PART 2. OUTLINE OF TAX ENFORCEMENT

1. Briefing

NTA is responsible for enforcing national tax laws, i.e. the administration (assessment and collection) of domestic taxes, the revenue from which accounts for the major part of the General Account Revenue. NTA manages these activities by integrating examination of and guidance for taxpayers, by offering tax consultation services, and through public relations activities.

Japan adopts a self-assessment system whereby taxpayers file a tax return and pay their tax liabilities voluntarily. To operate the system smoothly, we maintain an appropriate level of tension with taxpayers through effective tax examination and information gathering programs. On the other hand, we try to create favorable environments for taxpayers through guidance and public relations activities, which aim to advise taxpayers of relevant procedures and provide legal interpretation by tax authorities. Finally, we also strive to secure tax revenue through careful management of revenue accounts and execution of compulsory collection.

2. Self-Assessment System

(1) The self-assessment and blue return systems

In the self-assessment taxation approach, taxpayers calculate their taxable income, file tax returns and pay their taxes due. This taxation system basically presupposes taxpayer’s willingness to pay taxes, continue accurate bookkeeping behavior and calculate their taxable income based on objective data.

Japan introduced this approach in 1947, strongly influenced by the United States taxation system. Before WWII, Japan’s taxation system was so-called “official assessment system,” which had authorized the tax authority to determine payable tax amount through administrative proceedings. Immediately after the WWII, there were considerable difficulties in making Japanese citizens familiar with the self-assessment taxation system, especially in the field of personal income tax. Now, almost 50 years since its introduction, it has firmly established. To make this taxation system take root, NTA has taken the following measures:

a) Introduced the blue return scheme in 1950 to establish basic foundation for the self-assessment system;
b) Established a bookkeeping system, a record-keeping system, and a receipt and expense statement system for white return taxpayers in 1984 to further facilitate the self-assessment system;
c) Started providing guidance service for taxpayers who need assistance with bookkeeping in cooperation with certified public tax accountant associations and associations of blue return taxpayers; and
d) Have been conducting examination on taxpayers suspected of considerable underreporting of income.

(a) Blue return system

Proper operation of the self-assessment taxation system requires regular and accurate bookkeeping by taxpayers. To foster the practice of bookkeeping, the blue return system was introduced in 1950 as a part of comprehensive tax reform based on the Recommendations of Dr. Carl Shoup.

Under the blue return system, an individual who operates a business or a corporation may obtain the district director's approval to file a tax return using a special form printed on blue paper. While these taxpayers are required to maintain books and keep continuous accounting records in accordance with prescribed standards, they are entitled by law to various income calculation benefits and preferential treatments. This blue return system has come to play a central role in Japan's self-assessment system.

Today, the blue return system is widely accepted. There are 4.95 million blue return personal taxpayers, and more than 2.6 million corporations are filing blue returns (see Tables 7 and 8).

Table 7: Trends in the Number of Blue Return Individuals

(In thousands of persons)

Year	Number of Blue Return Individuals				Business Taxpayers with Tax Liability		
	Business (1)	Agriculture (2)	Real Estate or Timber (3)	Total (4)	Number of Business Taxpayers with Tax Liability (5)	Number of Blue Return Taxpayers out of (5) (6)	Blue Return Diffusion Ratio (7) [(6)/(5)] (%)
1950	94	17	0	111	2,000	82	4
1955	491	26	1	519	1,105	353	32
1960	551	24	4	579	1,100	366	33
1965	759	18	17	794	1,349	449	48
1970	1,540	35	36	1,610	2,062	1,000	53
1975	2,168	64	189	2,421	2,055	1,093	52
1980	2,688	118	401	3,208	2,622	1,354	51
1985	2,998	203	610	3,812	2,947	1,497	52
1990	3,078	274	893	4,245	3,171	1,648	51
1991	3,050	283	952	4,285	3,204	1,641	51
1992	3,045	294	1,020	4,359	3,151	1,601	50
1993	3,053	304	1,081	4,439	2,972	1,481	50
1994	3,056	313	1,126	4,494	2,850	1,421	50
1995	3,061	321	1,166	4,548	2,727	1,367	50
1996	3,072	327	1,193	4,593	2,735	1,380	50
1997	3,060	332	1,216	4,609	2,664	1,363	51
1998	3,069	337	1,253	4,659	1,649	909	55
1999	3,104	344	1,289	4,737	2,156	1,134	53
2000	3,137	350	1,328	4,816	2,085	1,117	54
2001	3,158	365	1,373	4,897	1,944	1,064	55
2002	3,168	371	1,413	4,152	1,825	1,001	55

Notes: 1. "Business" in column (1) means income earners engaged in business except for those who have only an agricultural income (e.g. entrepreneurs, doctors, lawyers, etc.).
"Real Estate or Timber" in column (3) means income earners who do not have an income from business but have income from real estate or timber.
2. Columns (1) to (4): Figures as of March 15 of the following year. Among the figures for 1994, the figures of 13 Tax Offices covering the area designated the disaster area of the Hanshin Awaji Earthquake are as of May 31, 1995.
Columns (5) to (7):
Figures for 1950: as of April 30 of the following year
Figures for 1955,1960 and 1965: as of July 31 of the following year
Figures for 1970: as of March 15 of the following year
Figures for 1975: as of April 30 of the following year
Figures for 1980 and the following years: as of March 31 of the following year
Among the figures for 1994, the figures of 13 Tax Offices covering the area designated the disaster area of the Hanshin Awaji Earthquake are as of May 31, 1995.

Table 8: Trends in the Numbers of Corporations and Blue Return Corporations

Year	Number of Corporations (1)	Number of Blue Return Corporations (2)	Blue Return Diffusion Ratio (2)/(1)
1950	287,760	144,674	47.8
1955	489,593	347,289	67.9
1960	643,363	458,171	69.7
1965	840,560	652,597	75.2
1970	1,111,026	919,368	82.7
1975	1,481,999	1,304,537	88.0
1980	1,783,921	1,612,117	90.4
1985	2,030,185	1,834,226	90.3
1990	2,518,444	2,241,800	89.0
1991	2,602,063	2,371,408	91.1
1992	2,665,429	2,442,103	91.6
1993	2,708,619	2,493,459	92.1
1994	2,750,834	2,527,959	91.9
1995	2,700,088	2,500,626	92.6
1996	2,737,763	2,537,594	92.7
1997	2,793,320	2,581,561	92.4
1998	2,820,214	2,602,606	92.3
1999	2,854,913	2,618,100	91.7
2000	2,884,820	2,613,621	90.6
2001	2,907,659	2,611,311	89.8
2002	2,896,494	2,602,258	89.8

Notes: 1. The figures in column (1) include non-active corporations but exclude corporations in liquidation.
2. The figures in column (2) and the diffusion ratio up to 1965 include corporations in liquidation, but excludes them from 1970 onwards.
3. All the figures are as of June 30 of the following year.

(b) Bookkeeping scheme

The 1984 tax reform introduced an obligatory bookkeeping system for non-blue return taxpayers (i.e. "white return taxpayers") to further familiarize taxpayers with the self-assessment system and enhance fairness in taxation.

White return taxpayer is required to:

i) Keep records and documents that the taxpayer prepares or receives in the process of business activities,

ii) Keep books (a simple form is acceptable) of transactions if their business income exceeds 3 million yen, and

iii) Submit their final return with the document that describes their total business revenues as well as details of necessary expenses.

White return corporations must keep books for recording their business activities in a simpler manner and maintain relevant documents prepared or received in the process of business transactions as well as other documents prepared for account settlement.

Around 660,000 taxpayers are using this bookkeeping system as of March 31, 2003 (see Table 9).

Table 9: Trends in the Number of Individuals Required to Use the Bookkeeping System

(In thousands of persons)

Year	1995	1996	1997	1998	1999	2000	2001	2002	2003
Number	1,058	1,054	1,046	1,013	958	856	781	708	664

Note: The figures are as of March 31 each year.

(2) Record keeping by magnetic media

"Act for Record Keeping by Magnetic Media" became effective on July 1, 1998 to adapt tax administration to an IT society and mitigate taxpayer's paperwork burdens in keeping relevant records. This Act allows taxpayers to preserve relevant computer-generated records using magnetic media if they meet certain conditions.

3. Withholding Tax System

While personal and corporate income tax liabilities are principally calculated and paid by taxpayers themselves (i.e. the self-assessment system), certain kinds of tax are withheld at source.

In the withholding tax scheme, withholding agents who pay salary, interest, dividends, certified public tax accountant's remuneration, etc. (withholding agents) calculate the tax amounts at the time of making payment in accordance with the prescribed procedure and pay the tax amounts deducted from the payments.

Except for withholding income tax on interest, which is a first and final tax, credit for the amount of withholding income tax is given to the taxpayer when his or her final return is filed. In addition, a Year-End Adjustment system is applied to salary or wage earners whose income is subject to being withheld at source. Under the system, employers (withholding agents) instead of employees calculate total tax liabilities, deductions and credits and pay the balance at the end of the year. This system aims at securing tax revenues and mitigating taxpayer's paperwork burdens.

The withholding tax system was initially adopted in Japan in 1899 to collect tax on interest income accruing from public and corporate bonds. The system was applied to employment income in 1940, but it was after the end of the Second World War that the system was established as it is today. Taxable incomes under the withholding tax system include, among others, employment income and retirement income. They also cover a wide range of incomes, such as interest income, dividend income, manuscript fees, remunerations for musical composition, recording and other personal services (for instance, remunerations for lawyers, certified public accountants and other professionals, remuneration received by physicians from social insurance funds, and, furthermore, remuneration of entertainers, professional football players, professional baseball players, independent sales agents, money collectors and bar waiting staff).

The number of withholding agents as of June 30, 2003 is about 3.9 million for wage income, 3,220,000 for income from remuneration, fees, etc., 130,000 for dividend income and 50,000 for interest income (see Table 10).

The withholding tax system functions smoothly, with the revenue of tax collected under the withholding tax system amounting to 11,241 billion yen, or 81% of the total income tax revenue of 13,810 billion yen, in the FY2003 initial budget.

The mechanism of the withholding system is highly elaborate. Income tax on employment income is withheld according to tax tables that list up taxpayer's income amount and his/her personal deductions. Using various tax tables for periodic salary income and for bonuses and other special payments, withholding agents calculate their employee’s payable tax amount in a relatively complicated manner. These tables are designed to enable employers to withhold approximate tax amount based on taxpayer’s salary income.

On the other hand, since the withheld tax amount for each employee is not usually equal to his or her annual payable tax amount, the withholding agent must adjust, if any, underwithheld or overwithheld balance when the agent pays the year’s last salary to their employees (“Year-end adjustment”).

As to the employment income for which the year-end adjustments are made, the tax amounts collected are almost accurate through the withholding system. The system does not require employment income earners to submit tax returns to tax office, except for special cases in which they earn incomes from sources other than their salary in amounts exceeding a certain level. Therefore, the system considerably mitigates clerical burdens upon wage earners. At present, the majority of employment income earners make tax payments through the withholding tax system.

Table 10: Number of Withholding Agents

Fiscal Year	Employment Income	Interest Income	Dividend Income	Capital Gains, etc.	Remuneration Fees, etc.	Income of Non-residents, etc.
1950	502,322	13,454	N/A.	-	11,050	-
1955	580,028	16,338	50,630	-	208,856	539
1960	683,305	19,633	97,223	-	350,024	1,174
1965	994,118	45,305	213,251	-	566,916	2,593
1970	1,178,029	44,801	252,274	-	975,030	3,736
1975	2,360,238	46,859	305,549	-	1,400,983	5,523
1980	2,947,096	47,231	261,142	-	1,823,649	9,605
1985	3,251,712	49,780	223,085	-	2,447,666	10,619
1990	3,737,586	56,078	285,265	5,709	2,962,422	16,689
1991	3,833,612	56,930	278,292	5,891	3,014,289	18,716
1992	3,901,873	56,661	263,489	5,927	3,058,819	19,813
1993	3,934,090	56,401	239,565	5,927	3,135,781	20,052
1994	3,953,827	55,829	253,805	5,862	3,160,236	20,020
1995	3,971,521	54,927	260,547	5,933	3,196,582	20,252
1996	4,004,895	53,882	200,699	5,868	3,231,120	20,236
1997	4,021,050	52,412	181,887	5,635	3,239,733	20,747
1998	4,005,844	55,204	159,362	5,455	3,242,079	21,225
1999	3,997,380	50,232	146,802	5,418	3,248,101	21,546
2000	3,986,729	48,864	144,293	5,324	3,227,932	22,290
2001	3,951,920	47,687	138,313	5,127	3,216,486	22,978
2002	3,905,529	45,449	128,938	1,924	3,221,712	23,538

Note: Surveys were made as of January 1 of the following year between FY1950 and FY1960, as of July 1, 1965 and as of June 30 of the following year since FY1970

Table 11: Taxation by Withholding Income Tax

(\ billion)

Fiscal Year	Employment Income	Retirement Income	Interest Income	Dividend Income	Capital Gains, etc.	Remuneration Fees, etc.	Income of Nonresidents, etc.	Total
1950	121.3	2.8	1.8	0.2	-	1.1	-	130.8
1955	188.0	3.9	2.5	11.8	-	8.1	2.0	218.6
1960	226.7	5.0	15.6	36.2	-	15.6	5.5	304.6
1965	543.6	13.7	65.8	61.0	-	41.2	15.9	741.2
1970	1,209.5	19.3	252.9	182.4	-	97.4	34.0	1,795.5
1975	2,734.3	35.6	802.9	272.2	-	249.6	47.2	4,141.8
1980	6,037.4	107.1	1,415.8	482.5	-	443.3	75.0	8,561.1
1985	9,083.7	214.5	1,969.9	629.4	-	682.2	125.4	21,705.0
1990	11,471.2	165.4	5,227.5	1,064.2	414.3	1,053.5	204.3	19,600.4
1991	12,963.9	199.7	5,249.7	975.0	222.7	1,088.6	206.9	20,906.5
1992	13,824.3	189.9	3,595.5	924.9	108.5	1,120.7	200.1	19,963.9
1993	14,071.7	217.9	3,546.0	882.9	215.5	1,125.2	190.9	20,250.2
1994	11,832.9	219.9	3,782.2	793.3	161.5	1,100.1	202.1	18,092.0
1995	11,538.9	237.4	2,978.7	789.7	190.3	1,139.0	235.3	17,109.3
1996	11,932.7	227.2	1,588.4	845.1	175.8	1,147.4	268.6	16,185.1
1997	12,443.3	271.8	1,291.1	851.0	117.7	1,105.7	304.1	16,384.7
1998	11,310.0	293.6	983.8	855.1	157.9	1,069.5	304.8	14,974.7
1999	9,830.3	318.3	1,463.3	1,027.6	542.3	1,089.9	312.4	14,584.1
2000	10,286.7	301.2	4,137.7	919.3	252.5	1,110.6	365.3	17,373.4
2001	10,068.1	368.0	2,699.9	982.1	161.5	1,114.3	381.2	15,775.1
2002	9,663.9	341.6	1,049.9	1,067.4	(123.7) 131.7	1,089.0	405.4	13,748.8

Notes: 1. The difference between the "Total" column and the total of the other columns for FY1950 and FY1955 represents the amount of additional tax. From FY1960 onwards, the amount of additional tax is included in individual item columns.

2. "Capital Gains, etc." from FY2002 onward represents tax amount for "capital gains from listed shares, etc. in particular accounts." The figure in the parentheses for FY2002 means "capital gains from listed shares."

4. Outline of Tax Items

(1) Income tax

a. Filing Returns

Income tax is levied on personal income that a taxpayer earns on a yearly basis from January to December. Those who have a taxable income exceeding a certain amount have to file their final return during the designated period (i.e. between February 16 and March 15 of the year following the taxable year) except that they have already discharged their tax liabilities through year-end adjustment.

20.87 million taxpayers filed returns for 2002 (as of March 31, 2003), of whom 6.87 million paid income tax based on self-assessment final returns; 10.63 million claimed refunds and 3.37 million came under other categories (see Table 12).

Table 12: Number of Final Returns

(in thousands of persons)

Year	Returns with Tax Liability	Returns Claiming Refund of Tax Withheld	Other Returns	Total
1990	8,547	6,633	2,127	17,308
1991	8,563	6,994	2,156	17,712
1992	8,573	7,346	2,186	18,110
1993	8,428	7,811	2,382	18,621
1994	8,223	8,673	2,377	19,274
1995	8,021	8,637	2,605	19,263
1996	8,240	8,825	2,590	19,655
1997	8,272	9,085	2,666	20,023
1998	6,224	8,619	4,619	19,462
1999	7,401	9,812	3,067	20,280
2000	7,274	10,000	3,111	20,385
2001	7,077	10,393	3,190	20,660
2002	6,868	10,630	3,374	20,873

Note: The figures are as of March 31 of the following year. For 1994, the figures of 13 tax offices covering the affected areas of the Hanshin Awaji Earthquake are as of May 31, 1995.

Taxpayers with tax liabilities are divided into two groups: business income earners (traders, manufacturers, farmers, doctors, lawyers, etc.) and other income earners.

Business income earners are further divided into self-employed business income earners and agricultural income earners. Taxpayers with self-assessed tax liabilities for 2002 consist of 1.96 million business income earners (1.83 million self-employed business income and 0.13 million agricultural income earners) and 4.91 million other income earners. The total amount of self-assessed tax payments was 2,389.1 billion yen, including 527.7 billion yen from business income earners (505.3 million yen from self-employed business income earners and 22.4 billion yen from agricultural income earners) and 1,861.4 billion yen from other income earners (see Table 13).

