

1 Promotion of proper and fair taxation

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

The NTA analyzes information from various angles and for malicious taxpayers who try to illicitly evade their tax burden, the NTA establishes appropriate examination systems, and conducts strict examinations.

In addition, for other taxpayers the NTA takes care of its administration processes in an effective and efficient manner by balancing its allocation of limited human resources and other resources. For example, it makes brief contact via in writing or by telephone.

■ The number of field examinations

(thousands cases)

Tax category \ Operation year	2016	2017
Self-assessed income tax	70	73
Corporation tax	97	98
Consumption tax	130	132
Inheritance tax	12	13

■ The penalty tax amount of field examinations

(billion yen)

Tax category \ Operation year	2016	2017
Self-assessed income tax	81.9	94.7
Corporation tax	173.2	194.8
Consumption tax	103.0	102.1
Inheritance tax	71.6	78.3

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

The NTA utilizes the system to select the subjects of tax examinations by analyzing the data related to income tax returns, corporation tax returns, and a variety of other data and information including payment records submitted by the business proprietors based on laws.

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

(1) Priority matters addressed in the tax examinations

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

The NTA clarifies the actual state of increasing overseas investment and cross-border transactions and conducts in-depth examinations by utilizing information from the record of remittance and receipt relating to foreign countries and other materials, and the exchange of information based on the tax treaty, etc. with competent foreign authorities.

We properly impose taxes on investment profit generated from diversified and globalized asset management conducted in particular by the affluent class. We also actively conduct examinations to accumulate information for the future proper taxation of inheritance tax.

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

- The NTA utilized information obtained through the Automatic Exchange of Information program based on tax treaties in place and identified undeclared income, such as interest generated from savings kept in overseas accounts.
- The NTA has uncovered a reduction in tax burden by conducting transactions through a shell company established in a so-called tax haven.

* Details of the activity mentioned above are available at the NTA website "International Strategic Total Plan - The Present State of Efforts toward International Taxation and the Future Direction" (<https://www.nta.go.jp/taxes/shiraberu/kokusai/strategy/index.htm> (in Japanese)).

III Proper and Fair Taxation and Collection

~ Conduct sufficient examinations for ensuring proper taxation of consumption tax ~

Consumption tax is one of the main taxes for tax revenue, which is why it attracts the strong attention of the public. Therefore, proper tax administration is especially necessary.

Especially, as there are cases where fraudulent consumption tax refunds were claimed through the filing of false returns, we work to prevent the filing of fraudulent refunds by instituting sufficient examinations of the facts.

Also, the NTA is working increasingly close with customs authorities in order to address evasion of consumption tax on import products related to contraband import of gold which has become a social issue.

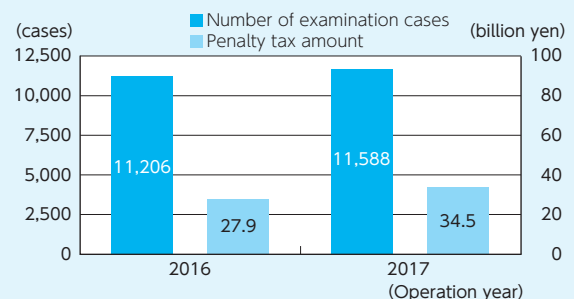
◎ Cases of examinations of consumption tax

- The NTA uncovered a case in which a bogus contract was prepared with the aim to illegally receive tax refunds on consumption tax by registering fictitious purchases.
- The NTA uncovered a case in which an overseas business operator who distributes gaming applications was not filing consumption tax

~ Identify taxpayers failing to file by utilizing information ~

Since the failure to file tax return will cause a strong sense of unfairness to voluntary compliant taxpayers, the NTA precisely identifies failure to file by further collecting and utilizing information from materials, and actively conducts examinations.

■ Examination results of failure to file (income tax, inheritance tax, and corporation tax)



◎ Cases of examinations of failure to file

- The NTA has discovered that a company employee was obligated to file a self-assessed tax return related to earnings (affiliate income) gained from corporate advertisements displayed on his or her website together with his or her salary income, but failed to do so.
- The NTA uncovered a case in which an individual illicitly avoided filing tax returns by intentionally discarding prepared documents, despite recognizing the fact that a significant amount of profit was being generated.

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

When conducting tax examinations, the NTA always tries to properly process taxation after correctly interpreting the assertions made by taxpayers and studying the laws and regulations based on accurate fact finding. On this occasion, we are thoroughly adhering to the procedures and processes defined as legal requirements.

Column 6 Precise Action Taken Towards New Fields of Economic Activities, such as the Sharing Economy

Recently, as new fields of economic activities, such as the sharing economy, exhibit increasing expansion, the theme of necessity for efforts and systematic measures to address the securing of fair taxation is mutually recognized within Japan and abroad.

The NTA is striving to develop an environment for appropriate filing in these fields while broadening its collection of information. Through these efforts, the NTA will accurately identify taxpayers who are suspected of taxation issues, and take actions to ensure fair taxation, including provision of administrative guidance.

Recently, as the NTA advances these initiatives as one of its most important matters, it has decided to reveal details of its initiatives.

Please refer to the section titled “Precise Action Taken Towards New Fields of Economic Activities, such as the Sharing Economy” (https://www.nta.go.jp/information/release/kokuzeicho/2019/sharingueconomy_taio/pdf/01.pdf (in Japanese)) uploaded on the NTA website.

(2) Utilizing approaches other than field examinations

~ Promote various contact methods in addition to field examinations ~

To ensure proper and fair taxation within the limited human resources and other resources, the NTA has been making effort to operate its work effectively and efficiently by employing various measures other than field examinations to ensure that taxpayers voluntarily fulfill their tax duties.

◎ Efforts to ensure voluntary fulfillment of tax obligations by taxpayers

- The NTA encourages voluntary review by contacting by documents or telephone, to the person who seemingly has made some calculation error or has applied incorrect tax laws, and who seemingly has failed to file a return based on accumulated information by the NTA.
- Initiative to promote proper declaration by publication through the NTA website on points to pay extra attention to when filing one's tax return.

Cooperative approaches

The NTA carries out initiatives to maintain and improve tax compliance through cooperative approaches in order to advocate voluntary efforts towards proper filing by large enterprises.

