

# National Tax Agency, Japan

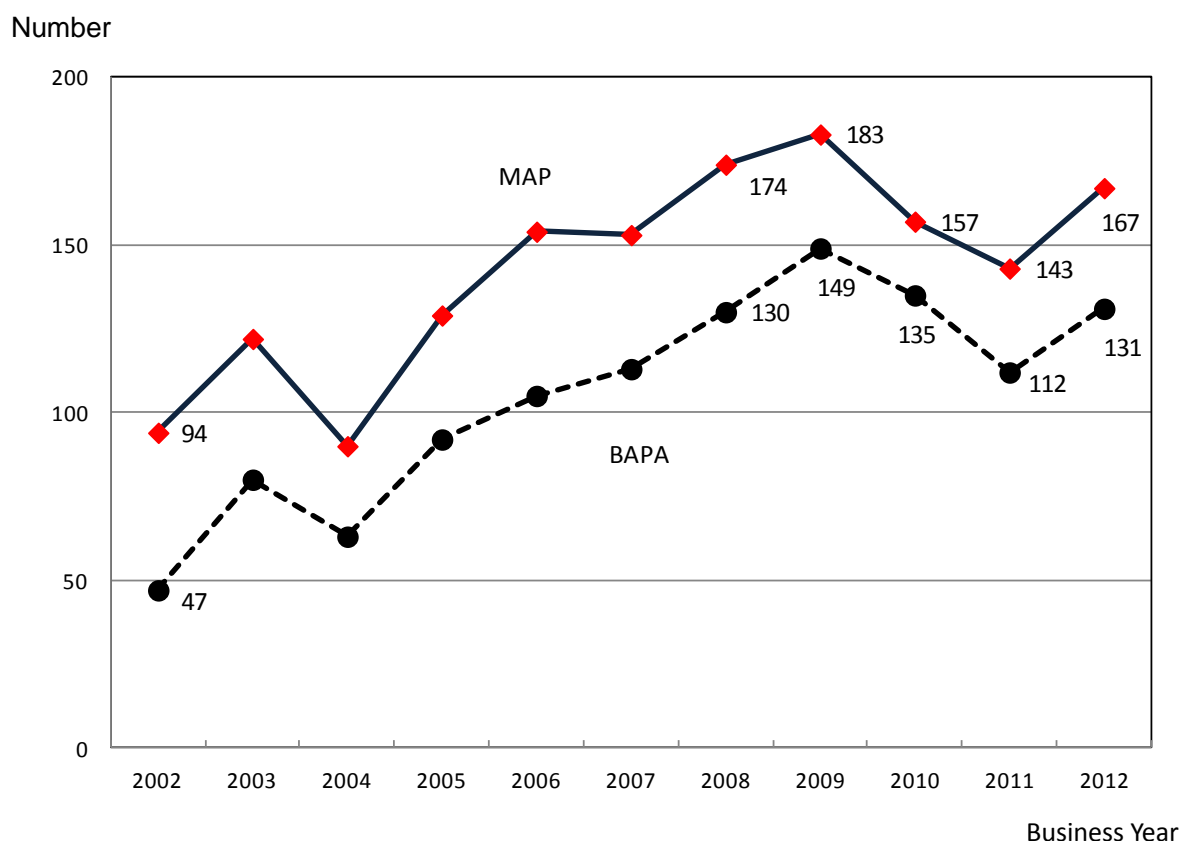
## MAP (Mutual Agreement Procedures) Report 2013

When international double taxation arises from transfer pricing adjustments or other tax adjustments, the National Tax Agency (“NTA”) enters into Mutual Agreement Procedures (“MAP”) with relevant foreign tax authorities under the provisions of applicable tax treaties to resolve such double taxation. Also, the NTA enters into a Bilateral Advance Pricing Arrangement (“BAPA”; an APA accompanied by MAP) in order to ensure the predictability of taxpayers and promote the proper and smooth administration of the transfer pricing taxation.

### 1. MAP requests received

- During the 2012 business year (from July 2012 to June 2013), the NTA received 167 MAP requests, of which 131 were for BAPA.
- The number of MAP requests increased again after 2 years of decline.
- BAPA accounts for approximately 80% of total MAP requests.

Chart 1: Trends in the number of MAP and BAPA requests received



- (Notes)
- 1 The business year runs from 1 July to 30 June in the following year.
  - 2 The number of MAP requests consists of both cases where the NTA received such requests from taxpayers and cases where the NTA received such requests from foreign tax authorities.

