

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 (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

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(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 (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)



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

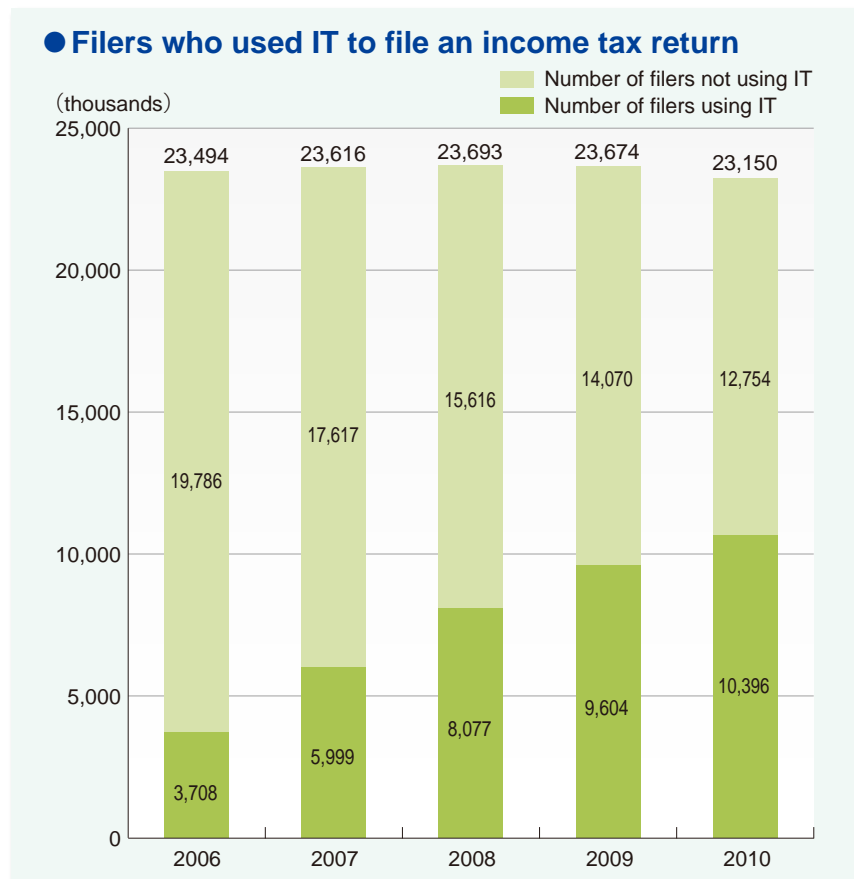
Tax filing is a procedure under the self-assessment tax system, in which the taxpayer calculates income and tax amount for a one year period, and files and pays taxes. In addition to persons obligated to file, there are people who file taxes to obtain an income tax refund, for example because they paid 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.

