

1 Promotion of proper and fair taxation

~ While conducting strict examination on malicious taxpayers, the NTA makes brief contact for simple mistakes ~

For malicious taxpayers who try to illicitly evade their tax burden, the NTA analyzes information from various angles and conducts strict examinations by making full use of its organizational strength.

In addition, the NTA takes care of its administration processes in an effective and efficient manner by balancing its allocation of limited human resources and other resources. For example, it makes brief contact via in writing or by telephone to correct simple mistakes instead of conducting a field examination.

■ The number of field examinations on self-assessed income tax and corporation tax (thousands)

Operation year	2011	2012	2013
Self-assessed income tax	99	70	62
Corporation tax	129	93	91

Field examinations aim to check the content of tax returns based on taxpayers' records, and if mistakes are discovered, to ask taxpayers to correct them. The field examinations in operation year 2013 found ¥6.71 million of undeclared income per case for self-assessed income tax, and ¥8.29 million for corporation tax.

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

(¥million, operation year)

	2009	2013
Self-assessed income tax	5.84	6.71
Corporation tax	14.74	8.29

~ Selection of tax examination through the ICT system, development of the administrative system for efficient data and information collection ~

The subjects of tax examinations are selected through a system, which contains data related to income tax returns, corporation tax returns, and a variety of other data and information.

For this data and information, we have in place a structure to efficiently collect data and information that will be very effective to use.

(1) Priority matters addressed in the tax examinations

~ Examination keeping in mind of increasingly diverse and international asset management ~

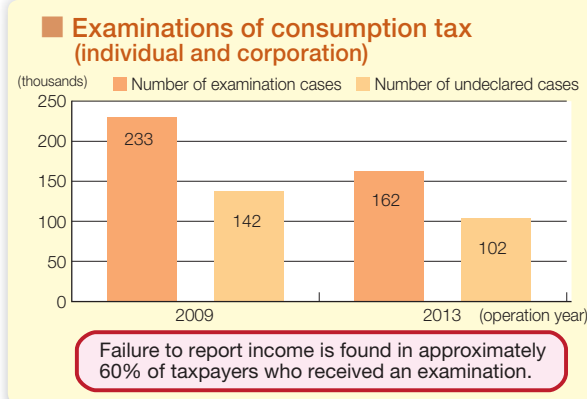
For taxpayers who expect a high income but who filed a low income or did not file, we are addressing tax examinations keeping in mind diversification and globalization of asset management.

◎ Cases in which the NTA identified overseas assets not reported for Japanese tax purposes

- Based on materials provided by foreign tax authorities through information exchange under the tax treaty, the NTA discovered a failure to declare profits that were acquired from financial instruments held with overseas financial institutions.
- From materials provided by foreign tax authorities through information exchange under the tax treaty, the NTA has discovered overseas deposits excluded from inheritance tax declarations.

～ Prevent fraudulent consumption tax refunds by means of sufficient examination, etc. ～

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.



◎ 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.
- Consumption tax refunds were illicitly received through the trick of falsifying books etc., by disguising a lease (rental) transaction as a purchase and recording the leased asset as own fixed asset.

～ Accurate understanding of claims made by taxpayers and proper tax administration ～

When conducting tax examinations, the NTA 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.

Column 5 Establishment of a system for proper taxation

In response to changes to the environment, such as the diversification and internationalization of asset management, the following systems are adopted in the recent tax reform to secure proper taxation.

1 Foreign assets statement system

The foreign assets statement system has been enforced from January 1, 2014 as a mechanism to require taxpayers themselves to declare their assets held overseas in order to secure proper taxation of income tax and inheritance tax on them.

In accordance with this system, those who have assets in foreign countries equivalent to a total of over ¥50 million as of December 31 of the year are to be required to submit a statement describing the type, quantity, price, etc. of the foreign assets by March 15 of the following year. The penalty provisions for failing to submit a statement or forging an entry in a statement came into force in January 2015.

2 Exit taxation

To prevent tax avoidance caused by cross-border migration, an exit tax system has been established and will be effective from July 1, 2015.

Under this system, when certain Japan residents in possession of securities or other financial assets totaling 100 million yen or more leave Japan, an exit tax will be levied on unrealized capital gains on securities or other financial assets at the time of leaving Japan. In principle, an individual subject to this exit tax is required to complete certain procedures, such as filing an income tax return, by the time they leave Japan.

* The same tax system has been established in the case of transferring securities and other financial assets to non-residents through gifts or inheritance of assets.

3 Statement of assets and liabilities

To ensure proper filing of income and inheritance tax, a statement of assets and liabilities will be reviewed and renewed. And the renewal will come into force on January 1, 2016.

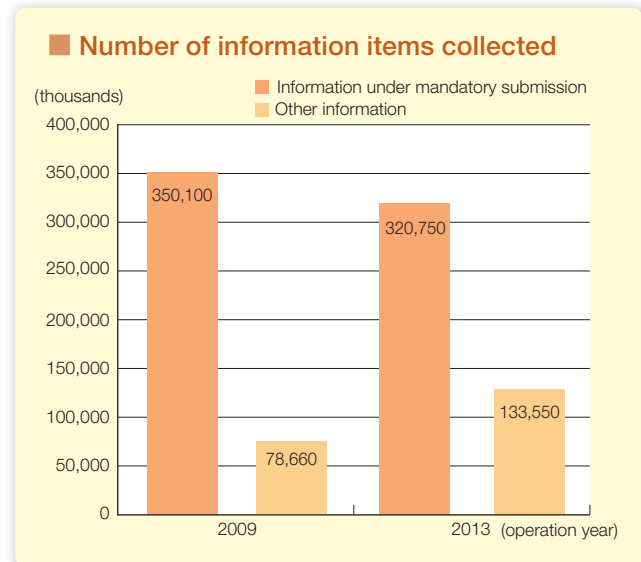
Under this system, if an income amount for a taxable year exceeds 20 million yen, and an individual holds assets with the total amount of 300 million yen or more, or assets subject to exit tax in 2 above with the total amount of 100 million yen or more as of December 31 of the year, the individual is required to submit a statement describing the type, quantity and price of the assets, and the amount of debt by March 15 of the following year.

(2) Data and Information

~ Collect data and information through every opportunity to use such information for accurate guidance as well as tax examinations ~

The NTA, through every occasion, collects a variety of information such off-the-books and fake transactions as found in the course of tax examinations, in addition to the withholding records of employment income, payment records of dividend, etc. The NTA uses such information for accurate guidance as well as tax examinations.

The NTA constantly focuses on changes in illicit forms and the increasing globalization and computerization 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.