● Approach to enhance the corporate governance on tax matters

The NTA, taking the opportunities of examination of large corporations, checks the status of corporate governance on tax matters, exchanges opinions with executive officers, and presents them effective examples of approaches to promote their spontaneous efforts for the enhancement of corporate governance.

The NTA will establish the mutual trustful relationship with those corporations under favorable corporate governance on tax matters, and will prolong intervals until the next examinations for them. Then we will focus its examination work on other corporations in need of improvement.

With this action, the NTA will be able to effectively utilize the limited number of personnel. From a corporate perspective, benefits will arise, such as a reduction in risks that tax affairs are inappropriately processed, and a reduction of burdens due to tax examinations.

The results of evaluation about details of measurement indices on this activity are available at the NTA website “Approaches to enhance the corporate governance on tax matters (for corporations handled by the Large Enterprise Division”

(<https://www.nta.go.jp/taxes/tetsuzuki/shinsei/shinkoku/hojin/sanko/cg.htm> (in Japanese)).

III Proper and Fair Taxation and Collection

- **Promotion of the “self inspection of tax returns and self audit of tax items” at large enterprises**

- ～ **Publication of check sheets for the “voluntary inspection of tax returns and voluntary audit of tax items” by Large Enterprise Department of Regional Taxation Bureau** ～

The site provides two types of check sheets: “Check sheet for tax returns,” which can be used for the voluntary inspection of tax returns before submission, and “Check sheet for tax items that require special attention at large enterprises.” Details of this activity are available at the NTA website “Voluntary inspection of tax returns and voluntary audit of tax items (for corporations handled by the Large Enterprise Division)”

(<https://www.nta.go.jp/taxes/tetsuzuki/shinsei/shinkoku/hojin/sanko/tk.htm> (in Japanese)).

These sheets can be used for the voluntary audit of, for example, omissions in entering adjustments in settling accounts and adjustments for taxable income before tax return preparation. Please make use of these check sheets based on your intended use.

We expect a reduction in risks that processing errors are identified during examination by utilizing these to prevent errors in tax returns.

- **Efforts through cooperative approach concerning transfer price taxation**

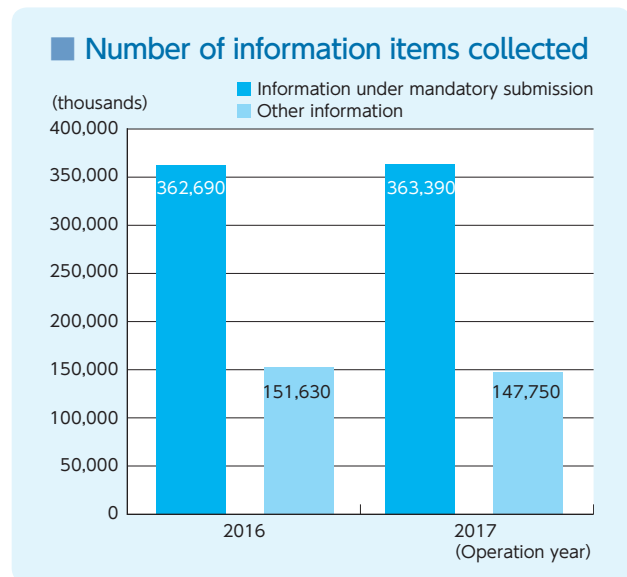
The NTA has published the “Transfer Price Guidebook—Towards Maintenance and Enhancement of Voluntary Tax Compliance” (June 2017) (<https://www.nta.go.jp/taxes/shiraberu/kokusai/itenkakakuzeisei/index.htm> (in Japanese)) with the aim to increase the predictability of taxpayers and transparency of public administration concerning transfer price taxation.

(3) Data and Information

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

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

Especially, the NTA constantly focuses on changes in illicit forms and the increasing globalization and ICT in business transactions in recent years. We actively collect information on overseas investments, information on transactions with overseas companies, etc. to get the information on new asset investment techniques and transaction forms. The NTA is also paying attention to transactions related to the sharing economy.



(4) Criminal investigation

~ Pursues criminal responsibility of malicious tax evaders ~

The tax criminal investigation system pursues criminal responsibility of malicious tax evaders and aims to contribute both to realizing proper and fair taxation and to maintaining the self-assessment system through the effect of “punishing one to serve as a warning to all.”

~ Positive action toward cases with socially strong ripple effects ~

During FY2018, with respect to the current economic society situation, the NTA actively engaged cases with socially strong ripple effects, such as illicit receipt of consumption tax refunds, failure to file tax returns, international cases and cases in areas of expanding markets, and charged numerous cases.

In particular, 16 cases of illicit receipt of consumption tax refunds, the highest number of cases in the past five years were charged.

◎ Cases of accusations filed to the prosecutor in FY2018

Accusation of a case of illicit receipt of consumption tax refunds exploiting the tax-free retail (sales outlet of export items) system

An entity was plotting to illicitly receive consumption tax refunds by registering fictitious tax-free sales by pretending to have sold expensive wrist watches to foreign tourists at a tax-free shop, which was approved as a sales outlet of export items, while accounting for fictitious purchase (taxable transaction) of these items.

■ Status of criminal investigations

	Number of cases conducted	Number of cases closed	Number of cases with accusation filed to the prosecutor	Total amount of tax evasion cases (portion with accusation filed to the prosecutor)	Amount of tax evasion per case (portion with accusation filed to the prosecutor)
	cases	cases	cases	million yen	million yen
FY2017	174	163	113	13,509 (10,001)	83 (89)
FY2018	166	182	121	13,999 (11,176)	77 (92)

* Figures of tax evasion include additional tax.

■ Ruling Status in the first trial of criminal investigation cases

	Number of rulings ^①	Number of convictions ^②	Percentage of cases convicted ^{②/①}	Number of convictions with prison sentences without probation ^③	Amount of tax evaded per case ^④	Term of prison sentence per person ^⑤	Amount of fines per person (company) ^⑥
	cases	cases	%	persons	million yen	months	million yen
FY2017	143 (5)	143 (5)	100.0	8 (4)	62	14.7	15
FY2018	122 (5)	122 (5)	100.0	7 (2)	61	14.3	14

* 1 Figures in the parenthesis indicate cases combined with non-tax crimes.