Table 13: Number of Income Tax Payers and the Amount of Tax Liability

(In thousands of persons, \ billion)

		Business Income Earners		Other Income Earners	Total
		Self-employed etc.	Agriculture		
Taxpayers	1990	3,171	250	5,127	8,547
	1991	3,204	236	5,123	8,563
	1992	3,151	243	5,184	8,578
	1993	2,972	214	5,243	8,428
	1994	2,850	272	5,100	8,223
	1995	2,728	195	5,098	8,021
	1996	2,735	195	5,311	8,240
	1997	2,664	158	5,450	8,272
	1998	1,649	122	4,453	6,224
	1999	2,156	150	5,094	7,401
	2000	2,085	131	5,057	7,274
	2001	1,944	130	5,003	7,077
	2002	1,825	133	4,910	6,868
Tax Amount	1990	1,104.2	42.7	5,455.4	6,602.3
	1991	1,079.0	49.1	5,447.1	6,575.2
	1992	1,018.8	39.5	3,031.0	4,089.3
	1993	926.3	40.4	3,292.8	4,259.4
	1994	723.8	38.2	2,668.6	3,430.6
	1995	735.7	27.3	2,701.6	3,464.7
	1996	779.8	29.0	2,821.5	3,630.2
	1997	813.8	27.2	2,660.3	3,501.3
	1998	600.9	29.5	2,312.6	2,943.0
	1999	542.8	23.4	2,044.8	2,611.0
	2000	565.8	19.7	2,089.8	2,675.3
	2001	550.8	19.5	1,999.4	2,569.7
	2002	505.3	22.4	1,861.4	2,389.1

Note: The figures are as of March 31 of the following year. For 1994, the figures of 13 tax offices covering the affected areas of the Hanshin Awaji Earthquake are as of May 31, 1995.

b. Final returns

In the period for filing final returns, public awareness of tax affairs usually reaches its peak. NTA has always been careful to fulfill tax administrative duties appropriately, recognizing that NTA's behaviors would have significant impacts on public trust in the whole tax administration and, in turn, on the level of public tax compliance.

Since 1998, NTA has been putting more emphases on encouraging taxpayers to fill in their tax return by themselves in line with the basic philosophy, "Taxpayers themselves should calculate and declare their taxable income and tax amounts in accordance with the taxation law." NTA is now striving to provide proper services and environments for taxpayers to prepare their tax returns by themselves.

In 2004, 248 tax offices started accepting tax returns and providing counseling services on Sundays (February 22 and 29) in order to address taxpayer's needs during weekends.

In addition, NTA upgraded its "website for preparing final income tax returns" by providing new features for storing data temporarily and entering data on their capital gains and retirement incomes. NTA also introduced more user-friendly display format for touch-panel automated filing machines.

c. Examination and guidance

(Review of tax returns)

Most taxpayers fulfill their obligation to file their tax returns by the deadline in March. However, some taxpayers avoid filing their tax returns, file inaccurate returns due to carelessness or intentionally underreport their taxable income.

To address these problems, tax offices are reviewing taxpayer's declared taxable income to uncover evasion cases. These reviews involve classifying and sorting the statements of payment that are submitted by payers under Income Tax Law as well as other data collected by tax offices, which are used as reference material on each taxpayer. Tax officials examine these documents and data against the information described in the tax returns and carefully analyze the submitted tax returns.

(Examination)

Following the review, taxpayers who have made obvious errors in their returns are informed of these errors and are requested to file amended returns. Taxpayers who have failed to submit their tax returns are requested to file a "return after the due date." If the taxpayers do not comply with these requests, the competent district director makes an assessment notice for those who have made errors and provides a decision notice for those who have not filed their tax returns.

Those alleged to underreport their taxable income are subject to field examination (in which income tax, consumption tax and withholding income tax are examined simultaneously). If particularly large tax amount is involved, and an examination of a few days is considered insufficient, then the competent tax office will allocate a sufficient number of days for in-depth examination. If those to be examined are dispersed across several tax office jurisdictions, or if a tax avoidance behavior is extraordinarily complicated, a joint examination with the relevant sections or other regional taxation bureaus is conducted. In some cases, a thorough examination is conducted by special examiner of the relevant tax office or by Information and Examination Division of regional taxation bureau.

In addition, NTA, using international tax experts and information technology experts, has been investigating overseas transactions and IT related transactions in response to globalized economic activities and highly-networked information society.

In field examinations, examiners not only point out and correct mistakes made by the taxpayer, but also explain the examination results so that the taxpayer will understand them. Examiners also provide guidance to deepen the taxpayer's understanding of tax laws and encourage filing of accurate tax returns and voluntary tax payment in future.

The number of field examinations on self-assessed income tax reached 70,000 in Business Year 2002. The amount of unreported income totaled 503.3 billion yen, and the tax penalty stood at 105.9 billion yen. Meanwhile, the number of field examinations on consumption tax reached 30,000, imposing the tax penalty of 15.5 billion yen.

(2) Corporate tax

Corporate tax is charged on corporation's taxable income.

There are approximately 2.90 million corporations in Japan as of the end of June 2003 (see Table 8). To encourage proper self-assessment through examination and guidance, tax offices classify corporations according to their scale, type and business characteristics. Based on this classification, tax offices select and closely examine corporations suspected of evading large amounts of tax or making false deficit returns. Corporations with capital of over 100 million yen and foreign corporations are examined by regional taxation bureaus, and other corporations are examined by tax office staff.

If the tax liability declared in a return is found inaccurate through examination or if a return is not filed, the competent district director makes a disposition of assessment or decision based on the amount determined by the examination, or instructs the corporation to file an amended return or a return after the due date.

Tax offices encourage filing of accurate returns by offering practical guidance on proper tax computation and necessary procedures as well as providing consultation services regarding tax treatment, etc., to diffuse knowledge on tax laws.

NTA requires nonprofit organizations to submit their income statement in order to properly levy taxes on their profit-earning business operations. Even if not engaged in profit-earning operations, a nonprofit organization needs to submit its income statement as long as its annual revenue exceeds 80 million yen after January 1997.

Note: If a corporate group obtains an approval for consolidated tax payment, its parent corporation is required to pay its corporate tax based on the group's consolidated taxable income.

a. Returns

Corporate tax is levied on income in each accounting period and liquidation income. As a rule, corporations must file their tax returns with the competent district director within 2 months after the end of their accounting period. According to Corporation Tax Law, an accounting period means a business year specified in their articles of incorporation or an equivalent period.

The ratio of corporations filing returns to those required to file returns increased from 58.5% in FY1950 to 85.1% in FY1955. Today, nearly all corporations file returns voluntarily (see Table 14).

In FY1950, the ratio of voluntarily declared corporate tax revenue to total amount of corporate tax revenue, including voluntarily declared corporate tax and revenue additionally collected by tax authorities, was 68.9%. It rose to 91.6% in FY1965 and further to 94.2% in FY1975. Now, most corporate tax revenue is derived from voluntarily declared taxes (see Table 15).

More than fifty years have passed since the self-assessment system was introduced in 1947, and today, corporate tax returns are mostly filed voluntarily. It mainly attributes this success to tax office’s appropriate guidance and thorough examination. Other major factors in this achievement are the introduction of the blue return system in 1950, granting tax benefits to corporations filing blue returns and cooperation with private organizations such as corporate associations and certified public tax accountants associations.

Table 14: Status of Corporate Returns

Fiscal Year	Number of Returns Due (1) (thousands)	Number of Returns Filed (2) (thousands)	Filing Ratio (2)/(1) (%)	Return with Income out of (2)		Self-assessment Amount	
				Number of Returns (3) (thousands)	Ratio (3)/(2) (%)	Amount of Income (\ billion)	Amount of Deficit (\ billion)
1950	448	262	58.5	138	52.7	N/A.	N/A.
1955	538	458	85.1	246	53.7	427.0	N/A.
1960	674	591	87.7	382	64.6	1,559.9	195.2
1965	850	780	91.7	451	57.9	2,717.6	729.0
1970	1,105	1,031	93.4	672	65.2	8,000.3	931.3
1975	1,477	1,367	92.5	723	52.9	12,392.7	4,417.7
1980	1,787	1,633	91.4	814	49.8	25,554.8	3,909.6
1985	2,060	1,858	90.2	807	43.5	32,461.5	5,784.4
1990	2,469	2,290	92.7	1,146	50.0	53,122.3	10,340.0
1991	2,620	2,426	92.6	1,179	48.6	51,208.7	14,785.2
1992	2,688	2,479	92.2	1,088	43.9	42,642.8	18,349.7
1993	2,743	2,525	92.0	975	38.6	35,916.1	18,990.3
1994	2,790	2,558	91.7	925	36.2	35,763.1	19,670.7
1995	2,845	2,600	91.4	912	35.1	39,579.8	24,332.3
1996	2,975	2,641	88.8	924	35.0	40,278.6	20,969.5
1997	2,936	2,642	90.0	914	34.6	37,744.3	24,105.9
1998	2,945	2,663	90.4	842	31.6	33,783.7	31,853.7
1999	2,964	2,681	90.4	822	30.7	38,093.2	29,233.1
2000	2,989	2,701	90.4	841	31.1	42,692.5	27,191.6
2001	3,026	2,715	89.7	839	30.9	36,198.2	30,920.0
2002	3,060	2,723	89.0	826	30.3	35,029.9	33,011.6

Note: The number of returns due up to FY1960 includes corporations whose due date of filing was before the end of the previous fiscal year, who did not file a return, and whose amount of tax was not determined by the tax office in the year concerned.

Table 15: Corporation Tax Revenue

(\ billion)

Class of Corporation	Fiscal Year	Tax Paid by Self-assessment (1)	Net Increase of Tax by Correction Determination (2)	Total (1)+(2) (3)	Percentage of self-assessed tax (1)/(3) (%)
Corporations under Jurisdiction of Tax Office	1950	14.2	15.1	29.3	48.5
	1955	42.6	18.7	61.3	69.5
	1960	155.9	37.4	193.3	80.7
	1965	294.4	61.7	356.1	82.7
	1970	949.3	86.3	1,035.6	91.7
	1975	1,639.9	136.2	1,776.1	92.3
	1980	3,060.2	198.3	3,258.5	93.9
	1985	3,767.4	261.0	4,028.4	93.5
	1990	6,850.7	443.4	7,294.1	93.9
	1995	4,772.8	292.9	5,065.6	94.2
	1996	5,009.6	308.1	5,317.6	94.2
	1997	4,577.1	302.5	4,879.7	93.8
	1998	3,752.0	278.1	4,030.1	93.1
	1999	3,752.0	242.1	3,994.1	93.9
	2000	3,800.4	200.8	4,001.2	95.0
	2001	3,482.8	192.3	3,675.1	94.8
	2002	3,367.3	171.5	3,538.9	95.2
Corporations under Jurisdiction of Regional Taxation Bureau	1950	49.5	13.6	63.1	78.4
	1955	125.4	11.5	136.9	91.6
	1960	431.7	18.0	449.7	96.0
	1965	566.7	17.3	584.0	97.0
	1970	1,576.6	37.9	1,614.5	97.7
	1975	2,427.4	113.0	2,540.4	95.6
	1980	5,329.4	115.2	5,444.6	97.9
	1985	7,779.3	177.3	7,956.6	97.8
	1990	10,797.2	249.0	11,046.2	97.7
	1995	8,424.0	191.5	8,615.5	97.8
	1996	8,802.2	439.7	9,241.9	95.2
	1997	8,152.1	197.6	8,349.7	97.7
	1998	6,901.3	206.3	7,107.6	97.1
	1999	6,802.6	185.7	6,988.3	97.3
	2000	7,793.5	131.3	7,924.8	98.3
	2001	6,132.4	131.3	6,263.7	97.9
	2002	5,982.7	180.8	6,163.4	97.1
Total	1950	63.7	28.7	92.4	68.9
	1955	168.0	30.2	198.2	84.8
	1960	587.6	55.4	643.0	91.4
	1965	861.1	79.0	940.1	91.6
	1970	2,525.9	124.2	2,650.1	95.3
	1975	4,067.3	249.2	4,316.5	94.2
	1980	8,389.6	313.5	8,703.1	96.4
	1985	11,546.6	438.3	11,984.9	96.3
	1990	17,648.0	692.4	18,340.3	96.2
	1995	13,196.8	484.4	13,681.2	96.5
	1996	13,811.8	747.7	14,559.5	94.9
	1997	12,729.2	500.2	13,229.3	96.2
	1998	10,653.3	484.4	11,137.7	95.7
	1999	10,557.6	427.8	10,985.4	96.1
	2000	11,593.9	332.1	11,926.0	97.2
	2001	9,615.2	323.6	9,938.8	96.7
	2002	9,350.0	352.3	9,702.3	96.4

b. Examination

(a) Corporations under the jurisdiction of tax office

(Review of returns)

Tax office's examination group reviews tax returns filed by corporations. The group compares with tax returns submitted by similar corporations in the same industry and also pays attentions to various factors, such as the corporation's past tax payment performance, and relevant documents as well as living conditions of the corporation's representatives. Tax examiners make the most use of NTA computer systems as well.

To review returns appropriately, examination team is responsible for a particular industry in a certain area. The team analyzes economic conditions, business practices and profitability of the industry assigned to it and collects information on the activities of each corporation.

(Field examination)

Taxpayers regarded as potential under-reporters after a proper review procedure are chosen for field examination. The procedure of field examination is not necessarily the same. However, it generally starts with a study of books, accounting records and inventories, and then moves into a detailed examination of books. The globalization, diversification and complication of business transactions have been recently making tax evasion cases more complex. If necessary, examiners may make inquiries to third parties, including banks, for additional information on the corporations concerned.

Field examinations are usually conducted by examiners from the examination group (corporation) of tax office. Special examiners at tax office level examine large corporations. Tax office's special examination teams or regional taxation bureau's information and examination divisions are in charge of examining major, pernicious and complex cases.

Meanwhile, to deal with globalization, computerization and ever widening business activities, Special Examiner for International Transactions has been assigned to core tax offices since FY1991, Special Examiner for Computer Investigation since FY1996 and Special Examiner for Large Groups of Associated Companies since FY1997, respectively.

We simultaneously investigate corporate tax, withholding income tax and consumption tax. We conduct effective field examination by focusing on corporations that are potential large-scale, pernicious tax evaders. We also conduct field examination from a wide range of perspectives, including corporation's tax returns, information, data and so on.

(Guidance)

In tax offices, considering the situation of each corporate taxpayer, we provide individual and group guidance to encourage voluntary compliance.

We provide a variety of guidance to corporate taxpayers, such as guidance for newly established companies, explanatory meetings on revised tax laws, and explanatory meetings on filing procedures upon settlement of financial accounts. Specialized guidance is also provided for specific industries (or areas).

(Results of Examination)

Examiners of Tax Offices conducted a total of 117,000 field examinations of corporation tax in FY2002.

Approximately 85,000 cases for correction or determination and 24,000 fraud cases were uncovered by field examinations.

(b) Corporations under the jurisdiction of regional taxation bureau

The tax returns of large corporations under the jurisdiction of regional taxation bureau are sent from tax offices district director to regional taxation bureau’s commissioner and then forwarded to examination groups at regional taxation bureau.

Corporations under the jurisdiction of regional taxation bureau normally have many branch offices, factories and affiliated companies in Japan and overseas, and their business activities, including international transactions, are complicated and wide-ranging. They are introducing advanced information processing systems.

For the above reasons, examiners are conducting sufficient examinations of tax return details, and they are striving to uniformly supervise business groups and understand their actual conditions clearly.

In conducting field examinations, examiners select proper corporations for in-depth and targeted examination to grasp their international transactions.

(Note) Similar to examination on nonconsolidated corporations, examiners will first investigate corporate groups that should be examined the most. In addition to paying due attentions to individual corporations and the whole corporate group, examiners make endeavors to conduct comprehensive examination in close liaison with tax offices as well as regional taxation bureau's sections in charge of parent/affiliate companies.

(3) Inheritance tax and gift tax

a. Outline of inheritance tax and gift tax

Inheritance tax is imposed upon persons who acquire property by inheritance or bequest, and it is computed from the value of the property concerned (Note: "bequest" also include a gift that is taxable under the inheritance settlement taxation approach). The taxable value is computed by subtracting debts owed by the deceased and funeral expenses borne by those who acquire the property from the value of the property. Statutory heirs must pay inheritance tax if the total amount of inheritance property exceeds the basic exemption (50 million yen + 10 million yen × number of statutory heirs).

Gift tax is levied on persons who acquire property as gifts and is computed from the value of the gifts obtained on a yearly basis (from January 1 to December 31). A donee is able to choose his or her taxation approach: Calendar year taxation approach or inheritance settlement taxation approach. In the calendar year taxation approach, the donee must pay tax if the gift value (or the total gift value if the donee obtains gifts from two or more donors or acquires gifts more than once from the same donor) exceeds the basic exemption (1.1 million yen). In the inheritance settlement taxation approach, the donor is required to pay tax if the gift value is more than the special exemption amount (25 million yen). In case of choosing the inheritance settlement taxation approach, the donee must declare his/her payable donation tax mount regardless of the gift value.

b. Filing returns and investigation

An heir must submit, within ten months after he/she knows the inheritance occurs, their inheritance tax returns to the tax office in charge of the deceased's domicile. As of 2001, the amount of taxable inheritance properties and bequests stands at 11,703.5 billion yen, while heirs across the nation has paid 1,477.1 billion yen as inheritance tax for estates inherited from 46,000 deceased people. (See Table 16.)

Donees must declare their payable gift tax from February 1 to March 15 in the year following their gift receipt. As of 2001, the amount of taxable donated properties stands at 1,345.7 billion yen, while 307,000 donees across the nation has paid 81.1 billion yen as gift tax. (See Table 17.)