(3) Criminal investigation

~ Pursues criminal responsibility of malicious tax evaders ~

The tax criminal investigation system pursues criminal responsibility of malicious tax evaders and aims to contribute both to realizing proper and fair taxation and to maintaining the self-assessment system through the effect of “punishing one to serve as a warning to all”. In order to achieve this goal, the NTA, apart from general tax examination, not only imposes correct taxes on taxpayers who intentionally evade taxes through fraudulent acts or other offenses, but also investigates them with the exercise of compulsory authority, which is equivalent to normal criminal investigation. Based on the investigation results, the NTA files accusations to prosecutors and seeks for the institution of prosecution.

As business transactions become broader, globalized, and computerized, the methods of tax evasion are becoming more complex and sophisticated. Tax investigators are making all efforts to expose malicious tax evaders by appropriately responding to the changes in the economic and social environment.

~ Tax evasion cases for FY2014 amounting to ¥15.0 billion in total, of which prosecuted cases accounted for ¥12.3 billion ~

In fiscal 2014, the NTA commenced 194 criminal investigations, processing 180 cases including those carried over from the previous fiscal year, of which it accused 112 cases to prosecutors. The total amount of tax evasion was ¥15.0 billion, with the average at ¥110 million per accused case.

Methods that were often used for tax evasion included excluding sales and booking fictitious costs or expenses. In the real estate industry where accusations have been repeatedly filed, tax evasion was often spotted in excluding sales and booking fictitious expenses. Regarding nightclubs and bars, tax evasion was often spotted in failing to pay withholding taxes collected pertaining to compensation to a hostess, and in the construction business, booking fictitious costs was often used.

Funds obtained from tax evasion were, for example, retained as cash, deposits, stocks, or real estate; spent on imported luxury cars and wristwatches; spent on amusement, such as horse racing; and appropriated for financial support to an associated person or key money at a home for the elderly.

In addition, part of the illicit funds were retained as overseas deposits or thrown into foreign casinos.

■ Status of criminal investigations

	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
FY2013	185	185	118	14,458 (11,731)	78 (99)
FY2014	194	180	112	14,975 (12,346)	83 (110)

* Figures of tax evasion include additional tax.

～ In fiscal 2014, 96 cases were convicted at the court of first instance, including 11 cases in which prison sentences without probation were issued ～

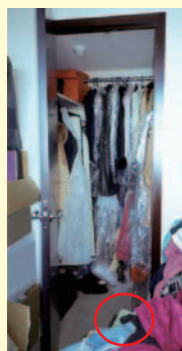
In fiscal 2014, 96 cases among 98 cases were convicted at the court of the first instance, with an average prison sentence of 15.9 months and average fines of ¥16million. 11 persons were sentenced to prison without probation. Prison sentences without probation have been handed down every year since 1980.

■ Ruling status in the first instance of criminal investigation cases

	Number of rulings ①	Number of convictions ②	Percentage of cases convicted ②/①	Number of convictions with prison sentences without probation ③	Amount of tax evaded per case ④	Term of prison sentence per person ⑤	Amount of fines per person(company) ⑥
	cases	cases	%	persons	¥million	months	¥million
FY2013	116	115	99.1	9	52	12.9	12
FY2014	98	96	98.0	11	69	15.9	16

* ④ to ⑥ exclude those combined with non-tax crimes.

■ Past cases where hidden properties were found in criminal investigations



Cash was found in a paper bag hidden in a closet.



(4) Approaches to enhance the corporate governance on tax matters

～ Establishment of relationship of trust and deliberate selection of examination ～

From the viewpoint of maintenance and improvement of tax return filing standard of Japan as a whole, maintenance and improvement of tax compliance of large enterprises is very important. To this end, the NTA, taking the opportunities of examination of large corporations, checks the status of corporate governance on tax matters, exchanges opinions with executive officers, and presents them effective examples of approaches to promote their spontaneous efforts for the enhancement of corporate governance.

The NTA will establish the mutual trustful relationship with those corporations under favorable corporate governance on tax matters, and will prolong intervals until the next examinations for them, provided the NTA has confirmed the proper processing of voluntarily disclosed transactions with high tax risks. Thus, the NTA will focus its examination work on other corporations in need of improvement to enhance the efficiency of tax administration.

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 examination and collection.

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 has given regular training on information security to its officials in order 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 of additional tax and delinquent tax

To encourage taxpayers to properly file tax returns and pay taxes, delinquent tax may be imposed in addition to originally payable national taxes, 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.

(In the case of 2015)

Additional Tax		Regular case	Fraudulent concealment case
	Returns are filed by the due date, but tax amount is understated.	Additional tax for deficient returns (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%)

Delinquent Tax	Up to two months from the day after the due date for tax payment	Annual rate of 2.8% (Special Standard Rate*+1.0%)
	Starting on the date two months from the day after the due date for tax payment	Annual rate of 9.1% (Special Standard Rate*+7.3%)

* "Special Standard Rate" is a rate announced by the Minister of Finance by December 15 of the previous year as the rate obtained by dividing the total amount of average contractual interest rates on bank short-term loan of each month from October of the second preceding year to September of the previous year by 12, plus 1 % per annum.

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.

Column 6 A variety of efforts to ensure voluntary fulfillment of tax duties by taxpayers

A field examination is highly effective in correcting fraud and errors in taxpayers' filings, and to lead taxpayers to proper filing. Conversely, it requires a large number of human resources to conduct a field examination. Therefore, to ensure proper and fair taxation within the limited human resources and other resources, the NTA has been making effort to operate its work effectively and efficiently depending on each case by employing various measures other than field examinations to ensure that taxpayers voluntarily fulfill their tax duties.

The NTA is enhancing its efforts to promote voluntary and proper tax filing by a wide range of taxpayers by utilizing various approaches. Specifically, such approaches include supporting self-checking before taxpayers' filing, sending letters for a voluntary review of filing, and maintaining a cooperative relationship with the CPTAs' Associations and the relevant private organizations.

2 Reliable tax payment

(1) Establishment of voluntary tax payment

~ Approximately ¥49.6 trillion taxes paid into the national treasury within the fiscal year (98.7% paid within the fiscal year) ~

Self-assessed national tax becomes revenue when paid into the national treasury. In FY2013, about ¥50.2 trillion of taxation (amount determined for collection) was self-assessed in Tax Offices, etc. Of this, about ¥49.6 trillion of tax (collected amount) was paid into the national treasury within the fiscal year, for a 98.7% collection ratio.

~ Enhanced taxpayer services by offering various payment methods ~

To enhance taxpayer services, diverse payment means such as online payment using internet banking, payment at convenience stores, and direct payment, have been introduced in stages for taxpayers to be able to choose the payment method of national tax, instead of paying at the counters of financial institutions and tax offices in cash with tax payment slips.

Taxpayers can also use transfer tax payments from a deposit account for self-assessed income tax and sole proprietors' consumption tax.

