. They also perform activities 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 [www.kanzeikai.jp](http://www.kanzeikai.jp)

### Savings-for-tax associations

Savings-for-tax associations are organized by taxpayers aiming at continually completing payment of tax within the due date by means of savings. The associations are established pursuant to the Tax Fund Saving Partnership Act, and there are now about 54,000 associations (as of March 2009). They are promoting the utilization of tax payment by transfer account, and completion of tax payment within the due date. Associations also engage in a wide range of activities such as encouraging wider use of e-Tax, and soliciting junior high school students to join the “Writing Essay on Tax” contest. For further details, please visit the website of the National Federation of Savings-for-Tax Associations at [www.zennoren.jp](http://www.zennoren.jp)

### Tax payment associations

Tax payment associations are 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 of returns and uplift tax payment morality. At present, there is the Federation of Tax Payment Associations and 83 tax payment associations. There are about 190,000 members, counting both individual and corporation members (as of March 2011). The associations carry out projects to contribute to smooth execution of tax administration: hold various briefings to spread knowledge about taxes, do publicity activities to encourage proper tax filing and payment, work on tax education to uplift tax payment morality, etc. These activities have large public benefits. For further details, please visit the website of the Federation of Tax Payment Associations at [www.nouzeikyokai.or.jp](http://www.nouzeikyokai.or.jp)



# III Improvement of Taxpayer Convenience and Administrative Efficiency

The NTA is using IT in administrative operations and revising its system, to enhance convenience for the people, and for more simple, efficient, reliable and transparent administrative operations. The “e-Government Establishment Plan” was decided in July 2003, and initiatives are progressing in the entire government.

The NTA is working on various measures to enhance taxpayer convenience and for more simple and efficient clerical processes. We are especially working for wider use of e-Tax, with which one can use the Internet to do filing, tax payments, applications, submissions, etc. for national tax.

For implementing various measures including e-Tax, the NTA created a medium term plan to optimize operations and IT systems aiming at overall optimization, and is working according to that plan.

## 1 e-Tax

The NTA is improving convenience for taxpayers and administrative efficiency 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, information under mandatory submission, and applications for filing the blue returns, which used to be processed on paper. All tax items can be paid via direct payment, the Internet, Pay-Easy<sup>1</sup> compatible ATMs, etc.

The use of e-Tax makes it possible for taxpayers and CPTAs to do procedures such as 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 data preparation such as accounting and tax return data preparation, to filing of tax returns, thereby reducing administrative tasks and making the process paperless.

This also makes it possible for the NTA to benefit from the direct effects of cutting costs: for receiving tax returns in person or via post, entering data, etc. It can also have indirect benefits, such as cutting the cost of document management. These should boost the efficiency of tax administration.

This is why in order to encourage wider use of e-Tax, the NTA is strongly pushing various measures which incorporate two plans for national tax related procedures: the “Action Plan for Promoting the Utilization of Online” (decided March 2006, revised March 2007) and the “Action Plan for Expanding the Utilization of Online” (decided September 2008). Specifically, returns for refund using e-Tax are processed promptly, PCs were installed in self-assessment consultation centers set up in Tax Offices, and a system was developed so taxpayers can use e-Tax from the filing assistance on the NTA website.

On the other hand, for individual income tax returns using e-Tax, it is now possible to omit the submission or presentation of certain attached documents made by third parties, such as medical expense receipts<sup>2</sup>. As for digital signatures, which are a precondition for wider use of e-Tax, if a CPTA receives a taxpayer request and files an online tax return, the digital signature of the taxpayer himself/herself can be omitted.

As was done in FY2009, in FY2010 the NTA provided 24 hour service and a help desk on Sundays during the tax filing period which is the period of heaviest use. The NTA provided extended service hours at the end of May when there are many filings for corporation tax, etc. We are thus working to enhance user convenience.

<sup>1</sup> “Pay-Easy” is a service where taxpayers can use PCs connected to the Internet and ATMs to pay public utility charges, which used to be paid at the counters of financial institutions and convenience stores.

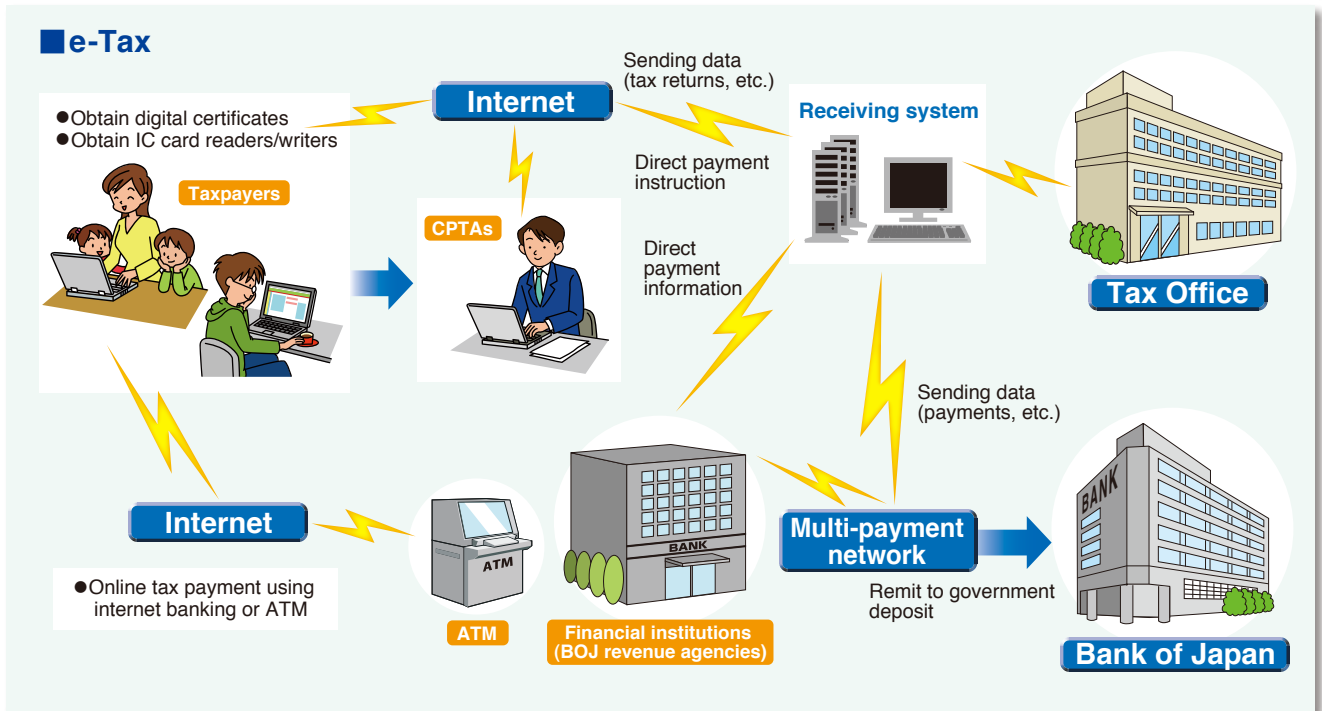
<sup>2</sup> When omitting the presentation or submission of documents prepared by third parties, descriptions in such documents must be entered and submitted online along with the tax return forms.

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

### III Improvement of Taxpayer Convenience and Administrative Efficiency

As a result of these various initiatives, the e-Tax usage ratio reached 50% in FY2010 (45% in FY2009).

The NTA will continue to work on various measures for wider and deeper use of e-Tax. We are also revising our operations and IT system to maximize benefits for clerical efficiency from wider use of e-Tax.



#### ● Trend of number of e-Tax filings and ratio using e-Tax



\* Figures represent the number of cases and usage ratio for priority procedures described in the "Action Plan for Expanding the Utilization of Online."

#### "Mr.e-Ta"



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

## (2) Filing assistance on the NTA website

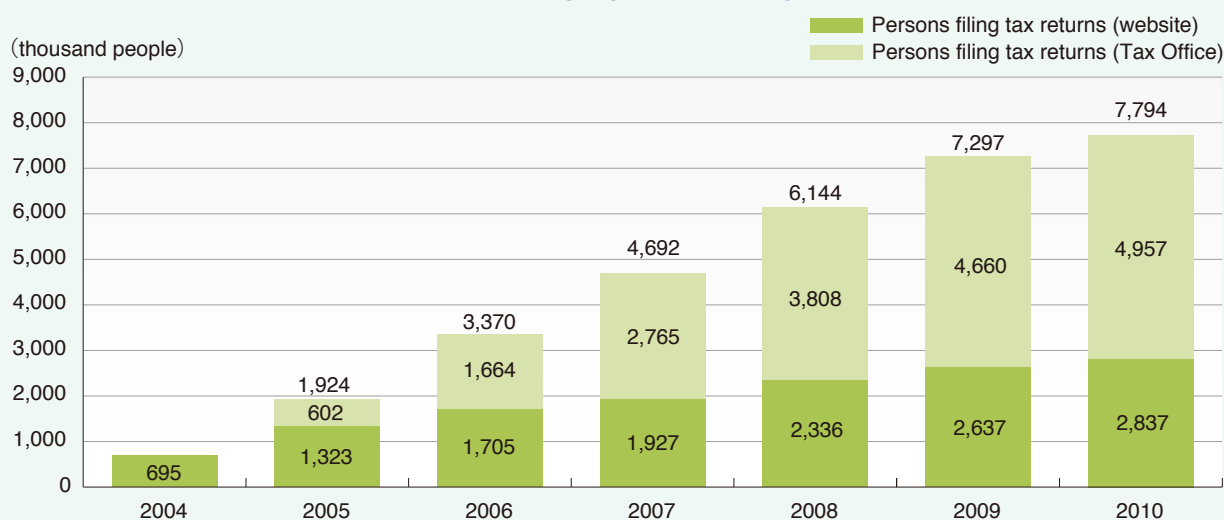
With the filing assistance on the NTA website, if a taxpayer enters the amounts and other necessary information according to guidance on the PC screen, income amounts and tax amounts are automatically calculated, and it allows taxpayers to complete their tax returns for income tax, individual consumption tax, and gift tax as well as financial statements for blue returns.

e-Tax can be used to file the prepared data directly from this website area (excluding gift tax), or it can be printed and submitted to the Tax Office by post, etc.

The number of users has increased each year since the filing period for 2002. In the filing period for 2010, the number of people who submitted income tax returns prepared with filing assistance on the NTA website reached 7,790,000, including those prepared via PCs set up at consultation sites. This comprised over 30% of all people who submitted returns. About 66% of these submitted their returns via e-Tax.

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

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



\* Figures represent those submitted by the end of March of the following year.  
 The use of filing assistance on the NTA website at PCs installed in the Tax Office started from 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 for years before 2003 remains unaccounted for.  
 The number of taxpayers who submitted tax returns for years since 2007 includes cases using e-Tax.