By analyzing various materials, NTA conducts proper examinations and correct, if any, underreported or undeclared gifts or inheritance properties.

Table 16: Amount of Inheritance Tax Revenue

Year	Taxable Base		Amount of Tax		Number of Predecessors (1)	Number of Deceased (2)	(1)/(2)
	Number of Heirs	Amount (\ billion)	Number of Heirs	Amount (\ billion)			
1950	40,466	10.7	40,466	1.9	N/A	904,876	-
1955	39,664	37.5	39,664	3.4	30,859	693,523	4.4
1960	29,499	70.6	23,293	10.0	9,183	706,599	1.3
1965	46,176	209.1	36,970	41.0	13,407	700,438	1.9
1970	80,314	701.1	67,248	134.2	24,454	712,962	3.4
1975	51,649	1,512.1	42,858	197.3	14,593	702,275	2.1
1980	90,870	3,031.2	78,931	439.9	26,797	722,801	3.7
1985	154,650	6,246.3	134,475	926.1	48,111	752,283	6.4
1991	183,567	17,841.7	154,888	3,965.1	56,554	829,797	6.8
1992	177,688	18,820.1	156,467	3,400.9	54,449	856,643	6.4
1993	171,532	16,754.5	150,851	2,776.8	52,877	878,532	6.0
1994	151,565	14,545.4	130,298	2,105.8	45,335	875,933	5.2
1995	162,626	15,299.8	143,937	2,173.0	50,729	922,139	5.5
1996	154,884	14,077.4	133,832	1,937.6	48,476	896,211	5.4
1997	155,356	13,863.5	134,324	1,933.9	48,605	913,402	5.3
1998	158,184	13,246.8	139,581	1,682.6	49,526	936,484	5.3
1999	158,874	13,269.9	136,271	1,687.6	50,731	982,031	5.2
2000	150,317	12,340.9	128,940	1,521.3	48,463	961,653	5.0
2001	140,716	11,703.5	120,657	1,477.1	46,012	970,331	4.7

Table 17: Amount of Gift Tax Revenue

Year	Tax Base (\ billion)	Number of Taxpayers	Amount of Tax (\ billion)
1950	2.5	34,168	0.7
1955	25.6	108,633	2.6
1960	38.6	91,658	5.1
1965	57.3	66,564	7.6
1970	163.3	136,942	23.6
1975	240.8	104,760	30.7
1980	554.0	239,080	59.1
1985	868.5	515,644	78.8
1991	2,059.3	492,446	239.2
1992	1,647.1	494,239	161.9
1993	1,748.4	472,449	159.8
1994	1,526.6	464,428	131.2
1995	1,457.0	449,893	124.1
1996	1,458.6	428,893	133.5
1997	1,412.9	428,025	129.9
1998	1,301.0	402,795	116.6
1999	1,294.2	386,534	114.3
2000	1,197.4	354,095	95.5
2001	1,345.7	306,712	81.1

c. Valuation of property

Valuation of property for inheritance tax and gift tax is, according to Article 22 of Inheritance Tax Law, based on the market value at the time the property is acquired by inheritance, bequest or gift. NTA has set principal directives on asset valuation, defining evaluation methods for each property type. Regional taxation bureaus have set out valuation standards for land, including the appraised value of land facing a thoroughfare, and valuation of standing timbers. These types of information are available at regional taxation bureaus and tax offices as well as on the NTA website.

Table 18 shows regional average appraisal standard values, including prices for standard residential sites (approximately 410,000 points) for 2003, and their fluctuation rates.

Table 18: Average of Valuation Standard Values of Standard Land for Residential Areas for 2003 (by block)

(per m²)

Section	Average of valuation standard values		Fluctuation rate (%)	Section	Average of valuation standard values		Fluctuation rate (%)
	Fiscal 2003	Fiscal 2002			Fiscal 2003	Fiscal 2002	
	Unit: \1,000	Unit: \1,000			Unit: \1,000	Unit: \1,000	
Nationwide	121	129	▲6.2	Osaka block	168	184	▲8.7
Tokyo block	263	274	▲4.0	Osaka Prefecture	187	205	▲8.8
Metropolis of Tokyo	460	472	▲2.5	Hyogo Prefecture	167	185	▲9.7
County of Tokyo	591	602	▲1.8	Kyoto Prefecture	167	183	▲8.7
Kanagawa Prefecture	183	195	▲6.2	Nara Prefecture	70	77	▲9.1
Saitama Prefecture	126	133	▲5.3	Nagoya block	101	108	▲6.5
Chiba Prefecture	107	116	▲7.8	Aichi Prefecture	105	112	▲6.3
				Other blocks	60	65	▲7.7

(4) Land value tax

Japan introduced a land value tax that came into effect on January 1, 1992. Land Value Tax Law aims to diminish the advantages of holding land and achieve fairness in the tax burden on land, which is limited in quantity and regarded as semi-public property in Japan.

○ Outline of Land Value Tax

Land value tax is levied yearly on land held by individuals or corporations. Individuals and corporations possessing land in Japan at 0:00 a.m. on January 1 each year are liable to pay land value tax. However, the tax obligations for the land value tax since Tax Year 1998 have been canceled as a provisional measure. Thus, it is not currently required to submit tax returns for land value tax.

(5) Liquor tax

a. Assessment of liquor tax

Liquor tax is paid by domestic breweries and is levied at the time of transfer of liquor products from breweries. For imported liquor, liquor traders must pay liquor tax when they receive the liquor from bonded areas.

Liquor tax is a specific duty based on the quantity of liquor. Liquors are classified into 10 types and 11 items; the tax rate is different for each type (Table 19 shows tax rates for major liquor types and typical retail prices). Except for certain liquor types such as beer and wine, the tax rate also varies with the degree of alcohol content.

For each production plant, a liquor producer is obliged to submit to tax office a monthly tax return of liquor produced and transferred in the current month by the end of the following month and to pay the liquor tax by the last day of the month after that. In addition, those who receive liquor from bonded areas are obliged to submit a tax return to competent tax office in advance and pay tax before receiving the liquor.

If a liquor producer has difficulty in paying the tax before the deadline due to slow collection of account receivables, the manufacturer may apply to tax office's district director for a one-month extension of the due period by offering collateral. Likewise, those who receive liquor from bonded areas may apply to the commissioner of customs for an extension of the due period by offering collateral.

Table 19: Tax Rates for Major Categories of Liquor

Category		Volume	Alcoholic Content	Typical Retail Price (1)	Liquor Tax (2)	Consumption Tax (3)	Tax Burden (2)+(3)/ (1)+(3)
		(ml)	(%)	(\)	(\)	(\)	(%)
Sake		1,800	15.0	1,835	252.90	91.75	17.9
Shochu	Group A	1,800	25.0	1,370	446.58	68.50	35.8
	Group B	1,800	25.0	1,564	446.58	78.20	32.0
Beer		633	5.0	321	140.52	16.05	46.5
Whisky		700	40.0	1,510	286.30	75.50	22.8
Low-malt beer		350	5.5	145	46.98	7.25	35.6

Notes: 1. "Typical Retail Price" shows sticker price (excluding consumption tax) as of May 2003.
2. "Typical Retail Price" for beer includes the deposit for a container (5 yen).

b. Licensing System

A person who intends to produce or sell liquor is obliged to obtain a license from competent tax office’s district director. The district director may reject the application for a license when the applicant falls under one of the following five categories as stated in Article 10 of Liquor Tax Law.

(i) Personnel Requirement:

The applicant has been suspended from licensee status or committed a certain criminal activity.

(ii) Location Requirement:

The place for selling liquor is the same location as an eating and drinking establishment.

(iii) Operating Foundation Requirement:

Applicant has weak operating foundation.

(iv) Supply and Demand Adjustment Requirement:

Issuing a new license is likely to break the balance of supply and demand with a negative effect on the upkeep of liquor tax.

(v) Technical and Facility Requirement (for a production license only):

The license applicant has insufficient facilities for liquor production.

(a) Liquor production license

As described earlier, a liquor taxpayer is a liquor producer. Liquor tax rates are especially high. Since liquor tax plays an important role in the government budget, the government needs to secure stable liquor tax revenues.

Therefore, the liquor licensing system needs to reject applicants who are seen as improper liquor producers. The system also prevents an excessive number of liquor enterprises so that liquor tax, like consumption tax, can be transferred easily to consumers, and the tax imposition can be inspected and well controlled. Moreover, the licensing system upholds liquor quality suitable to such high tax rates, which contributes to protecting people's health.

A liquor producer is obliged to obtain a license for the liquor type, item type and place of production. There were 3,216 liquor production plants (licensed places) as of March 31, 2003. The April 1994 amendment to Liquor Tax Law has lowered the minimum brewing quantity for beer and allowed small-lot beer production (so-called "local brand beer"). There are 232 beer breweries (licensed breweries) as of March 31, 2003.

In October 2003, the Japanese Diet passed the amendment bill to "Law on Special Zones for Structural Reform." Due to this amendment, unrefined sake producers are exempted from the minimum brewing quantity as long as they satisfy the following two conditions: Being engaged both in agriculture business and in “the business to serve alcoholic beverage at their own premise” (e.g., B&B and farm restaurant) in a structural reform special zone; and making “unrefined sake” from self-produced rice at their own brewery located in the special zone.

(b) Liquor sales license

The liquor sales licensing system ensures that liquor producers, as nominal taxpayers, collect the cost of liquor sold and transfer the liquor tax smoothly to consumers, the ultimate taxpayers. This licensing system also maintains the number of liquor sellers at a reasonable level, prevents disqualified applicants from entering the liquor sales business and avoids disturbance of business. Eventually, this sales licensing system ensures stable collection of liquor taxes revenues.

Liquor sales licenses are subdivided into wholesale and retail licenses. As of March 31, 2003, there are 200,412 liquor sales places (licensed places).

Based on "Three-Year Program for Promoting Deregulation" (Cabinet Decision in March 1998), the Japanese government abolished the liquor retailer’s distance limitation in January 2001 and also discontinued the population criteria scheme in September 2003 after some gradual deregulations. On the other hand, these deregulations are yielding some socioeconomic changes (e.g., Many alcoholic beverage retailers would face difficulties in running their business). To address such problem, the Diet passed “Law on Emergency Measures to Improve Business Conditions for Alcoholic Beverage Retailers” as lawmaker-initiated legislation. This Law aims at smoother deregulation process by granting the limited number of liquor sales licenses in certain emergency adjustment zones. In accordance with this law, the Japanese government designated 922 emergency adjustment zones out of the total 3,833 retail sales zones for one-year period since September 2003.

Table 20: Number of Licenses for Manufacture and Sale of Liquor

Fiscal Year	Manufacturing Licenses						Sales Licenses	
	Sake	Beer	Whisky	Wine	Others	Total	Total	Retailer
1950	3,692	13			4,566	8,271	96,153	91,690
1955	4,021	13			2,916	6,950	121,654	114,649
1960	3,890	16			1,146	5,142	127,708	123,888
1965	3,865	25	18	336	651	4,895	139,085	135,845
1970	3,533	28	22	263	588	4,434	147,399	144,392
1975	3,229	32	29	232	580	4,102	167,301	165,153
1980	2,947	35	31	236	568	3,817	172,122	169,268
1985	2,586	38	35	231	591	3,481	174,544	172,056
1990	2,435	41	28	248	574	3,326	176,953	174,487
1995	2,336	68	24	241	573	3,242	179,880	177,319
1997	2,268	238	21	249	593	3,369	188,695	186,194
1998	2,229	274	19	247	587	3,356	191,722	189,156
1999	2,191	281	16	247	598	3,333	193,971	191,405
2000	2,152	272	14	246	615	3,299	193,123	190,503
2001	2,121	255	13	240	625	3,254	198,005	195,417
2002 (Estimate)	2,076	244	14	246	636	3,216	200,412	198,040

Note: 1. The figures up to 1955 are as of September 30 that year; the figures for 1960 onwards are as of March 31 the following year.

2. When a licensed factory has two or more manufacturing licenses, it is categorized as a manufacturing factory for its main product.

3. Unlike the current classification, the "Whiskies," "Wines," and "Others" sections were all included in the "Others" section before 1960.

Table 21: Taxable Volume of Liquor and Liquor Tax Revenue

(In thousands of kiloliters, \ billion)

Category		FY1950	%	FY1960	%	FY1965	%	FY1970	%	FY1975	%	FY1980	%	FY1985	%	FY1990	%	FY1995	%	FY2000	%	FY2001	%	FY2002(Estimates)	%
Sake	Taxable Volume	186	28.7	751	34.2	(0) 1,159	32.4	(0) 1,601	31.6	(0) 1,747	28.0	(0) 1,473	21.6	(0) 1,355	18.2	(0) 1,422	15.3	(0) 1,310	13.1	(0) 999	10.0	(0) 949	9.4	(0) 898	9.0
	Tax Revenue	41.3	37.7	99.6	39.9	(0) 125.8	35.6	(0) 210.6	34.3	(0) 260.0	28.5	(0) 253.8	17.8	(0) 272.8	14.1	(0) 203.3	10.5	(0) 170.9	8.3	(0) 127.9	7.0	(0) 120.9	6.9	(0) 113.9	6.8
Beer	Taxable Volume	181	27.9	932	42.5	(1) 1,986	55.6	(1) 2,982	58.8	(3) 3,908	62.5	(12) 4,533	66.5	(9) 4,861	65.1	(96) 6,586	70.6	(213) 6,979	69.7	(27) 5,416	54.1	(30) 4,808	47.6	(28) 4,299	43.3
	Tax Revenue	27.5	25.1	103.2	41.3	(0.1) 188.6	53.5	(0.1) 316.1	51.5	(0.3) 419.0	45.9	(1.9) 729.5	51.2	(2.3) 1,160.8	60.0	(20.0) 1,370.2	70.8	(47.2) 1,546.4	75.0	(6.0) 1,200.2	66.1	(6.7) 1,065.6	60.4	(6.3) 952.8	56.6
Whisky	Taxable Volume	N.A.	N.A.	N.A.	N.A.	(1) 66	1.8	(3) 137	2.7	(23) 256	4.1	(27) 371	5.4	(27) 299	4.0	(64) 253	2.7	(47) 181	1.8	(31) 146	1.5	(28) 130	1.3	(28) 121	1.2
	Tax Revenue	N.A.	N.A.	N.A.	N.A.	(2.2) 18.6	5.3	(6.8) 65.5	10.7	(42.2) 211.9	23.2	(60.2) 410.6	28.8	(62.8) 414.0	21.4	(65.5) 258.8	13.4	(47.9) 175.4	8.5	(13.0) 56.8	3.1	(11.6) 50.5	2.9	(11.6) 46.7	2.8
Wines	Taxable Volume	N.A.	N.A.	N.A.	N.A.	(1) 40	1.1	(2) 33	0.7	(9) 51	0.8	(15) 65	1.0	(26) 89	1.2	(67) 147	1.6	(88) 170	1.7	(169) 284	2.8	(162) 273	2.7	(169) 280	2.8
	Tax Revenue	N.A.	N.A.	N.A.	N.A.	(0.1) 2.0	0.6	(0.4) 2.0	0.3	(1.6) 3.9	0.4	(2.9) 7.0	0.5	(4.4) 10.1	0.5	(3.3) 7.3	0.4	(5.1) 9.9	0.5	(9.4) 15.9	0.9	(9.0) 15.3	0.9	(9.4) 15.5	0.9
Others	Taxable Volume	N.A.	N.A.	N.A.	N.A.	(1) 321	9.0	(2) 315	6.2	(1) 288	4.6	(2) 372	5.5	(9) 860	11.5	(32) 917	9.8	(90) 1,366	13.7	(143) 3,171	31.7	(146) 3,945	39.0	(160) 4,326	43.6
	Tax Revenue	N.A.	N.A.	N.A.	N.A.	(0.3) 18.7	5.0	(0.6) 19.5	3.2	(0.6) 17.7	1.9	(1.2) 25.1	1.8	(2.5) 75.9	3.9	(4.7) 96.1	5.0	(15.4) 158.4	7.7	(27.8) 414.2	22.8	(29.5) 511.6	29.0	(32.2) 553.2	32.9
Total	Taxable Volume	649	100.0	(2) 2,194	100.0	(4) 3,572	100.0	(8) 5,068	100.0	(36) 6,250	100.0	(56) 6,814	100.0	(71) 7,464	100.0	(259) 9,324	100.0	(439) 10,006	100.0	(370) 10,015	100.0	(36.6) 10,104	100.0	(385) 9,923	100.0
	Tax Revenue	109.5	100.0	(0.7) 249.9	100.0	Exc. 0 (7.9) 613.7	100.0	Exc.7.2 (44.7) 912.5	100.0	Exc. 0 (44.7) 912.5	100.0	Exc. 0 (66.2) 1,426.0	100.0	(72.0) 1,933.6	100.0	(93.5) 1,935.8	100.0	(115.7) 2,061.0	100.0	Exc.1.7 (56.2) 1,815.0	100.0	Exc.0.1 (56.9) 1,763.8	100.0	(59.5) 1,682.2	100.0

Notes: 1. The figures in brackets show tax revenue assessed by Customs.
2. The figures preceded by "Exc." in "Tax Revenue Total" are the amount of tax imposed on stock.
3. The figures up to FY1975 are from March each year to February the following year; the figures for FY1980 onwards are from April each year to March the following year.

c. Liquor tax examination

(a) Examination of liquor manufacturers

Liquor manufacturers are examined to ascertain whether they are using legally prescribed raw materials and manufacturing methods. They are also examined to confirm that they have filed correct tax returns with regard to liquor shipped from their breweries or distilleries.