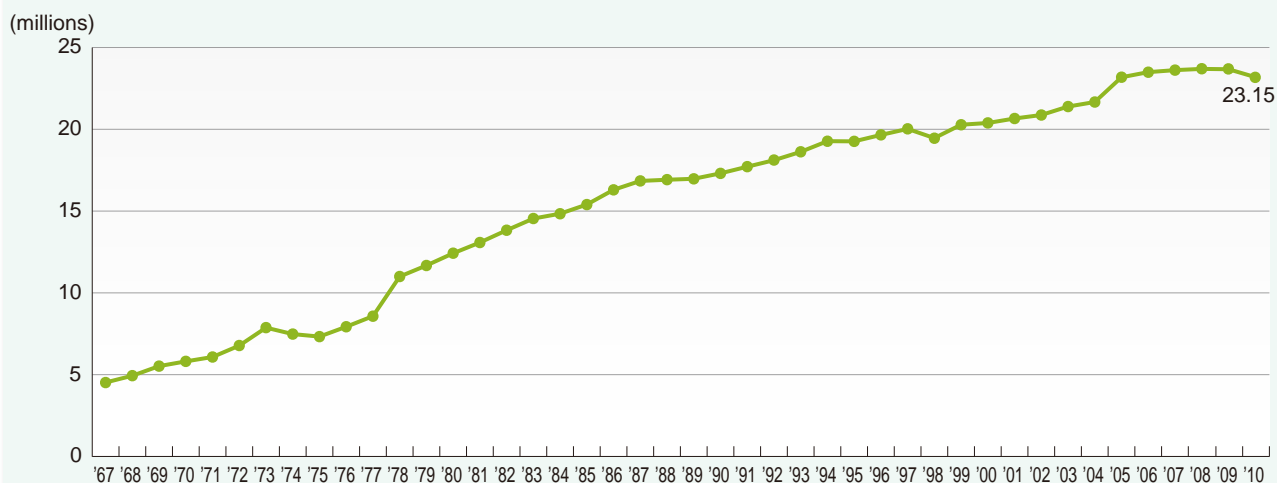
(1) Promotion of filing using IT

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 million¹ 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



¹ 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.

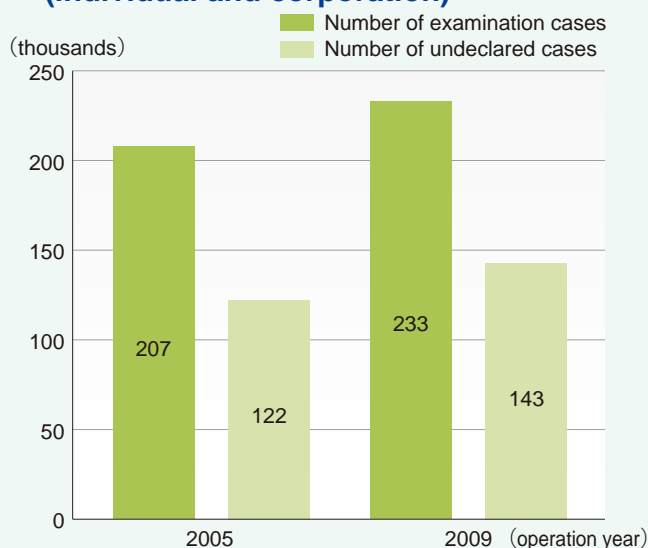
To this end, we always try to properly process taxation after correctly interpreting the assertions made by taxpayers and studying the laws and regulations based on accurate fact finding. On this occasion, we are thoroughly adhering to the procedures and processes to ascertain whether all legal requirements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

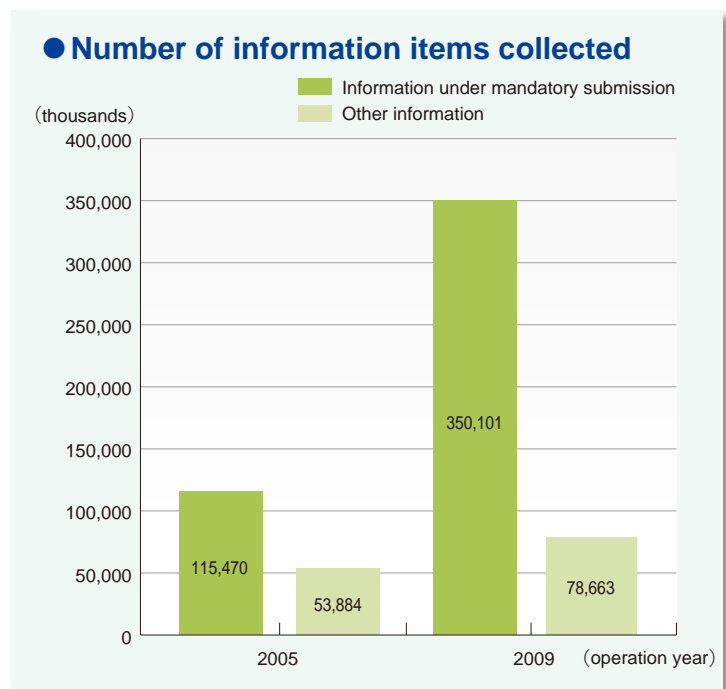
Withholding taxes are deposits, and for withholding agents who have not paid these by the due date, we provide efficient payment guidance, reminding them of the payment in writing or by telephone calls. Strict and accurate actions are being initiated against large-scale, malicious, and difficult-to-handle 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 tax¹ 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 act². The NTA thus actively uses legal means to collect delinquent taxes.