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

◎ Cases in FY2018 resulted in actual prison sentences

The most serious prison sentence was an isolated criminal investigation case which was served a sentence of 4 years and 6 months

In a criminal investigation case, a company in the business of exporting beauty-related products booked fictitious domestic purchase (taxable transaction) and fictitious export sales (tax-exempt transaction), and illegally benefitted from significant amount of consumption tax refunds. The representative of the company was sentenced to prison for a term of 4 years and 6 months.

III Proper and Fair Taxation and Collection

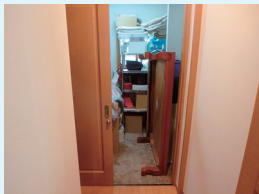
~ Retained funds which obtained from tax evasion ~

A majority of the illegal funds generated through tax evasion was retained in the form of cash or savings, but in other cases, they were detected in the forms of securities, housing, assets in crypto assets (virtual currency), gold bullions, luxury brand goods, financial assistance towards relatives and individuals in special relationships and entertainment fund for gambling, etc.

Furthermore there were instances in which a portion of the illegal funds was allocated to an overseas account, investment, purchase of condominium, funding for entertainment (casino), etc. in overseas.

Past cases where hidden properties were found in criminal investigations

Cash was discovered inside a safe hidden beneath the carpet in a residential closet



Column 7 The 70 years' history of the criminal investigation system

The criminal investigation system started when a Criminal Investigation Department was founded within the Tax Bureau and each Regional Finance Bureau of the Ministry of Finance in July of 1948, and it saw its 70th anniversary in July of 2018.

When the department was first founded, its priority was given to capturing the income of those who had made profits from inflation right after the world war, but following various ensuing debates concerning the stability of the economy and society, and the system itself, the current principle of "exposing malicious tax evaders" was established, and the department served an important role in establishing the self-assessment system of our country as its "last bastion."

The Criminal Investigation Department has adapted to increasingly technical and international economic transactions of today, and is relentlessly focused on exposing malicious tax evaders by actively promoting the use of data analysis, which utilizes digital forensics techniques, and the exchange of information with foreign tax authorities based on the tax treaty, etc.

Date	Milestones	Date	Milestones
July 1948	The Criminal Investigation Department is founded within the Tax Bureau of the Ministry of Finance	April 1989	The Consumption Tax Law comes into effect.
	Revision of the National Tax Violations Control Law	July 1989	The number of investigators exceeds 1,000
	Initiated with 500 investigators	June 2010	Penalty for tax evasion is increased (maximum prison term increased from 5 to 10 years)
July 1949	The National Tax Agency is inaugurated (the Criminal Investigation Division is founded)	August 2011	Creation of crimes for intentional failure to submit tax returns and attempted offense of illicit consumption tax refunds receipt
May 1981	Penalty for tax evasion is increased (maximum prison term increased from 3 to 5 years)	April 2018	Organization of examination procedure related to electromagnetic records (National Tax Violations Control Law is incorporated into Act on General rules of National Taxes)
July 1984	A female investigator is appointed		
February 1987	"Marusa No Onna (A Taxing Woman)" is released in movie theaters		

2 Reliable tax payment

(1) Establishment of voluntary tax payment

~ Approximately 64.8 trillion yen of taxes paid into the national treasury within the fiscal year (98.9% paid within the fiscal year) ~

Self-assessed national tax becomes revenue when paid into the national treasury. In FY2017, about 65.5 trillion yen of taxation (amount determined for collection) was self-assessed in Tax Offices. Of this, about 64.8 trillion yen of tax (collected amount) was paid into the national treasury within the fiscal year, for a 98.9% collection ratio.

~ Measures to prevent delinquencies ~

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

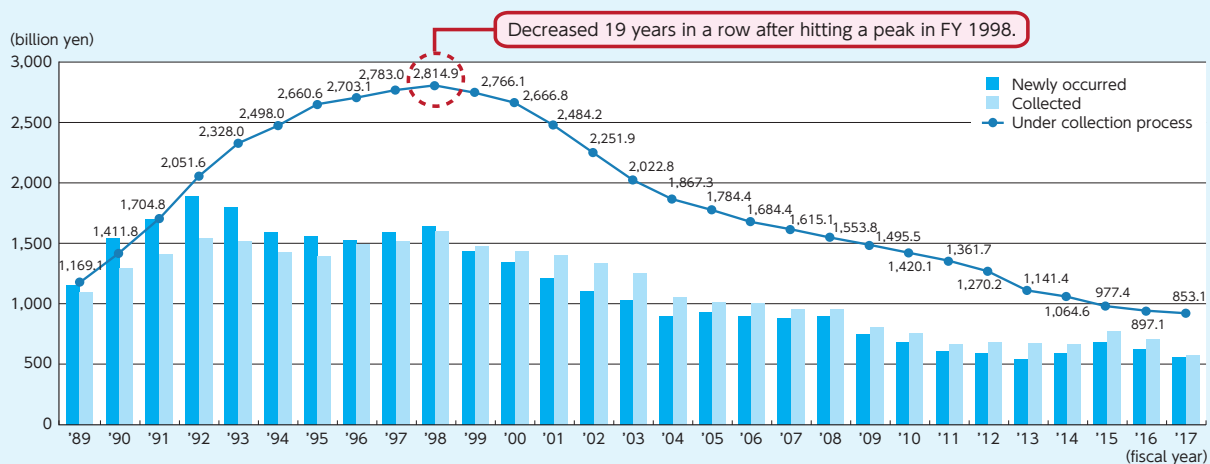
* Delinquency signifies that the national tax was not paid by due date and a payment demand letter was sent.

(2) Efforts to promote reduction of delinquent taxes

~ Amounts under collection process reduced to 30.3% of that of the peak time ~

At the end of FY2017, the tax delinquency amount was about 853.1 billion yen.

■ Trend of collection of delinquent tax, for all tax categories



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

* 2 Figures for local consumption tax are not included.

Amounts under collection process remains high at approximately 0.9 trillion yen

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

For delinquent national taxes, from the viewpoint of fairness with the great majority of taxpayers who pay within the due date, the NTA is working for early and thoroughly completion, and works to resolve delinquencies under the following basic policy, taking into consideration that executing disposition for delinquent tax greatly impacts taxpayers' rights and interests.

