

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, establishes appropriate examination systems, and conducts strict examinations by making full use of its organizational strength.

In addition, for other taxpayers 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 as well as a field examination.

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

Operation year	2012	2013	2014
Self-assessed income tax	70	62	68
Corporation tax	93	91	95

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 2014 found ¥7.39 million of undeclared income per case for self-assessed income tax, and ¥8.66 million for corporation tax.

● Undeclared income amount of self-assessed income tax and corporation tax found in field examinations, per case (¥million)

Operation year	2010	2014
Self-assessed income tax	6.35	7.39
Corporation tax	10.07	8.66

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

The NTA utilizes the computer system to select the subjects of tax examinations by analyzing the data related to income tax returns, corporation tax returns, and a variety of other data and information.

In order to collect highly effective data and information efficiently, we are working to develop systems, such as establishing a division that specializes in collecting data and information.

(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

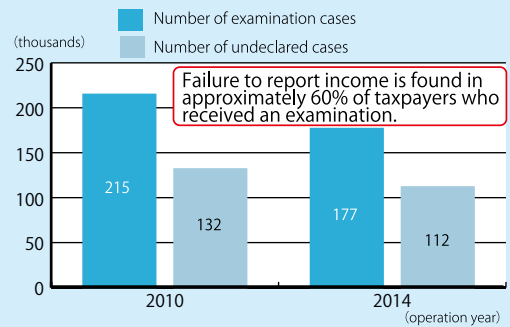
- Based on materials provided by foreign tax authorities through information exchange under the tax treaty, the NTA discovered a failure to declare profits that were acquired from financial instruments held with overseas financial institutions.
- From materials provided by foreign tax authorities through 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 for tax revenue, and is similar to a deposit, which is why it attracts the strong attention of the public. Therefore, proper tax administration is especially necessary. So far, regarding the examination cases of consumption tax, 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.

● Examinations of consumption tax (individual and corporation)



◎ 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 defined as legal requirements.

Column 6

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. The NTA endeavors to utilize these systems to ensure further 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 ensure 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.

※ Under this system, "foreign assets" refer to assets held outside Japan. For example, land and buildings held outside Japan as well as deposits and securities held at overseas financial institutions fall under foreign assets. Foreign currency deposits and securities held at financial institutions in Japan do not fall under foreign assets.

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 was reviewed and renewed. And the renewal came into force on January 1, 2016.

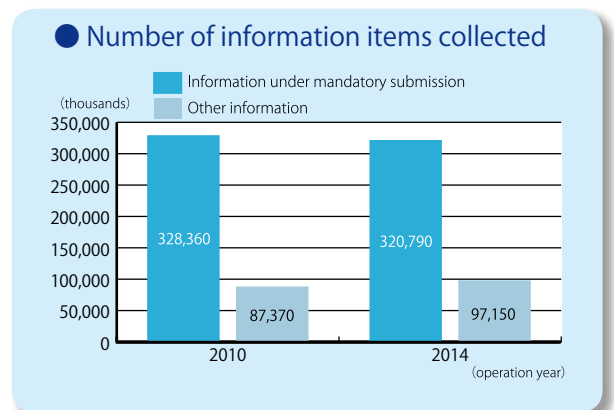
Under this system, if an income amount for a taxable year exceeds 20 million yen, and an individual holds assets with the total amount of 300 million yen or more, or assets subject to exit tax in 2 above with the total amount of 100 million yen or more as of December 31 of the year, the individual is 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 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.

Especially, 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 overseas investments, information on transactions with overseas companies, electronic commerce transactions using the internet, etc. to get the information on new asset investment techniques and transaction forms.



(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 FY2015 amounting to ¥13.8 billion in total, of which prosecuted cases accounted for ¥11.2 billion ~

In FY2015, the NTA commenced 189 criminal investigations, processing 181 cases including those carried over from the previous fiscal year, of which it accused 115 cases to prosecutors. The total amount of tax evasion was ¥13.8 billion, with the average at ¥97 million per accused case.

Methods that were often used for tax evasion included excluding sales and booking fictitious costs or expenses. There were also cases of the crime of tax evasion due to simply failing to file a tax return and the attempted crime of receiving illegal consumption tax refunds, both of which were criminalized in 2011.

Funds obtained from tax evasion were, for example, retained as cash, deposits, stocks; spent on paintings and imported luxury cars; spent on amusement, such as gambling; and appropriated for financial support to an associated person. In addition, part of the illicit funds were retained as overseas deposits.



● 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
FY2014	194	180	112	14,975 (12,346)	83 (110)
FY2015	189	181	115	13,841 (11,204)	76 (97)

※ Figures of tax evasion include additional tax.