c. Certain handling of consumption tax delinquency cases

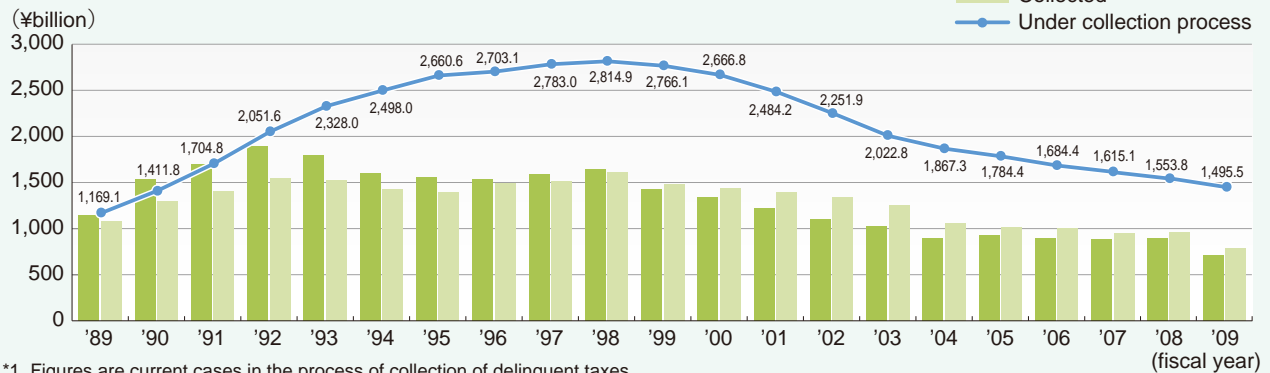
The public is strongly aware of delinquent consumption tax, and delinquent consumption tax is an increasingly large percentage of all delinquencies each year. Therefore, certain handling is executed through Regional Taxation Bureaus and Tax Offices in order to conclude delinquency cases containing delinquent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

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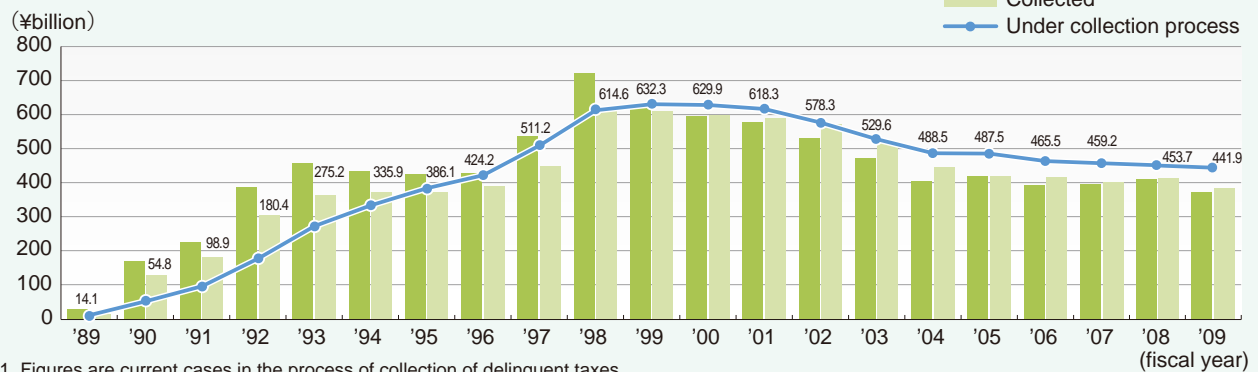
● Trend of collection of delinquent tax, for all tax items



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

*2 Figures for local consumption tax are not included.