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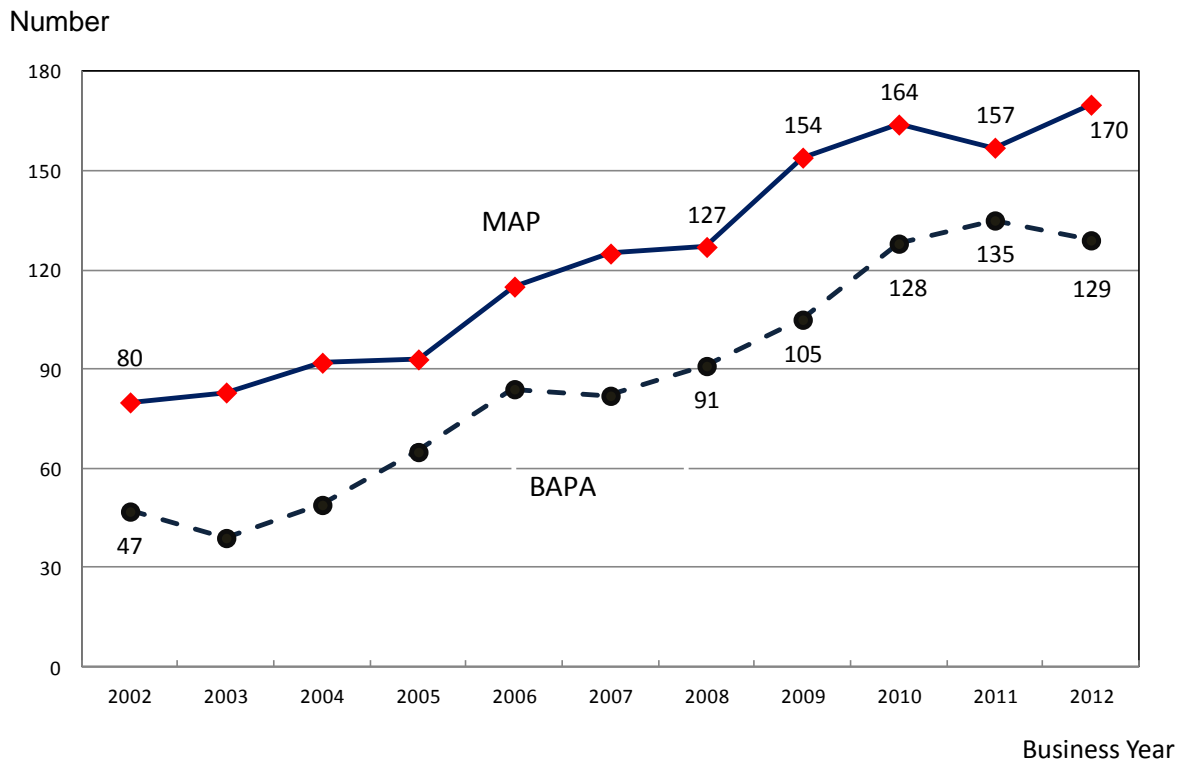
## 2. MAP cases closed

### 2.1 The number of MAP cases closed

- The NTA has been striving to expedite MAP processes. While the number of BAPA cases closed decreased slightly, the overall number of MAP cases closed in the 2012 business year was 170 (+8% Y/Y), hitting a record high.
- As a result, the overall number of year-end inventories decreased for the third consecutive year.

(Note) Please see Attachment 1 for the trend in the number of year-end inventories.

Chart 2: Trends in the number of MAP and BAPA cases closed



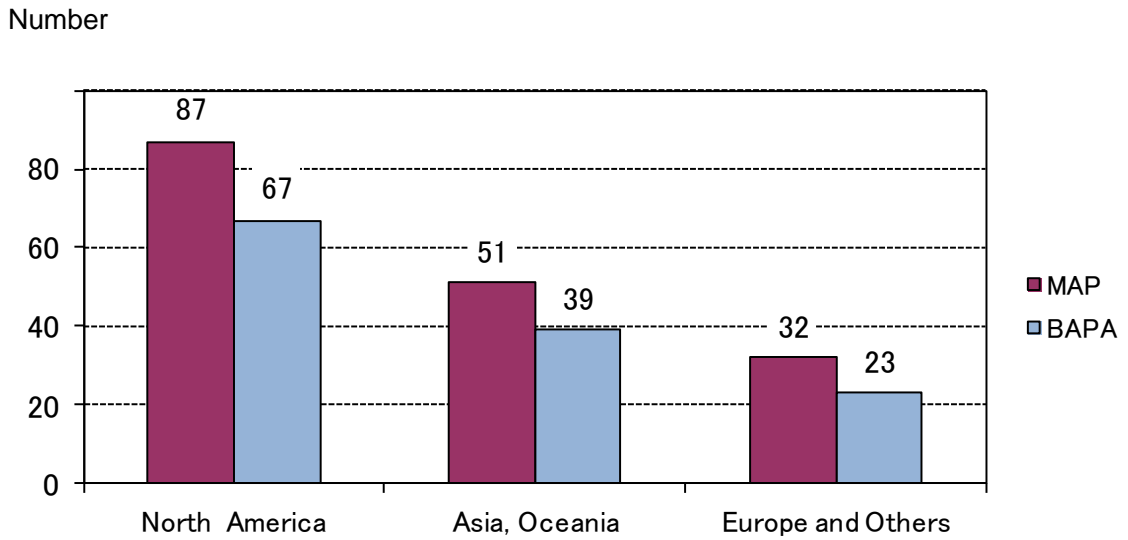
### 2.2 The number of MAP cases closed by region