# III Improvement of Taxpayer Convenience and Administrative Efficiency

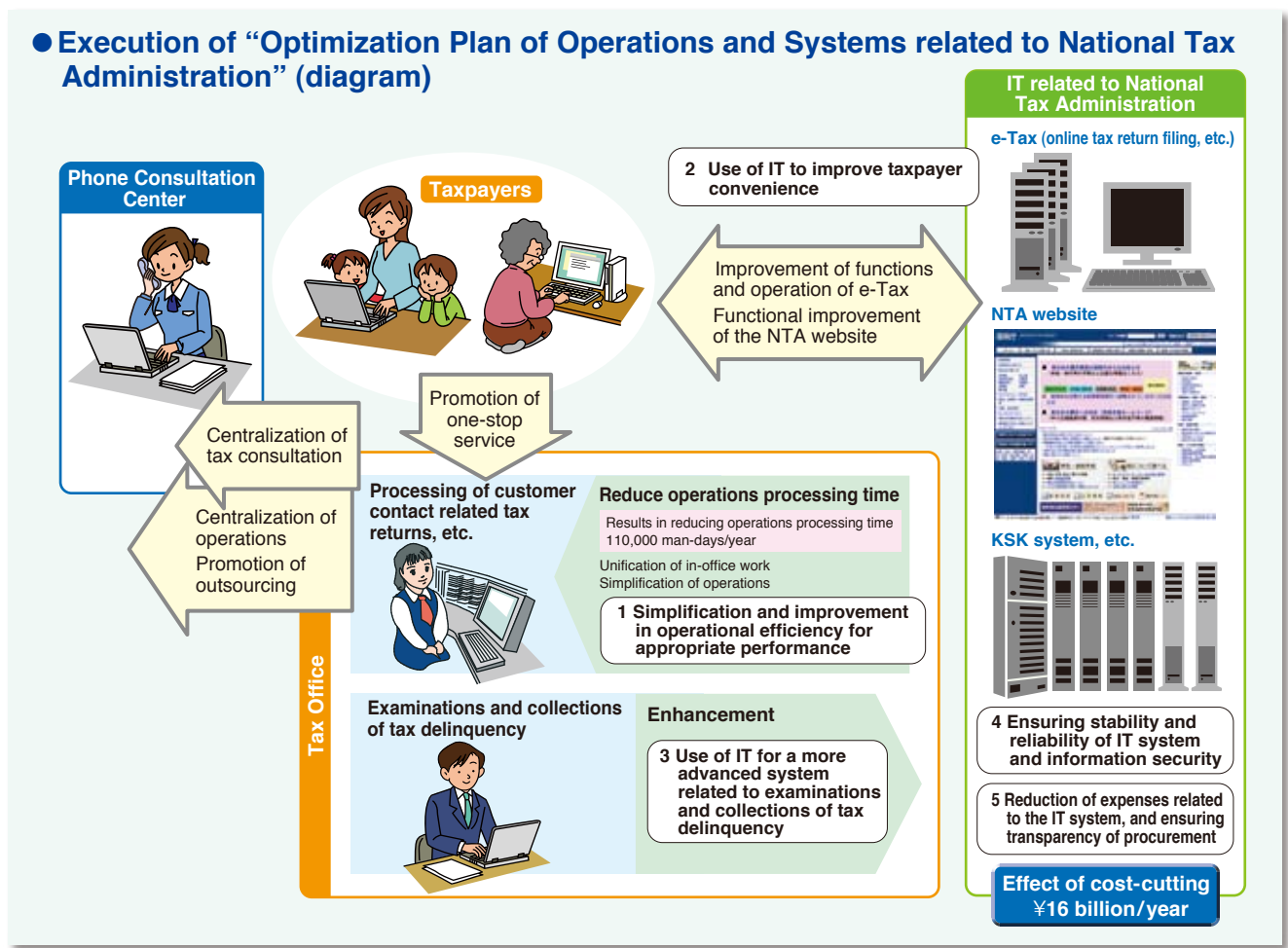
## 2 Optimization of operations and systems

The NTA is working to optimize its operations and systems related to national tax administration. Based on the “e-Government Establishment Plan” decided in July 2003, the NTA adopted the basic principles of: ① Simplification and improvement in operational efficiency for appropriate performance, ② Improvement in the convenience of taxpayers by utilization of IT, ③ Sophistication of the system related to examinations and collections of tax delinquency through the utilization of IT, ④ Ensuring stability and reliability of IT system and information security, ⑤ Reduction of IT related expenses and ensuring transparency of procurement. The NTA used these principles to form the “Optimization Plan of Operations and Systems related to National Tax Administration,” which was decided and published in March 2006 (revised in June 2010).

Looking at initiatives over the past year, there were large improvements in simplification and improvement in operational efficiency. For example, income tax returns saw a large improvement in operational efficiency, as the method of communication with local governments was changed from paper-based to data transmission.

Regarding improvement in the convenience of taxpayers, we are working towards the introduction of online return filing for gift tax.

Regarding reduction of IT related expenses and ensuring transparency of procurement, the NTA is pushing forward to turn the KSK System into an open system<sup>1</sup>, where the interchangeability of systems is enhanced. We are also moving towards adopting general purpose software products, and integrating equipment when replaced or updated.



<sup>1</sup> Turning into open systems means to shift to the use of systems with a high degree of interchangeability that can accept multiple widely available products rather than relying on specific manufacturer.



## Ensuring stability and reliability of IT system and information security

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

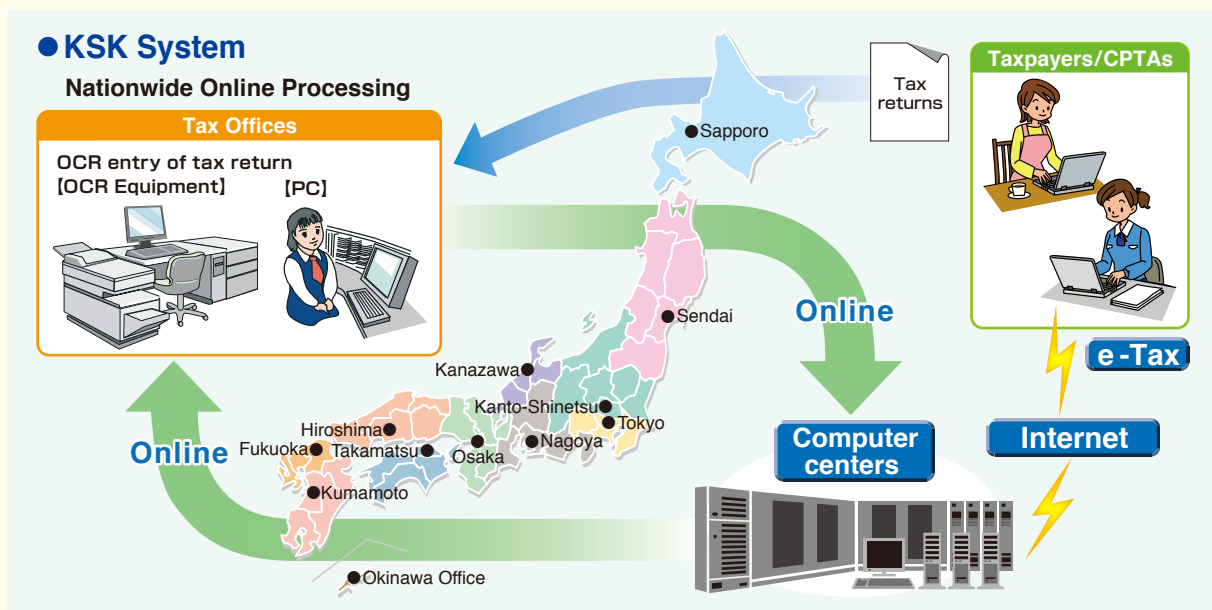
As the national tax-related IT system stores a large amount of taxpayer's information, the NTA is paying very close attention to prevent unauthorized use and leaks of the information. To ensure security, the NTA has set up a system where officials are allowed to access only the data necessary for their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

At the computer center which stores data for e-Tax and the KSK System, the NTA built an information security management system (ISMS)<sup>1</sup> which complies with international standards, and in 2007 obtained certification based on the ISMS compliance evaluation system (certification based on ISO/IEC27001:2005 & JISQ27001:2006)<sup>2</sup>. Obtaining certification led to development and strengthening of the information security management system for the entire national tax system. This also enhanced staff awareness of information security, as they work to operate the system with awareness and a sense of mission.

## 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 centralized administration of national taxes receivable. Analyzed data are used in tax examination and collection of delinquent tax. The computer system centralizes information management across geographical regions and items of taxes, to achieve 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 An Information Security Management System is an organizational initiative to execute the planning, operation, review and improvement which are required in order to maintain a situation of appropriate management for confidentiality and completeness and usability of information assets which should be protected.  
 2 ISO/IEC27001:2005 is one of the standards created by the International Organization for Standardization. This became a global standard for information security management systems in October 2005. JISQ 27001:2006 is a Japanese domestic standard published in May 2006, corresponding to ISO/IEC27001.

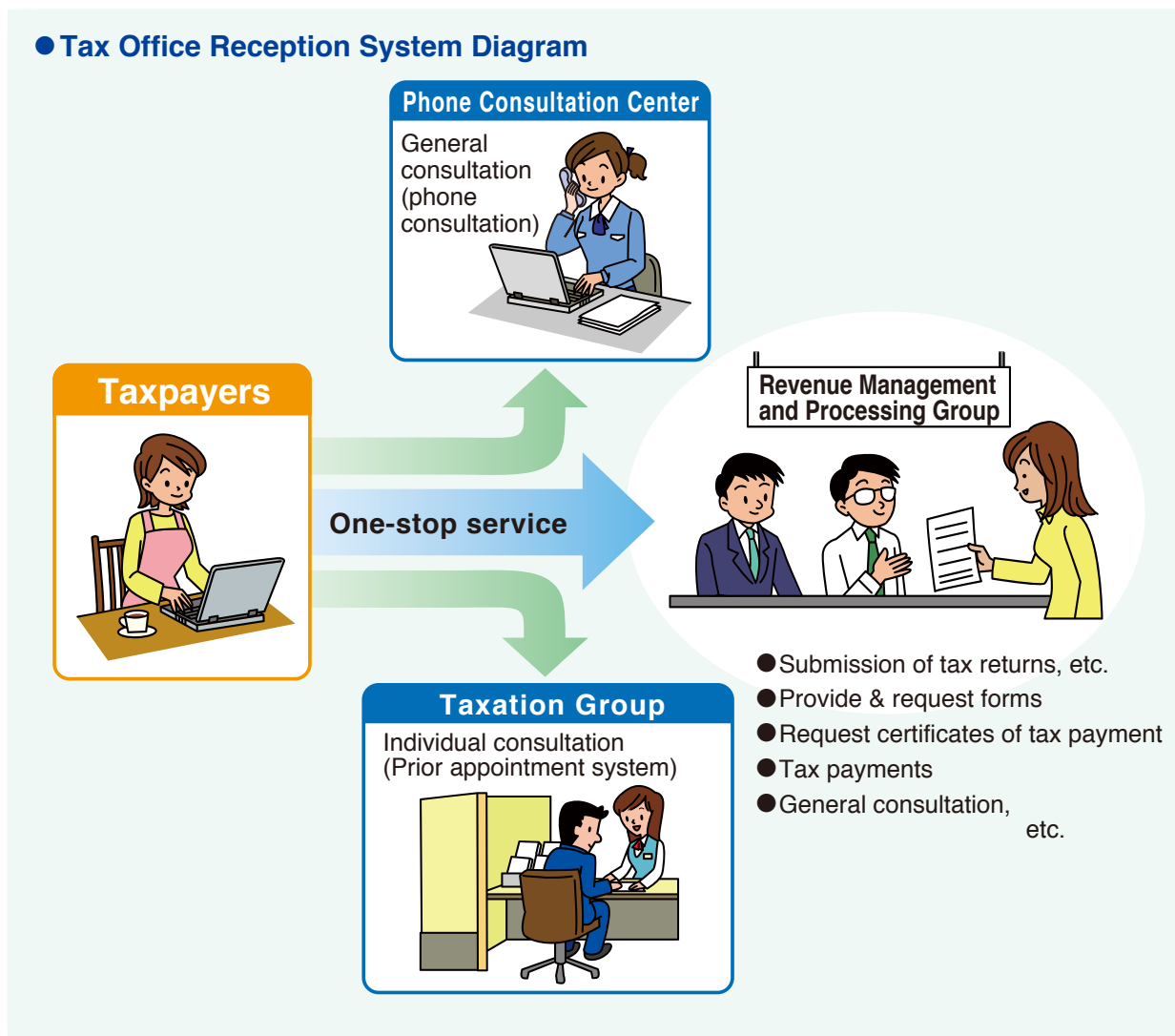
### III Improvement of Taxpayer Convenience and Administrative Efficiency

## 3 Centralization of taxpayer contact points

For customer contact related work previously done at multiple departments in Tax Offices, customer contact was unified in the Revenue Management and Processing Group since July 2009. This aims to improve taxpayer convenience.