~ In FY2015, 133 cases were convicted at the court of first instance, including 2 cases in which prison sentences without probation were issued ~

In FY2015, all cases among 133 cases were convicted at the court of the first instance, with an average prison sentence of 15.2 months and average fines of ¥15 million. 2 persons were sentenced to prison without probation. Of these sentences, the sentence for a criminal investigation case alone was two years' imprisonment with labor, and the sentence for the case in combination with another crime was 6 years' imprisonment with labor. 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
FY2014	98	96	98.0	11	69	15.9	16
FY2015	133	133	100.0	2	64	15.2	15

※ 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 cardboard box placed in a storage room.



(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 that are in general likely to lead to a difference of opinion between corporations and the NTA. Then we will focus its examination work on other corporations in need of improvement. Thus, we are facilitating to reduce the administrative burden on taxpayers and enhance the efficiency of tax examination.

Check sheets for the “voluntary inspection of tax returns and voluntary audit of tax items”

For the purpose of aiding in voluntary proper filing, the NTA has published check sheets for the voluntary inspection of tax returns and voluntary audit of tax items performed at large enterprises on its website (<http://www.nta.go.jp> [Home > Tax filing and payment procedure > Corporation Tax > Reference for tax filing procedure]) (in Japanese).

The site provides two types of check sheets: “Check sheet for tax returns,” which can be used for the voluntary inspection of tax returns before submission, and “Check sheet for tax items that require special attention at large enterprises,” which can be used for the voluntary audit of, for example, omissions in entering adjustments in settling accounts and adjustments for taxable income before tax return preparation. Please make use of these check sheets based on your intended use.

(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 2 years in prison or up to a ¥1 million fine) under the tax law, which is heavier than the penalty (up to 1 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.

Column 7

Efforts to ensure voluntary fulfillment of tax duties by taxpayers

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 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 ¥56.6 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 FY2014, about ¥57.4 trillion of taxation (amount determined for collection) was self-assessed in Tax Offices, etc. Of this, about 56.6 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 2016, it was usable in 394 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 1.51 million cases in FY2014.

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:

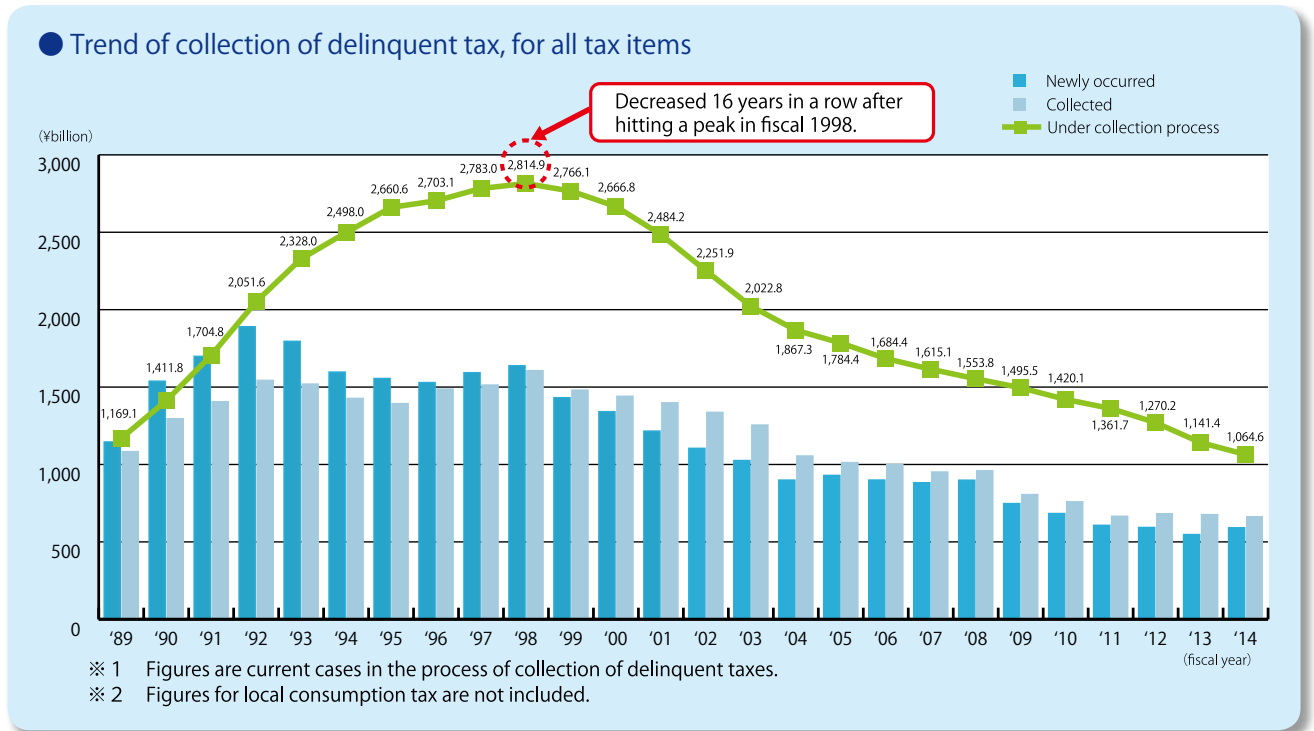
- ① If the determined tax amount is notified before the due date (estimated income tax prepayment, etc.)
- ② If the tax payment is demanded by letter or telephone (for all tax items)
- ③ If the tax payment is under the official assessment system (for various additional taxes)
- ④ If the taxpayer requested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