- The treaty partner with which the NTA settled the largest number of MAP cases in the 2012 business year was the United States, followed by Australia, the United Kingdom, Korea, and Singapore.

(Note) Please see Attachment 2 for the treaty partners with which the NTA has MAP inventories as of June 30, 2013. The number of cases for each country is not disclosed in consideration of the relationships with the treaty partners.

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Chart 3: The number of MAP cases closed by region

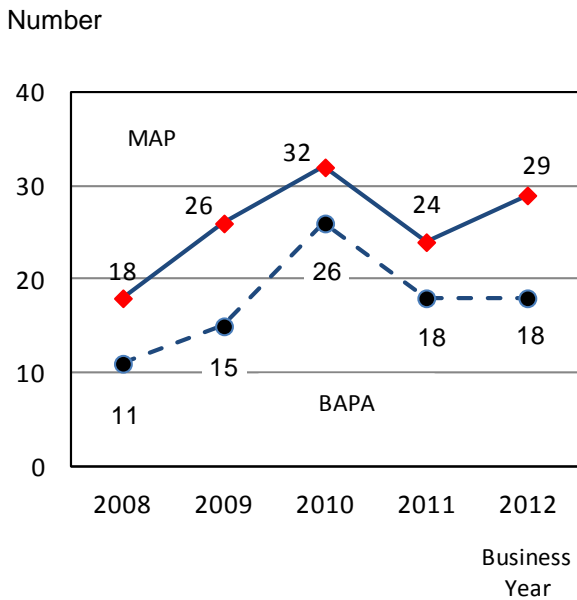


## 2.3 The number of MAP cases with non-OECD economies

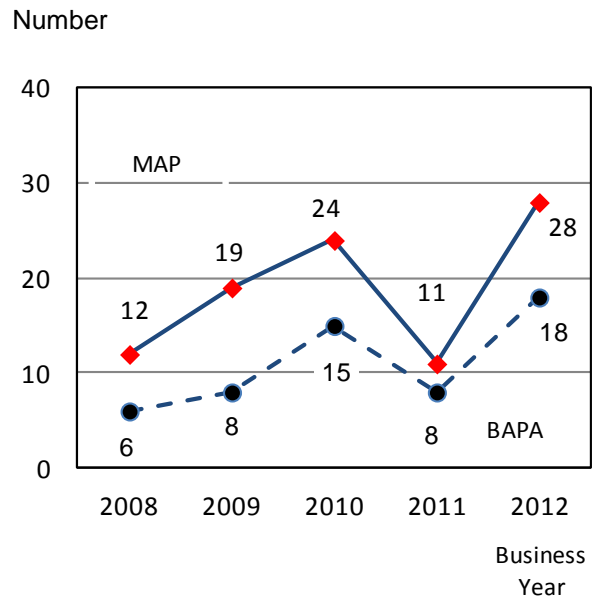
- The share of MAP cases with non-OECD economies is on the increase. In the 2012 business year, non-OECD economies accounted for 17% of the overall MAP requests received and cases closed.