For example, previously, when a taxpayer requested a certificate of tax payment, depending on the content of that request, the taxpayer had to submit request forms to multiple contact points. But requests can now be made at one contact point, regardless of the request's content. This contact point handles requests for certificates of tax payment, and also submission of tax returns and applications, tax payments, and general consultation on taxes<sup>1</sup>.

For tax consultations which are difficult to handle by phone, because one must check specific documents or facts, with a prior appointment, consultation in person is provided at the Tax Office with jurisdiction.



<sup>1</sup> In principle, general consultations on taxes are handled centrally by the national Phone Consultation Center.

# IV Tax Administration Under Increasing Globalization

Cross-border economic activities by companies and individuals are becoming more complex and diverse. These changes have brought international tax avoidance, in which revenues received overseas are not declared, or which use complex international transactions to avoid paying tax to any country on earnings gained. On the other hand, there is the large problem of double taxation, in which more than one country have different views and impose taxes on the same income. In response to these problems, the NTA is working on internal improvements such as in its examination system, and is also building stronger cooperative relations by sharing information and experience with the tax authorities of foreign countries. The NTA is also in discussions with the authorities to resolve double taxation.

## 1 Addressing international transactions

### (1) Organization and officials for international taxation

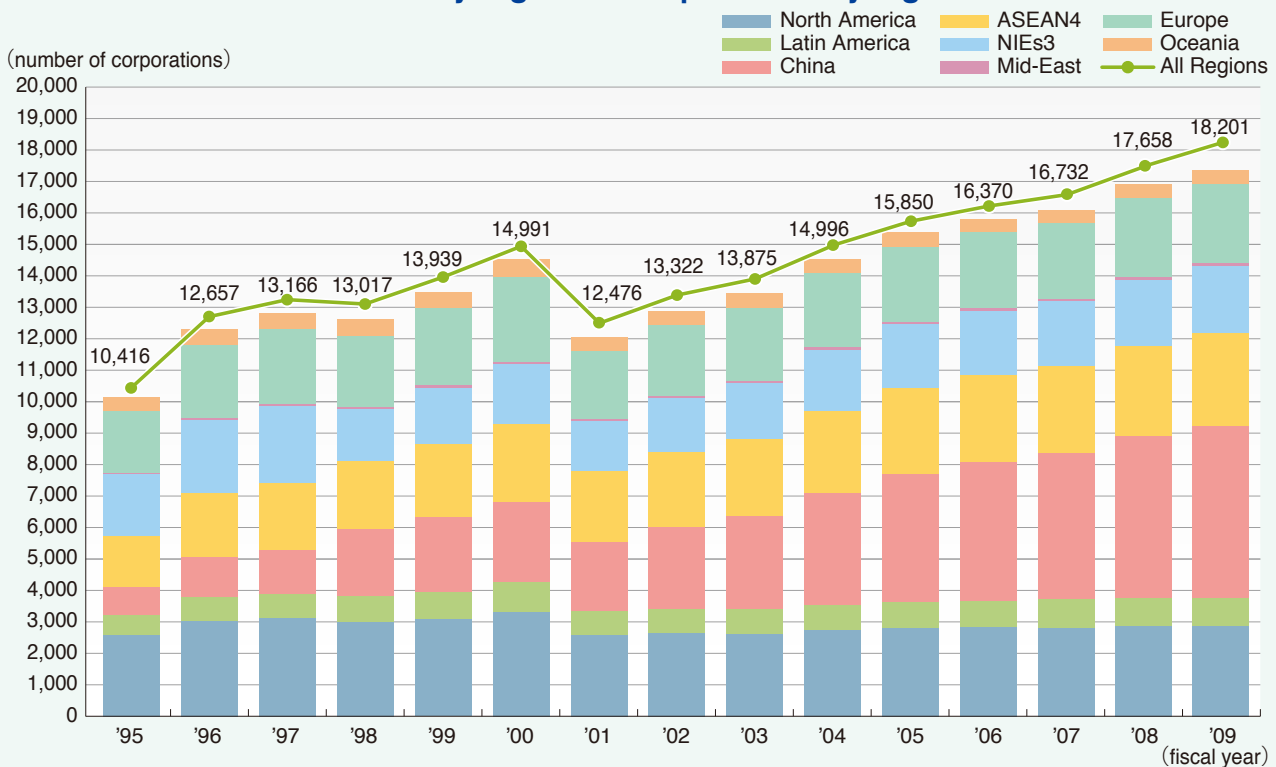
#### a. Environment involving international taxation

Along with the progress in globalization of business transactions, cross-border business and investment activities by companies and individuals are becoming increasingly active.

##### ① Status of overseas establishments by Japanese corporations

The following is the status of overseas establishments by Japanese corporations. The number of overseas locally organized corporations increased from 10,416 in FY1995 to 18,201 in FY2009, about a 70% increase, with a particularly rapid growth of establishments in China.

#### ● Trend in the number of locally organized corporations by region



\*1 "ASEAN4" signifies Malaysia, Thailand, Indonesia and the Philippines.

\*2 "NIEs3" signifies Singapore, Taiwan and South Korea.

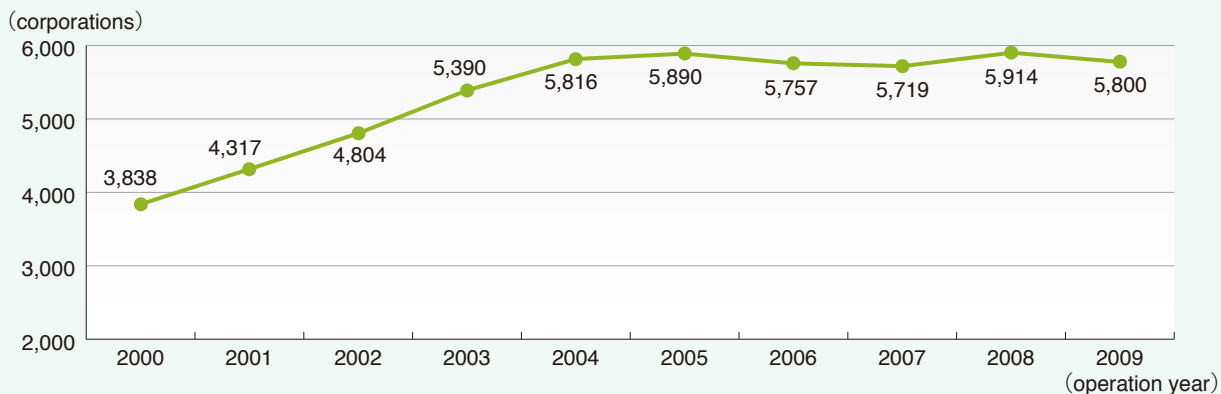
(Source: "Basic Research on Overseas Business Activities," by the Ministry of Economy, Trade and Industry)

##### ② Trend in the number of foreign corporations

The trend in the number of foreign corporations carrying out business activities in Japan is shown on the following page. There were 5,800 corporations in the 2009 operation year, which was 114 less than the previous year. The growth rate reversed, but this is still about 50% more than in the 2000 operation year.

# IV Tax Administration Under Increasing Globalization

## ● Trend in the number of foreign corporations

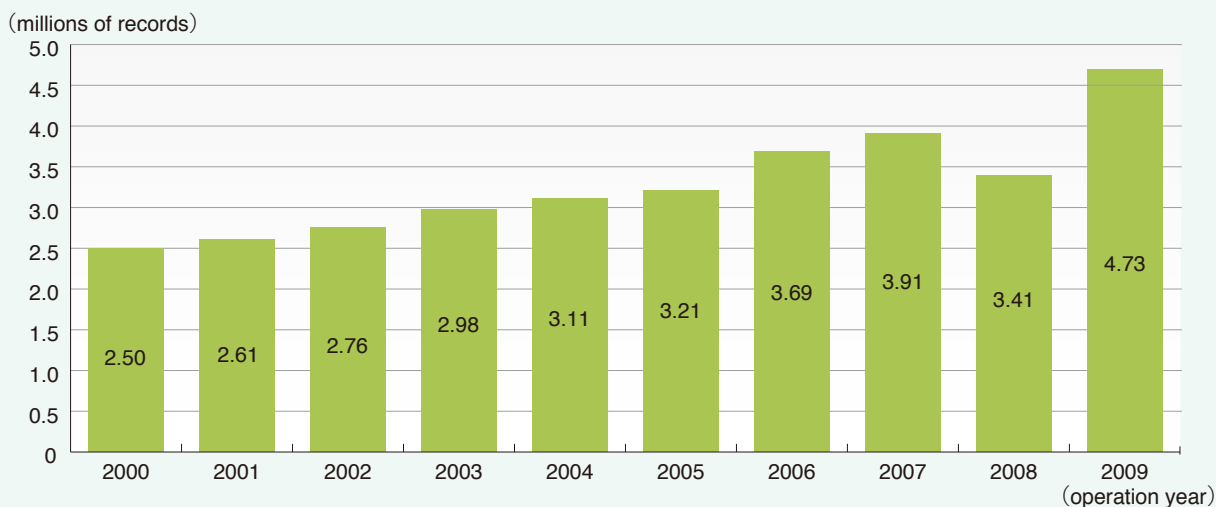


\* Foreign corporations filing corporation tax return in Japan

## ③ Trend in the number of records of remittances and receipts related to foreign countries

A record of remittance and receipt related to foreign countries<sup>1</sup> is submitted when a large remittance is sent to a foreign country. The figure below shows the number of these submitted. The criteria for requiring submission was reduced in the 2009 operation year, so 4.73 million records were submitted, which were 1.32 million more than in the previous year. The number of submissions is generally growing each year.

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



## b. Activities related to international taxation

As companies and individuals expand their cross-border business and investment activities, tax examinations related to international taxation are gaining in importance.

This is why the NTA emphasizes examinations of taxpayers who do overseas transactions and taxpayers who hold overseas assets. The NTA is performing deep examinations which effectively use the records of remittances and receipts related to foreign countries, and information exchange systems based on tax treaties and tax information exchange agreements.