~ Measures to prevent delinquencies ~

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

Direct payment (direct type online payment of national tax)

Direct payment is a procedure that enables taxpayers to pay tax by simple operation after filing tax returns digitally by e-Tax, by submitting an application indicating bank account information in advance.

Direct payment can only be used at bank accounts held at financial institution which 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 2015, it was usable in 392 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 1.40 million cases in FY2013.

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:

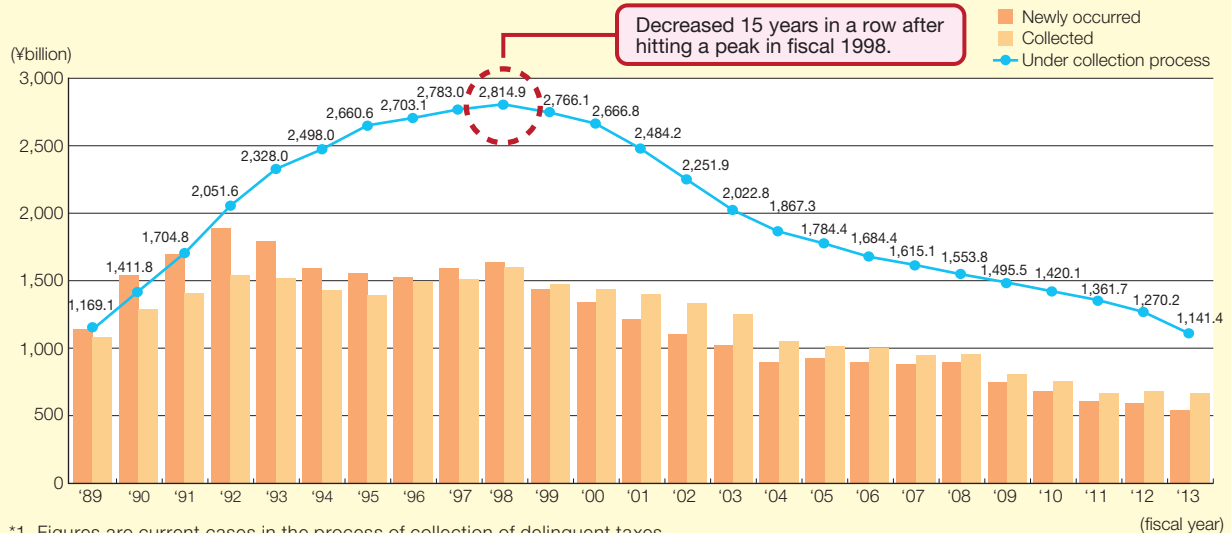
- ① If the determined tax amount is notified before the due date (estimated income tax prepayment, etc.)
- ② If the tax payment is demanded by letter or telephone (for all tax items)
- ③ If the tax payment is under the official assessment system (for various additional taxes)
- ④ If the taxpayer requested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

(2) Reduction of tax delinquency

～ Amounts under collection process reduced to 40.5% of that of the peak time ～

Delinquency signifies that the national tax was not paid by the due date and a payment demand letter was sent. At the end of FY2013, the tax delinquency amount was about ¥1,141.4 billion.

■ 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.

■ Tax delinquency in fiscal 2013 for each major tax item

(billion yen)

	Under collection process at the end of the previous year	Newly occurred	Collected	Under collection process at the end of the year
Income tax	592.2	161.8	207.4	546.6
Withholding income tax	240.2	47.2	72.9	214.5
Self-assessed income tax	352.0	114.5	134.5	332.0
Corporation tax	163.5	69.1	90.7	141.9
Inheritance tax	115.6	30.5	52.6	93.6
Consumption tax	superscript 95.4 396.0	superscript 70.3 281.4	superscript 79.6 321.0	superscript 86.0 356.4
Other taxes	2.8	4.9	4.7	2.9
Total	superscript 95.4 1,270.2	superscript 70.3 547.7	superscript 79.6 676.5	superscript 86 1,141.4

*1 Local consumption tax is not included as the above figures indicate national tax delinquency.

However, according to Article 9 (4) of the supplementary provisions of the Local Tax Act, the national government must assess and collect local consumption tax with national consumption tax for a certain period. Therefore, the delinquent amounts of local consumption tax are indicated by the superscript amounts in the Consumption tax and Total fields.

*2 Any fraction less than 100 million yen was rounded off, and therefore the sum of figures may not be equal to the total figure.

Amounts under collection process remains high at approximately ¥1.1 trillion

→ Continue to work on preventing and reducing delinquencies with cooperation of all Tax Bureaus and Offices.

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.

~ Appropriate action is taken in collection of delinquent tax while considering the individual situation of each delinquent taxpayer ~

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.

Regarding the new system of a grace period (e.g., introduction of granting a grace period for asset conversion on application), which came into force in April 2015, appropriate action is taken based on the objectives of the revision, which were to reduce the burden on taxpayers and to secure tax collection early and adequately.

~ 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.

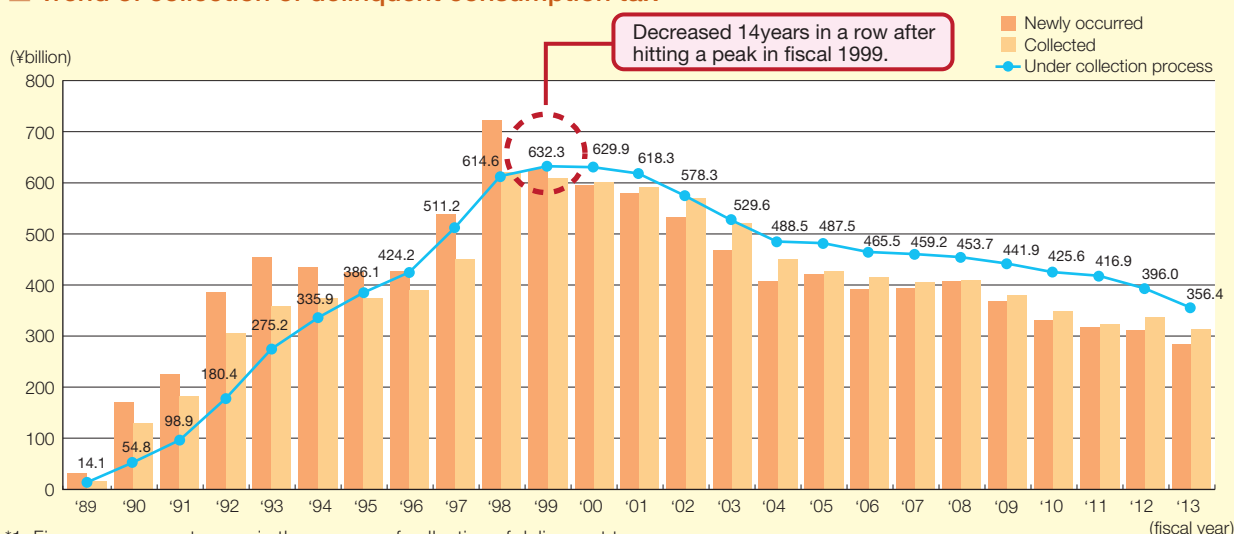
~ Organizational response, etc. of difficult-to-handle cases ~

To handle difficult-to-handle cases, for example where a party subject to examination has a broad scope of assets, a considerable amount of office work and use of sophisticated collection techniques are required. For that reason, the NTA takes organizational actions such as disposition for delinquent tax by management over a wide geographic area, with timely project team formation. The NTA also takes legal action, such as a lawsuit to demand the rescission of a fraudulent act² and actively uses legal means to collect delinquent taxes.