III Proper and Fair Taxation and Collection

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

In the collection of delinquent taxes, voluntary payment is urged and the taxpayer's intention to pay is confirmed while the resolution policy is determined following a thorough examination of the situation of each delinquent taxpayer, such as the condition of its business, assets and balance of income and expenditure.

In particular, should the taxpayer consult with the NTA concerning difficulties it may have in settling in a lump sum payment, the NTA will consider applying measures to relax conditions of the tax settlement, such as deferred payment or conversion of assets into cash, with consideration to the taxpayer's situation, and permit payment in installments provided it satisfies the requirements of laws and regulations. On the other hand, should sincere intentions towards payment of taxes not be recognized, such as repeat default of commitments to pay the tax, the NTA will take disposition for delinquent tax, such as seizure and auctioning off of assets in a timely and appropriate manner.

~ Strict and resolute handling of large and malicious delinquent cases ~

When collecting delinquent tax in a large and malicious delinquency case, from the viewpoint of fulfilling tax responsibilities properly, strict and resolute action is taken.

Particularly strict action is taken in especially malicious cases with an attempt to hide assets or otherwise evade execution of disposition for delinquent tax¹. This crime of evading disposition for delinquent tax is aggressively referred to the prosecutor.

~ Organizational response of difficult-to-handle cases ~

A considerable amount of office work and use of sophisticated collection techniques are required for delinquency processing of difficult-to-handle cases, such as complicated transactions and transfer of asset is being disguised.

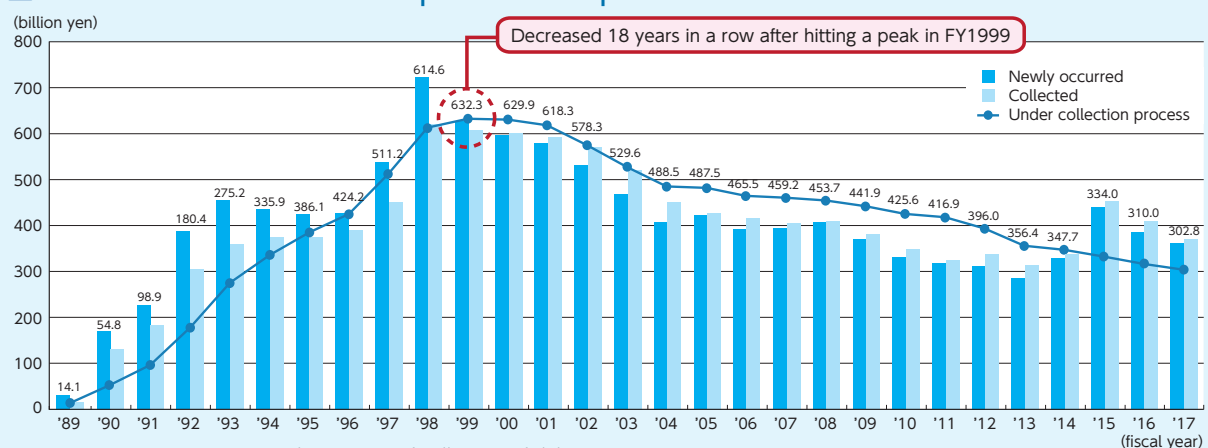
For that reason, the NTA takes organizational actions such as disposition for delinquent tax by management over a wide geographic area, with timely project team formation.

The NTA also takes legal action, such as a lawsuit to demand the rescission of a fraudulent act² and actively uses legal means to collect delinquent taxes.

~ Certain handling of consumption tax delinquency cases ~

The NTA is striving to reduce the balance of delinquent consumption tax, which we start to collect early and thoroughly when newly occurred including delinquent consumption taxes, for steadily collecting all delinquencies.

■ Trend of collection of delinquent consumption tax



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

*2 Figures for local consumption tax are not included.

1 If actions such as hiding of assets are done to evade seizure or other disposition for delinquent tax, up to 3 years in prison or up to a 2.5 million yen fine can be imposed.

2 A lawsuit to demand the rescission of fraudulent act is a lawsuit to negate the validity of a legal act (fraudulent act) between the delinquent person and third party, where such act harms the claimant (country). The lawsuit aims to take back from the third party that asset separated from the delinquent taxpayer, and return it to the delinquent taxpayer (refer to Act on General Rules for National Taxes, Article 42, and the Civil Code, Article 424).

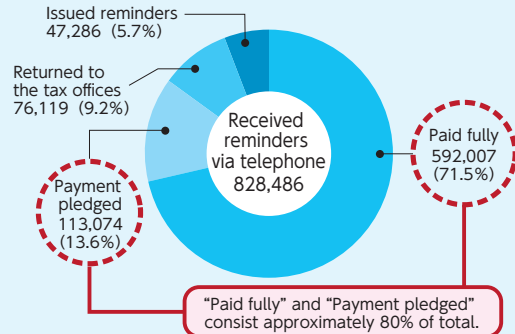
(3) Office of Tax Collections Call Center ~ Conduct effective and efficient phone notices ~

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

Over the year from July 2017 to the end of June 2018, this office provided notifications to about 830,000 people, of which about 590,000 people (71.5%) fully paid, and about 110,000 people (13.6%) pledged payment.

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

Of 828,486 taxpayers issued reminders for payment by telephone between July 2017 and the end of June 2018, 592,007 have fully paid their taxes.



(4) Public auction by Internet

~ Sold approximately 800 items by internet auctions ~

The NTA has conducted internet auctions using a private-sector auction website to sell properties which were seized. Internet auctions are very convenient in such ways as the participants do not need to visit a real auction places and can apply for the purchase 24 hours during the auction period on the internet, and can attract more auction participants. It is the effective means to sell the assets or goods of high value that have been seized.

Six internet auctions were held in FY2018. As a result, a total of about 4,000 people participated, and about 800 items such as automobiles, jewelry goods, real estate, etc. were sold, for a total sales value of about 400 million yen.

■ Examples of properties that have been sold by internet auctions



(5) Accurate and efficient management of claims and liabilities

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

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

There are about 43.09 million tax payment cases each year. To efficiently process this huge amount of payments, the NTA is working on more efficient processing operations. There is optical character recognition (OCR) processing¹ for tax payment slips at the Bank of Japan, income tax and sole proprietors' consumption tax payments by transfer account², online tax payment and Direct payment. The NTA centralized transfer processing then adopted online transfer procedures. In these ways, the NTA is pursuing efficient and speedy payment processing.