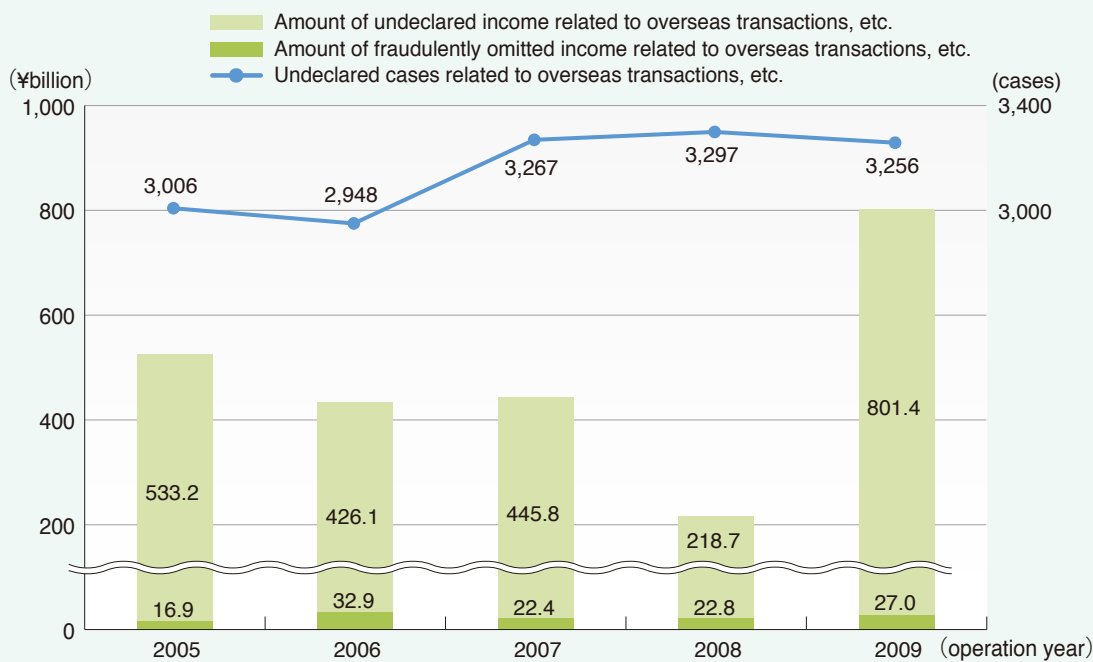
The NTA is increasing the number of its Senior Examiners (International Taxation) who are dedicated to work on international taxation. We also established a department for specialized

<sup>1</sup> 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. These indicate the amount remitted to or received from overseas nations, if exceeding ¥2 million (the amount was decreased from more than ¥2 million to more than ¥1 million, starting April 2009).



handling of international tax avoidance cases. These are parts of our efforts to enhance and strengthen our examination system. The National Tax College is a training institution for staff, which provides training on international tax related laws and regulations, tax treaties, financial transactions, language study, etc. This works to enhance staff abilities for examinations concerning international taxation. The NTA also recruits lawyers and financial specialists to handle complex tax problems.

### ● Actual examinations related to international taxation (Corporation tax)



## (2) International tax avoidance

International tax avoidance problems are arising, as revenues gained overseas are hidden, and as people cleverly use differences between each country's tax system and tax treaties to avoid paying taxes to any country, despite gaining earnings. International tax avoidance, often prepared by financial, legal and tax specialists, often uses complex transactions which combine paper companies or cooperatives, derivatives (derivative financial instruments), etc., which makes it difficult to clarify the whole picture of the transactions. Recently, such problems are not only found among large companies, as it has also spread to small and medium companies and wealthy individuals.

When proper tax duty is not fulfilled due to such international tax avoidance conduct, this damages the sense of fairness among taxpayers. Tax authorities must learn about it and clarify the actual situation, and work to ensure that proper tax duty is performed. Therefore, the NTA uses tax examinations and various opportunities to collect information on international tax avoidance conduct, and if a tax problem is found, performs a thorough tax examination and clarifies the actual situation.

In order to strengthen our response to international tax avoidance conduct, a Chief Examiner was established in the Tokyo and Osaka Regional Taxation Bureaus, as a department in charge of information collection and analysis, and examination planning and proposals. This Chief Examiner and the International Examination of Large Enterprise Division etc. play central roles in collecting documents and information and clarifying facts on international tax avoidance conduct.

Furthermore, aiming to clarify international tax avoidance, Japan, the USA, Canada, Australia, the U.K., South Korea and China participate in the Joint International Tax Shelter Information Centre (JITSIC). JITSIC works to share information on international tax avoidance schemes and initiatives in member countries.

## (3) Transfer pricing issues

The transfer pricing system was introduced in the FY1986 tax reform. From the perspective of working to achieve proper international taxation, this prevents transferring income overseas by manipulating transaction prices with a foreign affiliated company. Specifically, if a Japanese company does a transaction with a foreign affiliated company, and that transaction price differs from the transaction price between third parties (this price is called an “arm’s length price”), resulting in lower taxable income for the Japanese company, then that transaction is deemed to have been done at an arm’s length price, and income is recalculated under this system.

As company activities become increasingly global, more transactions are becoming subject to the transfer pricing system, and transactions are becoming more complex, with growing importance of transactions involving intangible assets. It is necessary to appropriately handle such changes, increase predictability for taxpayers, and achieve proper and fair taxation.

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

In order to increase predictability for taxpayers, it is important that the NTA publishes and works to clarify its execution policy for the system’s operation, and its application criteria. In 2010, the NTA revised its administrative guidelines for operation, and its directives for interpretation of laws. These guidelines and directives clarify items which should be considered in its examinations when studying the process of determining prices of transactions with foreign affiliated companies, items to consider in studying documents deemed necessary to calculate arm’s length price, etc.

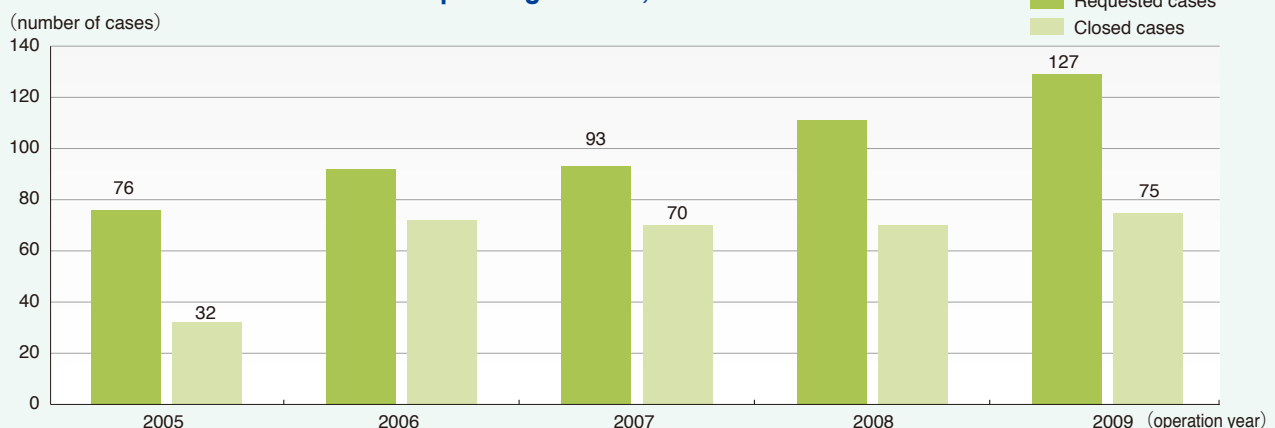
To also ensure proper and fair implementation, the NTA is working to enhance its examination system, for appropriate fact finding and interpretation and application of laws and regulations.

### b. Advance Pricing Arrangement (APA)

In an APA on transfer pricing taxation, based on the Japanese company’s request, the tax authority gives advance confirmation of the method for calculating the arm’s length price in transactions with a foreign affiliated company. The number of requests for APA is increasing, as a result of the increase in international transactions. This is why the NTA is working to improve its execution system and quickly process APAs. For example, a division dedicated to APA examinations was established in the Tokyo Regional Taxation Bureau and the Osaka Regional Taxation Bureau, where there are many companies which do international transactions. Also, a contact point is set up in each Regional Taxation Bureau, which handles advance consultations with national tax authorities before requesting an APA. This contributes to our development of an environment enabling taxpayers to smoothly use APAs.

APAs ensure predictability and legal stability for taxpayers. They also contribute to proper and smooth operation of the transfer pricing taxation. This is why the NTA will continue to provide them appropriately.

#### ● Trend in the number of cases requesting an APA, and number of cases closed



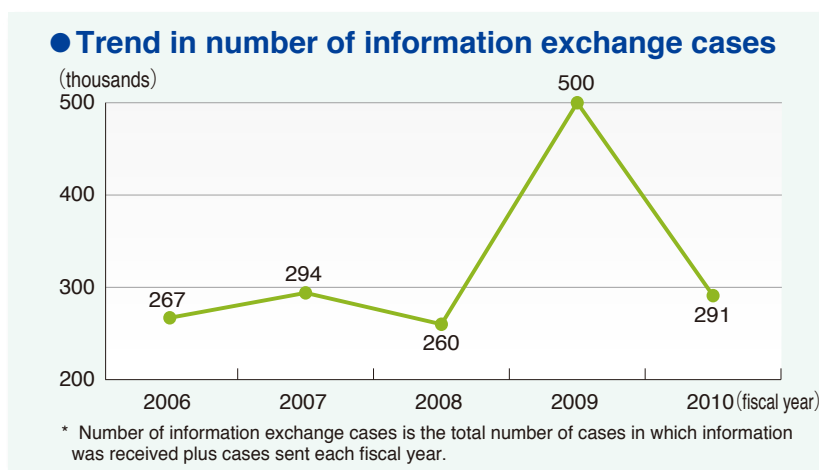
\* The number of cases requesting an APA does not include the number of cases for which changes were made after the request. On the other hand, the number of APA cases (refer to page 43) out of the cases subject to Mutual Agreement Procedure (MAP) includes cases of changes acknowledged after being requested (because MAP is made again with regard to changes). Therefore, the figures do not match.

## (4) Exchange of information under tax treaty and tax information exchange agreement

There are cases in which the NTA cannot sufficiently clarify international transactions by individuals and corporations only with the information obtained in Japan. In such a case, the exchange of information under a bilateral tax treaty and tax information exchange agreement makes it possible to acquire the necessary information.

Recently, the NTA has been exchanging information on several hundred thousand cases a year.

Japan is thus working to develop its framework for information exchange: adding new information exchange provisions to tax treaties in accordance with international standards<sup>1</sup>, changing existing provisions in accordance with international standards, etc. Japan now has 48 tax treaties in effect (covering 59 countries and regions). The treaty with Switzerland will be revised, after which all of Japan's tax treaties will have information exchange provisions. There are also provisions with some countries in which the examiner can meet directly with the person in charge in the other country, and exchange needed information. The NTA fully utilizes these to actively exchange information.



## 2 Mutual Agreement Procedure (MAP)

With the globalization of the Japanese economy, where the Japanese taxpayers move in on foreign markets or foreign taxpayers do the same on the Japanese market, they may encounter the international double tax situation, in which both Japan and the foreign country impose tax on the same income. Transfer pricing taxation mentioned in IV1(3) is one of the major areas of the international double taxation. We exert ourselves to resolve such double taxation problems, including transfer pricing, by negotiating with foreign tax authorities through so-called Mutual Agreement Procedures<sup>2</sup> prescribed in tax treaties.