III Proper and Fair Taxation and Collection

(2) Reduction of tax delinquency

~ Amounts under collection process reduced to 37.8% 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 FY2014, the tax delinquency amount was about ¥1,064.6 billion.



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.

About the NTA

Enhancement of Services for Taxpayers

Proper and Fair Taxation and Collection

Remedy for Taxpayer Rights

Efforts to Enhance Taxpayer Convenience and to Boost Efficiency of Tax Administration

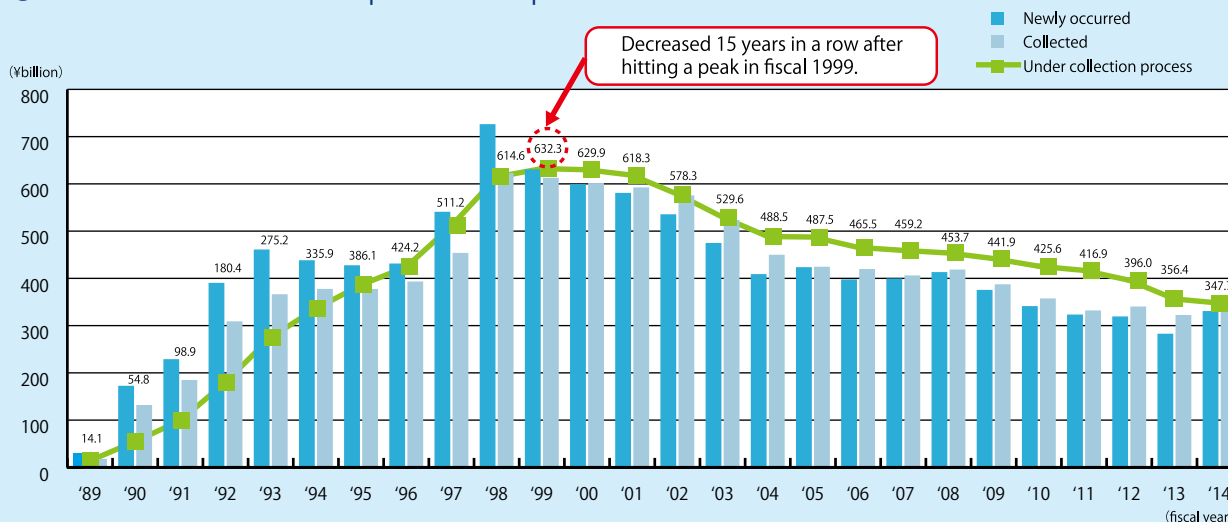
Proper Management of Liquor Administration

Proper Administration of Services by Certified Public Tax Accountants (CPTAs)

Evaluation of Policies

Statistics

● 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).

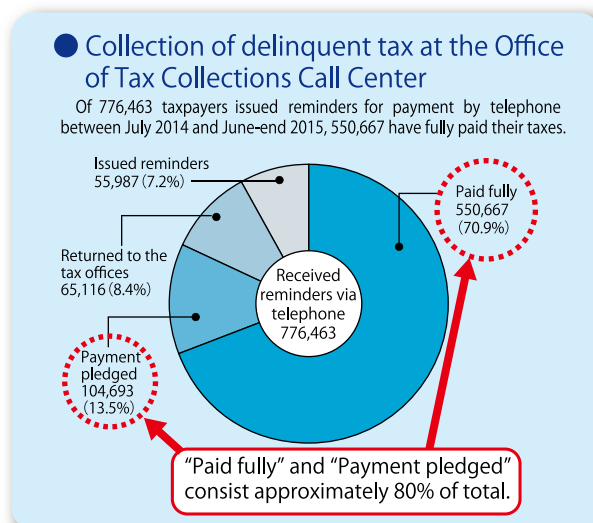
III Proper and Fair Taxation and Collection

(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 2014 to June-end 2015, this office provided notifications to about 780,000 people, of which about 550,000 people (70.9%) fully paid, and about 100,000 people (13.5%) pledged payment.