¹ OCR processing (optical character recognition processing) converts the characters written on a tax payment slip into electronic data. This electronic data is communicated between the Bank of Japan and the NTA, providing more efficient information transfer and paperless processing.

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

3 Addressing international transactions

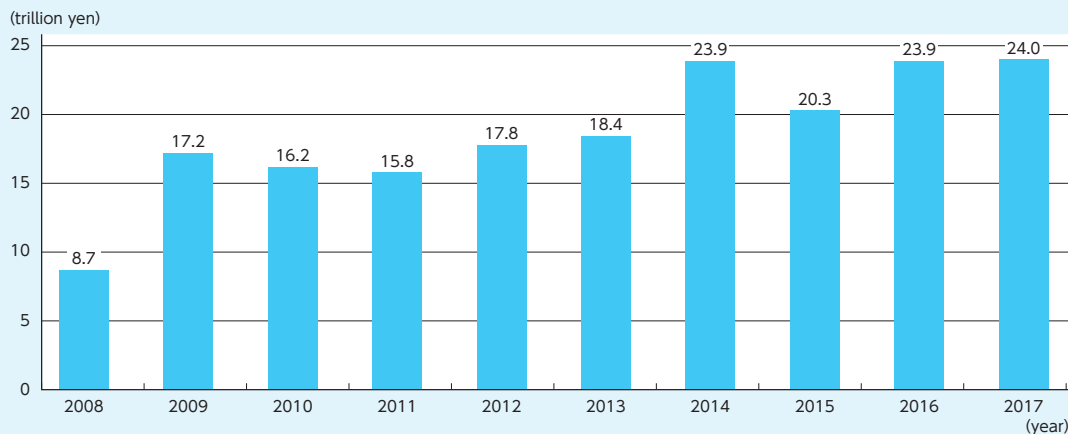
(1) Background

~ Public interest increase in international tax avoidance cases ~

In recent years, the economy has been increasingly globalized with an increase in overseas investment by individual investors and cross-border transactions conducted by corporations. Under such circumstances, due to the disclosure of the so-called “Panama Papers,” progress in the Base Erosion and Profit Shifting (BEPS) Project and Automatic Exchange of Financial Account Information of non-residents based on the Common Reporting Standard (CRS) developed by the OECD, public interest has been significantly increasing on international tax avoidance cases. Those include hiding assets overseas by the affluent class and corporations that conduct cross-border transactions and reducing tax burden using the mismatch in the tax systems and/or treaties among jurisdictions.

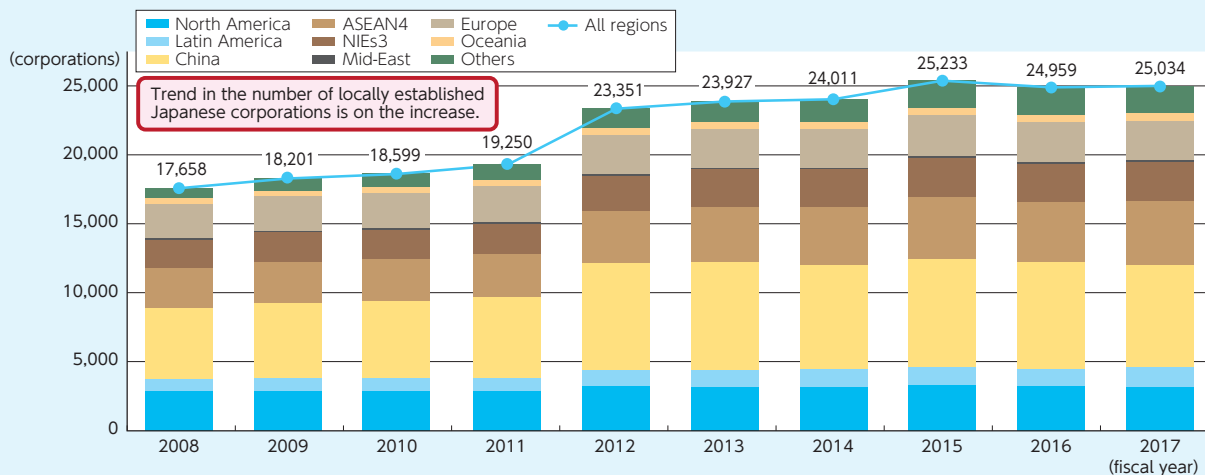
The NTA considers that achieving proper and fair taxation in view of both global and domestic trends will lead to securing trust from every taxpayer.

■ Amount of overseas investment from the household sector (portfolio investment assets)



* Figures are data from June 2018, post retrospective revisions
(Source: “Japan’s Flow of Funds Accounts” by Bank of Japan)

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



※1 “ASEAN4” includes Malaysia, Thailand, Indonesia and Philippines.

※2 “NIEs3” includes Singapore, Taiwan and South-Korea.

(Source: “Basic Survey on Overseas Business Activities,” by Ministry of Economy, Trade and Industry)

Column 8 The policy initiatives based on “International Strategic Total Plan”

The NTA has set international taxation as an important task, and it publicized the “International Strategic Total Plan” in October 2016. It summarizes the current situation and future directions in international taxation.