~ Certain handling of consumption tax delinquency cases ~

While the delinquent balance of consumption tax has been decreasing year after year, it is an increasingly large percentage of all delinquencies each year. Therefore, the NTA is striving to reduce the balance of delinquent consumption tax by steadily collecting all delinquencies including delinquent consumption taxes through Regional Taxation Bureaus and Tax Offices.

■ 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.

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 Taxes, Article 42, and the Civil Code, Article 424).

(3) Office of Tax Collections Call Center

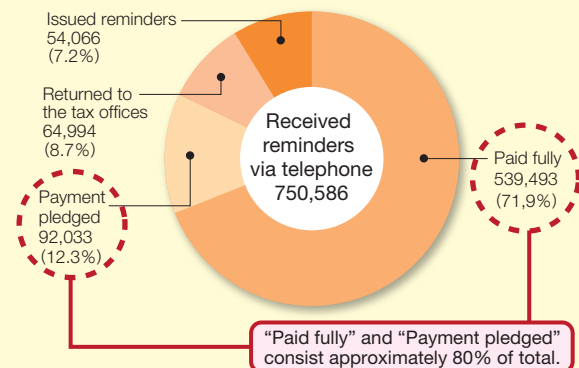
~ Conduct effective and efficient phone notices ~

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 2013 to June-end 2014, this office provided notifications to about 750,000 people, of which about 540,000 people (71.9%) fully paid, and about 90,000 people (12.3%) pledged payment.

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

Of 750,586 taxpayers issued reminders for payment by telephone between July 2013 and June-end 2014, 539,493 have fully paid their taxes.



(4) Auction by Internet

~ Sold approximately 600 items by internet auctions ~

The NTA has conducted internet auctions using a private-sector auction website.

Internet auctions are very convenient in such ways as the participants do not need to visit a real auction site and can apply for the purchase 24 hours during the auction period on the internet, 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.

Four internet auctions were held in FY2014. As a result, a total of about 3,000 people participated, and about 600 items such as work of art, precious metals, automobiles, real estate, etc. were sold, for a total sales value of about ¥400 million.

Examples of properties that have been sold by internet auctions



(5) Accurate and efficient management of claims and liabilities

~ Proper and prompt process realized by full use of systems ~

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

There are about 40.4 million tax payments each year. To efficiently process this huge amount of payments, the NTA is working on more efficient processing operations. There is optical character recognition (OCR) processing¹ for tax payment slips at the Bank of Japan, the income tax and sole proprietors' consumption tax payments by transfer account², online tax payment using internet banking etc., and direct online tax payment. The NTA centralized transfer processing then adopted online transfer procedures. In these ways, the NTA is pursuing efficient and speedy payment processing.

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 deposits and savings 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.

3 Addressing international transactions

～ Strengthening examination system and cooperation with foreign tax authorities ～

As cross-border economic activities by companies and individuals have become more complex and diverse in recent years, some taxpayers do not declare revenue received overseas, or do not pay tax in any country taking advantage of the different taxation system of each country. Such international tax avoidance has become a significant problem.

To deal with this problem, the NTA is improving its examination system and shares information and experiences with foreign tax authorities.

Base Erosion and Profit Shifting (BEPS)

In order to address international tax avoidance by multinational corporations, the OECD Committee on Fiscal Affairs established a project related to “Base Erosion and Profit Shifting (BEPS)” in June 2012 and published the “BEPS Action Plan” on July 19, 2013. The BEPS Action Plan was submitted to the meeting of G20 Finance Ministers and Central Bank Governors and obtained full support from G20 countries including Japan.

Regarding the implementation of this Action Plan, the “OECD/G20 BEPS Project” has been established as a framework that allows the eight G20 members who are non-OECD members (China, India, Russia, Argentina, Brazil, Indonesia, Saudi Arabia and South Africa) to give their opinions and participate in decision-making as OECD members do. The OECD plans to recommend measures in three steps to effectively address BEPS under international cooperation during the period from September 2014 to December 2015. The first report was published on September 16, 2014.

Of the recommendations stated in the first report, those that will require revisions to domestic laws and tax treaties will start being examined step-by-step in each country in the future. At the same time, discussions have been continuously taking place at the OECD about the remaining issues and the issues pertaining to other action plans that are to be discussed in the future. The NTA also participates actively in these discussions from its position as an executive authority.

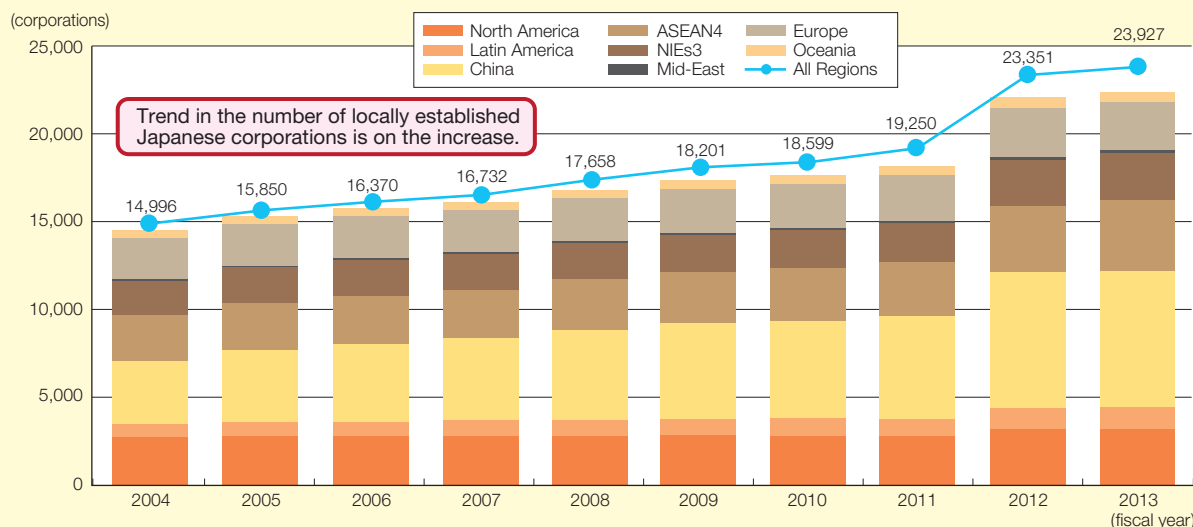
(1) Changes in the environment concerning international transactions

～ Cross-border business and investment activities expand ～

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 14,996 in FY2004 to 23,927 in FY2013, about a 60% increase, with a particularly rapid growth of establishments in China.