The number of MAP cases, consisted of both cases in which the NTA received MAP requests from taxpayers in Japan, and cases in which the NTA received MAP requests from foreign tax authorities, has been increasing in recent years, with over 90% of them concerning transfer pricing. Among these, the number of the cases in Advanced Pricing Arrangement (APA) program, which provides taxpayers with predictability and legal stability in transfer pricing (see IV1(3)b), also shows the same trend as seen in MAP cases. For the 2009 operation year, we have received 183 MAP requests from either the taxpayers in Japan or foreign tax authorities, with 176 of these concerning transfer pricing. 149 out of the above 176 cases were concerning APA program. These numbers are showing drastic increase, compared to the ones of 10 years ago; by about 200% increase in the number of the MAP cases and by about 300% increase in those of APA cases.

With regard to the number of countries with which the NTA was involved in MAP negotiations, it also shows the same trend as above, along with the increase in the number of MAP cases. While 14 countries were involved 10 years ago, we are in negotiations with 21 countries as of the end of June 2010.

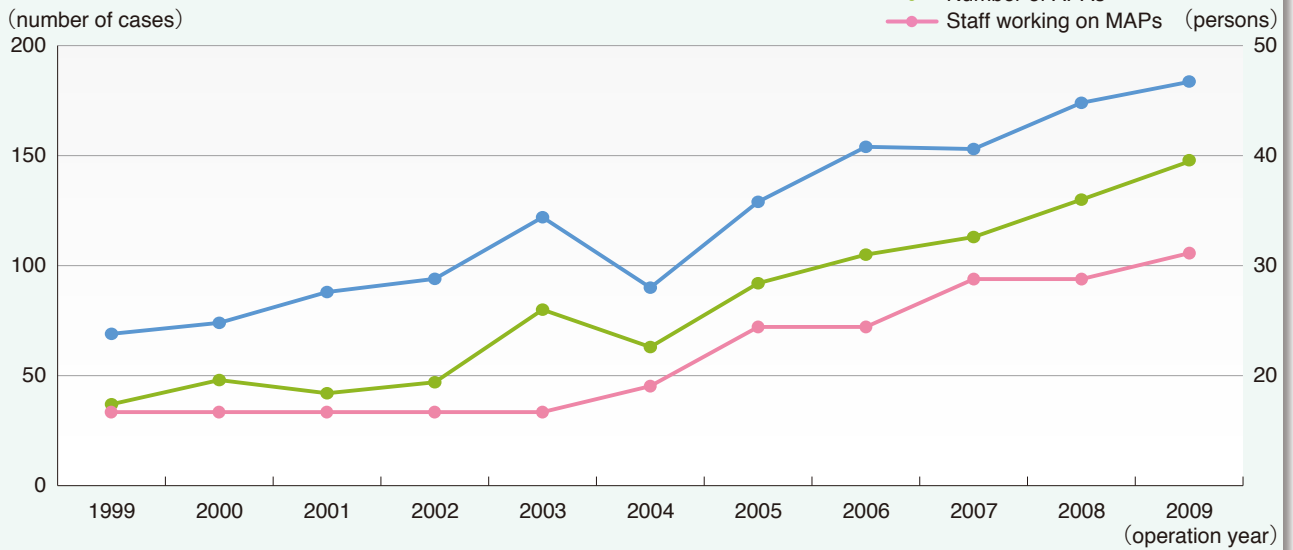
The NTA has been making every effort to resolve MAP cases as promptly and appropriately as possible by enhancing staffing and making operations more efficient and effective, as well as promoting cooperative relationship with foreign tax authorities.

<sup>1</sup> Main items of international standards on information exchange: information held by financial institutions is also subject to information exchange, and information exchange is done even if there are no taxable earnings in one's own country.

<sup>2</sup> "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.

# IV Tax Administration Under Increasing Globalization

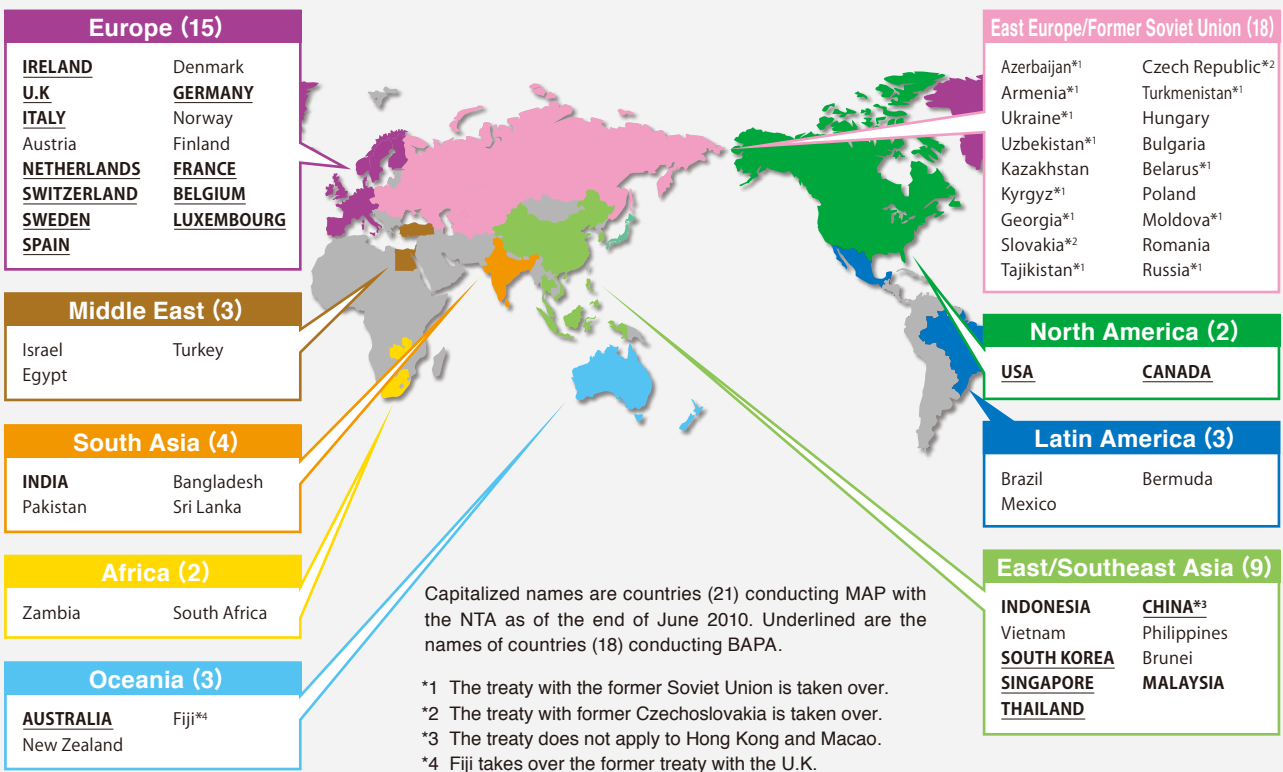
## ● The number of MAP cases and staff working on MAPs



\*1 The number of MAP cases consists of both cases in which the NTA received MAP requests from taxpayers in Japan, and cases in which the NTA received MAP requests from foreign tax authorities.

\*2 "Number of MAPs" includes the number of APAs.

## ● Tax treaty network of Japan (48 treaties applied in 59 countries & regions as of April 2011)





## 3 Cooperation and coordination with foreign tax authorities

### (1) Cooperation for developing countries

Under the framework of technical cooperation by the Japan International Cooperation Agency (JICA) etc., the NTA is actively providing technical cooperation to developing countries, focused on Asian countries. The aims are to improve tax administration of developing countries, and to foster people who understand Japan's tax administration.



International Seminar on Taxation

#### Overview of technical assistance

##### 1 Dispatch of tax officials to developing countries

Based on the requests of the foreign tax authorities, the NTA dispatches its officials as lecturers in fields such as taxpayer services, international taxation and staff training. In FY2010, officials were dispatched to provide lectures, etc. to China, Indonesia, Malaysia, Vietnam, etc.

With a view to giving continuous advice on tax administration to developing countries, the NTA is dispatching tax officials in the capacity of long-term experts from JICA. In FY2010, our tax officials remain in Indonesia, Malaysia, and Vietnam.

##### 2 Lectures and other 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, providing lectures, etc. It has two courses: the general course for mid-career officials, and the senior course for upper management-level officials. Counting both courses, a total of 32 tax officials participated in FY2010.

###### (2) Country-Focused Training Courses in Tax Administration

The courses are given to tax officials from specified developing countries at their request. 68 tax officials from China, Mongolia, Philippines and Uzbekistan participated in the course in FY2010.

###### (3) Training Course of International Taxation for Asian Countries

Training is directed at tax officials in Asian countries on the subject of international taxation. Nine persons from four countries (China, Malaysia, Philippines and Vietnam) participated in FY2010.

###### (4) NTA Practical Training Course (Practicum)

Training on the Japanese tax system and tax administration 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, etc. A total of 20 foreign students studying at graduate schools of Keio University, Yokohama National University, National Graduate Institute of Policy Studies, Waseda University and Hitotsubashi University participated in FY2010.

## IV Tax Administration Under Increasing Globalization

### ● Status of training conducted in Japan

(number of countries, people)

Fiscal year		2006	2007	2008	2009	2010
International Seminar on Taxation (ISTAX) general course	Countries	17	18	18	19	18
	People	20	19	20	20	18
International Seminar on Taxation (ISTAX) senior course	Countries	11	10	10	11	14
	People	11	10	10	11	14
Country-Focused Training Courses in Tax Administration	Countries	7	6	8	8	4
	People	104	95	108	100	54
Training Course of International Taxation for Asian Countries	Countries	Newly launched in FY2007	6	6	6	4
	People		11	12	11	9
NTA Practical Training Course (Practicum)	Countries	12	13	10	9	12
	People	18	18	17	21	20

## (2) Participation by tax authorities in international conferences

As globalization and computerization of the economy brings an increase in new forms of transactions, there is the double taxation problem of more than one country imposing taxes on one income, and the taxation loophole problem of tax avoidance in which tax is not imposed in any country. These are becoming issues which should be addressed by each country's tax authorities. In order to solve such problems and to cooperate and share experience among each country's tax authorities, the NTA actively participates in various international conferences. The main conferences are described below: ① OECD Forum on Tax Administration (FTA), ② Study Group on Asian Tax Administration and Research (SGATAR), and ③ OECD Committee on Fiscal Affairs (CFA).

### ① OECD Forum on Tax Administration (FTA)

The OECD Forum on Tax Administration is a forum for sharing each country's knowledge and experience on a wide range of fields in tax administration, etc. It was held in Istanbul in the Republic of Turkey in September 2010, with discussions about each country's initiatives to enhance tax compliance concerning international transactions, and for enhanced corporate governance in tax fields.

### ② Study Group on Asian Tax Administration and Research (SGATAR)

The Study Group on Asian Tax Administration and Research is comprised of tax authorities of 16 countries and regions in Asia. This is a forum for discussions on cooperation and sharing of knowledge in the region. The 40th meeting was held in November 2010 in Fukuoka, where top tax officials of member countries and regions agreed to Japan's proposal on the importance of mutual cooperation on a practical level.

### ③ OECD Committee on Fiscal Affairs (CFA)

The OECD Committee on Fiscal Affairs is a forum where OECD member countries review the Model Tax Convention and Transfer Pricing Guidelines, and the tax authorities aim to share their knowledge and experience. Under the CFA, study groups are formed to discuss individual themes and exchange views. The NTA has been actively participating in such activities of CFA. For further details, please refer to the NTA website "OECD Committee on Fiscal Affairs (CFA)".