(4) Auction by Internet

~ Sold approximately 11,300 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 FY2015. As a result, a total of about 5,000 people participated, and about 11,300 items such as work of art, precious metals, automobiles, real estate, etc. were sold, for a total sales value of about ¥500 million.



(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 40.7 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 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 also return the processing results 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 strives to collect information at every opportunity and improve the examination system. We also actively carry out international cooperation, such as the BEPS Project and exchange of information with various countries.

(Reference) So-called “Panama Papers” document

In April 2016, the International Consortium of Investigative Journalists (ICIJ) disclosed the “Panama Papers,” which were leaked from a Panamanian law firm that provides incorporation services, management proxy services, and so on at an offshore financial center. This incident increased suspicions about the opaque use of offshore financial centers.

Column 8

Measures addressing Base Erosion and Profit Shifting (BEPS): the BEPS Project

In recent years, changes in the structures of global business models have led to gaps and mismatches among multinational enterprises' actual activities, the tax systems of each country, and international taxation rules.

By making use of these gaps and mismatches, multinational enterprises deliberately manipulate their taxable income to avoid paying taxes (BEPS). To address this problem, the Organisation for Economic Co-operation and Development (OECD) launched the BEPS Project in 2012. Under the BEPS Project, discussions have been held regarding measures to effectively address BEPS through international cooperation based on the 15 action items identified in the “Action Plan on BEPS,” which was prepared at the request of the G20 Finance Ministers and Central Bank Governors Meeting. In September 2015, the final reports were developed (and presented at the G20 Finance Ministers and Central Bank Governors Meeting held in Lima, Peru in October 2015 as well as at the G20 Summit hosted in Antalya, Turkey in November 2015).

Each country will improve the domestic laws and revise tax treaties based on the BEPS recommendations for each action item as necessary, and then the implementation of these recommendations will be monitored.

《BEPS Action Plan》

Action 1: Addressing the Tax Challenges of the Digital Economy	Action 2: Neutralising the Effects of Hybrid Mismatch Arrangements
Action 3: Designing Effective Controlled Foreign Company (CFC) Rules	Action 4: Limiting Base Erosion Involving Interest Deductions and Other Financial Payments
Action 5: Countering Harmful Tax Practices More Effectively, Taking into Account Transparency and Substance	Action 6: Preventing the Granting of Treaty Benefits in Inappropriate Circumstances
Action 7: Preventing the Artificial Avoidance of Permanent Establishment Status	Action 8: Aligning Transfer Pricing Outcomes with Value Creation Related to Intangibles
Action 9: Aligning Transfer Pricing Outcomes with Value Creation Related to Risks and Capital	Action 10: Aligning Transfer Pricing Outcomes with Value Creation Related to Other High-risk Transactions
Action 11: Measuring and Monitoring BEPS	Action 12: Mandatory Disclosure Rules
Action 13: Transfer Pricing Documentation and Country-by-Country Reporting	Action 14: Making Dispute Resolution Mechanisms More Effective
Action 15: Developing a Multilateral Instrument to Modify Bilateral Tax Treaties	

«Summary of Final Reports»

The final reports were developed for each action item to comprehensively address BEPS. The following measures are set out in each final report.

1 Reestablishment of international taxation principles focusing on taxation in line with actual economic activities

From the perspective that multinational enterprises must fulfill their tax payment obligations where such obligations arise (where value is created), rules focusing on taxation in line with actual economic activities have been established.

- ① For the purpose of addressing issues arising in response to the development of the digital economy, guidelines were developed for consumption tax on cross-border electronic services under Action 1. In Japan, consumption tax is imposed on cross-border services provided by foreign enterprises, such as e-books, music, and advertisements from October 1, 2015 under the FY2015 tax reform.
- ② To prevent tax avoidance by multinational enterprises that make use of gaps and mismatches among the tax systems of each country, Actions 2 to 5 set out rules to achieve international harmonization of the tax systems.
- ③ For the purpose of adapting to multinational enterprises' recent business models, conventional international standards (the model tax convention and for the transfer pricing guidelines) were revised by Actions 6, 7, and 8 to 10.