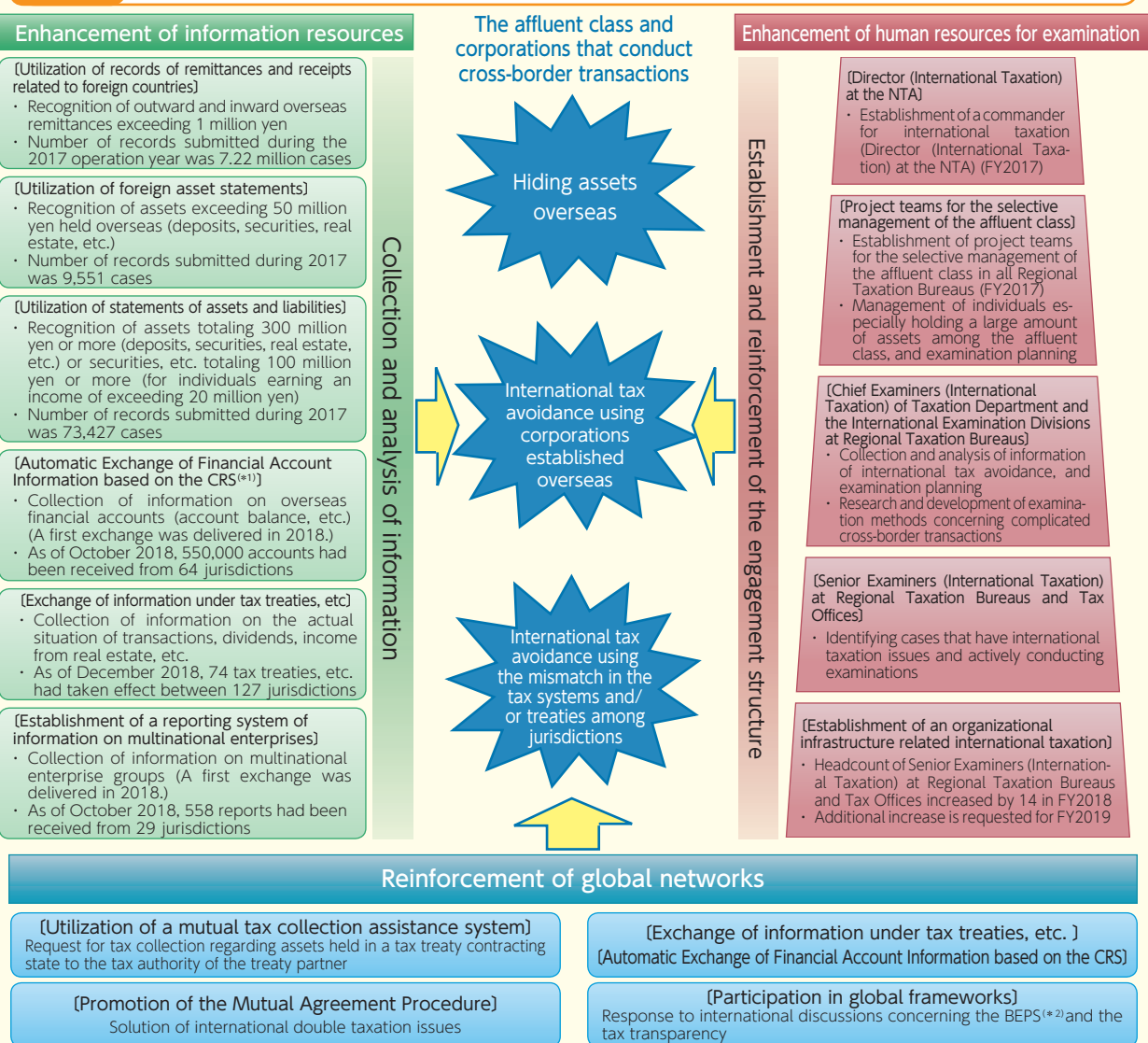
The NTA has continued proactively work on international taxation after the publication of this plan. With the start of Automatic Exchange of Financial Account Information of non-residents based on the CRS by the OECD from September 2018 in Japan, public interest on this field has been growing as ever.

Under these circumstances, following the release of NTA’s approaches and audit case examples regarding the plan for the 2017 operation year, the NTA released “The policy initiatives based on ‘International Strategic Total Plan’” in January 2019, by which it disclosed its updates on international taxation.

■ The policy initiatives based on “International Strategic Total Plan” (January 2019 edition)(extracts)

The policy initiatives based on “International Strategic Total Plan (2016)” (January 2019 edition)

Policy of the National Tax Agency ©In recent years, the economy has been increasingly globalized. Under such circumstances, due to the disclosure of the so-called “Panama Papers”, progress in the Base Erosion and Profit Shifting (BEPS) Project and the start of Automatic Exchange of Financial Account Information of non-residents based on the CRS, public interest has been significantly increasing on international tax avoidance cases.
⇒The NTA will advance each of the initiatives outlined in the “International Strategic Total Plan,” and should there be any taxation issues detected, the NTA will properly take actions including thorough examinations.



*1 CRS: The abbreviation of Common Reporting Standard
*2 BEPS: The abbreviation of Base Erosion and Profit Shifting

About the NTA
Efforts to Enhance Services for Taxpayers and to Boost Efficiency of Tax Administration
Proper and Fair Taxation and Collection
Remedy for Taxpayer Rights
Liquor Administration
Ensuring Proper Administration of Services by Certified Public Tax Accountants (CPTAs)
Evaluation of Policies
Statistics

III Proper and Fair Taxation and Collection

(2) Enhancement of information resources (reinforcement of information collection and utilization)

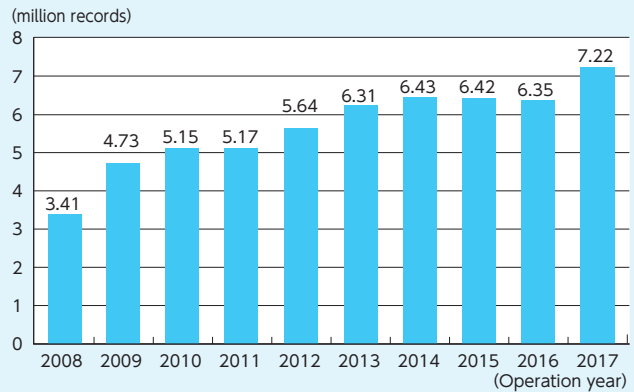
~ Detect precisely cross-border transactions and assets held overseas ~

The NTA exercises the following systems in order to identify income generated through economic activities that transcend borders and to exercise proper taxation.

① Records of remittances and receipts related to foreign countries

Records of remittances and receipts related to foreign countries is a report to be submitted to Tax Offices by financial institutions that conduct outward and inward overseas remittances exceeding 1 million yen. The record states the name and address of the sender and receiver of funds, remittance amount, and My Number or Corporate Number (enforced in April 1998).