If the tax amount filed is found inaccurate through examination, or if no tax return is filed, the competent tax office’s district director may make a correction or determination.

Fraudulent tax evaders are subject not only to investigation for tax evasion, but also to revocation of their licenses.

(b) Examination of liquor sellers

Liquor sellers are examined if necessary to supplement the tax examination on liquor manufacturers.

d. Initiatives for sound development in the liquor industry

In addition to assessing and collecting liquor tax, NTA is in charge of encouraging sound development in the liquor industry.

Administrative public services relating to alcoholic liquors aim at liquor industry’s sound development as well as steady liquor tax revenues by stabilizing liquor trade activities and carrying out comprehensive policy initiatives necessary to address socioeconomic changes.

The liquor industry is facing significant changes in its production, distribution and consumption due to globalization, ever-changing liquor consumption behaviors as well as deregulations and other socioeconomic reforms. The industry also needs to prevent underage drinking and address environmental problems as well.

Keeping this in mind, NTA encourages sound development in the liquor industry by taking the following measures:

(a) Aiming at proper sales management at the retailer level, NTA started in September 2003 to require alcoholic beverage retailers to:

(i) Appoint alcoholic beverage sales manager for each outlet store; and

(ii) Encourage their alcoholic beverage sales managers to attend appropriate sales management training sessions provided by liquor retailer associations or other training session providers designated by Finance Minister.

Alcoholic beverage sales managers are supposed to provide necessary advice and instruction to sales staff working at his/her responsible outlet store, so that they will comply with rules and regulations on liquor sales.

(b) Since alcoholic beverage sometimes yields inebriety and addiction, NTA finds it necessary to properly balance between consumer’s interests and liquor industry’s sound development. To this end, NTA has been requesting liquor traders to launch their advertisements that would discourage underage drinking.

In August 2000, Inter-Ministerial Liaison Council on Social Regulation Concerning Liquor decided an "Outline of Measures to Prevent Consumption of Liquor by Minors, etc., and Measures Concerning the Preparation of a Fair Trading Environment for Liquor Sales" (hereinafter, referred to as the "Outline of Measures"). NTA keeps close contacts with other competent ministries and agencies to enforce measures as stated in the "Outline of Measures."

With the amendment to “Law for Preventing Minors from Drinking” in December 2001, NTA is working with other government departments in encouraging the liquor industry to take necessary steps for preventing underage drinking (e.g., age confirmation).

In June 2003, NTA revised “Standard on Expression to Prevent Underage Drinking.” The revised standard requires alcoholic beverage outlet stores to separate liquors from other products and clearly indicate in an easily viewable space “Alcoholic beverage outlet store” or “Underage drinking is prohibited by applicable laws.”

(c) “Law concerning Liquor Business Associations and Measures for Securing Revenue from Liquor Tax” (Law #28, 1953; hereinafter, referred to as the “Liquor Business Association Law”) requires alcoholic beverage product labeling, such as liquor types, in order to secure liquor tax revenues. To facilitate liquor product trades and protect consumer interests, NTA has also set out the following labeling standards about alcoholic beverage’s manufacturing process and its quality as well as about underage drinking prevention. NTA encourages the liquor industry to comply with the following labeling standards:

(i) “Labeling Standard for Manufacturing Process and Quality of *Sake*” (NTA notice #8 in 1989), which stipulates requirements to display alcoholic beverage’s manufacturing process and its quality;

(ii) “Display Standard for Preventing Juvenile Drinking” (NTA notice #9 in 1989), which sets out the mandatory statement on the beverage container or at shelf space, vending machines or mail order service, stating “Underage drinking is prohibited by applicable laws”;

(iii) “Labeling Standard for Geographical Statement” (NTA notice #4 in 1994), which stipulates the place of origin for wine and distilled alcoholic beverage; and

(iv) “Labeling Standard for Organic Materials in Alcoholic Beverage” (NTA notice #7 in 2000), which sets out mandatory statements, such as “organic,” “genetically modified,” on liquor bottles.

To ensure compliance with these labeling/statement standards, the Japanese government amended Liquor Business Association Law in May 2003. According to the amended law, NTA may designate “Core standard,” which play more important role than other labeling standards. If a liquor trader violates the designated core standard, NTA shall “instruct” the trader to obey the standard. In addition, NTA may “order” such trader to observe the core standard if it ignores NTA’s instruction. With this law revision, NTA set out “Designation of Core Standard for Alcoholic Beverage Labeling” (NTA notice #15 in 2003) in December 2003 in order to designate the core standard.

(d) Aiming at sound development in the liquor industry via fair competition, NTA issued “Guidelines on Sound Development in Liquor Industry via Fair Competition” (hereinafter, referred to as the “Guidelines”) in April 1998. In addition to actively providing the liquor industry with sufficient information on the Guidelines, NTA encourages rational commercial behaviors by conducting examination and pointing out violations to the Guidelines.

NTA maintains close contacts with relevant ministries and agencies to provide fair commercial environments as stated in the "Outline of Measures" in August 2000.

In December 2000, Fair Trade Commission of Japan issued the report “Addressing Dumping and Differential Price in Liquor Distribution Process,” which describes possible regulations to combat dumping and differential pricing practices in the liquor distribution process. NTA provides the liquor industry with sufficient information on this report.

In July 2003, “Law on Emergency Measures to Improve Business Conditions for Alcoholic Beverage Retailers” (Law #34 in 2003) became effective. This legislation sets out 1) application for action of Fair Trade Commission, as well as 2) requirements to prepare and present alcoholic beverage’s trading conditions to business customers. NTA encourages liquor traders to make use of this policy initiative and provides necessary guidance.

(v) It is necessary for the liquor industry to deal appropriately with environmental issues for its sound development. NTA has been working on publicity and promoting understanding of environmental laws, including Basic Law for Promoting the Formation of a Recycling-Oriented Society.

NTA will continue to support the liquor industry so that the industry will be able to deal appropriately with environmental issues, including efforts to conform to environmental laws and regulations.

Furthermore, NTA has been working on the following guidance programs that target the liquor industry and consumers, in order to recycle liquor bottles and to restrain, reuse, and recycle waste generated at the production and distribution stages.

i) Based on a report by Central Council on Alcoholic Beverages titled "Interim Report on Recycling Alcoholic Beverage Containers" (February 1991), NTA encourages the industry and consumers to use reusable containers.

ii) Based on “Law for Promoting Effective Utilization of Resources” (Law #48 in 1991), NTA pushes ahead with proper labeling for container ingredients.

iii) According to “Law for Promotion of Sorted Collection and Recycling of Containers and Packaging” (Law #112 in 1995), NTA encourages the industry to reuse particular containers.

iv) NTA actively provides information on “Law for Promoting the Reuse and Recycling of Recyclable Food Resources,” which became effective in May 2001.

Paying careful attentions to the reality in the liquor industry, NTA will plan adequate policy initiatives to further drive forward recycling liquor containers.

(vi) Sound business operations at small- and medium-sized liquor enterprises will surely require a certain policy initiative for revitalizing their business performance even under severe business environments. In this respect, NTA endeavors to actively support these enterprises in their efforts to formulate management reform programs based on “Small and Medium Enterprises Business Innovation Support Law” (Law #18 in 1999) effective in July 1999. Furthermore, NTA has been supporting their efforts in management innovation and management revitalization. More specifically, NTA has been providing information on successful management innovation cases in Japan as well as government support policies for small and medium enterprises. NTA also holds seminars with experts such as small and medium enterprise management consultants.

The government has identified “sake” manufacturers and liquor wholesalers as designated industries as stated in Small and Medium Enterprises Business Innovation Support Law (in December 2000 for “sake” manufacturers; and in March 2002 for liquor wholesalers). This is because they have been suffering from significantly smaller output or trade volume due to severe changes in economic environments. The Japanese government is providing active supports to these industries by approving business performance enhancement plans for “sake” manufactures in October 2001 and for liquor wholesalers in March 2003.

(6) Consumption tax

In April 1988, the Government Tax Commission submitted its report to the Prime Minister advocating a fundamental tax reform. In response to this report, the government reexamined the entire tax system, and in late December, the Diet passed a series of tax reform bills. Under these reforms, consumption tax (which levies a light tax burden over a wide range of goods and services) came into force on April 1, 1989.

Recently, a revision of Consumption Tax Law was discussed at “Joint Deliberative Council of Both Houses on Taxation System Problems.” Based on the Council's conclusions, the range of exempted transactions, the simplified tax system, the marginal deduction system, and the interim return and payment system were revised by an act of parliament in May 1991, and the amendments came into force on October 1, 1991.

In June 1994, the Government Tax Commission submitted its report proposing a tax reform, including reducing income tax and increasing consumption tax, to support the needs of a welfare society. In response to this report, the government painstakingly reconsidered the tax system, and “Law Amending the Income Tax Law and Consumption Tax Law” and “Law Amending the Local Tax Law” were enacted and promulgated in November 1994.

In line with the above, fundamental reform of the consumption tax was carried out, including a review of special provisions for small and medium enterprises (modification of the simplified tax system, and termination of the marginal deduction system) and an increase in consumption tax rate. Further, to promote decentralization and regional social welfare, the local consumption tax was newly established as a local tax, replacing the consumption transfer tax. These amendments and the new Local Consumption Tax Law took effect on April 1, 1997.

In FY2003, the government reexamined the whole taxation system to appropriate, sustainable tax system, taking into considerations the current economic and fiscal conditions. Consumption tax will surely play important roles in the future Japan that will face aging society with fewer children. To improve reliability and transparency in the consumption tax scheme, the government drastically reformed the tax exemption system applicable to small and medium enterprises. This consumption tax reform, among others, included the lower taxable income upper limits applicable to tax exemption and simplified tax system and also introduced new partial tax payment by interim tax return. The revised Consumption Tax Law took effect on April 1, 2004 and is now requiring price indication inclusive of consumption tax.

a. Outline of consumption tax

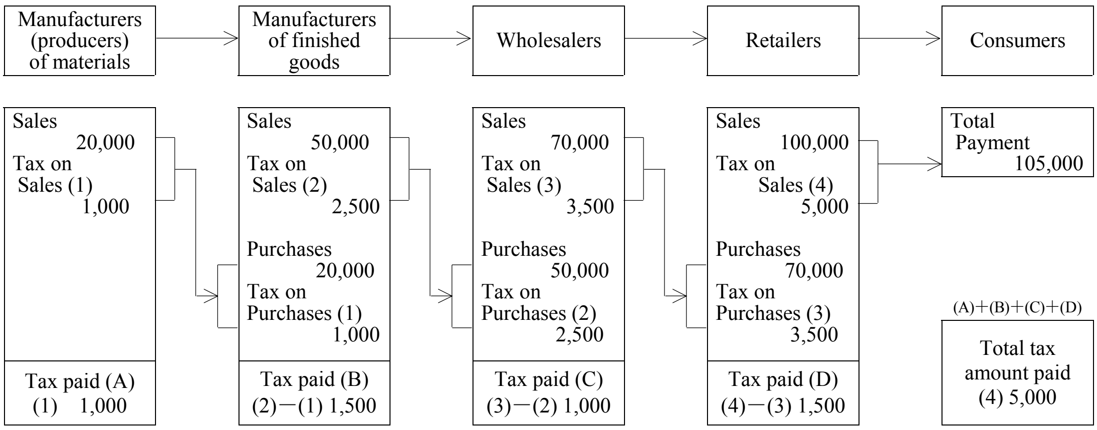
Consumption tax is levied on the sale/lease of assets and the provision of services (asset transfers, etc.) rendered in exchange for compensation as business activity by business enterprises in Japan. The consumption tax is also levied on foreign goods received from bonded areas. With regard to domestic transactions, business enterprises are liable to pay consumption tax. As for importation, those who receive goods from bonded areas need to pay consumption tax.

N.B. If business enterprises whose taxable sales during the taxable basic period (i.e., two years before for sole proprietors; and the accounting period before the last accounting period for corporations) are 30 million yen or less (or 10 million yen for a taxable period starting after April 1, 2004) are exempt from consumption tax on sale of taxable assets during that tax period (exemption of tax liability of small-scale enterprises). They can, however, opt to pay tax.

Of corporations that do not have a base period for their business year, those with capital of 10 million yen or more at the beginning of their business year (except social welfare services) are not exempt from consumption tax in that year.

Title transfers and leasing of land, financial transactions and other transactions inside the nation are exempt from taxation because they are not considered suitable objects of taxation. In addition, medical care and education are not subject to taxation, based on social policy considerations.

Figure 6: Flow of Consumption Tax



Consumption tax is imposed on the consumption of goods and services within Japan. It is, therefore, not applied to export transactions, international transportation or communications, etc.

The tax base for consumption tax on domestic transactions is the amount of compensation in the transfer of taxable assets (i.e. the transactional value). For import transactions, it is the sum of dutiable value, customs duties and other specific consumption taxes of imported goods. The applicable consumption tax rate is 4%.

In addition, as the rate of local consumption tax is 25% of the national consumption tax (equivalent to 1% of the taxable consumption goods/services), the overall tax rate including national and local consumption tax portions is 5%.

In calculating the amount of payable consumption tax, consumption tax on taxable purchases or on receipt of delivery of taxable cargo from bonded areas, either paid or to be paid during the tax period, is deductible from the consumption tax levied on taxable sales for that tax period.

Tax credit in such cases is calculated as follows:

(a) If the amount of taxable sales exceeds 95% of total sales during a tax period, the entire amount of consumption tax paid on purchases is deductible.

[Proportion of taxable sales]
＝ [Taxable sales in a taxable period (excluding tax)]
÷ [Gross sales in a taxable period (excluding tax)]

(b) If the amount of taxable sales is less than 95%, the amount deductible as tax credit on taxable purchases can be calculated by either the itemized method or the proportional method.

i) Itemized method:

Taxes on taxable purchases during a taxation period are divided into those attributable to taxable sales, those attributable to non-taxable sales, and those attributable to both taxable and non-taxable sales. The following formula represents the deductible amount of taxes:

[Deductible amount of taxes]
＝ [Amount of taxes on taxable purchases attributed to taxable sales]
＋ [Amount of taxes on taxable purchases common to both taxable and non-taxable sales] × [Proportion of taxable sales]

ii) Proportional method:

In the case of proportional method, the following formula represents the deductible amount of taxes:

[Deductible amount of taxes]
＝ [Amount of taxes on taxable purchases]
× [Proportion of taxable sales to total sales]

N.B. Tax credit on taxable purchases is conditional upon the proper preservation of books and records (invoices, receipts, etc.).

Small and medium enterprises may use a simplified tax system when calculating their consumption tax liabilities. Business enterprises whose taxable sales during the base period are 200 million yen or less (or 50 million yen for a taxable period starting after April 1, 2004) may deduct the consumption tax on sales multiplied by a certain rate (the "deemed purchase rate") as tax on taxable purchases, provided they submit an application to use this approach.

N.B. The deemed purchase rate varies as follows according to the category of business enterprise:

- ・Type 1 businesses (wholesale): 90%
- ・Type 2 businesses (retail): 80%
- ・Type 3 businesses (manufacturing): 70%
- ・Type 4 businesses (businesses other than Types 1, 2, 3 and 5): 60%
- ・Type 5 businesses (service provider, etc.): 50%

Business enterprises conducting domestic transactions must file tax returns and pay their taxes due within 2 months after the last day of the taxation period (or by the end of March for individual proprietors).

Business enterprises that have filed consumption tax of more than 4 million yen in the final tax return for the previous tax period must file interim returns and pay one-fourth of the amount of the previous final consumption tax due in three 3-monthly installments (each payable within 2 months after the last day of the previous 3-month period). Those that have paid 4 million yen or less but over 480,000 yen must file an interim tax return and pay a half of the amount of the previous final consumption tax due in one installment within 2 months after the last day of the first 6-month period of the tax year.

(For tax periods starting after April 1, 2004, if a business enterprise has filed consumption tax of more than 48 million yen in the preceding tax period, the enterprise must file its interim return and make monthly payment (total 11 monthly payments in a year) at one-twelfth of its preceding tax period's consumption tax as well as local consumption tax (i.e., 25% of the national consumption tax).

Enterprises conducting import transactions must file a tax return and pay taxes by the time of receiving taxable goods from bonded areas.

Enterprises (excluding tax-exempt businesses) must keep books and record all details of asset transfers, taxable purchases and receipts of taxable goods from bonded areas. As long as the books describe these factors, either commercial books or books and records for the purpose of income tax or corporation tax may be used.

b. Guidance and examination on consumption tax

In July 1991, a new enforcement initiative was established, adding examination to public relations activities, consultation and guidance. Examination for consumption tax purposes is now conducted simultaneously with income tax or corporate tax for the convenience of taxpayers. NTA will continue to strive for uniform acceptance of the system among the public and to maintain proper and fair taxation.

NTA conducts effective examinations, focusing on taxpayers suspected of major tax evasion as well as taxpayers who file returns for refunds.

Consumption tax employs a different approach from income tax or corporate tax in that taxpayers to whom the simplified tax system does not apply may not claim tax credit for consumption tax on purchases if they have not kept books or records. To administer this tax system properly, NTA provides taxpayers with guidance for filing appropriate tax returns voluntarily.