■ Trend in the number of locally established Japanese corporations by region



*1 “ASEAN4” signifies Malaysia, Thailand, Indonesia and Philippines.

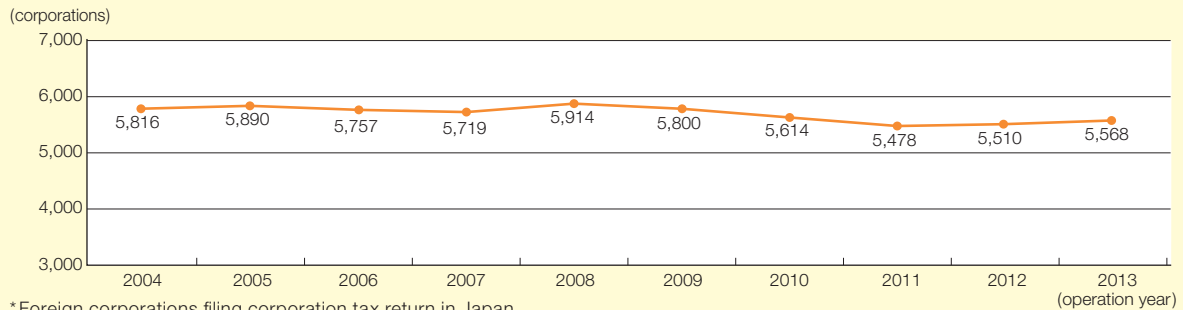
*2 “NIEs3” signifies Singapore, Taiwan and South Korea.

(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 in Japan is shown below. There were 5,568 corporations in the 2013 operation year, which was 58 more than the previous year. The number of foreign corporations in the past 10 years has shifted between 5,000 and 6,000.

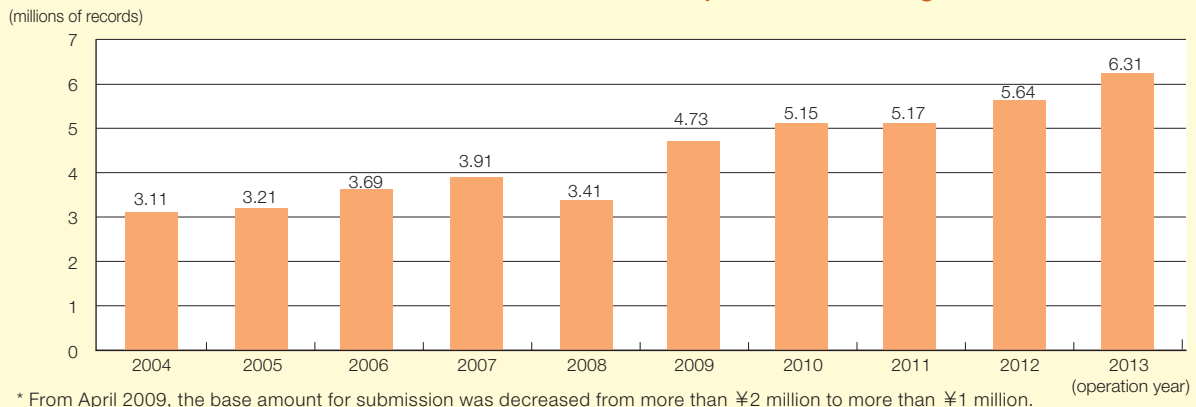
■ Trend in the number of foreign corporations



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

A record of remittance and receipt related to foreign countries¹ is to be submitted when a remittance is sent to a foreign country. The figure below shows changes in the number of these records submitted. The number of records of remittance in the 2013 operation year was 6.31 million, which was 670,000 more than that of the previous year. It is approximately 2.6 times of increase compared to 2.44 million of the 1998 operation year, when this system was introduced.

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



Column 7 Revision of consumption taxation on cross-border supplies of services

To ensure competitive equality between Japanese and foreign businesses, consumption tax will be imposed on cross-border services provided by foreign businesses, such as the provision of e-books, music, and advertisements from October 1, 2015.

《Outline of the reform》

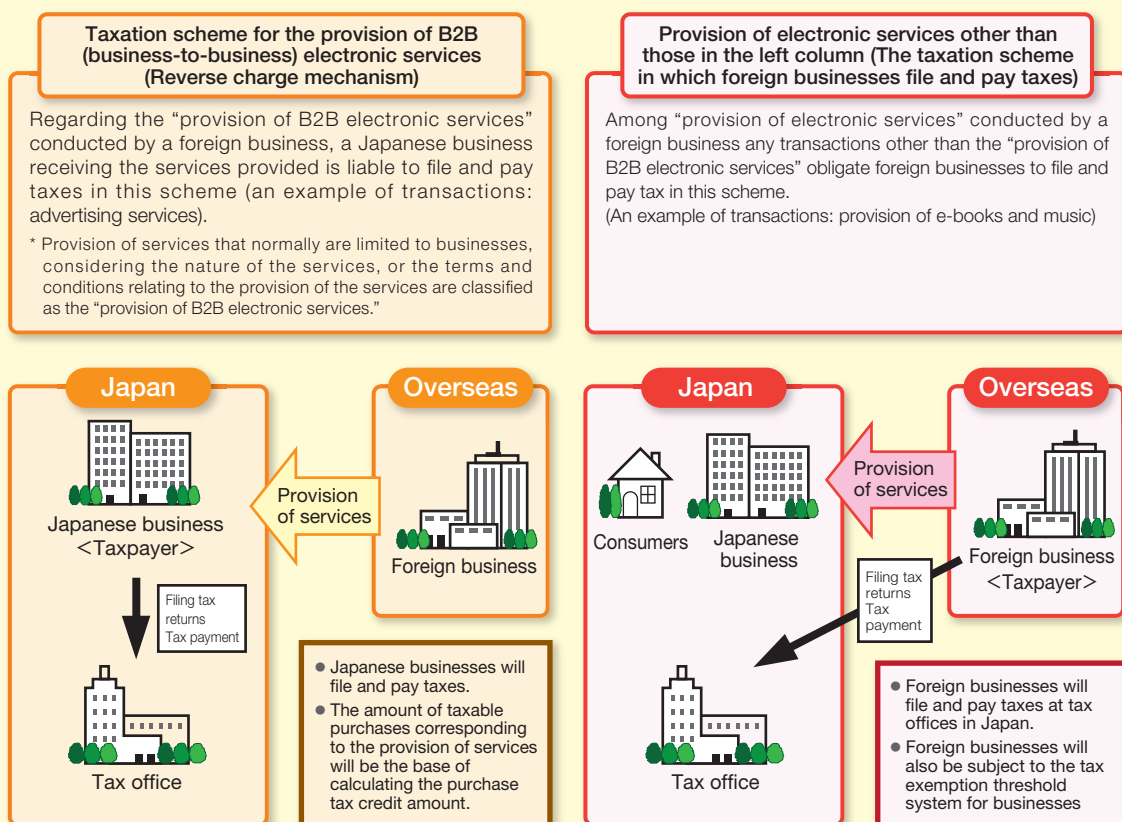
1 Revision of criterion for determining either domestic or foreign transactions