2 Increased transparency in the activities of governments and multinational enterprises

To ascertain the actual activities and the tax payment status of multinational enterprises, Actions 5 as well as Actions 11 to 13 established a framework in which countries cooperate in collecting and sharing information. Action 5 mandates the practice of compulsory spontaneous exchange of information about advance rulings between taxpayers and tax authorities, such as unilateral Advance Pricing Arrangements (APA) (APA unaccompanied by Mutual Agreement Procedure (MAP)). The NTA will implement this by using the existing framework for exchange of information. Additionally, based on the recommendation in Action 13, documentation rules for transfer pricing have been revised under the FY2016 tax reform (refer to Column 9: Transfer pricing documentation).

3 Elimination of uncertainty for corporations

To eliminate uncertainty (e.g., the occurrence of unexpected double taxation due to the aforementioned BEPS measures) and to ensure predictability, Action 14 develops more effective MAP mechanisms to solve tax treaty-related disputes. To streamline the implementation of BEPS measures that necessitate the amendment of bilateral tax treaties, Action 15 requires the development of a multilateral instrument by December 31, 2016.

For details of the BEPS Project, please visit the "BEPS Project" page on the NTA website at <http://www.nta.go.jp/sonota/kokusai/beps/index.htm> (in Japanese).



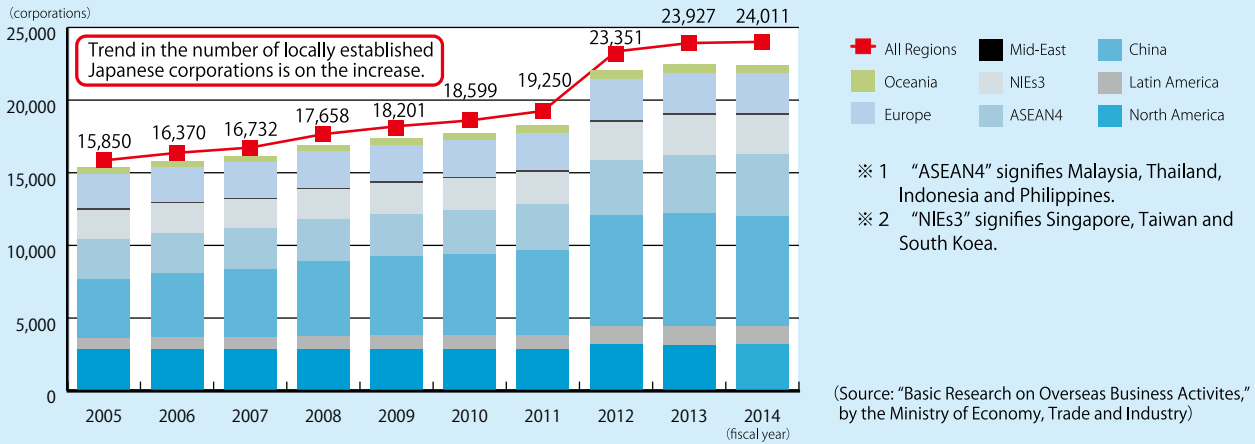
(1) Changes in the environment concerning international transactions

~ 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 15,850 in FY2005 to 24,011 in FY2014, about a 50% increase, with a particularly rapid growth of establishments in China.

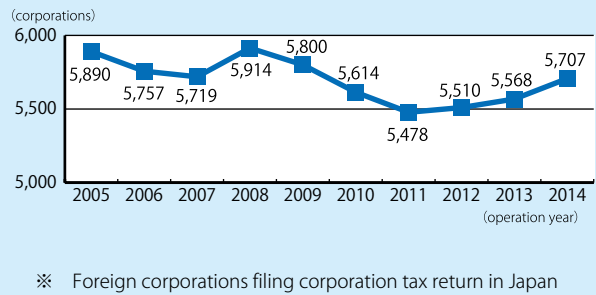
● Trend in the number of locally established Japanese corporations by region



② Trend in the number of foreign corporations

The trend in the number of foreign corporations carrying out business in Japan is shown on the right. There were 5,707 corporations in the 2014 operation year, which was 139 more than the previous year. The number of foreign corporations in the past 10 years has shifted between 5,000 and 6,000.