Chart 4:

Trends in the number of MAP requests received concerning non-OECD economies



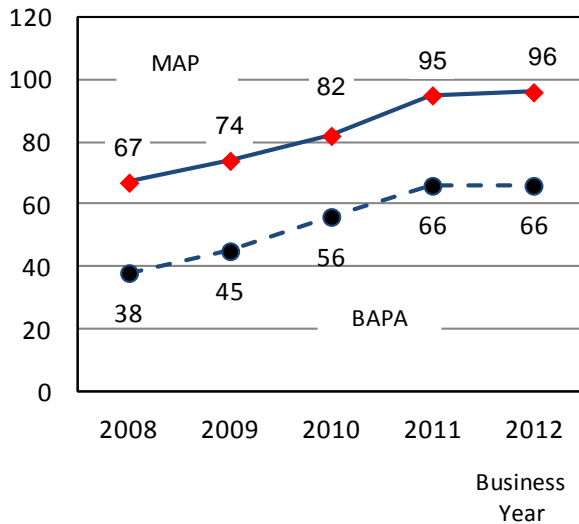
Trends in the number of MAP cases closed with non-OECD economies



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Trends in the number of year-end inventories of cases with non-OECD economies

Number



## 2.4 Average processing time on a MAP case

- The average processing time on a MAP case in the 2012 business year increased to 29.3 months (25.1 months in the 2011 business year) as the number of difficult cases requiring longer discussion time increased. Of which, the average processing time on a BAPA case also increased to 29.6 months (23.6 months in the 2011 business year).

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(Attachment 1)

## The number of MAP cases in recent years

Business Year		BAPA	Transfer Pricing Adjustment	Others	Total
2010	Requests Received	135	14	8	157
	Cases Closed	128	27	9	164
	Year-End Inventories	312	45	16	373
2011	Requests Received	112	21	10	143
	Cases Closed	135	15	7	157
	Year-End Inventories	289	51	19	359
2012	Requests Received	131	28	8	167
	Cases Closed	129	33	8	170
	Year-End Inventories	291	46	19	356

- (Notes)
- 1 The business year runs from 1 July to 30 June in the following year.
  - 2 The number of MAP requests received consists of both cases where the NTA received such requests from taxpayers and cases where the NTA received such requests from foreign tax authorities.
  - 3 MAP cases related to compensating adjustments and amendments to previously agreed APAs are included in the years when MAP requests on those issues were made.
  - 4 The number of MAP cases closed includes cases withdrawn by taxpayers as well as cases settled with treaty partners.
  - 5 "Others" includes cases related to permanent establishments (PEs) and withholding taxes.

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(Attachment 2)

## Treaty Partners with which the NTA has MAP inventories (as of June 30, 2013)

Europe	Asia/Pacific	North America
(OECD countries)		
Belgium	Australia ※	Canada ※
Czech ※	Korea ※	United States ※
Denmark ※		
France ※		
Germany ※		
Ireland ※		
Italy ※		
Luxembourg ※		
Netherlands ※		
Sweden ※		
Switzerland ※		
United Kingdom ※		
(Non-OECD countries)		
	China ※	
	Hong Kong ※	
	India ※	
	Indonesia ※	
	Malaysia	
	Singapore ※	
	Thailand ※	
12 countries	9 countries	2 countries

- (Notes)
- 1 As of June 30 2013, the number of treaty partners with which the NTA had MAP inventories was 23.
  - 2 The symbol "※" indicates a treaty partner with which the NTA had BAPA inventories (21 countries/ economies).
  - 3 The number of treaty partners with which the NTA has MAP inventories generally continued to be the same for the last five years (from 22 in 2008 to 23 in 2012).

## **Terminologies**

### **【Mutual Agreement Procedures (MAP)】**

Mutual Agreement Procedures (MAP) are a formalized set of procedures between tax authorities of treaty partners which are provided in tax treaties to resolve international tax disputes such as those represented by double taxation cases arising as a result of taxation not in accordance with the applicable tax treaties imposed or to be imposed on the taxpayers. All 55 tax treaties that Japan has concluded with treaty partners (66 countries/regions are covered as of the end of June 2013) include the provisions on the Mutual Agreement Procedures.