Table 22: Amount of Consumption Tax Revenue

(Calendar Year)		Tax Returns Number (in thousands)	Tax Returns Tax Amounts (billion yen)	Tax Refund Returns Number (in thousands)	Tax Refund Returns Tax Amounts (billion yen)	Total Number (in thousands)	Total Tax Amounts (billion yen)
Individuals	1989	634	128.9	39	33.3	673	95.6
	1990	704	194.1	51	81.0	755	113.1
	1991	756	203.8	40	74.9	795	128.8
	1992	754	265.0	21	37.4	775	227.6
	1993	767	250.0	18	30.2	786	219.7
	1994	737	239.1	17	23.3	754	215.8
	1995	702	229.3	16	16.6	718	212.7
	1996	669	248.5	16	14.7	685	233.8
	1997	631	312.3	16	16.7	647	295.7
	1998	614	353.4	16	17.2	630	336.2
	1999	586	333.9	15	15.6	601	318.4
	2000	523	306.9	14	13.7	537	293.2
	2001	481	283.4	15	13.9	496	269.5
	2002	456	265.8	15	14.1	471	251.7
Corporations	1989	1,191	3,825.7	112	1,285.1	1,303	2,540.7
	1990	1,326	5,386.4	74	1,225.2	1,401	4,161.2
	1991	1,440	6,009.1	67	1,167.0	1,507	4,842.1
	1992	1,531	6,429.5	66	1,085.5	1,597	5,343.9
	1993	1,622	6,836.4	66	988.2	1,688	5,848.2
	1994	1,653	6,942.6	64	1,003.0	1,716	5,939.6
	1995	1,662	6,937.4	64	993.4	1,726	5,944.1
	1996	1,664	7,062.3	66	1,047.0	1,730	6,015.3
	1997	1,659	8,715.0	75	1,584.3	1,734	7,130.7
	1998	1,691	9,513.3	81	1,469.1	1,772	8,044.2
	1999	1,683	9,967.8	82	1,696.8	1,765	8,271.0
	2000	1,635	9,472.4	84	1,574.9	1,719	7,897.5
	2001	1,588	9,311.4	85	1,441.8	1,673	7,869.6
	2002	1,571	9,269.2	85	1,531.5	1,656	7,737.6
Total	1989	1,825	3,954.7	151	1,318.3	1,976	2,636.3
	1990	2,030	5,580.5	126	1,306.2	2,156	4,274.3
	1991	2,195	6,212.9	107	1,241.9	2,302	4,971.0
	1992	2,285	6,694.5	87	1,123.0	2,372	5,571.5
	1993	2,389	7,086.3	84	1,018.4	2,473	6,067.9
	1994	2,390	7,181.7	81	1,026.3	2,470	6,155.4
	1995	2,364	7,166.7	80	1,009.9	2,444	6,156.8
	1996	2,333	7,310.8	82	1,061.7	2,415	6,249.1
	1997	2,290	9,027.4	91	1,601.0	2,381	7,426.4
	1998	2,305	9,866.8	97	1,486.4	2,402	8,380.4
	1999	2,269	10,301.7	97	1,712.3	2,365	8,589.4
	2000	2,158	9,779.3	98	1,588.6	2,255	8,190.6
	2001	2,069	9,594.8	100	1,455.6	2,169	8,139.1
	2002	2,027	9,534.9	99	1,545.6	2,126	7,989.3

Note: Returns as of the end of June of the following year (including those reported by the end of September of the following year to the government and municipal corporations) and their taxation records in the taxation period starting in April of the current year and ending in March of the following year.

(7) Excise taxes (tobacco tax, etc.)

a. Outline of each tax

The following is an outline of excise taxes (i.e. tobacco tax, special tobacco tax, gasoline tax, local road tax, aviation fuel tax, liquefied petroleum gas tax, petroleum-coal tax, stamp tax, motor vehicle tonnage tax and promotion of power-resources development tax).

(a) Tobacco tax and special tobacco tax

As national taxes, tobacco tax and special tobacco tax are charged on tobacco. These two taxes have the same tax base and are treated in every respect as a single tax. The only difference is that revenue from the special tobacco tax is used for the national debt clearing fund in the special account. The total tax rate is 3,946 yen per 1,000 cigarettes (including 820 yen as special tobacco tax). Those who manufacture tobacco or receive tobacco from bonded areas are liable to pay tobacco tax and special tobacco tax. For taxation purpose, tobacco has the four categories: “cigarette,” “cigar,” “pipe smoking tobacco” and “chewing/smokeless tobacco.”

N.B. 1. In addition to national tobacco tax and special tobacco tax, local tobacco tax is also levied (969 yen per 1,000 cigarettes for prefectures and 2,977 yen per 1,000 cigarettes for municipalities). The total tax due on tobacco is 7,892 yen per 1,000 cigarettes.

2. On July 1, 2003, the government raised the rates for tobacco tax and special tobacco tax to the present level.

(b) Gasoline tax and local road tax

Gasoline is subject to both gasoline tax and local road tax. Since these two taxes are imposed on the same object and have the same tax base, they are assessed and collected like a single tax.

The gasoline tax revenue is wholly designated as a specific financial resource for road construction under “Temporary Measures Law for Road Construction and

Improvement." A quarter of the gasoline tax revenue is credited directly to the Road Construction and Improvement Special Account so that it may be appropriated to finance grants to local governments under the Law. Revenue from local road tax, meanwhile, is supposed to be wholly transferred to prefectures and municipalities as a specific financial resource for road construction.

The tax rate is 53,800 yen (48,600 yen as gasoline tax and 5,200 yen as local road tax. In Okinawa Prefecture, the two taxes combined amount to 46,800 yen.) per kiloliter of gasoline. Gasoline tax and local road tax are paid by gasoline manufacturers and those who receive gasoline from bonded areas, and they are levied mainly on motor gasoline. Gasoline used as a raw material in the petrochemical industry is exempt from taxation.

To secure revenue from gasoline tax and local road tax, NTA exchanges information on gasoline refining and transactions with METI (Ministry of Economy, Trade and Industry), ANRE (Agency for Natural Resources and Energy), Petroleum Association of Japan, Japan Petrochemical Industry Association and other manufacturer organizations.

Table 23: Amount of Gasoline Tax Revenue

Fiscal Year	Number of Locations Taxed		Quantity of Tax Base (1,000 kl)		Amount of Tax (\ million)	
1950		27		59		782
1955	Incl. 146	173		2,621		34,068
1960	Incl. 84	120		5,455		123,828
1965	Incl. 220	272		10,583		303,743
1970	Incl. 322	432		20,667		593,139
1975	Incl. 382	496		28,312		973,130
1980	Incl. 365	473	Exc. 5	33,981	Exc. 38	1,825,670
1985	Incl. 321	425	Exc. 0	36,625	Exc. 1	1,986,035
1990	Incl. 252	351		44,077		2,368,366
1995	Incl. 201	295		50,760		2,727,128
1998	Incl. 204	291		54,820		2,945,289
1999	Incl. 195	288		56,437		3,032,073
2000	Incl. 207	293		57,134		3,069,605
2001	Incl. 203	282		57,858		3,108,449
2002	Incl. 200	282		58,334		3,133,948

Notes: 1. "Number of Locations Taxed"* is the number of refineries, natural gasoline plants, waste oil regeneration plants and bonded areas* (the figures are as of March 31 the following year).
2. The figures preceded by "Incl." are the number of bonded areas.
3. The figures preceded by "Exc." are the amount of taxable stock.

(c) Aviation fuel tax

Aviation fuel tax is levied on aviation fuel and is paid in principle by aircraft owners. The tax rate is 26,000 yen per kiloliter (a special rate of 13,000 yen per kiloliter is applied to aircraft that fly to Okinawa, while 19,500 yen is applicable for those flying to remote islands). Aviation fuel tax revenue is spent for airport maintenance and airport-related policies.

(d) Liquefied petroleum tax

Liquefied petroleum gas (LPG) tax is imposed on fuel for automobiles at the time of LPG transfer into the fuel tanks of automobiles, and it is paid by those who transfer LPG. The tax rate is 17.5 yen per kilogram (9.8 yen per liter).

Half of the tax revenue goes to the national government, and the rest is transferred to prefectural and designated city governments as a specific financial resource for road construction.

(e) Petroleum-coal tax

Petroleum-coal tax is levied on crude petroleum, imported petroleum products, gaseous hydrocarbons and coals. It is paid by those who extract crude petroleum, gaseous hydrocarbons or coals, or those who withdraw crude petroleum, petroleum products, gaseous hydrocarbons or coals from bonded areas. The tax rate is 2,040 yen per kiloliter for crude petroleum and imported petroleum products, 1,080 yen per tonne for natural gas, 670 yen per tonne for imported liquefied petroleum gas (LPG), and 700 yen per tonne for coals. The petroleum-coal tax revenue is appropriated to finance government policies on oil and alternative energy development.

Notes: 1. On October 1, 2003, the government renamed “petroleum tax” as “petroleum-coal tax” because tax base expanded to coals.
2. The government plans to gradually raise tax rates (except for crude oil and imported petroleum products) according to the following schedule.

Tax base	To September 30, 2003	October 1, 2003 to March 31, 2005	April 1, 2005 to March 31, 2007	From April 1, 2007
Imported LPG	670 yen/t	800 yen/t	940 yen/t	1,080 yen/t
Natural gas	720 yen/t	840 yen/t	960 yen/t	1,080 yen/t
Coal	-	230 yen/t	460 yen/t	700 yen/t

(f) Stamp tax

Stamp tax is levied on certain documents such as contracts, bills and share certificates. As a rule, the tax is levied by affixing revenue stamps covering the amount equal to the stamp tax to those documents. However, in certain cases, such as when many taxable documents are processed repeatedly, taxpayers may, for convenience, choose self-assessment or payment in cash. Tax rates vary from 200 yen to 600,000 yen per document. Revenue stamps are also used for payment of registration license tax levied when registering the establishment or transfer of property rights and for payment of national examination fees.

(g) Motor vehicle tonnage tax

Motor vehicle tonnage tax is levied on motor vehicles for which a motor vehicle inspection certificate, or a registration number in the case of light motor vehicles, is obtained. The tax is paid by those who obtain a motor vehicle inspection certificate or a registration number in the case of light motor vehicles. The tax rate differs according to the type of vehicle and tonnage. One third of the revenue from this tax is granted to local governments to fund the construction and improvement of local roads.

(h) Promotion of power-resources development tax

Promotion of power-resources development tax is levied on electric power sold by general electric power companies to finance government measures promoting the establishment of nuclear, thermoelectric and hydroelectric power plants, and to promote the use of alternatives to oil in generating electricity. The tax rate is 375 yen per 1,000 kilowatt-hours of electricity sold.

The government plans to gradually reduce the tax rate according to the following schedule.

Term	To September 30, 2003	October 1, 2003 to March 31, 2005	April 1, 2005 to March 31, 2007	From April 1, 2007
Tax rate (per 1,000 kilowatt-hours of electricity sold)	445 yen	425 yen	400 yen	375 yen

b. Examination of excise taxes

As the stamp tax has the large number and wide variety of taxpayers and taxable documents, NTA launches public relations campaigns, provides guidance and conducts tax inspection in an efficient and effective manner, aiming at keeping contacts as many taxpayers as possible, achieving fair taxation as well as enhancing voluntarily tax payment.

In terms of other indirect taxes than stamp tax, there are not so many taxpayers, while the tax amount due from each taxpayer is relatively large. In addition, applicable laws stipulate detailed tax exemption and other procedures for most of these indirect taxes. In order to enhance awareness among taxpayers, NTA keeps contacts with taxpayers and checks out for their compliance.

5. Combating Tax Evasion

(1) Criminal Investigation program

a. Outline of the program

In the self-assessment system, taxpayers should voluntarily file returns and pay their taxes. NTA has tax inspection program so that the self-assessment system will function smoothly. If tax inspection reveals an error in tax returns, tax office usually requests taxpayers to correct them. Tax inspection, in principle, requires the consent of the taxpayers (so-called "voluntary inspection").

On the other hand, tax laws demand that taxpayers who intentionally evade taxes shall be subject to fines or imprisonment, as well as payment of their delinquent taxes, as a penalty for neglecting their social responsibility. Because voluntary inspection is not powerful enough to grasp the whole landscape of tax evasion, NTA is authorized to carry out coercive investigation similar to criminal investigation process. If discovering tax evasion offense in this process, NTA reports it to public prosecutors for criminal prosecution. In this sense, NTA's criminal investigation program plays an indispensable role in supporting the self-assessment system and enforcing tax laws.

"Anti National Tax Evasion Law" clearly sets out this investigation procedure in detail. Investigators at the regional taxation bureau level are in charge of enforcing this law.

b. Investigators

Investigators are assigned to NTA head office, all 11 regional taxation bureaus and Okinawa Regional Taxation Office. They do not have the authority to arrest or investigate suspected tax evaders, but as provided in Anti National Tax Evasion Law, they may take certain action in tax fraud investigations. For example, they may question suspects and witnesses and inspect books and records. They are also authorized to take custody of items voluntarily submitted. After obtaining a court warrant, they are able to enter specified premises to search for and seize evidence.

NTA's criminal investigation procedure is as follows. When a suspected tax evader is found, a scouting investigation is made to identify the scale and method of the tax evasion. Should the result of the scouting investigation indicate that a large sum of income is concerned or that the evasion method employed is fraudulent, the taxpayer is selected for criminal investigation. The investigator presents the facts concerning the suspected tax evader to a judge and applies for a warrant. Having obtained the warrant, the investigator is authorized to start compulsory investigation. In carrying out the investigation, the investigators in each regional taxation bureau act in a highly disciplined and coordinated manner. If necessary, regional taxation bureau sends its investigators to help other bureau's compulsory investigation on case-by-case basis.

After exhaustive investigation, the documents collected in the compulsory investigation are used as evidence to establish the suspect's true income and prove tax evasion.

Investigators are supervised by regional commissioners of regional taxation bureaus and are not directly subject to the directions of public prosecutors. However, in conducting investigations, they take account of the need to secure evidence of income as well as of intention to evade tax or responsibility on the part of the suspects, which may be used in a subsequent public trial. They therefore keep close contact with and, if necessary, discuss with prosecutors during investigation.

c. Criminal Investigation activities

The criminal investigation program was introduced in 1948 when the Japanese economy suffered from galloping inflation, and a sufficient level of tax compliance was not maintained at that time. Many people tried to conceal gains derived by inflation; consequently, there were many investigation cases.

Later, as inflation abated and the economy stabilized, the self-assessment system was gradually accepted by taxpayers, and only cases truly deserving of social criticism were selected for NTA's criminal investigation. Under these circumstances, the investigation system has improved over the years, and every effort has been made to maintain its effectiveness in response to the increasing complication and diversification of business transactions.

As of FY2002, NTA handles 196 tax evasion cases and files criminal charges for 145 tax evasive cases, or 74.0% of the total 196 cases (See Table 24).

Table 24: Disposition of Criminal Investigation Cases

Fiscal Year	Number of Cases		Ratio of Criminal Indictments (2)/(1) (%)	Amount of Evasion	
	Number of Cases Handled (1)	Criminal Indictments (2)		Amount (3) (\ million)	Average Amount per Case (3)/(1) (\ thousand)
1950	909	73	8.0	5,116	5,628
1960	169	55	32.5	2,726	16,130
1965	145	100	69.0	5,566	38,386
1970	167	103	61.7	7,555	45,240
1975	203	147	72.4	15,595	76,823
1980	235	167	71.1	23,062	98,136
1985	259	210	77.6	40,876	157,822
1990	234	161	68.8	52,377	223,833
1995	223	163	73.1	41,533	186,247
1998	234	160	68.4	39,443	168,560
1999	205	148	72.2	31,618	154,234
2000	205	146	71.2	27,088	132,136
2001	212	151	71.2	30,942	145,953
2002	196	145	74.0	35,683	182,055

(2) Combating evasion of indirect taxes

a. Outline of the program

The program for combating indirect tax evasive cases has a longer history than the investigation program for direct tax violations. In 1883, tax officials were first empowered to conduct special investigations for evasion of liquor manufacturing tax, tobacco tax and two other taxes. It soon became customary to treat evaders of other indirect taxes in the same manner, and in 1890 the Indirect National Tax Evader Disposition Law was promulgated, providing special procedures for dealing with evaders of all indirect national taxes. After several amendments, this law was rewritten to include a control procedure for direct tax evaders in 1948. It was renamed the National Tax Violations Control Law, and it remains in effect today. Around the time of establishment of Indirect National Tax Evader Disposition Law, there were a large number of dispositions for indirect tax evasion. To efficiently handle this large volume of duties, a notification procedure system has since been used.

The notification in this context means the notice from regional commissioner or district director that urges a taxpayer to pay the applicable penalty or minor fine, as well as to surrender goods of an equivalent value to the forfeited articles. This notification is given if the regional commissioner or district director suspects a tax crime based on investigation. The taxpayer is not legally obliged to obey such request, but if not obeying the request, the taxpayer is indicted and criminally prosecuted.

In particularly pernicious cases, NTA criminally indicts the taxpayer without issuing a notification.

The notification procedure is not used for consumption tax except for import transactions.

b. Combating indirect tax evasion today

Today, thanks to the license systems and strict investigation programs, large-scale fraudulent evasion of liquor taxes rarely occurs.

NTA has tightened control over large-scale and aggravated cases of indirect tax evasion, including gasoline tax.