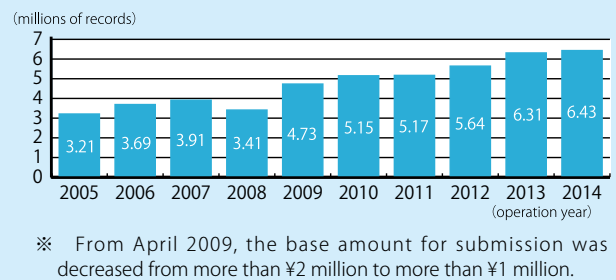
● Trend in the number of foreign corporations



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 on the right shows changes in the number of these records submitted. The number of records of remittance in the 2014 operation year was 6.43 million, which was 120,000 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



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).

About the NTA

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Proper and Fair Taxation and Collection

Remedy for Taxpayer Rights

Efforts to Enhance Taxpayer Convenience and to Boost Efficiency of Tax Administration

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Proper Administration of Services by Certified Public Tax Accountants (CPTAs)

Evaluation of Policies

Statistics

(2) Addressing international taxation

~ Exchange of information under tax treaty and tax information exchange agreement ~

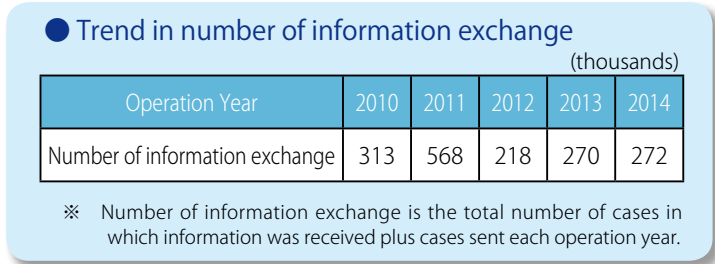
There are cases in which the NTA cannot sufficiently clarify international transactions by individuals and corporations only with the information obtained in Japan. In such a case, the exchange of information under a bilateral tax treaty or tax information exchange agreement makes it possible to acquire 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. As of April 1st 2016, Japan has 65 tax treaties in force, which cover 96 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.

International cooperation system (The Joint International Taskforce on Shared Intelligence and Collaboration: JITSIC), aiming to exchange information relating to international tax avoidance and wealthy individuals, and to share knowledge on examination methodologies, etc. is working under the umbrella of the OECD Forum on Tax Administration (FTA). The NTA is joining it actively.

Moreover, as an important action taken for exchange of information, the OECD developed the Common Reporting Standard (CRS) in 2014 to automatically exchange “information on bank accounts of non-residents” among the tax authorities of each country in order to address tax evasion and tax avoidance performed through overseas financial institutions based on G20 discussions. 101 countries and regions have announced that they will commence automatic exchange of information in accordance with the CRS by the end of 2018. In Japan, the NTA plans to receive reports on account information for the 2017 calendar year from financial institutions by the end of April 2018, and to provide information for the first time to foreign tax authorities by the end of September 2018.



~ 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 cross-border transactions or hold assets in foreign countries. The NTA is performing through 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.





~ 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 taxation 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. It is necessary to increase predictability for taxpayers.

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.

Column 9

Transfer pricing documentation

As stated in "Column 8: Measures taken for Base Erosion and Profit Shifting (BEPS): the BEPS Project," we put the transfer pricing documentation in place under the FY2016 tax reform. The key points of the transfer pricing documentation are as follows.

1 Provision of Country-by-Country Reports (new)

For the purpose of collecting information on multinational enterprise groups' activities, such groups are obligated to file a Country-by-Country Report that states the amount of revenue, profit (loss) before income tax, income tax paid, and so on per country where they conduct business.

Multinational enterprise groups with consolidated total revenue of the ultimate parent entity's preceding fiscal year equal to or not less than 100 billion yen are required to report the necessary information via e-Tax within 1 year from the day following the last day of the ultimate parent entity's fiscal year.

※ The above revision applies to the Country-by-Country Reports for the ultimate parent entity's fiscal year that begins on or after April 1, 2016.

2 Provision of Master File (new)

For the purpose of collecting information on multinational enterprise groups' activities in the same manner as described in 1 above, such groups are obligated to file a Master File that states their organizational structure, business overview, financial situation, and so on.

Multinational enterprise groups with consolidated total revenue of the ultimate parent entity's preceding fiscal year equal to or not less than 100 billion yen are required to report the necessary information via e-Tax within 1 year from the day following the last day of the ultimate parent entity's fiscal year.

※ The above revision applies to the Master File for the ultimate parent entity's fiscal years that begins on or after April 1, 2016.

3 Preparation of documentation considered to calculate the arm's length price (revision)

Regarding controlled transactions, corporations must prepare and store the documentation considered to calculate the arm's length price by the due date for filing tax returns.

Criteria for exemptions from the obligation is provided based on the transaction amounts (a total amount of the controlled transactions of less than 5 billion yen and the amount of intangible transactions of less than 300 million yen with a foreign related party during the previous business year).