### **【Advance Pricing Arrangement (APA)】**

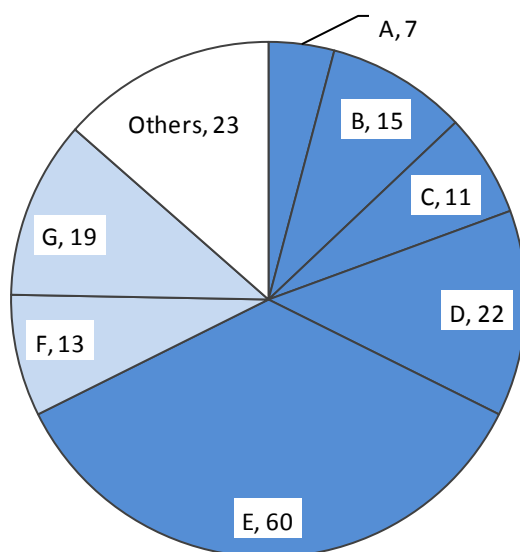
An Advance Pricing Arrangement (APA) is an arrangement whereby, based on an application from a taxpayer, the tax administration confirms in advance an appropriate set of criteria such as methods, comparables and appropriate adjustments thereto, and critical assumptions as to future events for the determination of the transfer pricing for transactions between the taxpayer and its foreign-related entity/entities over a fixed period of time. It is often the case that APAs are agreed bilaterally or multilaterally among tax-treaty partners to ensure the predictability for the taxpayer of the tax consequence in respect of its transfer pricing practices and the elimination of potential double taxation through MAP process. The tax administration will refrain from adjusting the transfer pricing set by the taxpayer if the taxpayer files its tax returns in accordance with the confirmed APA conditions for the years covered by the APA.

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(Reference 2)

## The breakdown of MAP cases in the 2012 business year

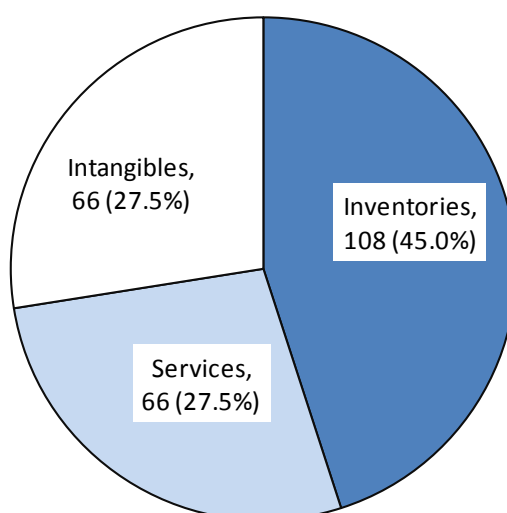
By industry



Manufacturing	115	(67.7%)
Wholesale/Retail	32	(18.8%)
Others	23	(13.5%)
<b>Total</b>	<b>170</b>	<b>(100.0%)</b>

- A: Manufacturing (consumer electric equipment, instruments, and bulbs)
- B: Manufacturing (transport equipment and instruments)
- C: Manufacturing (industrial electric equipments and instruments)
- D: Manufacturing (machineries and equipments)
- E: Manufacturing (others)
- F: Trading (import/export)
- G: Other wholesale/retail

By type of transaction



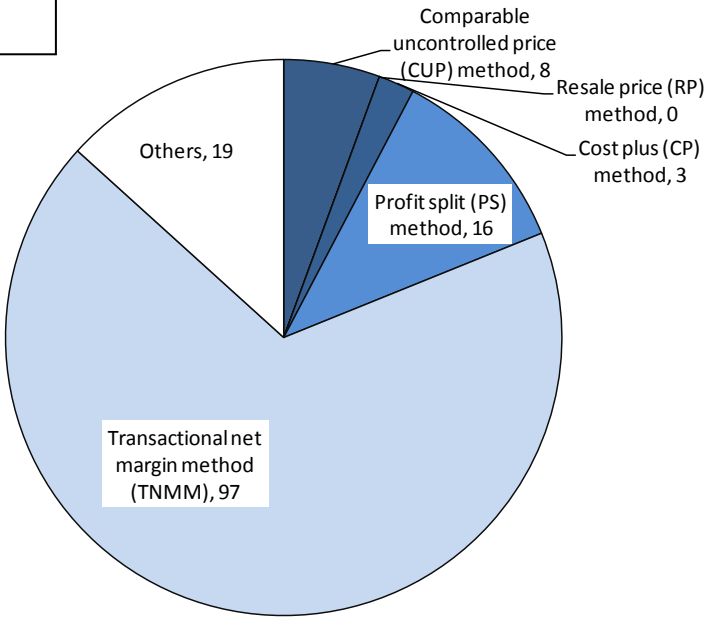
(Notes)

1. Total number of MAP cases closed does not correspond to the sum of the numbers in the chart above, as some cases are counted for multiple types of transactions when applicable.
2. In case of MAP related to compensation adjustments and amendments to previously agreed APAs, only transactions in the original APA agreements are included in the chart above.



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By transfer pricing method



(Notes)

- 1. Total number of MAP cases closed does not correspond to the sum of the numbers in the chart above, as some cases are counted for multiple transfer pricing methods when applicable.
- 2. In case of MAP related to compensating adjustments and amendments to previously agreed APAs, only transfer pricing methods applied in the original APA agreements are included in the chart above.