We regard services provided via electronic and telecommunication networks (e.g., internet) such as the provision of e-books, music, and advertisements as “provision of electronic services.” A criterion for determining whether the place of supply in a transaction is conducted in Japan, whereby consumption tax is to be imposed (criterion for determining either domestic or foreign transactions) has been revised from the location of the office of the service provider associated with providing such services to address of the service recipients. According to this revision, consumption tax will be imposed on “provision of electronic services.” received by consumers etc. in Japan regardless of whether the service provider is either a Japanese or a foreign business.

* Electronic services exclude services notifying the results of transfer assets via telecommunication networks when the notification is ancillary to the transfer of other assets.

¹ The record of remittance and receipt related to foreign countries is a report legally required to be submitted to the Tax Offices by financial institutions. These indicate the amount remitted to or received from overseas nations, if exceeding ¥1 million (statutory statement).

2 Taxation scheme



* A foreign business providing B2B electronic services for a Japanese business is required to indicate beforehand that the service recipient will be liable to file and pay consumption tax when providing the services.

Key points

As a transitional measure, for the time being the reverse charge mechanism shall solely apply to businesses that file a consumption tax return through a general taxation system with a taxable sales ratio of below 95% for the taxable period.

However, the businesses may, for the time being, disregard the specific taxable purchases on their return: businesses that file a consumption tax return through a general taxation system with a taxable sales ratio of 95% or more; and businesses to which a simplified taxation system applies. Therefore, these businesses do not need to include specific taxable purchases in their consumption tax return for the taxable period even if specific taxable purchases are made.

3 A transitional measure to ensure proper taxation (establishment of a system for registered foreign businesses)

A Japanese business receiving electronic services other than "provision of B2B electronic services" from a foreign business for the time being shall not be eligible for a purchase tax credit.

However, if the foreign service provider is a foreign business registered with the NTA Commissioner (a registered foreign business), a purchase tax credit can be claimed for the provision of electronic services other than "provision of B2B electronic services" provided by the foreign businesses.

Reference The following taxation method was also revised in the FY2015 tax reform.

When a foreign business provides services related to entertainment and sport in Japan, the Japanese business receiving the service is liable to file and pay taxes in accordance with the reverse charge mechanism (this revision will be applied to services provided on or after April 1, 2016).

(2) Addressing international taxation

～ 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.

The NTA actively involves itself in exchange of information with foreign tax authorities in the context of recent expansion and strengthening of the tax treaty network. Japan now has 64 tax treaties in force, which cover 90 countries or regions and the number of information exchange amounts to some hundred thousand cases per year.

In addition, the NTA is making every effort to implement exchange of information in an effective and efficient manner by holding face to face meetings, when necessary, with tax officials of foreign tax authorities, which would enable us to explain and talk the examination cases in detail and the points to be clarified.

Nine countries of Japan, the U.S., the U.K., Germany, France, Canada, Australia, China, and South Korea, participated in the Joint International Tax Shelter Information Centre (JITSIC), aiming to exchange information relating to international tax avoidance and wealthy individuals, and to share knowledge on examination methodologies, etc. In order to make JITSIC an international cooperative system that goes beyond an association of these nine countries, it plans to operate as a broader network under the umbrella of OECD Forum on Tax Administration (FTA) in the future.

■ Trend in number of information exchange

(thousands)

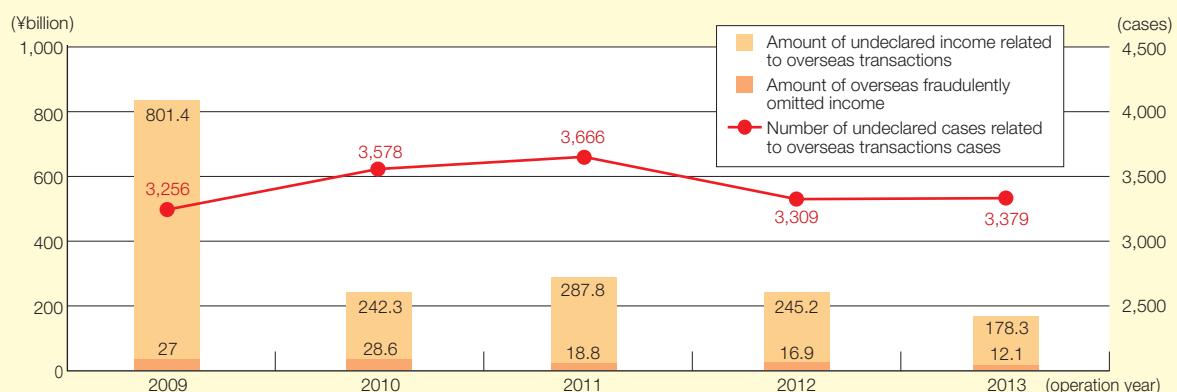
Operation Year	2009	2010	2011	2012	2013
Number of information exchange	502	313	568	218	270

* Number of information exchange is the total number of cases in which information was received plus cases sent each operation year.

～ Examination focusing on those who conduct cross-border transactions or those who hold assets in foreign countries ～

As cross-border business and investment activities have been expanded, the NTA has focused on examining taxpayers who conduct transactions with foreign companies or hold assets in foreign countries. 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.

■ Actual examinations related to international taxation (Corporation tax)





～ Addressing international tax avoidance, one of the most problematic issues in international taxation ～

International tax avoidance, often involved by financial, legal and tax specialists, often uses complex transactions which combine shell companies or cooperatives, derivatives (derivative financial instruments), etc., and 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-sized companies and wealthy individuals.