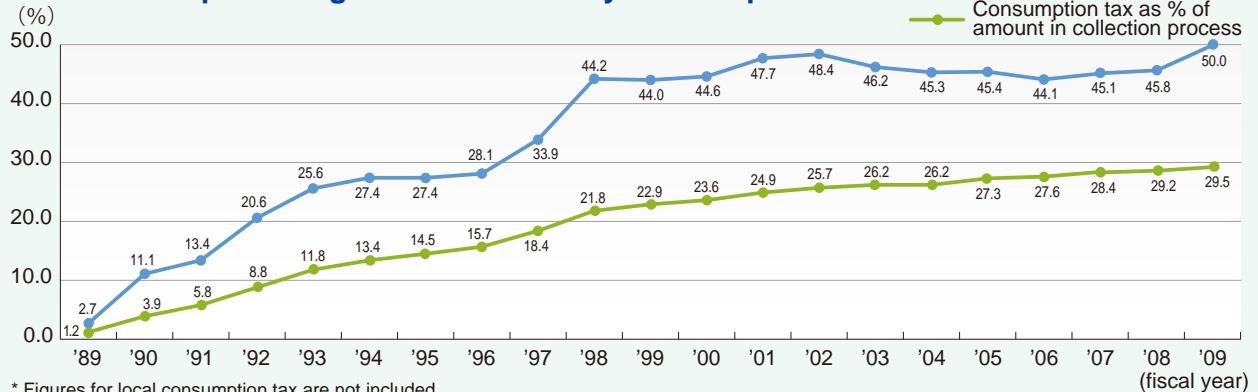
● Trend of collection of delinquent consumption tax



*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

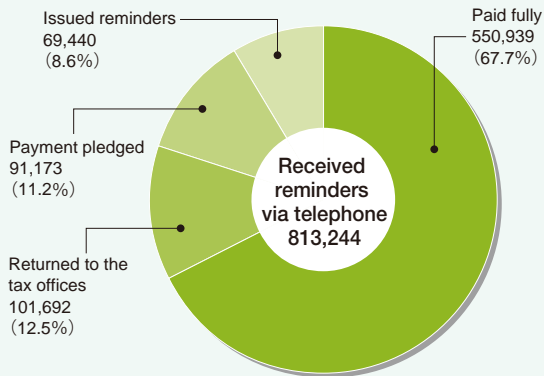
The Office of Tax Collections Call Center is broadly in charge of new delinquency cases. This office provides phone notification reminders using a centralized phone notice system, for effective and efficient collection of delinquent tax.

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)¹ processing of tax payment slips by the Bank of Japan, and income tax and sole proprietors' consumption tax payment by transfer account². 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.

¹ 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.

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

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.

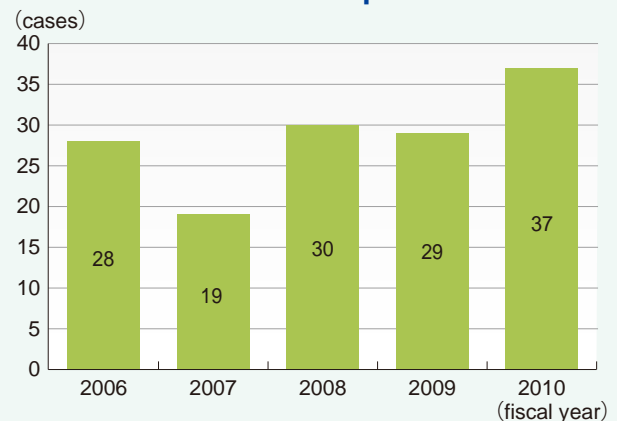
In cooperation with tax accountants' associations and the Japan Federation of Certified Public Tax Accountants' Associations, the NTA is working to ensure that CPTAs properly conduct their duties, by the following measures.

(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

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.

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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

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

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

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