Table 25: Disposition of Indirect Tax Evasion Cases

Fiscal Year	Number of Cases Disposed	Breakdown of Tax Evasion Disposition				Amount of Tax Evasion (\ million)	Fines Imposed in Notification Process (\ million)
		Notification	Direct Criminal Indictments	Cases Dismissed	Others		
1950	74,341	65,112	7,314	1,673	242	N/A.	606
1955	50,638	51,740	5,272	1,087	539	N/A.	324
1960	75,890	72,499	678	2,260	453	N/A.	400
1965	94,543	91,371	819	1,715	638	302	357
1970	5,991	4,429	17	1,108	437	347	317
1975	711	542	6	135	28	1,029	556
1980	838	672	9	139	18	992	631
1985	733	653	9	65	6	1,539	678
1990	6	5	-	1	-	-	1
1995	8	8	-	-	-	2	5
1998	7	6	-	1	-	1	1
1999	12	11	-	1	-	11	3
2000	27	25	-	1	1	9	4
2001	12	9	-	x	x	28	3
2002	15	12	3	-	-	998	5

Notes: 1. "Notification" means notifications made to tax evaders demanding payment of the amount corresponding to fines and delivery of confiscated goods.
2. "Direct Criminal Indictments" means prosecutions without notification when the offense is large scaled and particularly fraudulent.
3. "Cases Dismissed" means cases dismissed without disposition or prosecution because of the minor nature of the offense although conclusive evidence of tax evasion was obtained.
4. "Others" means cases in which suspected tax evaders were informed that conclusive evidence of tax evasion had not been obtained.

6. Tax Payment and Collection of Delinquent Taxes

(1) Payment of taxes

a. Method of paying national taxes

(a) Payment in cash

National taxes must be paid, in principle, on or before the statutory due date in cash or securities (which are acceptable for revenue payment), together with a statement of payment, to the Bank of Japan or other revenue-receiving agencies. In the case of stamp duty and automobile tonnage tax, payment in stamps may substitute payment in cash.

In the case of self-assessment income tax, inheritance tax and gift tax, payment may be postponed for a certain period. In special circumstances, when a taxpayer has suffered substantial losses due to natural disaster, postponement of payment may be permitted for a certain period (usually not for more than one year) upon application from the taxpayer.

The revenue-receiving agencies include the Bank of Japan and national tax-receiving officials (tax office officials appointed to receive national taxes). For the convenience of taxpayers, these agencies are located all over the country. The Bank of Japan in this context means its headquarters and branch offices as well as commercial banks acting as revenue agents for the Bank of Japan. There are 42,000 agencies to receive national taxes (out of which, the number of post offices is about 20,000).

Taxes paid are centrally managed in the government account at the headquarters of the Bank of Japan.

(b) Postponement of inheritance tax and gift tax payments

Yearly installment payments are acceptable for inheritance tax and gift tax. For these purposes, the following conditions must be met: (i) the tax amount is over 100,000 yen, (ii) the taxpayer has difficulty making the payment in cash on or before the due date, (iii) an application for the postponement is filed on or before the due date, and (iv) collateral security for the postponement is provided.

The length of postponement for payment of inheritance tax and the rate of interest on tax are determined by the ratio of the value of the real estate, etc., to the value of the inherited property. The maximum postponement period is 20 years (or 40 years at maximum for some specified properties), and interest between 1.2% per annum and 6% per annum is levied. The maximum length of postponement for gift tax is 5 years, and the rate of interest is 6.6% per annum. In addition, the rates of interest tax are reduced to exceptional rates corresponding to the official discount rate.

(c) Payment in kind

In the case of inheritance tax, payment in kind by transfer of inherited assets is permitted in exceptional circumstances due to its nature as property taxation.

Payment in kind is approved if all the following conditions are met, and the taxpayer would find the approved amount difficult to pay:

i) Payment in cash would cause the taxpayer hardship even with a postponement of payment.
ii) The assets to be used for payment in kind belong to a specific category of assets and are those selected according to statutory order.
iii) The application for payment in kind is filed on or before the due date.
iv) The assets are eligible for payment in kind.

The number of applications for tax payment in kind has risen markedly since 1990, reflecting lower land prices and stagnant land transactions, among other factors (see Table 27).

Table 26: Amount of National Taxes Collected

(\ billion)

	Fiscal Year	Amount Determined For Collection (1)	Collected Amount (2)	Appropriation for Interest on Refund (3)	Loss Through Non-payment (4)	Amount in Arrears (5)	Amount of Suspension Of Disposition for Arrears (6)	(2)/(1)	[(2)+(3)+(4)]/(1)	(6)/(5)
Total	1960	1,542.4	1,487.8	0.3	4.7	49.6	8.6	96.5	96.8	17.3
	1965	2,980.5	2,800.6	0.2	2.7	177.0	9.3	94.0	94.1	5.3
	1970	7,297.0	6,921.1	0.2	4.8	370.8	13.3	94.8	94.9	3.6
	1975	14,547.7	13,531.2	0.2	2.6	1,013.8	8.6	93.0	93.0	0.9
	1980	27,046.1	25,786.0	0.2	5.4	1,254.5	28.7	95.3	95.4	2.3
	1985	38,572.2	36,957.9	-	18.3	1,596.0	51.3	95.8	95.9	3.2
	1990	64,243.7	60,656.2	-	49.3	3,538.2	81.3	94.4	94.5	2.3
	1995	58,086.5	52,771.2	-	102.5	5,212.8	273.5	90.8	91.0	5.2
	1999	56,038.9	50,885.3	-	224.0	4,929.7	369.0	90.8	91.2	7.5
	2000	58,807.4	53,917.1	-	265.3	4,625.0	359.9	91.7	92.1	7.8
	2001	55,608.7	50,966.3	-	316.3	4,326.1	315.3	91.7	92.1	7.3
	2002	51,794.2	47,554.6	0	298.9	3,940.7	254.7	91.8	92.4	6.5
Amount For Current Fiscal Year	1965	2,808.9	2,676.4	0.1	0.0	132.3	0.1	95.3	95.3	0.1
	1970	6,977.0	6,669.0	0.2	0.0	307.9	0.2	95.6	95.6	0.1
	1975	13,591.3	12,765.4	0.1	0.0	825.8	0.0	93.9	93.9	0.0
	1980	25,994.0	25,082.0	0.1	0.1	911.7	0.0	96.5	96.5	0.0
	1985	37,320.1	36,292.0	-	0.1	1,028.0	0.1	97.2	97.2	0.0
	1990	62,306.2	59,823.2	-	0.0	2,483.0	0.2	96.0	96.0	0.0
	1995	53,734.5	51,741.5	-	0.5	1,992.5	0.5	96.3	96.3	0.0
	1999	51,580.6	49,730.4	-	1.5	1,848.8	1.5	96.4	96.4	0.1
	2000	54,416.0	52,802.3	-	2.8	1,601.9	2.4	97.0	97.0	0.1
	2001	51,472.4	49,902.3	-	6.4	1,563.7	1.8	96.9	97.0	0.1
	2002	47,965.4	46,536.0	0	6.2	1,423.1	1.8	97.0	97.0	0.1
Amount For Preceding Fiscal Year	1960	49.3	20.3	0.1	4.7	24.3	8.3	41.2	50.9	34.2
	1965	171.6	124.2	0.1	2.7	44.7	9.2	72.4	74.0	20.6
	1970	319.9	252.2	0.0	4.7	63.0	13.0	78.8	80.3	20.6
	1975	956.4	765.8	0.1	2.6	187.9	8.6	80.1	80.4	4.6
	1980	1,052.1	703.9	0.1	5.3	342.7	28.7	66.9	67.4	8.4
	1985	1,252.2	666.0	-	18.2	568.0	51.2	53.2	54.6	9.0
	1990	1,937.5	833.0	-	49.3	1,055.2	81.1	43.0	45.5	7.7
	1995	4,352.0	1,029.7	-	102.0	3,220.3	273.0	23.7	26.0	8.5
	1999	4,458.3	1,154.9	-	222.5	3,080.9	367.5	25.9	30.9	11.9
	2000	4,391.4	1,114.8	-	262.5	3,014.2	357.5	25.4	31.4	11.9
	2001	4,136.3	1,064.0	-	309.9	2,762.4	313.5	25.7	33.2	11.3
	2002	3,828.8	1,018.6	0	292.7	2,517.6	252.9	26.6	34.2	10.0

Notes: 1. Nonpayment/Deficiency indicates tax obligations that have extinguished due to three years having elapsed after the termination of the disposition for failure to pay or any other cause. A "Suspension of Disposition for Arrears" is made in cases where there is no property to be disposed of.

2. "Amount in Arrears" includes amounts for which the payment period has been extended as provided by the Gasoline Tax Law. If these amounts are omitted from the total amount in arrears, the collection ratio appears much higher.

Table 27: Number of Applications for Tax Payment in Kind

Fiscal Year	Number of Applications			Total Amount (\ billion)		
1993			10,446			1,108.1
1994	Incl.	7,268	16,066	Incl.	754.5	1,482.3
1995			8,488			661.0
1996			6,841			465.4
1997			6,258			434.0
1998			7,076			460.6
1999			7,075			430.0
2000			6,100			351.0
2001			5,753			326.1
2002			5,708			332.5

Note: The figures for FY1994 preceded by "Incl." are the number of "special measures for payment in kind" switched from delayed payment, which was authorized by the tax reform.

To adapt to these circumstances, NTA is endeavoring to set up a processing system with the establishment of the regional commissioner subrogation scheme and the appointment of a director (Postponement of Tax Payment and Tax Payment in Kind) and special officer (Revenue Management). Further, NTA has strengthened cooperation between its property taxation divisions and local finance bureaus to promote speedier processing.

b. Refunds

If a taxpayer overpays a tax, or files a return for a refund, such overpaid tax will be refunded immediately after cross-checking with the relevant return for refund or the tax collection ledger. There are currently two ways of paying refunds. They may be paid back into a bank account or a postal office account designated by the taxpayer, or paid back directly to the taxpayer over a post office counter.

c. Savings-for-tax associations

To pay tax easily without fail, taxpayers interested in putting funds aside regularly to pay taxes may join savings-for-tax associations organized for people in the same business or members of the same community. Savings-for-tax associations are voluntary "associations" bound legally and impose no restrictions on joining or withdrawing.

Savings-for-tax associations are currently involved not only in activities related to saving for tax payments (such as facilitating their members' accumulation of funds for tax payment), but also in promoting timely tax payment, sponsoring various workshops, publicity activities and promoting tax education.

d. Payment by account transfer

Account transfer is a convenient method for paying taxes. Under this system, the tax office sends a tax payment slip, issued in the name of the taxpayer, to a financial institution at which the taxpayer has a deposit account. The financial institution transfers the tax on behalf of the taxpayer from his or her account and sends the taxpayer a receipt for the payment.

This account transfer payment system is very convenient for both the taxpayer and tax authorities because the taxpayer who has an account at a financial institution with the amount equivalent to the tax he or she owes no longer needs to visit the financial institution or tax office to pay his or her taxes. The tax office also enjoys greater efficiency in collecting taxes. NTA encourages the use of this system, particularly among payers of self-assessment income tax or consumption tax (individual proprietors) for whom the system seems most effective. NTA recommends it to taxpayers through tax consultations during filing periods in cooperation with local governments, financial institutions and organizations such as savings-for-tax associations. Today, 67.1% of self-assessed income taxpayers and 79.8% of payers of consumption tax and local consumption tax (individual proprietors) use this payment system (see Table 28).

Table 28: Diffusion of Tax Payment by Account Transfer

(For Payment of Self-assessment Income Tax and Consumption Tax on Individual Proprietors in Final Returns)

	Year	Number of Taxpayers (thousands)	Number of Taxpayers Using Account Transfers (thousands)	Diffusion Ratio (%)
Self-assessment Income Tax	1975	4,286	1,546	36.1
	1980	5,430	1,804	33.2
	1985	7,009	3,704	52.8
	1990	8,139	5,618	69.0
	1995	7,646	5,498	71.9
	1999	7,004	4,814	68.7
	2000	6,879	4,684	68.1
	2001	6,676	4,478	67.1
	2002	6,465	4,204	65.0
Consumption Tax on Individual Proprietors	1990	583	438	75.2
	1995	521	431	82.6
	1999	551	441	80.1
	2000	491	396	80.8
	2001	451	360	79.8
	2002	427	344	80.5

(2) Collection of delinquent taxes

a. Outline of collection procedure

In order to secure national tax revenue, collection claims for national taxes are, as a rule, given priority over all other public and private claims. In addition, NTA is endowed with powers of self-enforcement concerning national taxes.

Provided by National Tax Collection Act, national tax claims are collected with priority over other public claims, i.e. employment insurance premiums or private claims. However, national tax will yield precedence to other claims in some cases (e.g., hypothecation created before the statutory due date of tax payment on the taxpayer's assets).

National tax that is not paid by the due date (delinquent tax) is, in principle, collected through the following process. After requesting payment of the delinquent tax, the tax authorities initiate a procedure whereby the taxpayer's assets are seized, converted into cash, and the proceeds of the sale are appropriated as payment for the delinquent tax. Where any delay will make it impossible to collect the national tax, the tax authorities may carry out compulsory collection before the original due date. On the other hand, if immediate collection is likely to bring unusual hardship for the taxpayer, NTA takes the taxpayer's situation into account, allowing postponement or payment in installments in compliance with laws and ordinances.

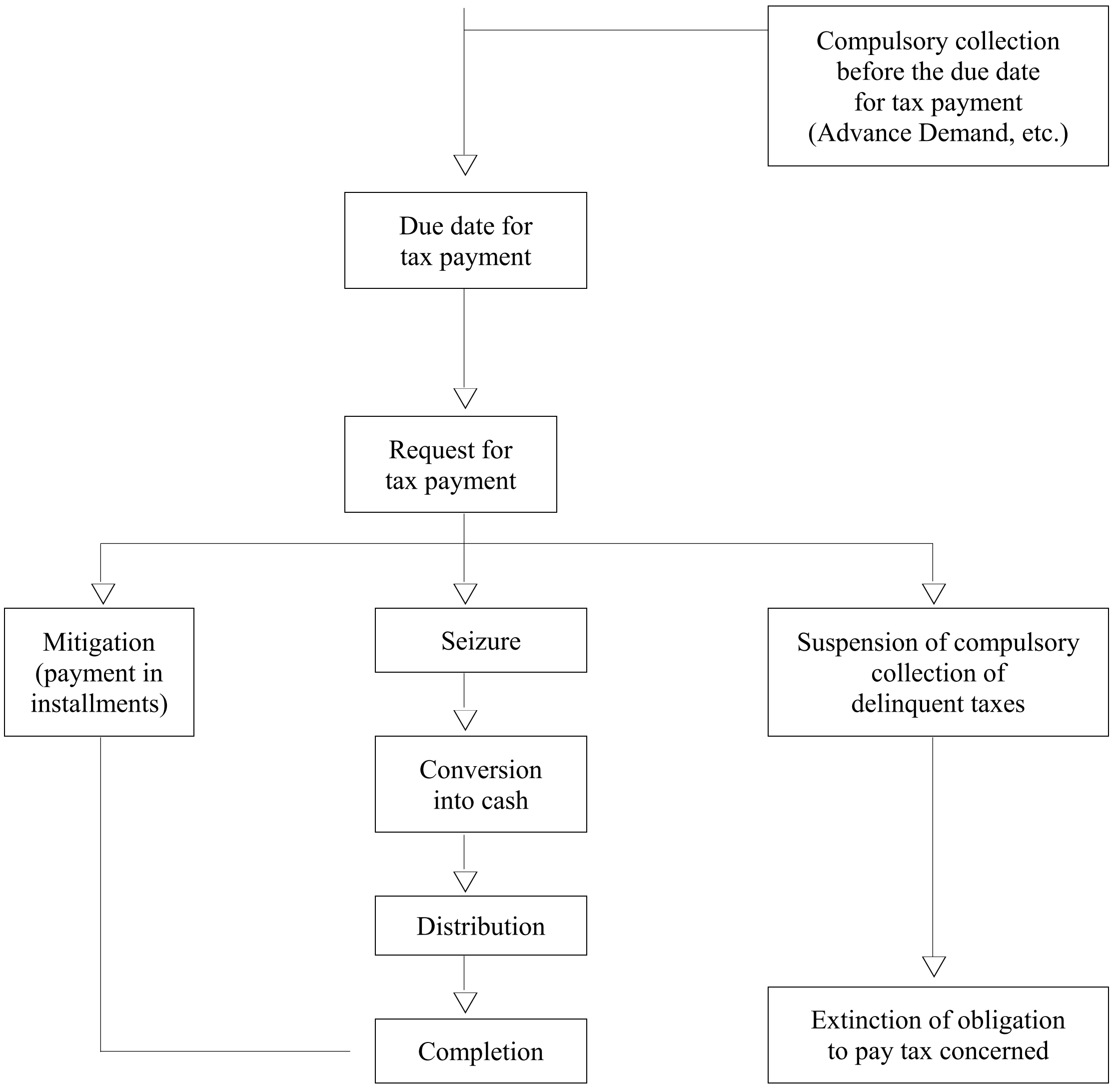
(a) Basic collection procedure

Payment is urged on delinquent taxes by way of a collection letter that is sent usually fifty (50) days after the original due date; however, if payment is not made in full despite such reminder, disposition for nonpayment will be instituted. If the payment is not made in full within 10 days after the notice, the tax authorities initiate a procedure for collecting the delinquent tax. There are a series of procedures to collect delinquent national taxes by force, such as seizure of the assets owned by the taxpayer, conversion of his or her assets into money and seizing dividends to be distributed to the taxpayer. The tax office is authorized to take these steps without obtaining a court permit. The seizure is intended to prohibit a defaulting taxpayer from disposing of his or her assets. If the payment is not made in full after the seizure of assets, the tax authorities convert the assets into cash (i.e. the seized assets are sold and the proceeds distributed as payment for the delinquent tax and other debts). If another compulsory conversion procedure has already been instituted, the tax authorities may, instead of instituting a seizure or conversion procedure, seek the proper share of the proceeds by applying to the authorities in charge of the compulsory conversion procedure.

(b) Compulsory collection before the due date

Taxpayers usually pay their taxes at any time before the due date. However, in special circumstances, such as when a taxpayer's attempt to evade payment or bankruptcy threatens collection, the tax authorities may, under certain conditions, institute special preservative procedures (advance demand, preservative seizure, advance preservative seizure and preservative security).