In the area of international taxation, the NTA has been working to enhance and strengthen its examination system by increasing the number of its Senior Examiners (International Taxation) who are dedicated to working on international taxation and recruiting lawyers and financial specialists. Especially, Chief Examiners established in the Tokyo, Osaka, Nagoya and Kanto-Shinetsu Regional Taxation Bureaus and the International Examination of Large Enterprise Division, etc. play central roles in collecting and analyzing information, planning examinations and clarifying facts on international tax avoidance.

(3) Transfer pricing issues

～ Enhancing predictability for taxpayers corresponding to the change in the environment surrounding transfer pricing taxation ～

Transfer pricing taxation¹ was introduced in the FY1986 tax reform. From the perspective of working to achieve proper international taxation, this prevents transferring income overseas through transactions with foreign affiliated companies.

As company activities become increasingly global, more transactions are becoming subject to the transfer pricing taxation, 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.

Therefore, the NTA issues official announcements to clarify its administration policy on the system's operations and its application criteria, by revising directive on the interpretation of laws and administrative guidelines relating to the transfer pricing taxation. In the 2013 operation year, the NTA illustrated the scope of transactions involving third parties that are subject to the transfer pricing taxation by providing specific examples of transactions in a directive on the interpretation of laws.

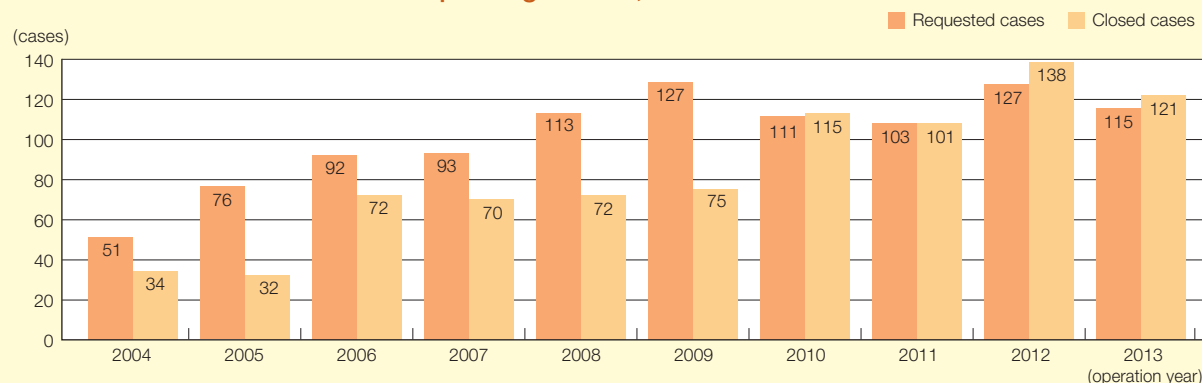
¹ If a Japanese company does a transaction with a foreign affiliated company, and that transaction price differs from the transaction price between third parties (this price is called an "arm's length price"), resulting in lower taxable income for the Japanese company, then that transaction is deemed to have been done at an arm's length price, and income is recalculated under this system.

～ Development of an environment in which taxpayers can use the Advance Pricing Arrangement(APA) system smoothly ～

In an APA on transfer pricing taxation, based on the Japanese taxpayer's request, the tax authorities give 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 was 115 in the 2013 operation year, maintaining the level of over 100 cases since the 2008 operation year. In order to respond to these many requests, the NTA is working to improve its administration system and quickly process APAs by, for example, establishing a division dedicated to the review of APA requests 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



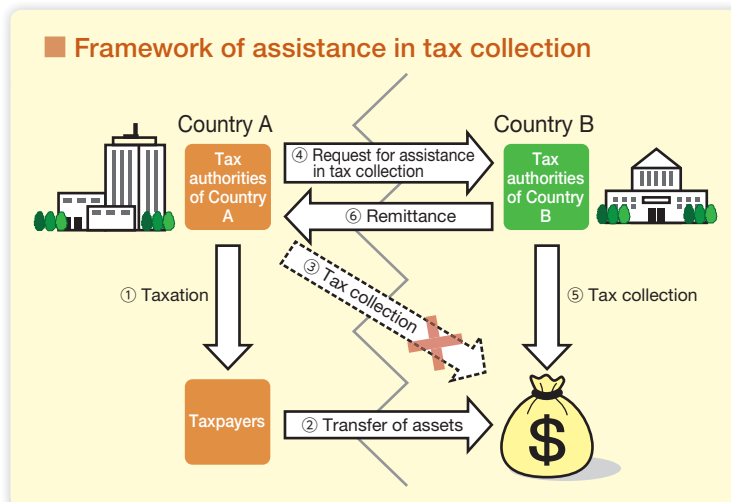
* The number of requests for APA includes both those accompanied by and those not accompanied by the Mutual Agreement Procedure (MAP).

(4) International cooperation in tax collection

～ Mutual assistance in tax collection under tax treaties ～

The avoidance of tax collection by means of transfer of assets to overseas can be coped with “mutual assistance in tax collection,” which enables each country's tax authorities to mutually enforce tax claims of each other in cooperation under tax treaties, while the collection of tax claims is subject to the restrictions of executive jurisdiction¹.

In Japan, international tax collection is promoted by mutual assistance for tax collection under the Multilateral Convention on Mutual Administrative Assistance in Tax Matters², which became effective in October 2013.



¹ It means that a country's tax authorities cannot exercise its public authorities outside the country's territory.

² It is a multilateral convention on mutual assistance for the exchange of tax-related information, tax collection and service of documents and has been signed by 49 jurisdictions including Japan (as of May 1, 2015).

4 Mutual Agreement Procedure (MAP)

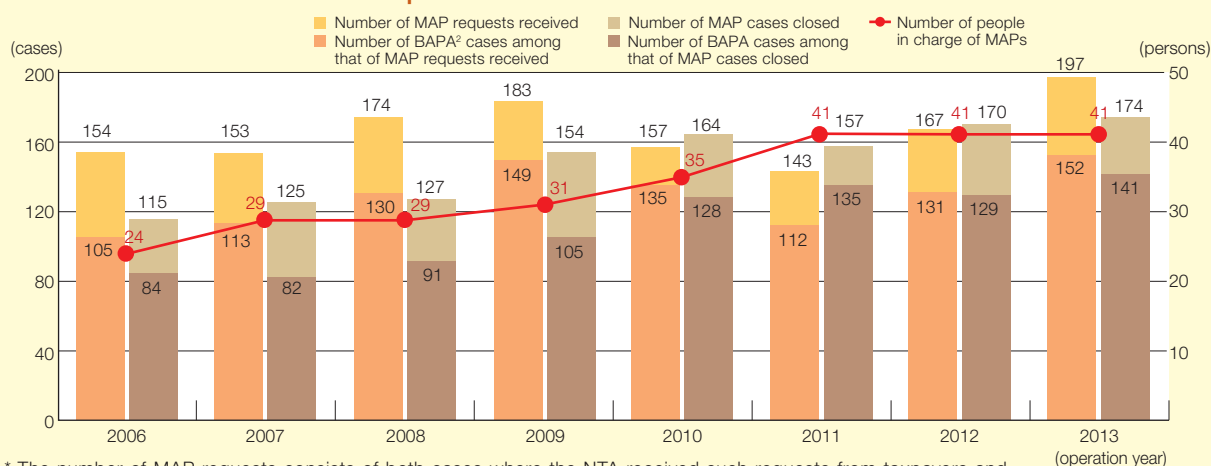
~ MAP cases processed properly and promptly in order to resolve international double taxation issues ~

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. We exert ourselves to resolve such double taxation problems by negotiating with foreign tax authorities through the Mutual Agreement Procedures¹ prescribed in tax treaties.