※ The above revision will apply from business years that begins on or after April 1, 2017.

Note 1: If Japanese corporations conduct transactions with foreign related parties, and that transaction price differs from the transaction price between third parties (this is called the "arm's length price"), resulting in lower taxable income for the Japanese corporations, then that transaction is deemed to have been done at the arm's length price, and its income is recalculated under this system.

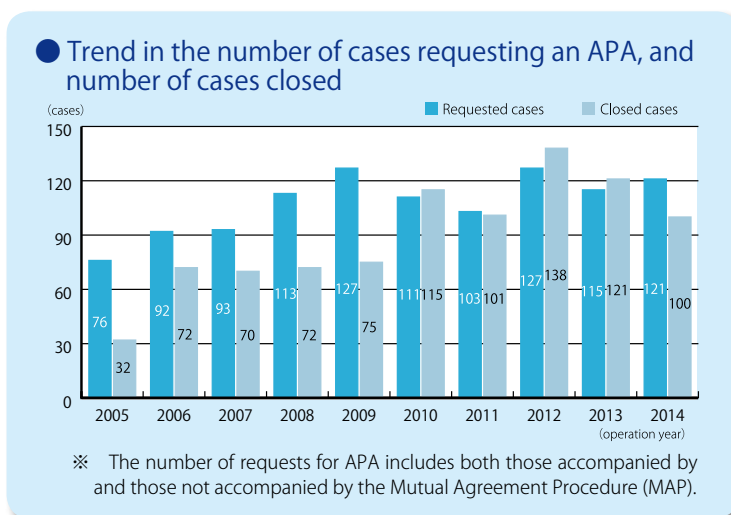
III Proper and Fair Taxation and Collection

~ 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 121 in the 2014 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.

APA is also available for internal transactions between the permanent establishment of a foreign corporation and its head office, and the internal transactions between the Japanese corporation's head office and its permanent establishment in foreign countries and regions for the business year starting on and after April 1, 2016.

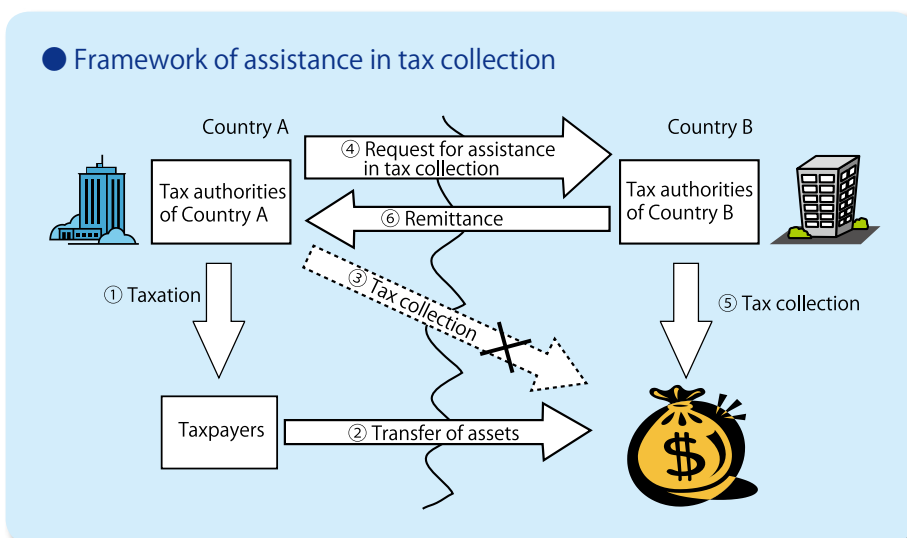


(4) International cooperation in tax collection

~ 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 60 jurisdictions including Japan (as of May 1, 2016).