[www.nta.go.jp/sonota/kokusai/oecd/oecd.htm](http://www.nta.go.jp/sonota/kokusai/oecd/oecd.htm)

# V Remedy for Infringement of Taxpayer Rights

When the District Director of Tax Office etc. does a disposition for taxation or disposition for delinquent tax, if the taxpayer objects to that disposition, the taxpayer can file a request for review, for example to cancel that disposition. This system of request for review is a procedure to simply and quickly protect taxpayer rights and interests. In principle, a taxpayer which objects to a disposition shall first file a request for review before bringing a lawsuit in court.

A request for review can be a request for reinvestigation to the District Director of the Tax Office etc., or a request for reconsideration to the Director-General of the National Tax Tribunal, but in principle, a request for reconsideration cannot be done until after a request for reinvestigation was done.

Moreover, when there is an objection to the ruling on the request for reconsideration, the taxpayer can bring lawsuit in court and seek relief via the judiciary.

## (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 etc. took action for a correction, determination, or seizure with which a taxpayer is dissatisfied, this is a procedure to request to the District Director of the Tax Office (a government agency) etc., that the ruling be revoked or changed.

In recent years, cases requesting a reinvestigation are increasingly complicated, due to greater geographic scope and globalization of economic transactions. Increasing numbers of cases involve difficulties in grasping the facts and in the interpretation and application of law. In response, the NTA established Rulings and Legal Affairs Divisions and assigned Special Officers (Legal Affairs) in each Regional Taxation Bureau. The NTA is also providing various training to develop tax officials who are skilled in reviewing, in order to address the uniform enforcement of tax laws across the country based on correct interpretations. We are thereby endeavoring to properly and promptly handle taxpayer requests for reinvestigations.

## (2) Request for reconsideration

Taxpayers who are 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 requests for reconsideration as a fair third party between the District Director of the Tax Office etc. and the claimant. Important posts such as the Director-General for the National Tax Tribunal, as well as the Directors of the Tokyo and Osaka Regional Tax Tribunals, are appointed from among those who have been justices or public prosecutors.

Appeals judges for the National Tax Tribunal are also appointed as officials with fixed terms of office from among those who have been specialists such as CPTAs and lawyers in the private sector.

In handling a request for reconsideration, the National Tax Tribunal contacts the claimant and the Tax Office etc. early on to have a good grasp of both points of view. It clarifies their arguments early on, for example by drafting a confirmation chart outlining the positions of each party after sorting out their arguments. The Tribunal fully investigates the content of documentary evidence etc. presented by both parties, conducts its own tax examinations, and strives to properly and quickly handle the request for reconsideration from the taxpayer.

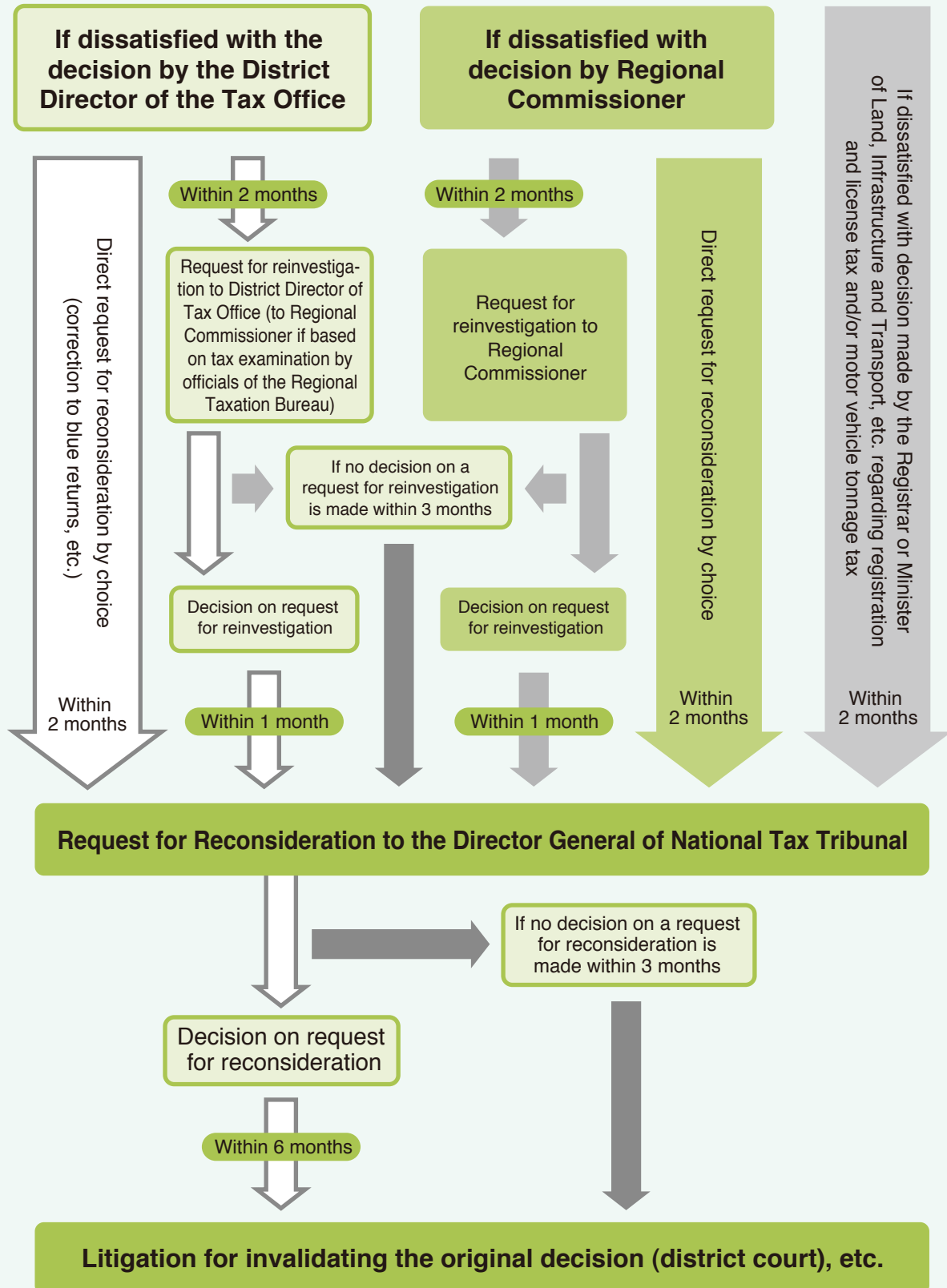
Decisions by the Director-General of the National Tax Tribunal will not be more disadvantageous to taxpayers than those made by the District Director of the Tax Office. The decision is a final ruling given within the NTA, against which the District Director of the Tax Office etc. are not entitled to file litigation, even if dissatisfied.

## (3) Litigation

Even after the decision by the Director-General of the National Tax Tribunal, taxpayers who remain dissatisfied are entitled to file litigation with the judiciary seeking a legal remedy.

# V Remedy for Infringement of Taxpayer Rights

## Overview of the request for review system for national tax



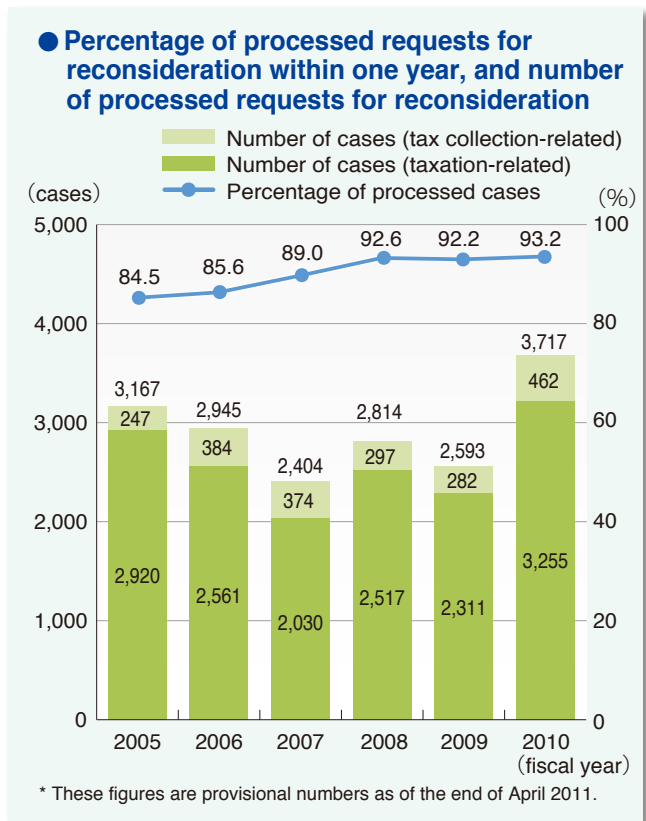
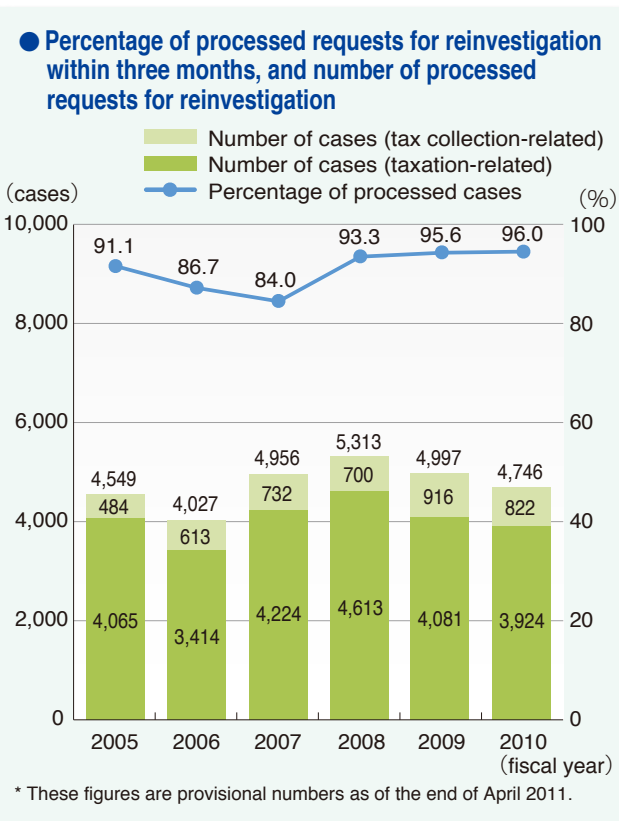
## (4) Trend in remedies for infringement of taxpayer rights

The NTA is striving to finish processing requests for reinvestigations within three months in principle. 4,746 reinvestigations were requested in FY2010 (3,924 in taxation and 822 in tax collection). Of these, 10.0% of taxpayer claims were approved in whole or in part due to new facts, etc.

With respect to requests for reconsideration, the NTA is working to finish processing within one year in principle. There were 3,717 requests for reconsideration in FY2010 (3,255 in taxation and 462 in tax collection). Of these, 12.9% of taxpayer claims were approved in whole or in part.

For litigation, 354 cases were closed in FY2010 (279 in taxation, 68 in tax collection and 7 in the National Tax Tribunal). Of these, about 7.6% of taxpayer claims were approved in whole or in part.