The number of MAP requests that the NTA has received and closed remains at a high level, and more than 90% are related to transfer pricing. The number of MAP cases closed in 2013 operation year was 174, hitting a record high.

In recent years, MAP is becoming more difficult as the number of MAP cases with emerging countries having less experience in MAP is on the increase. The NTA has been making every effort to resolve MAP cases appropriately and promptly by ensuring staffing and conducting more swift and smooth negotiations through promoting cooperative relationship with relevant foreign tax authorities.

■ The number of MAP cases requested and closed



* The number of MAP requests consists of both cases where the NTA received such requests from taxpayers and cases where the NTA received such requests from foreign tax authorities.
MAP cases related to compensating adjustments and amendments to previously agreed APAs are included in the years when MAP requests on those issues were made.

■ Treaty partners with which the NTA has MAP inventory (as of June 30, 2014)

	Europe		Asia / Pacific	The Americas
OECD countries	Belgium France Germany Ireland Italy	Luxembourg The Netherlands Sweden Switzerland United Kingdom	Australia South Korea	Canada United States
Non-OECD economies			China Hong Kong India Indonesia Singapore Thailand	
	10 countries		8 countries/economies	2 countries

(Note)

As of June 30, 2014, the number of treaty partners with which the NTA had MAP inventory was 20. BAPA were requested for all treaty partners listed on the left.

1 "Mutual Agreement Procedures (MAP)" are a formalized set of procedures between tax authorities of treaty partners which are provided in tax treaties to resolve international tax disputes such as those represented by double taxation cases arising as a result of taxation not in accordance with the applicable tax treaties imposed or to be imposed on the taxpayers.

2 "BAPA" stands for Bilateral Advance Pricing Arrangements.

5 Cooperation and coordination with foreign tax authorities

(1) Technical cooperation for developing countries

～ Technical cooperation for developing countries mainly in Asia ～

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



International Seminar on Taxation

Overview of technical cooperation

1 Dispatch of tax officials to developing countries

Based on the requests of the foreign tax authorities, the NTA has dispatched its officials as lecturers in fields such as taxpayer services, international taxation and staff training. In FY 2014, the NTA dispatched its officials to China, Indonesia, Malaysia, Viet Nam and Mongolia, and gave lectures to.

With a view to giving continuous advice on tax administration to developing countries, the NTA has dispatched tax officials as long-term experts of JICA. In FY2014, they stay in Indonesia and Viet Nam.

2 Training in Japan

(1) International Seminar on Taxation (ISTAX)

ISTAX is a seminar for tax officials in developing countries, providing lectures and others on the tax system and tax administration of Japan. It has 2 courses: “general” for mid-career officials, and “senior” for upper management-level officials. In total, 30 tax officials participated in both courses in FY2014.

(2) Country-Focused Training Courses in Tax Administration

The courses are targeted for tax officials from specified developing countries, and give lectures and others based on their request. 111 tax officials from Cambodia, China, Indonesia, Mongolia, Malaysia and Viet Nam participated in the courses in FY2014.

(3) International Taxation for Asian Countries

This course is targeted for tax officials from Asian developing countries on the subject of “international taxation”. 12 tax officials from 6 countries (China, Indonesia, Malaysia, Philippines, Thailand and Viet Nam) participated in FY2014.

(4) Practicum at the NTA

This course is targeted for tax officials from developing countries who are studying at Japanese graduate schools (master's courses) on a scholarship from the World Bank, etc., and provides lectures on Japan's tax system and tax administration. In total, 17 students studying at graduate schools of Keio University, Hitotsubashi University, Yokohama National University and National Graduate Institute of Policy Studies participated in FY2014.

■ Status of training conducted in Japan

(number of countries, people)

		FY2010	FY2011	FY2012	FY2013	FY2014
International Seminar on Taxation (ISTAX) general course	Countries	18	20	15	16	17
	People	18	20	15	16	17
International Seminar on Taxation (ISTAX) senior course	Countries	14	12	11	13	13
	People	14	12	11	13	13
Country-Focused Training Courses in Tax Administration	Countries	4	6	7	6	6
	People	54	51	95	116	111
International Taxation for Asian Countries	Countries	4	3	5	5	6
	People	9	7	11	16	12
Practicum at the NTA	Countries	12	12	12	11	13
	People	20	19	19	20	17

(2) Participation by tax authorities in international conferences

～ Cooperation in countries for resolution of problems on international taxation ～

In order to cooperate and share experiences with foreign tax authorities for the purpose of solving problems, such as double taxation and tax avoidance, the NTA actively participates in international conferences including ① the OECD Forum on Tax Administration (FTA), ② the Study Group on Asian Tax Administration and Research (SGATAR), and ③ the 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 administrations. In October 2014, the 9th Forum was held in Dublin, Ireland, with discussions about multilateral cooperation on international taxation, including on the issue of "Base Erosion and Profit Shifting (BEPS)," improvements in voluntary tax compliance by taxpayers, and the future course of action of the OECD Forum on Tax Administration.

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

The Study Group on Asian Tax Administration and Research (SGATAR) is comprised of tax authorities of 17 countries and regions in Asia. This is a forum for discussions on cooperation and sharing of knowledge in the region. In November 2014, the 44th meeting was held in Australia, with discussions about promotion of international cooperation in the area of tax administration and common problems the countries are facing.

③ OECD Committee on Fiscal Affairs (CFA)

The OECD Committee on Fiscal Affairs is a forum where the Model Tax Convention and Transfer Pricing Guidelines are reviewed, and the tax authorities share their knowledge and experience. The Committee is currently developing countermeasures against the BEPS mentioned above. For further details, please see the NTA website "OECD Committee on Fiscal Affairs (CFA)". <http://www.nta.go.jp/sonota/kokusai/oecd/oecd.htm>