■ The number of Records of remittances and receipts related to foreign countries submitted

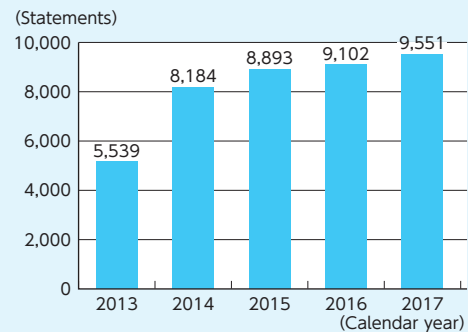


* From April 2009, the threshold amount for submission was decreased from more than 2 million yen to more than 1 million yen.

② Foreign asset statements

Those who have assets in foreign countries totaling over 50 million yen as of December 31 in the year are to submit a statement describing the type, quantity, and value of the assets overseas, My Number, etc. by March 15 of the following year to Tax Offices (enforced in January 2014).

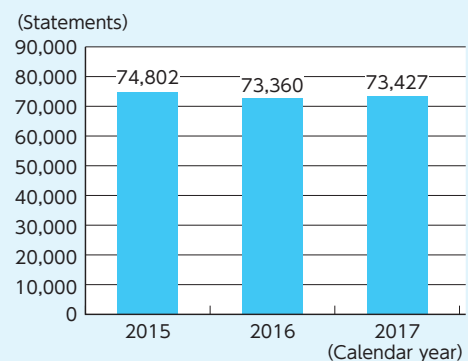
■ The number of foreign asset statements submitted



③ Statements of assets and liabilities

Those who earn an income of over 20 million yen in the year, and hold assets totaling 300 million yen or more or securities, etc. totaling 100 million yen or more (assets subject to exit taxation) as of December 31 in the year are to submit a statement describing the type, quantity and value of the assets, the amount of debt, My Number, etc. by March 15 of the following year to Tax Offices (enforced in January 2016).

■ The number of statements of assets and liabilities submitted



④ Exchange of information under tax treaties, etc.

There are cases in which the NTA cannot sufficiently clarify the cross-border transactions only with the information obtained in Japan. In such cases, the NTA can exchange information with foreign tax authorities under bilateral tax treaties or provisions of the multilateral Convention on Mutual Administrative Assistance in Tax Matters, which makes it possible to acquire the necessary information for proper and fair taxation from other countries. In recent years in particular, the network of exchange of information has been expanding and strengthening. As of April 2019 Japan has 74 tax treaties¹ in force, which cover 129 jurisdictions, and the number of information exchange amounts to some hundred thousand cases per year.

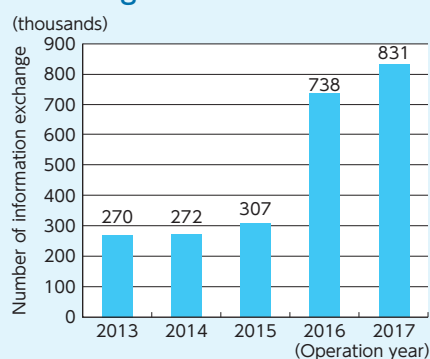
⑤ Automatic Exchange of Financial Account Information of non-residents based on the Common Reporting Standard (CRS)

To address international tax evasion and avoidance performed through overseas financial institutions, in 2014, the OECD developed the Common Reporting Standard (CRS) which is the international standard for Automatic Exchange of Financial Account Information of non-residents among tax authorities.

Based on this standard, tax authorities of each jurisdiction will: (1) receive information (name, address, account balance, etc.) concerning accounts, which is attributable to a non-resident, from a financial institution located in its jurisdiction, and (2) provide that information for the tax authority of the jurisdiction where the non-resident resides, based on the tax treaty, etc. Currently, over 100 jurisdictions have already committed to commence Automatic Exchange of Financial Account Information attributable to non-resident(s) in accordance with the CRS.

The NTA has begun exchanging information with other foreign tax authorities starting in 2018, and as of the end of October 2018, the NTA has provided approximately 90,000 financial accounts for 58 jurisdictions, while receiving 550,000 accounts from 64 jurisdictions. The NTA will make use of information from foreign tax authorities to identify financial assets that are located overseas and earnings generated through these assets, and to detect and analyze overseas transactions that may have taxation issues.

■ Trend in number of information exchange



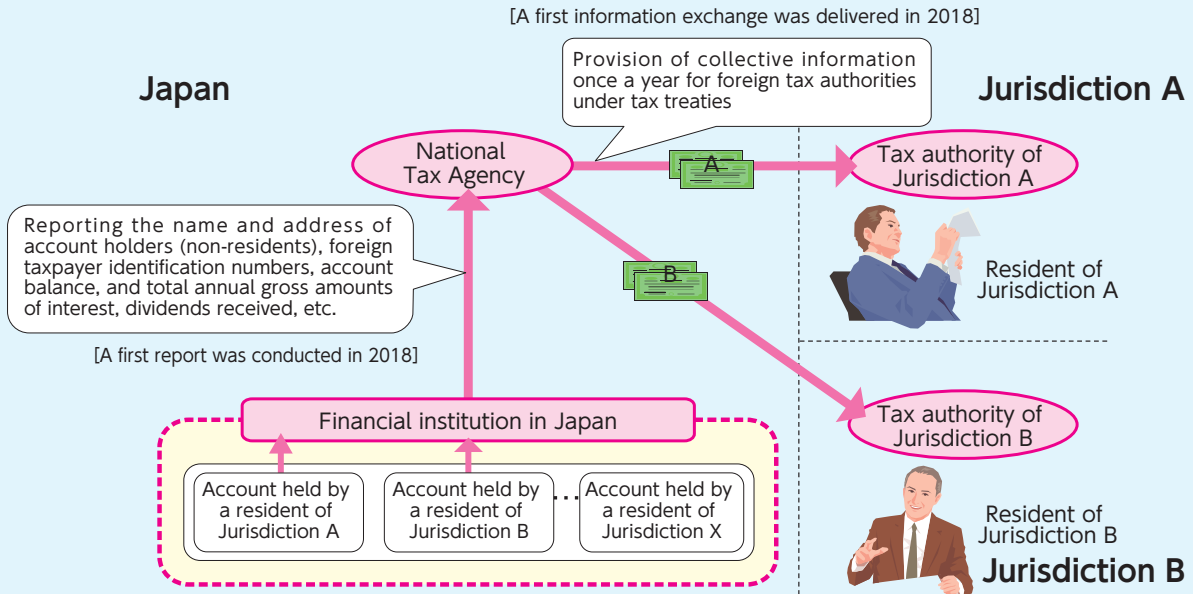
* Number of information exchange is the total number of cases in which information request was received and cases sent for requesting information each operation year.