Figure 7: Compulsory Collection Procedure for Delinquent Taxes



(c) Mitigation of tax payment

NTA takes all necessary measures to secure the payment of national taxes, but it may also mitigate the tax payment to protect the taxpayer's livelihood or business. If a taxpayer finds it difficult to pay tax due to a disaster, illness or the closing of his or her business, or if converting seized assets into cash endangers the taxpayer's livelihood or business, NTA takes the taxpayer's situation into account, allowing postponement or payment in installments in compliance with laws and ordinances.

If a defaulting taxpayer has no assets, or the collection procedure for delinquent tax brings undue hardship, the tax authorities may suspend the collection procedure. If this suspension continues for 3 years, the taxpayer's liability will be canceled.

b. Accrual and disposition of delinquent tax

Officials in charge of collection activities (revenue officers and administrative officials) at tax offices are responsible for the dispositions concerning delinquent tax. Revenue officers of the regional taxation bureau level also handle cases of large-scale and fraudulent delinquency.

Table 29 shows trends in the accrual and disposition of delinquent tax.

Table 29: Accrual and Disposition of Delinquent Tax

Fiscal Year	Beginning Delinquent Tax	Amount of New Delinquent Tax	Total Arrears to be Collected	Amount of Delinquent Tax Collected	Ratio of Collection	Amount of Tax Balance Delinquency	Amount of Tax under Suspension of Disposition for Delinquency (out of ⑤)
	①	②	③ (①+②)	④	④／③	⑤	⑥
	(\ billion)	(\ billion)	(\ billion)	(\ billion)	(%)	(\ billion)	(\ billion)
1950	125.8	162.6	288.5	193.9	67.0	94.6	7.4
1955	104.8	88.4	193.2	108.6	56.2	84.7	20.3
1960	49.5	100.8	150.3	100.7	66.9	49.6	8.6
1965	78.8	182.7	261.5	174.1	66.6	87.4	9.3
1970	105.4	319.6	425.0	301.9	71.0	123.1	13.3
1975	326.1	545.9	872.0	542.4	62.2	329.6	8.7
1980	454.2	707.0	1,161.2	636.4	54.8	524.8	28.7
1985	729.6	822.2	1,551.8	758.2	48.9	793.6	51.3
1992	1,704.8	1,890.3	3,595.1	1,543.5	42.9	2,051.6	110.6
1993	2,051.6	1,795.8	3,847.4	1,519.4	39.5	2,328.0	155.5
1994	2,328.0	1,597.1	3,925.1	1,427.1	36.4	2,498.0	202.7
1995	2,498.0	1,555.9	4,053.9	1,393.3	34.4	2,660.6	273.9
1996	2,660.6	1,529.5	4,190.1	1,487.0	35.5	2,703.1	310.2
1997	2,703.1	1,593.3	4,296.3	1,513.3	35.2	2,783.0	324.0
1998	2,783.0	1,638.3	4,421.3	1,606.4	36.3	2,814.9	323.3
1999	2,814.9	1,431.6	4,246.5	1,480.4	34.9	2,766.1	366.1
2000	2,766.1	1,341.5	4,107.5	1,440.8	35.1	2,666.8	356.6
2001	2,666.8	1,215.9	3,882.7	1,398.5	36.0	2,484.2	309.5
2002	2,484.2	1,104.6	3,588.8	1,336.9	37.3	2,251.9	250.1

7. International Tax Administration

(1) Economic globalization and tax administration

Japan has seen globalized economy, leading many Japanese companies to employ increasingly diverse forms of trade in their overseas operations. In addition, IT revolution, deregulation in the financial sector and other factors will have significant impacts on international taxation.

a. Strengthening the organizational structure

The expansion and globalization of the Japanese economy call for new kinds of administrative operation. At NTA's head office, the Office of International Operations is in charge of exchange of information with overseas treaty partners as well as international meetings and cooperation, and the Office of Mutual Agreement Procedures is in charge of mutual agreement procedures. A Director (International Examination) has been appointed to take charge of examinations related to large-scale enterprise's international trade and transfer pricing practices. At the regional taxation bureau level, meanwhile, International Examination Divisions and Transfer Pricing Divisions have been established. NTA is making constant efforts to improve its international tax administration capabilities, including the structural expansion of divisions in charge of this area.

In July 2002, "Project Team for Globalization" was established at Tokyo, Osaka, Nagoya and Kanto-Shinetsu Regional Taxation Bureaus, with experts in charge of collecting information on overseas assets. At Tokyo Regional Taxation Bureau, in particular, a specialized division was established in charge of analyzing international tax avoidance schemes.

b. Improvement in investigative capabilities

There have been recent occasional cases where reduction in domestic tax burdens is sought by taking advantage of diversified overseas business entities and financial techniques. NTA has been trying to take effective measures against these activities.

NTA has conducted examination of large enterprises engaged in international business expansion, focusing on their transactions with foreign subsidiaries. In recent years, NTA also pays due attentions to foreign corporations conducting business operations in Japan. As small and medium enterprises and individual investors have begun actively investing overseas on the back of the liberalization of international capital flow, the Project Team for Globalization is now making serious efforts in fact investigation and information collection.

With regard to examination of international transactions where business counterparts are overseas units and business practices and characteristics differ from country to country, NTA is making positive efforts to enhance its investigative approach by sharing information with foreign tax authorities based on tax treaties and collecting data and information relating to foreign nations.

In addition, NTA is trying to enhance its examination and investigation capabilities and to foster experts by enriching training programs on international transactions.

c. Enforcement of transfer pricing taxation

Responding to globalized corporate activities, transfer pricing taxation for fair international taxation has been established. It deals with corporations that are involved in international transactions between their parent firm and foreign affiliates to manipulate their income distribution.

Transfer pricing taxation is enforced with attention to the following points.

(a) Full study is made to check whether the price attached to transactions between a corporation and its overseas parent, subsidiaries, etc., is the price normally attached to transactions between third parties. When a problem is perceived in a transaction, a broad range of facts will be ascertained from the perspective of transfer pricing before making an examination of calculation methods and specific details of arm's length price.

(b) The national tax authority, on receiving a request from a corporation, conducts pre-confirmation of the calculation methods and specific details of arm's length price (advance pricing arrangement: APA). This assists the corporation's forecasting ability and aids the proper and smooth enforcement of transfer pricing taxation.

(c) A common recognition of transfer pricing between tax authorities is important to avoid international double taxation arising from taxation based on transfer pricing taxation. Efforts are therefore made to execute taxation appropriately, including reference to OECD transfer pricing guidelines whenever necessary.

d. Mutual Agreement

Mutual agreement procedure is an administrative mechanism whereby tax authorities negotiate with their counterparts in other countries to avoid taxation incompatible with tax treaties (such as international double taxation) when a taxpayer incurs or is deemed likely to incur such taxation. All of the 45 tax treaties (applicable to 55 nations), which Japan has signed, include provisions for this procedure.

When international double taxation arises due to transfer pricing taxation, when taxpayers request APAs between two countries, when taxation is thought to violate the provisions of a tax treaty or in other similar cases, an attempt is made to reach mutual agreement with the tax authority in the other country to resolve the problem.

Table 30: Cases of Mutual Agreement Arising, Processed and Deferred

(unit: cases)

Business Year		Transfer pricing taxation	APA	Others	Total
2000	Cases Arising	14	48	12	74
	Cases Processed	29	29	7	65
	Cases Deferred	33	71	35	139
2001	Cases Arising	30	42	16	88
	Cases Processed	26	25	26	77
	Cases Deferred	37	88	25	150
2002	Cases Arising	19	47	28	94
	Cases Processed	19	47	14	80
	Cases Deferred	37	88	39	164

Note: The business year starts on July 1 and ends on June 30 of the following year.

(2) Cooperation with foreign tax authorities

NTA actively participates in Committee on Fiscal Affairs of OECD, Pacific Association of Tax Administrators (PATA), and Study Group on Asian Tax Administration and Research (SGATAR) to promote cooperation and mutual understanding with foreign tax authorities (for example, by exchanging information based on tax treaties) and to contribute to the development of common international taxation rules.

In order to promote international cooperation and support for tax administrations amongst developing countries, NTA holds International Seminars on Taxation (ISTAX) to accept trainees from developing countries, provides tax administrative training sessions for officials from China, Indonesia and Cambodia on bilateral basis, and also provides internship programs for foreign tax officials. In addition, NTA sends experts to developing nations on short- and long-term basis, if they request NTA to do so.

Table 31: Tax Treaty Signatory Countries

(as of January, 2004)

Number	Countries	Number	Countries
1	Ireland	24	Denmark
2	United States	25	Germany
3	Israel	26	Turkey
4	Italy	27	New Zealand
5	India	28	Norway
6	Indonesia	29	Pakistan
7	United Kingdom	30	Hungary
8	Vietnam	31	Bangladesh
9	Egypt	32	Fiji
10	Australia	33	Philippines
11	Austria	34	Finland
12	Netherlands	35	Brazil
13	Canada	36	France
14	Korea, Republic of	37	Bulgaria
15	Zambia	38	Belgium
16	Singapore	39	Poland
17	Switzerland	40	Malaysia
18	Sweden	41	South Africa
19	Spain	42	Mexico
20	Sri Lanka	43	Romania
21	Thailand	44	Luxembourg
22	China	45	Russia, former Soviet Union (Note 2)
23	Czechoslovakia (Note 1)		

Notes: 1. The tax treaty with the former Czechoslovakia applies to the Czech Republic and the Slovak Republic as before.
2. The treaty with the former Soviet Union applies to the Russian Federation, the Republic of Kyrgyzstan, the Republic of Georgia, the Republic of Tadzhikistan, the Republic of Uzbekistan, Turkmenistan, Ukraine, the Republic of Armenia, the Republic of Belarus and the Republic of Moldova as before.

Table 32: Number of Information Exchanges

(in thousands)

Calendar Year	1998	1999	2000	2001	2002
Number of Information Exchanges	175	228	241	184	237

8. Certified NPO (nonprofit organization) System

The certified NPO program was set up in the FY2001 taxation reform to support the activities of certain nonprofit organizations (NPO). The system allows an individual, a corporation or a person who has inherited assets or received a bequest to deduct a contribution made to NPO that has satisfied certain requirements and has been certified by the Commissioner of NTA (certified NPO).

The program started on October 1, 2001. NTA has certified 19 NPOs as of December 31, 2003.

9. Public Relations

Under the self-assessment system, tax administration operates according to four principles to maintain proper and fair taxation. These are consultation, guidance, examination and public relations.

(1) Purpose of public relations

Public relations are designed not only for taxpayers, but also for the public in general. By promoting public understanding of the purpose and importance of taxes, they aim to encourage taxpayers to file accurate returns and fulfill their tax liabilities voluntarily. The objectives are to:

- i) Enhance taxpayer awareness,
- ii) Diffuse and enhance public knowledge of taxes,
- iii) Accurately understand taxpayer's needs for tax administration,
- iv) Improve mutual understanding and trust between taxpayers and the tax authorities by promoting information exchange between them, and
- v) Obtain the understanding and cooperation of the mass media in tax administration.

(2) Organization for public relations

NTA's public relations are handled by Director (Public Relations), Commissioner's Secretariat at the head office and by the Office of Public Relations at the regional taxation bureau level. At Okinawa Regional Taxation Office, public relations are handled by Director (Public Relations).

Following organizational reform in FY1991, the public relations system has improved and Special Officers (Public Relations) are now assigned to 84 major tax offices located in the seats of prefectural governments and other major cities. In principle, these tax offices have public relations special officers, who, in cooperation with their own tax office and other Tax Offices in the region, are responsible for promoting tax education and other public relations activities in that region. Where a tax office has no Special Officer (Public Relations), their duties are handled by its co-ordination division.

Aiming at listening to taxpayer's real opinions more closely, NTA launched various programs in FY2000 to correctly understand taxpayer's needs for tax administration, contribute to improving taxpayer's convenience and NTA's administrative and encourage dialogues and information sharing with taxpayers.

(3) Public relations activities

a. Utilization of television, radio, the Internet and newspapers

In addition to television or radio programs sponsored by NTA in cooperation with Cabinet Office's Public Relations Office and local governments, NTA provides information on tax affairs that are closely related to daily life through various media. It places advertisements to make taxpayers more aware of tax issues, maintain their trust in the national tax authorities, promote knowledge of tax among the general public and announce due dates for filing returns. NTA also provides information to newspapers and television stations to enhance public understanding of the current state of tax administration. In November 1998, NTA opened National Tax Agency website (www.nta.go.jp), which provides tax information related to daily life, the operations of NTA, statistical information, press releases, circular notices and so on.

b. Printed materials

NTA publishes and distributes pamphlets titled “Tax Information in Daily Life” and “Guide to National Taxes,” which provide tax information of direct relevance to taxpayers, and also a number of posters. The Agency also publishes this booklet ('Outline of Japanese Tax Administration') for overseas distribution, and a book in Braille ('Our Taxes'), which is available at all tax offices, leading libraries and schools for the blind.

c. 'Know-Your-Tax' Week

From November 11 to 17 every year, NTA holds a nationwide 'Know-Your-Tax' Week campaign to promote knowledge of taxes amongst taxpayers as well as a wide spectrum of the public. Events during this week include round-table discussions with taxpayers, essay competitions for high school students on the theme of tax.

d. Activities during the Period of Filing Final Returns

During the filing period, NTA encourages taxpayers through television, radio, newspapers, magazines and other publications to file accurate returns and pay their taxes by the due dates.

e. Tax education

To enhance education for children and school pupils in tax affairs, NTA seeks to establish a solid foundation of tax education through “Council for Promotion of Tax Education,” made up of representatives from the national government, local governments and educational organizations. NTA publishes pamphlets such as "Our Life and Tax," a supplementary text material for tax education in accordance with the Ministry of Education's curriculum guidance. These are distributed to elementary school, junior high school and high school students. NTA asks for lecturers on taxes at schools and also sponsors essay contests for high school students on tax affairs.

NTA also holds seminars titled "Seminars on Public Finance and Economy" and "Seminars on Tax and Accounting" for teachers of social and commercial studies.

To carry out tax administration in more effective manner, NTA also produces many audio-visual materials for children, including various tax education videotapes such as “Wonderful Sunday for Marin and Yamato,” “Princess Oshiruko’s Time Travel,” and “What is Tax? Hyokkori Hyotan Island version,” as well as CD-ROMs entitled “Dr. Tax’s Tax Classroom.” These are largely used in tax classes at elementary, junior high and senior high school level.

(4) Public hearing activities

a. Public hearing activities at service counters, etc.

To accurately understand the needs of taxpayers towards tax administration, our PR and public hearing mechanism gathers opinions, requests and others submitted from all strata of the public at NTA, regional taxation bureau and tax office service counters, or over the Internet. These are then studied by the relevant department, to make improvements contributing to enhanced taxpayer convenience or improved business operation. Feedback is given to the public on points for which a clear opinion or response can be expressed by the tax authorities. This is done by publishing them on our website or using similar media to encourage mutual exchange of opinion.

b. Public hearing activities using the monitor system

Under the monitor system, taxpayers or other members of the public are appointed as "National tax monitors." Among their other activities, they submit opinions on national taxes, take part in questionnaire surveys and round-table discussion groups, etc., and cooperate in various measures to enhance taxpayer awareness (there are 2,793 monitors as of FY2003).

To enable these national tax monitors to correctly understand the tax administration as a whole and actively express appropriate and fair opinions, NTA prepares "Monitor Bulletin” on regular basis to provide information.

10. Tax Consultation

(1) Tax Counsel Offices

To carry out smooth tax administration under the self-assessment system, it is particularly important to enhance an easy-to-access tax consultation system and support taxpayers.

In May 1970, National Tax Conference Group, which was previously in charge of tax consultation and the disposition of appeals, was reformed as National Tax Tribunal. At the same time, to improve tax consultation services and to be more responsive to complaints from taxpayers, tax counsel offices were established at the regional taxation bureau level, and Tax Counselors were also assigned to handle tax consultations and complaints. Since 1973, branches of the tax counsel offices have been established in major tax offices. As of July 2003, 139 branches are open to requests for tax consultation and complaints.

The number of tax counselors stands at 634 as of July 2003. These officials have a wealth of experience in all tax affairs.

Tax Counsel Offices are widely used to enhance their organization and publicity activities as well as taxpayer awareness and tax concerns. There were around 2.81 million tax consultations in FY2002 (April 2002 to March 2003). The number of tax consultations by telephone was particularly large, occupying 78% of the total. The composition of consultations by tax item breaks down into income tax (55%), property tax (24%), corporation tax (7%), consumption tax (2%) and others (12%) (see Figure 7).

To help taxpayers prepare tax returns correctly and make accurate tax payments, tax counselors are answering taxpayers' inquiries quickly and accurately.

In FY2002 (April 2002 to March 2003), the tax counsel offices received 2,373 complaints. Tax counselors endeavor to review these complaints impartially and to respond quickly and appropriately, as appropriateness of their responses greatly affects overall tax administration.

(2) Tax Answer system

Tax Answer is an automatic computer system that answers Frequently Asked Questions. The answers are provided through the Internet, voice-phone and facsimile.

The system, initially by voice-phone, was introduced in January 1987 to cope with the increasing demand for tax consultation services, and as one measure for NTA to promote office automation of overall tax administration affairs. In June 1992, Tax Answer by facsimile was launched. In January 1997, Tax Answer became available on the Internet, and in July 2000, its information became accessible through mobile phones equipped with an Internet access capability.