The NTA and the National Tax Tribunal provide information such as overviews of the requests for review and litigation, and cases of decisions on requests for reconsideration, to deepen understanding about remedies for infringement of taxpayer rights. These are on the NTA website and on the National Tax Tribunal website [www.kfs.go.jp](http://www.kfs.go.jp)



### 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 requests for review of decisions by the NTA, but also about tax administration in general including the attitude of officials or the methods of tax examinations, etc. The NTA believes it essential to sincerely respond to a variety of opinions from taxpayers in order to obtain their understanding and confidence and endeavors 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, for example by explaining the procedures to remedy infringements of taxpayer rights.



# VI Administration of the Liquor Industry

Both the land tax and the liquor tax have been large revenue sources since the Meiji government was established. Liquor tax revenues even exceeded land tax revenues at one time, becoming the largest revenue source. Thereafter, there was an increase in the relative weight of direct taxes such as income tax and corporation tax, and in FY2009, liquor tax comprised only 3.5% (¥1,461.8 billion) of all tax revenues. However, it is not affected much by the economy, and is expected to provide stable tax revenues. Therefore, the liquor tax fulfills an important role even today.

In contrast to general food items, a high rate of liquor tax is imposed on liquor. In order to secure this revenue source and smoothly shift the tax burden onto consumers, there is a system of licensing for manufacture of liquor and sale of liquor. In line with the goals of this system, the NTA strives for proper operation and proper and fair taxation.

In addition, the NTA is the government agency with jurisdiction over the liquor industry. The NTA takes various actions in order to secure liquor tax revenues and work for sound development of the liquor industry, from a comprehensive perspective of development of the entire liquor industry, while considering changes in the environment faced by the liquor industry, such as the arrival of a decreasing population, the people's increasing awareness of health and safety, and diversifying lifestyles.

## (1) Initiatives to ensure safety of liquor and enhance quality levels

Consumers are increasingly interested in “security and safety of food,” not only for liquor. The NTA works to ensure safety and enhance quality levels in all in stages, from production through to consumption. We take the following measures to enable provision of safe and good quality liquor to consumers.

- a. The NTA purchases commercially sold liquor, and investigates its safety, quality and labeling such as container volume and alcohol content. The results are published for consumers on the NTA website.
- b. To enable consumers to feel secure in buying liquor, the NTA checks labeling item obligations of liquor business operators and the items written based on labeling standards. If not properly labeled, corrective guidance is given to the liquor business operator. In addition, the NTA provides the liquor industry with guidance on improvements in brewing technology, and guidance on manufacturing processes regarding safety of liquor, including dissemination of the achievements of the National Research Institute of Brewing.

### 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. NRIB performs advanced analyses and appraisals of liquors, and provides research, studies and information on liquors and the liquor industry. It thereby aims to contribute to proper and fair application of the liquor tax, work for the sound development of the liquor industry, and raise people's understanding of liquor. For further details, please visit the NRIB website: [www.nrib.go.jp/English/index.htm](http://www.nrib.go.jp/English/index.htm)

## (2) Response to social demands

Society wants to prevent underage drinking, and has various other increasing demands regarding liquor. Therefore in May 2010, the World Health Organization (WHO) recently adopted the “Global strategy to reduce the harmful use of alcohol.”

To prevent underage drinking and disruptive acts caused by alcohol, the NTA is working for thorough compliance with duty in appointment of liquor sales managers, and with obligatory displays where liquor is exhibited. In cooperation with related ministries, agencies and the industry etc., the NTA is also working for development of proper sales management systems.

In order to ensure effective use of resources, the NTA also works to build awareness of systems, to support liquor business operator initiatives for liquor container recycling and reducing food waste generated in liquor manufacturing processes, etc.

### (3) Initiatives to develop a fair trading environment in liquor

In order to secure liquor tax revenues and stable trading in liquor, the NTA is working to build awareness and understanding of its Guidelines on Fair Liquor Trade established in August 2006, so that voluntary initiatives of liquor business operators for developing a fair trading environment are promoted.

The NTA also surveys actual trade practices, and if it finds cases such as trading which is not according to the rules of these guidelines, it provides guidance for improvements, etc. If as a result of examination it deems there are violations of the Anti-monopoly Act, it takes actions such as reporting these facts to the Fair Trade Commission (FTC), and cooperates with the FTC to take appropriate action.

### (4) Information provided to liquor business operators

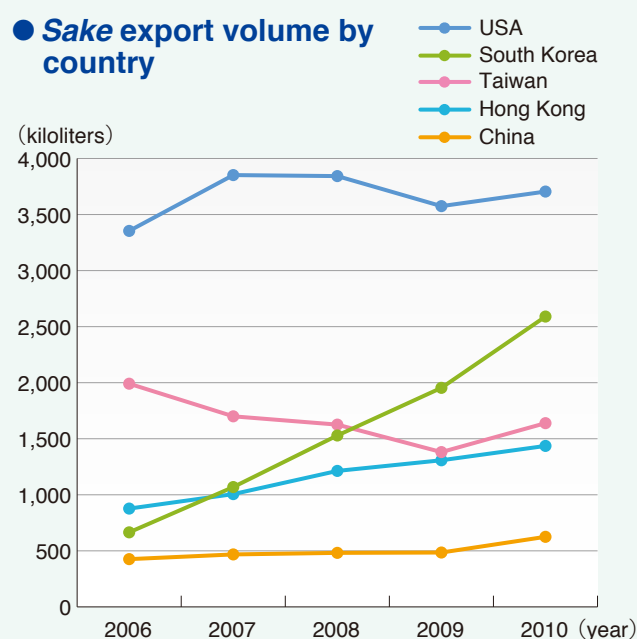
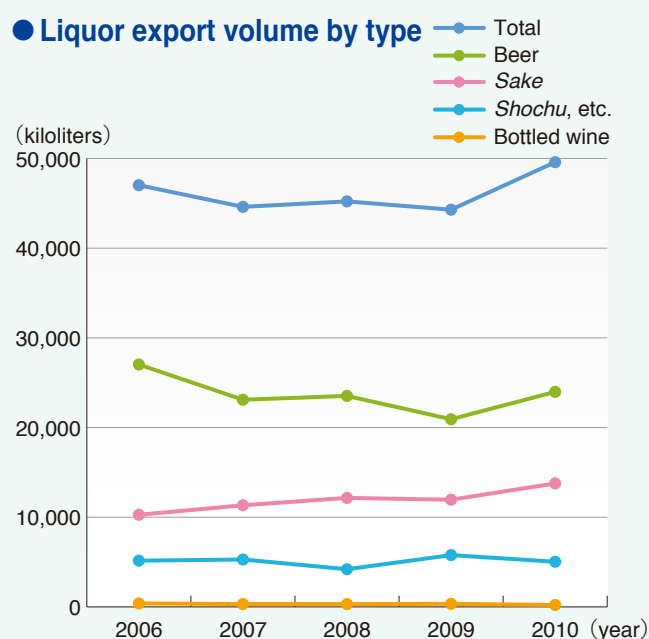
The NTA objectively examines and analyzes industry trends, and provides these results as information on the NTA website. We provide support by describing examples of initiatives such as business innovation at training meetings by lecturers such as business guidance specialists, providing information on measures for small and medium companies, supporting the establishment of local brands, etc.

As part of the NTA's initiatives to stimulate the liquor industry, we are working to develop the environment for export of Japan's liquors. Specifically, the NTA collects and provides information on liquor exports, and seeks improvements from governments of other countries where it finds barriers to exports to other countries and region. The NTA is thus working to support exports, in cooperation with related ministries, agencies and institutions.

With the Fukushima Dai-ichi Nuclear Power Plant accident resulting from the Great East Japan Earthquake, when exporting foods etc. (including liquor) to some countries and regions, attachment of a certificate issued by Japan's authorities with jurisdiction is required, so certificates concerning liquor are handled by the NTA. Based on the status of negotiations with the other country, this is also handled appropriately in cooperation with related ministries and agencies, such as the Ministry of Foreign Affairs and the Ministry of Agriculture, Forestry and Fisheries.

#### ○ Japan's liquor export trend

- 1 Japanese made liquor is increasingly well regarded overseas, and liquor export volume is generally in an increasing trend.
- 2 In particular, there has been steady growth in export volume of sake, Japan's traditional liquor.



\*1 Products classified as 2207 ethyl alcohol are excluded from the total volume of liquor exports.  
 \*2 "Shochu, etc." is total of 2208.90-100 (Shochu) and 2208.90-900 (Other distilled alcoholic beverages).

Source: Trade Statistics of Japan, Ministry of Finance

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※ The time period of figures is indicated in its title or at the top right of individual tables.

The fiscal year is from April 1 through March 31 of the following year (i.e. fiscal year 2009: April 1, 2009 to March 31, 2010), while the operation year is from July 1 through June 30 of the following year (i.e. operation year 2009: July 1, 2009 to June 30, 2010). The calendar year ranges from January 1 through December 31 of the same year for which income tax and other returns are filed.

The amount of sub-total in each item of accounts may not accord with the amount indicated in the grand total, due to rounding of fractional figures.

## Tax revenues and budget

### Budget and final accounts of taxes and stamp revenues for fiscal year 2009

Item	Budget	Actual
	Million yen	Million yen
Withholding income tax	10,223,000	10,499,519
Self-assessed income tax	2,541,000	2,414,368
Corporation tax	5,175,000	6,356,407
Inheritance tax	1,280,000	1,349,778
Consumption tax	9,381,000	9,807,541
Liquor tax	1,420,000	1,416,756
Tobacco tax	817,000	822,383
Gasoline tax	2,663,000	2,715,189
Liquefied petroleum gas tax	13,000	12,324
Aviation fuel tax	83,000	79,266
Petroleum and coal tax	480,000	486,791
Power resources development promotion tax	330,000	329,277
Motor vehicle tonnage tax	631,000	635,112
Customs duty	744,000	731,880
Tonnage due	10,000	8,851
Other ※	—	63
Stamp revenue	1,070,000	1,067,572
Subtotal	36,861,000	38,733,076
Local gasoline tax	285,000	290,513
Liquefied petroleum gas tax (transferred)	13,000	12,324
Aviation fuel tax (transferred)	15,100	14,412
Motor vehicle tonnage tax (transferred)	315,500	317,556
Special tonnage due	12,500	11,064
Special local corporation tax	677,800	673,937
Special tobacco tax	188,600	190,387
<b>Total</b>	<b>38,368,500</b>	<b>40,243,269</b>

※ "Other" includes collection of delinquent tax, such as the commodity tax and land value tax, etc.

### NTA initial budget for fiscal year 2011

Item	Budget
	Million yen
IT-related expenses	41,369
Expenses to improve convenience for taxpayers*1	12,453
Expenses related to internationalization measures	923
General operating expenses, etc.*2	60,303
Expenses to improve work environment and ensure safety*3	8,634
Expenses related to tax reforms	6,084
Expenses for National Tax College	2,345
Expenses for National Tax Tribunal	384
Expenses for National Research Institute of Brewing	1,020
Subtotal	133,515
Salary costs	585,027
<b>Total NTA budget</b>	<b>718,541</b>

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

※2 "General operating expenses, etc." includes expenses for tax forms and correspondence, wage expenses for part-timers, travel expenses, honoraria for hired bookkeeping instructors, and PR expenses.

※3 "Expenses to improve work environment and ensure safety" includes expenses to improve facilities and health care.

## Tax returns and taxation

### Income tax

(Calendar year 2010)

		Thousand people
Total population		127,510
Number of persons engaged		62,820
Number of final returns for income tax		23,150
	Refund	12,670
	Tax payment	7,020
Breakdown by income earners	Business income earners	1,430
	Other income earners	5,590
	Real estate income earners	1,060
	Employment income earners	2,290
	Miscellaneous income earners	2,010
	Other	230

※ "Total population" and "Number of persons engaged" are figures as of 2009.