4 Mutual Agreement Procedure (MAP)

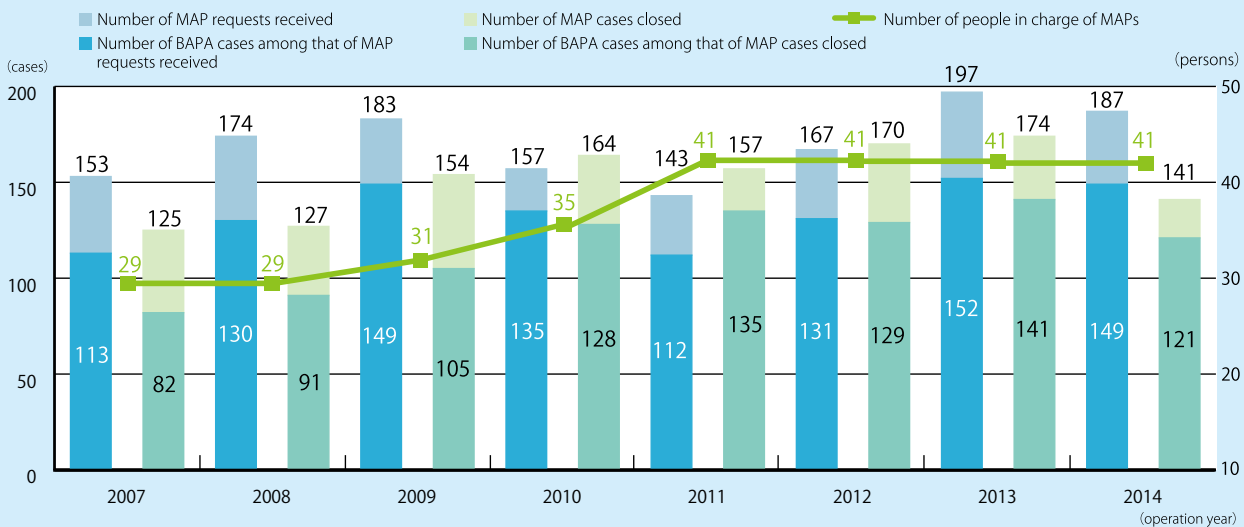
~ MAP cases processed properly and promptly in order to resolve international double taxation issues ~

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 cases received in 2014 operation year was 187, and more than 90% are related to transfer pricing.

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.
 * "BAPA" stands for Bilateral Advance Pricing Arrangement

● Treaty partners with which the NTA has MAP inventory (as of June 2015)

	Europe	Asia/Pacific	North Americas
OECD countries	Belgium France Germany Ireland Italy Luxemburg The Netherlands Sweden Switzerland United Kingdom	Australia New Zealand South Korea	Canada United States
Non-OECD economies		China Hong Kong India Indonesia Singapore Thailand Malaysia Vietnam	
	10 countries	11 countries/economies	2 countries

(Note)
 As of June 30, 2015, the number of treaty partners with which the NTA had MAP inventory was 23.

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.

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 FY2015, the NTA dispatched its officials to China, Indonesia, Malaysia, Mongolia, Philippines and Viet Nam, and gave lectures to them.

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 FY2015, they stay in Cambodia, 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 “Advanced” for upper management-level officials. In total, 25 tax officials participated in both courses in FY2015.

(2) Country-Focused Training Courses in Tax Administration

The courses target tax officials from specified developing countries, and give lectures and others based on their request. 106 tax officials from Cambodia, Indonesia and Viet Nam participated in the courses in FY2015.

(3) International Taxation for Asian Countries

This course targets tax officials from Asian developing countries on the subject of “international taxation”.

8 tax officials from 6 countries (Malaysia, Myanmar, Philippines, Thailand, Timor-Leste, and Viet Nam) participated in FY2015.

(4) Practicum at the NTA

This course targets 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, 18 students studying at graduate schools of Keio University, Hitotsubashi University, Yokohama National University and National Graduate Institute of Policy Studies participated in FY2015.



● Status of training conducted in Japan

(number of countries, people)

		FY2011	FY2012	FY2013	FY2014	FY2015
International Seminar on Taxation (ISTAX) (General)	Countries	20	15	16	17	16
	People	20	15	16	17	16
International Seminar on Taxation (ISTAX) (Advanced)	Countries	12	11	13	13	9
	People	12	11	13	13	9
Country-Focused Training Courses in Tax Administration	Countries	6	7	6	6	3
	People	51	95	116	111	56
International Taxation for Asian Countries	Countries	3	5	6	6	6
	People	7	11	16	12	8
Practicum at the NTA	Countries	12	12	11	13	14
	People	19	19	20	17	18

(2) Participation in international conferences for tax authorities

~ Cooperation among 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 on tax administration for Commissioners from OECD and non-OECD countries, for sharing each country's knowledge and experience on a wide range of fields in tax administrations.

In May 2016, the 10th Forum was held in Beijing, China 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 2015, the 45th meeting was held in Singapore, with discussions about promotion of international cooperation in the area of tax administration and common problems the members are facing.

③ OECD Committee on Fiscal Affairs (CFA)

The OECD Committee on Fiscal Affairs is a forum where the Model Tax Convention and the 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 at <http://www.nta.go.jp/sonota/kokusai/oecd/oecd.htm> (in Japanese).