In FY2002 (April 2002 to March 2003), Tax Answer was used 17.03 million times. Of these, access through the Internet totaled 16.33 million (see Table 33), making up 96% of the total (see Figure 8).

Table 33: 20 Most Frequently Asked Questions Using Tax Answer (via Phone or Fax) in FY2002 (April 2002 to March 2003)

Rank	Tax	Nature of Inquiry	Number of Inquiries		a/b
			FY 2002 (a)	FY 2001 (b)	(%)
1	Income Tax	(1120) Medical expenses (tax reduction for medical expenses)	297,890	113,421	223.3
2	Income Tax	(2020) Final returns	258,777	208,668	124.0
3	Income Tax	(1400) Employment income	235,892	102,955	229.1
4	Income Tax	(1122) Deductible medical expenses	200,715	117,071	171.4
5	Income Tax	(1195) Special deduction for spouse	190,327	92,401	206.0
6	Income Tax	(2260) Income tax rates	170,587	137,326	124.2
7	Income Tax	(1191) Deduction for spouse	153,896	73,303	209.9
8	Income Tax	(1210) Special credit for acquisition of owned house	141,743	117,364	120.8
9	Income Tax	(1410) Rough calculation of salaried men's necessary expenses (deductible from employment income)	127,456	84,875	150.2
10	Income Tax	(1420) Retirement income	126,783	58,696	216.0
11	Income Tax	(1800) Tax-free threshold on part-time income	124,354	94,835	131.1
12	Income Tax	(1213) Construction or purchase of owned house	120,685	89,782	134.4
13	Income Tax	(1124) Examples of childbearing expenses deductible as medical expenses	117,532	63,044	186.4
14	Income Tax	(1415) Preferential measures on salaried employee taxation (deduction for specified expenditure)	117,385	37,042	316.9
15	Income Tax	(1900) Salaried employees who need to file a final tax return	113,234	103,721	109.2
16	Income Tax	(1180) Deduction for dependents	111,502	73,982	150.7
17	Income Tax	(2100) Outline of depreciation	108,171	86,309	125.3
18	Income Tax	(1128) Examples of dental treatment costs deductible as medical expenses	107,874	65,569	164.5
19	Gift Tax	(4402) Gift tax liability	106,504	88,402	120.5
20	Income Tax	(1165) Deduction for the elderly	106,425	65,849	161.6
Total			3,037,732	1,894,615	160.3
Others			13,297,146	10,382,649	128.1
Grand Total			16,334,878	12,277,264	133.0

Figure 8: Percentage of Tax Consultation by Tax Type in FY2002 (April 2002 to March 2003)

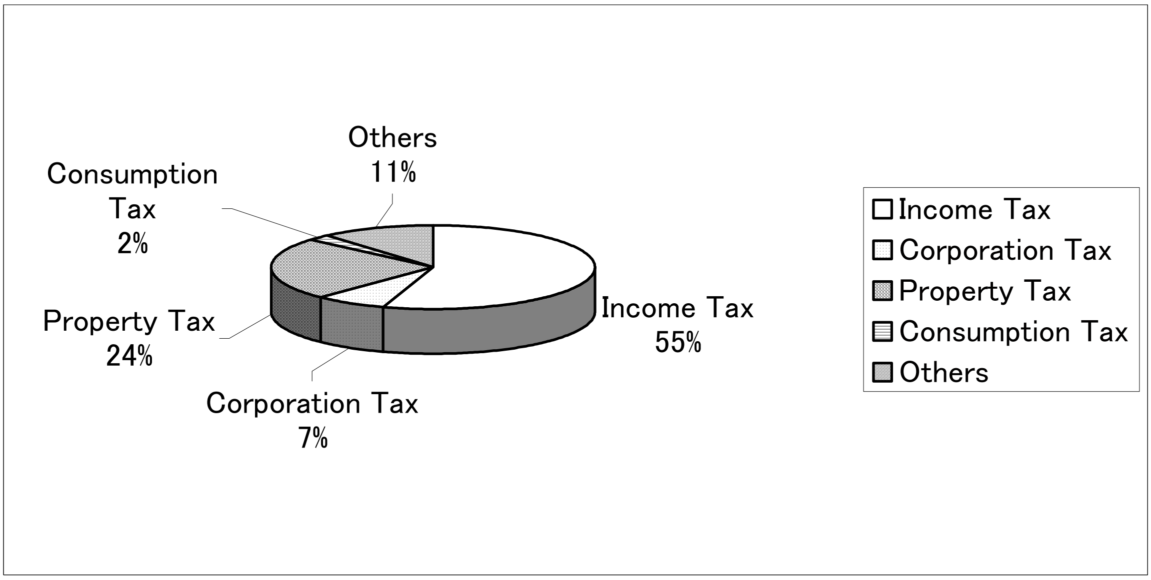


Figure 9: Use of Tax Answer

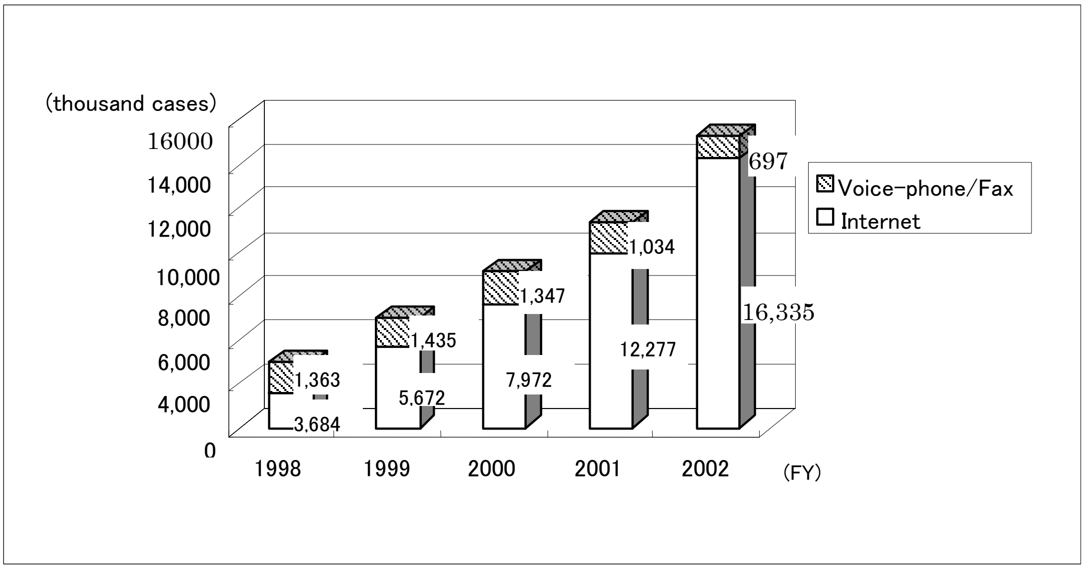


Table 34: Tax Offices Supplied with Co-ordination Officers (Taxpayer Support)

Regional Taxation Bureau	Number of tax offices	Tax Office
Sapporo	2	Sapporo North, Sapporo South
Sendai	4	Morioka, Sendai North, Yamagata, Fukushima
Kanto-Shinetsu	8	Tsuchiura, Utsunomiya, Kawagoe, Kawaguchi, Tokorozawa, Kasukabe, Niigata, Nagano
Tokyo	13	Chiba East, Matsudo, Azabu, Shinjuku, Shibuya, Toshima, Itabashi, Katsushika, Tachikawa, Yokohama South, Kawasaki North, Fujisawa, Kofu
Kanazawa	1	Kanazawa
Nagoya	7	Gifu North, Shizuoka, Atsuta, Toyohashi, Handa, Komaki, Tsu
Osaka	9	Otsu, Shimogyo, Sakai, Toyonou, Hirakata, Higashi-Osaka, Nishinomiya, Nara, Wakayama
Hiroshima	4	Okayama East, Hiroshima North, Fukuyama, Shimonoseki
Takamatsu	2	Matsuyama, Kochi
Fukuoka	3	Kokura, Fukuoka, Nagasaki
Kumamoto	3	Oita, Miyazaki, Kagoshima
Okinawa	-	-
Total		12 regional taxation bureaus, 56 tax offices (68 co-ordination officers in total)

(3) Co-ordination Officer (Taxpayer Support)

To gain taxpayer's understanding of and trusts in tax administration, it is essential to properly address complaints from taxpayers. Under such recognition, NTA makes efforts to quickly and adequately deal with taxpayer's complaints, paying due attentions to taxpayer's viewpoints.

NTA sends taxpayer support co-ordination officers to regional taxation bureaus, Okinawa Regional Taxation Office and major tax offices. The taxpayer support co-ordination officers are exclusively in charge of handling complaints, deal with coordination duties and also provide advice and guidance so that taxpayers will properly and smoothly fulfill their taxpaying responsibility.

11. Cooperation with Local Tax Authorities

In accordance with taxation laws, NTA makes efforts to provide taxpayer-friendly services and improve tax administration efficiency at the national and local tax levels by keeping cooperative relations with local tax authorities as much as possible mainly in the following fields: (i) Accepting income tax's final returns at the municipality level, (ii) forming alliance to provide consultation services and jointly send tax return forms, (iii) collecting and sharing documents and information, and (iv) cooperating in public relations activities concerning tax payments.

For the time being, NTA is authorized to collect local consumption tax (introduced in April 1997) together with national level consumption tax. To properly and smoothly collect local consumption tax, the competent district director may ask prefectural governor or mayor to submit data and information required for collecting local consumption tax.

12. Certified Public Tax Accountant System

Certified public tax accountants, as tax experts with independent and impartial status, have a public duty to assist taxpayers in fulfilling their obligation to pay tax as stipulated by tax laws, based on fundamental philosophy of the self-assessment system. They play important roles in the fair and smooth administration of the self-assessment system.

Certified Public Tax Accountant Law (Law #237 in 1951) sets out their tasks, qualifications, rights and duties. Their tasks are to act as tax agents, prepare tax documents and offer tax consultation for all taxes (other than stamp duty and registration and license tax).

In addition to accountants who have passed Certified Public Tax Accountant Examination, the title of Certified Public Tax Accountant is also given to lawyers (including those qualified to become lawyers) and certified public accountants (including those qualified to become certified public accountants), as well as others who meet the qualifications prescribed by Certified Public Tax Accountant Law and are therefore exempt from taking Certified Public Tax Accountant Examination. These persons must be registered in the Certified Public Tax Accountant Directory of the Japan Federation of Certified Public Tax Accountants' Associations. Certified public tax accountants may establish tax accountant corporations, and those who do so must notify Japan Federation of Certified Public Tax Accountants' Associations.

Non-tax accountants and non-tax accountant corporations are prohibited from practicing as tax accountants. There are penalties for those who do so. As an exception, lawyers and law firms that have notified the competent regional commissioner or certified public accountants who have obtained permission from regional commissioner may practice as tax accountants under certain conditions.

As of March 31, 2003, there are 66,674 certified public tax accountants on the roster. There are 1,236 lawyers permitted to engage in tax accounting services by notification to regional commissioner, while 2,187 certified public accountants had permission from regional commissioner to practice as tax accountants.

Certified public tax accountants has established their regional associations to provide their members with guidance, information and instruction so that their member accountants will be able to fulfill their professional obligations and make improvements and progress in their services. There are 15 certified public tax accountant associations in Japan. These associations are united to form Japan Federation of Certified Public Tax Accountants' Associations, the only autonomous organization of this kind in Japan.

NTA has a mission to keep quality services offered by certified public tax accountants and is also responsible for administrative works that would contribute to the certified public tax accountant system. National Tax Council, a unit in NTA, holds Certified Public Tax Accountant Examination and reviews disciplinary action imposed on tax accountants.

In response to changes in the circumstances surrounding the certified public tax accountant system, Certified Public Tax Accountant Law was revised in May 2001 and came into force on April 1, 2002. The revised law aims at serving taxpayer's convenience and enhancing trustworthiness in the certified public tax accountant system.

Table 35: Registered Number of Certified Public Tax Accountants

Fiscal Year	Number Registered (persons)	Fiscal Year	Number Registered (persons)
1960	10,888	1995	62,550
1965	15,827	1997	63,446
1970	24,024	1998	63,874
1975	32,436	1999	64,456
1980	40,535	2000	65,144
1985	47,342	2001	65,973
1990	57,073	2002	66,674

Note: The figures are as of March 31st each year.

13. Providing Adequate Informational System for Office Works

(1) Outline

NTA has been making efforts to streamline its office works since it started computer processing administrative work in February 1966.

NTA developed KSK System ("Kokuzei Sogo Kanri," or the Comprehensive Tax Administrative System) to provide more sophisticated and efficient tax administrative services and achieve proper and fair taxation, amid significant changes in tax administration environments, including more complex, extensive economic transactions in recent years. NTA started trial runs of KSK System in January 1995 and, then, gradually introduced it to local taxation bureaus and tax offices. Installment work of KSK System was completed all over the country in November 2001. All tax offices are currently using KSK System for their office works.

Based on E-Government Plan announced in July 2003, outside experts are carrying out a survey on KSK System for system renovation.

The Cabinet decision "On Revision of the Basic Plan for Promoting Information Technology in the Administration" (December 20, 1997) calls for improving its office work efficiency by:

a. Allocating one PC per employee (including local branch offices, etc.),

b. Installing LANs (including local branch offices, etc.), and
c. Establishing intra-ministerial network to mutually connect LANs at ministerial headquarters and local branch offices, etc.

In line with this, NTA has developed its own LANs and WANs linking its head office and regional taxation bureaus, based on one PC per employee. NTA is constructing an NTA WAN inclusive of tax offices.

(2) Basic Features of KSK System

KSK System centrally manages information encompassing all regions and tax items to enable more sophisticated and efficient office works, which would play important roles in fulfilling tax administrative duties.

KSK System is greatly contributing to providing more sophisticated, efficient tax administrative services, achieving proper and fair taxation as well as improving taxpayer convenience, because the System:

1) Accumulates data input about tax returns and tax payment records and also systematically combines the data, which enables central management of national tax credits, etc.;

2) Provides diverse analyses based on accumulated information including account settlement data and documentary data, which assists selection of tax inspection targets and tax delinquents;

3) Is able to issue tax payment certificates more quickly than before, and also enables tax officials to refer to related data as needed, which in turn leads to providing quicker and more accurate response to taxpayer’s questions.

KSK System is also essential IT solution for electronic tax returns and tax payments, which is a part of government-led attempts to realize E-government.

14. Initiatives for Introducing E-Filing

From the viewpoint to provide more taxpayer-friendly services, NTA has been working on developing “National Tax Electronic Filing and Payment System (e-Tax)” as a part of the central government's initiatives for achieving E-government. If e-Tax is successfully introduced, taxpayers will be able to use the Internet to declare and pay their income and corporate taxes (including fees) and submit application forms and notifications as set out in tax laws (e.g., request for and receipt of electronic tax payment certificate). In launching e-Tax's operation, NTA will pay due attentions to stable system performance and expand its service areas and service level in phase. NTA started the e-Tax service in the areas under jurisdiction of Nagoya regional taxation bureau in February 2004. NTA started accepting application form for e-Tax in November 2003. NTA will expand its service coverage nationwide in June 2004.

At "e-Tax " website (http://www.e-tax.nta.go.jp), NTA provides information on how to use e-Tax. In August 2003, the Agency established "Help Desk" (tel. #: 0570-015901), which accepts questions about e-Tax over the Internet or phone.

15. Monitoring of Administrative Works

NTA monitors administrative works to facilitate smooth and efficient operation of tax administration by conducting comprehensive and cross-sectional monitoring of NTA's tasks, grasping the current status of administrative work operations and examining problems and their solutions.

a. Overall Monitoring of Regional Taxation Bureaus

The aims of overall monitoring are to correctly grasp the present circumstances of regional taxation bureaus and tax offices, comprehensively examine proper administrative operations for future and contribute to improving quality of tax administrative tasks.

In Business Year 2003 (July 1, 2003 to June 30, 2004), overall monitoring is implemented for Okinawa Regional Taxation Office and Kanazawa, Tokyo and Kumamoto Regional Taxation Bureaus.

b. Other Monitoring

NTA is also conducting special monitoring program by command of the Commissioner and by request of regional commissioner to study administrative work operations at regional taxation bureaus or tax offices on specific items, along with inspection program on daily work processing.

16. Improvement of public service counters

NTA has been increasing the number of service counters in tax offices to provide supports by guiding visitors to relevant sections as well as providing taxpayers with tax returns and other formats. The aim is to provide smoother services even for first-time visitors, thus making tax offices more accessible and easy to use (service counters are located in 266 tax offices as of January 2004).

Some tax offices have "One-stop service counter" that provides comprehensive services, such as accepting documents and issuing tax payment certificates. This means that visitors no longer need to walk from counter to counter in the tax office. In these and other ways, NTA is striving to improve its office work efficiency and enhance taxpayer’s convenience.

17. Public Information Disclosure

On April 1, 2001, “Law on Disclosure of Information Stored by Administrative Organs (Information Disclosure Law)” came into force. In line with the constitutional principle of popular sovereignty, this legislation sets out people’s right for accessing government documents in order to encourage government information disclosure and fulfill government’s accountabilities on its own behaviors.

In consideration of the convenience of those requesting disclosure, NTA has 563 information disclosure desks at its head office, regional taxation bureaus and tax offices throughout the nation.

In FY2002 (April 2002 to March 2003), NTA received 32,278 requests for information disclosure, accounting for 53.9% of the entire requests to all ministries and agencies.

In FY2002 (April 2002 to March 2003), NTA handled 32,454 information disclosure requests, which led to full disclosure (93.8%), partial disclosure (5.1%) and nondisclosure (1.1%).