### Withholding agents and withholding income tax

(Operation year 2009)

Income etc. category	Number of withholding agents	Amount of tax
	Thousands	Million yen
Employment income (wages and salaries)	3,682	8,570,200
Retirement income	—	244,600
Interest income, etc.	46	619,900
Dividend income	127	1,415,400
Capital gains on listed shares etc. kept in special account	8	50,600
Income from remuneration, etc.	2,930	1,147,700
Income paid to non-residents and foreign corporations, etc.	23	248,900
<b>Total</b>	<b>—</b>	<b>12,297,300</b>

※ The figures of withholding agents are figures as of the end of June 2010.

### Number of corporations and corporation tax

(Operation year 2009)

Number of corporations	2,998 Thousands
Number of tax returns filed	2,786 Thousands
Percentage of corporations filing	89.2%
Percentage of returns declaring a surplus	25.5%
Amount of self-assessed income	33,831,000 Million yen
Amount of self-assessed loss	27,363,200 Million yen
Amount of tax	8,729,600 Million yen

※ The number of corporations is the figure as of the end of June 2010.

### Inheritance tax

(Calendar year 2009)

Number of deceased	1,141,865 People
Number of deceased subject to taxation	46,439 People
Number of taxpayers (number of heirs)	134,493 People
Taxable amount	10,123,000 Million yen
Amount of tax	1,163,200 Million yen

### Gift tax

(Calendar year 2009)

Number of people subject to taxation	310,944 People
Value of properties acquired	1,629,900 Million yen
Amount of tax	101,800 Million yen

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

### Consumption tax

(Fiscal year 2009)

Category	Payment	Refund
	Thousand cases	Thousand cases
Individuals	1,391	42
Corporations	1,941	119
<b>Total</b>	<b>3,332</b>	<b>161</b>
Amount of tax	9,648,400 Million yen	1,825,100 Million yen

### Liquor tax and liquor production

(Fiscal year 2009)

Type	Volume of production	Amount of tax
	Thousand kl	Million yen
<i>Sake</i>	469	70,307
<i>Sake</i> compounds	45	4,596
Consecutive distillation Japanese spirit ( <i>Shochu</i> )	434	97,582
Single system distillation Japanese spirit ( <i>Shochu</i> )	534	126,932
<i>Mirin</i> (rice wine for cooking)	106	2,128
Beer	3,036	657,787
Fruit wine	72	6,446
Sweet fruit wine	4	494
Whisky	68	25,517
Brandy	5	2,131
Sparkling liquor	1,103	152,973
Alcohol for raw materials & spirits	270	21,995
Liqueurs	1,562	131,264
Other brewed liquor Powder liquor & miscellaneous liquor	749	59,747
<b>Total</b>	<b>8,456</b>	<b>1,359,902</b>

## Tax examinations

### Examination of self-assessed income tax

(Operation year 2009)

Category	Number of cases	Amount of unrecorded income		Additional tax revenue collected	
		Billion yen	Thousand yen	Billion yen	Thousand yen
Field examination	Thousands				
Special, General *1	56	495.9	8,790	96.4	1,710
Focusing*2	46	89.4	1,960	5.6	120
Brief contact *3	571	281.7	490	15.4	30
<b>Total</b>	<b>674</b>	<b>867.0</b>	<b>1,290</b>	<b>117.4</b>	<b>170</b>

※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 correction of tax declaration by telephone or by summoning taxpayers to the tax offices.

### Examination of withholding income tax

(Operation year 2009)

Number of cases examined	Number of illegal cases	Additional tax revenue collected
Thousands	Thousands	Billion yen
186	50	37.9

### Field examination of corporation tax

(Operation year 2009)

Category	Number of cases	Amount of unrecorded income		Additional tax revenue collected
		Billion yen	Thousand yen	
All corporations	Thousands	Billion yen	Thousand yen	Billion yen
	139	2,049.3	14,740	379.9
Of which, corporations handled by the large enterprise examination department	4	1,312.6	344,590	223.2

## International taxation

### Fraudulent income through overseas transactions

(Operation year 2009)

Number of examinations of corporations conducting overseas transactions	13,145 Cases
Number of undeclared cases related to overseas transactions	3,256 Cases
Of which, cases of overseas fraudulent calculations	573 Cases
Amount of undeclared income related to overseas transactions	801.4 Billion yen
Of which, amount of overseas fraudulently omitted income	27.0 Billion yen

### Transfer pricing taxation

(Operation year 2009)

Number of taxation cases	100 Cases
Amount of taxable income	68.7 Billion yen

### Cases of advance pricing arrangement related to transfer pricing

(Operation year 2009)

Number of cases requested	127 Cases
Number of cases processed	75 Cases

### Examination of consumption tax

(Operation year 2009)

Category	Number of cases	Number of undeclared cases	Additional tax revenue collected	
			Billion yen	Thousand yen
Individuals	Thousands	Thousands	Billion yen	Thousand yen
	102	71	31.1	300
Corporations	131	72	61.4	470

### Field examination of inheritance tax

(Operation year 2009)

Number of cases	Number of undeclared cases	Amount of unrecorded inheritance		Additional tax revenue collected	
		Billion yen	Thousand yen	Billion yen	Thousand yen
Thousands	Thousands	Billion yen	Thousand yen	Billion yen	Thousand yen
14	12	399.5	28,820	85.6	6,180

### Collected number of statutory information

(Operation year 2009)

Name of statutory information	Number collected
	Thousands
Withholding record of employment income	19,130
Payment record of interest and others	2,001
Payment record of dividends, distribution of surplus, and interest paid on guaranty capital	77,970
Withholding record of public pensions, etc.	35,818
Payment record of remuneration, fees, contracts and prize money	15,110
Payment record of consideration for transfer of stocks, etc.	5,280
Record of remittance and receipt related to foreign countries	4,732
Other	190,060
<b>Total</b>	<b>350,101</b>

## Delinquency

### Tax delinquency cases of 100 million yen or more, by industry

(As of the end of fiscal year 2010)

Industry	Number of persons		Amount of tax	
	People	%	Million yen	%
Manufacturing	46	4.0	9,007	2.8
Distribution	67	5.9	18,574	5.8
Real estate & construction	312	27.4	81,465	25.4
Food & beverage	74	6.5	14,028	4.4
Financial	24	2.1	13,375	4.2
Other industries*1	301	26.4	71,978	22.4
Other*2	316	27.7	112,111	35.0
<b>Total</b>	<b>1,140</b>	<b>100.0</b>	<b>320,538</b>	<b>100.0</b>

※1 "Other industries" refers to hospitals (doctors), service industry, leisure industry, etc.

※2 "Other" refers to wage earners, pensioners, etc.



## Criminal investigation

### Criminal investigations

(Fiscal year 2010)

Number of cases conducted	Number of cases closed	Number of cases with accusation filed to the prosecutor	Amount of tax evasion		Amount of tax evasion (filed accusation to the prosecutor)	
			Million yen	Per case	Million yen	Per case
Cases	Cases	Cases	Million yen	Million yen	Million yen	Million yen
196	216	156	24,800	115	21,300	137

### Large-scale cases

(Fiscal year 2010)

Number of cases with accusation filed to the prosecutor	Cases of 300 million yen or more tax evasion	Cases of 500 million yen or more tax evasion
Cases	Cases	Cases
156	15	6

### Filed accusations to the prosecutor, by tax item

(Fiscal year 2010)

Tax item	Number of cases	Tax evasion	
		Million yen	Per case
Income tax	Cases 36	Million yen 3,600	Million yen 101
Corporation tax	90	10,100	112
Inheritance tax	9	5,500	609
Consumption tax	19	1,600	82
Withholding income tax	1	100	144
Gift tax	1	400	385
<b>Total</b>	<b>156</b>	<b>21,300</b>	<b>137</b>

## Remedy for infringement of taxpayer rights

### Request for reinvestigation

(Fiscal year 2009)

Category	Number of requests for reinvestigation	Number of new requests for reinvestigation ①	Number of cases processed ②	Number of requests approved ③	Percentage ③/②
					%
Taxation-related	Cases 5,023	Cases 3,936	Cases 4,081	Cases 581	14.2
Collection-related	1,003	859	916	10	1.1
<b>Total</b>	<b>6,026</b>	<b>4,795</b>	<b>4,997</b>	<b>591</b>	<b>11.8</b>

### Request for reconsideration

(Fiscal year 2009)

Category	Number of requests for reconsideration	Number of new requests for reconsideration ①	Number of cases processed ②	Number of requests approved ③	Percentage ③/②
					%
Taxation-related	Cases 4,901	Cases 2,910	Cases 2,311	Cases 373	16.1
Collection-related	519	344	282	11	3.9
<b>Total</b>	<b>5,420</b>	<b>3,254</b>	<b>2,593</b>	<b>384</b>	<b>14.8</b>

### Litigation

(Fiscal year 2009)

Category	Number of litigations	Number of cases filed for first instance ①	Number of cases closed ②	Number of lost cases and partial defeats ③	Percentage ③/②
					%
Taxation-related	Cases 566	Cases 157	Cases 250	Cases 15	6.0
Collection-related	113	48	61	1	1.6
National Tax Tribunal-related	14	5	9	—	—
<b>Total</b>	<b>693</b>	<b>210</b>	<b>320</b>	<b>16</b>	<b>5.0</b>

※ The figures for cases for litigation are the total numbers for each level of trial.

## Tax consultations

### The five tax items most frequently the subject of consultation

(Phone Consultation Centers) (Fiscal year 2010)

Rank	Tax category	Items	Thousand cases
1	Income tax	Obligations & procedures to file tax returns, etc.	438
2	Income tax	Special credit for loans relating to a dwelling	270
3	Income tax	Medical expenses deduction	237
4	Income tax	Year-end adjustment	225
5	Income tax	(Special) exemption for spouse, and exemption for dependents	168

(Tax Answer System) (Fiscal year 2010)

Rank	Tax category	Items	Thousand cases
1	Income tax	When have paid medical expenses (medical expenses deduction)	1,817
2	Income tax	Medical expenses eligible for medical expenses deduction	1,031
3	Income tax	Tax rate of income tax	961
4	Income tax	Exemption for dependents	810
5	Income tax	When have built a new house or purchased a newly built house (special credit for loans relating to a dwelling)	637

### Number of consultations at Phone Consultation Centers, by tax category

(Fiscal year 2010)

Number of consultations at Phone Consultation Centers, by tax category	Thousand cases	
	Item	Value
	Income tax	2,621
	Corporation tax	261
	Property tax	882
	Consumption tax	129
	Other indirect taxes	174
	General rules, collections	279
	Other	693
	<b>Total</b>	<b>5,039</b>

## Taxpayer satisfaction

(Fiscal year 2009)

Items	Percentage of Responses Highly Rated
	%
Attitude of officials in providing services	84.0
Satisfaction with guidance display in Tax Office, and use of reception & service	76.6
Satisfaction with use of facilities in Tax Office	65.4
PR activities	76.5
Activities to collect public opinions	91.1
Satisfaction level at Phone Consultation Center	92.9

※ The percentage of responses highly rated shows responses rated as "good" and "somewhat good" on a five point scale from "good" to "bad" in the questionnaire survey.





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Your taxes help to sustain our community