¹ Tax treaties refer to tax treaties, information exchange agreements, Convention on Mutual Administrative Assistance in Tax Matters and private-sector arrangement with Taiwan.

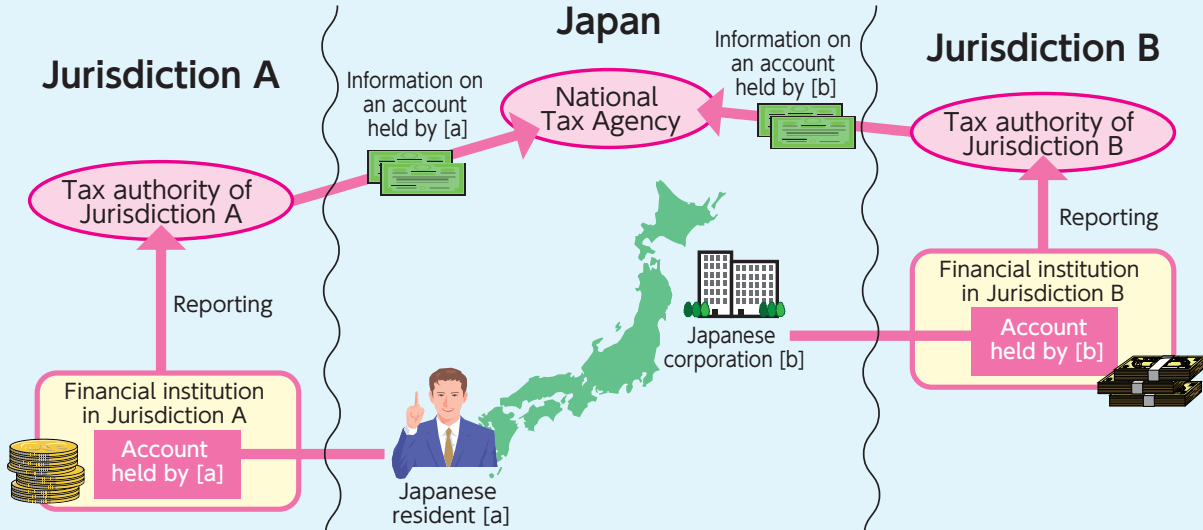
III Proper and Fair Taxation and Collection

■ Conceptual diagram of the Automatic Exchange of Financial Account Information based on the CRS

Provision of information from Japan to other jurisdictions



Provision of information from other jurisdictions to Japan



From foreign tax authorities, the NTA receives information (name, address, My Number, Corporate Number, account balance, and total annual gross amounts of interest, dividends received, etc.) concerning Japanese residents (individuals, corporations, etc.) who hold accounts at financial institutions outside Japan.

⑥ Establishment of a reporting system of information on multinational enterprises

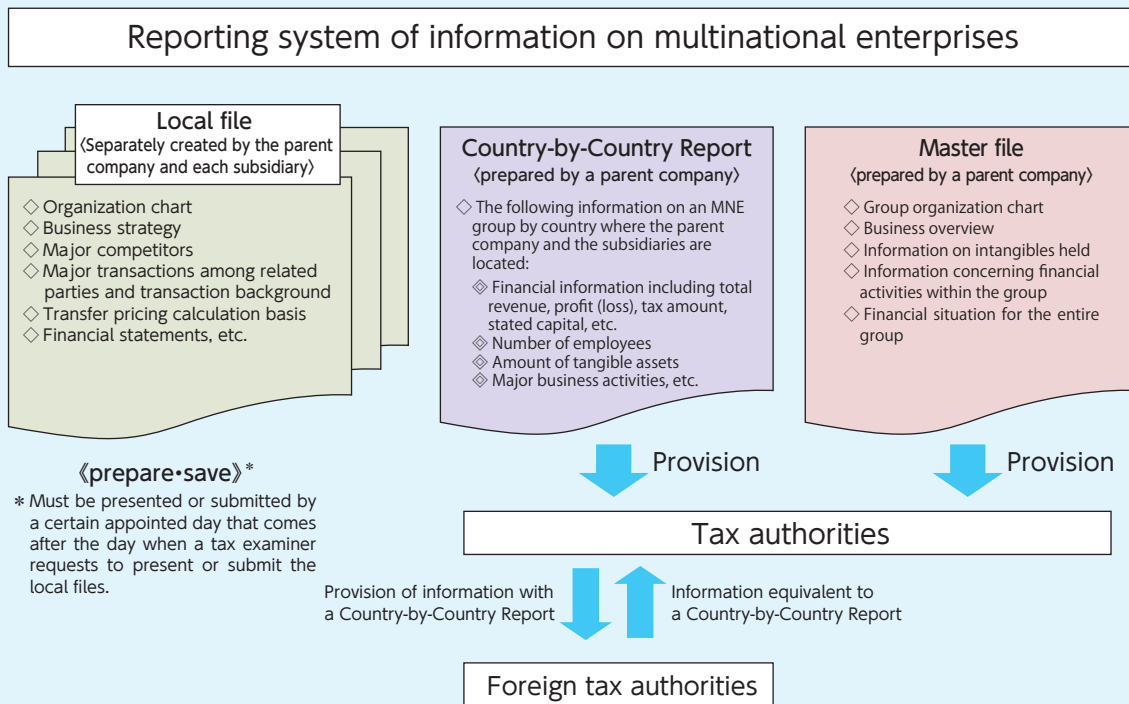
For the purpose of understanding the global activities and the actual situation of tax payment conducted by multinational enterprises (MNEs), some corporations became obligated to provide (or prepare and store) the following information to Tax Offices after the FY2016 tax reform: (1) information concerning business activities of each countries conducted by MNE groups (“Country-by-Country (CbC) Report”), (2) information concerning the overall global business activities conducted by MNE groups (“master file”), and (3) detailed information for calculating arm’s length price (transaction price between third parties) for transactions with foreign related parties (“local file”)¹.

Of this information, the “Country-by-Country (CbC) Report” is agreed to be provided for the tax authority of the jurisdiction where a foreign related party of the MNE group is located, by each jurisdiction, based on the automatic exchange of information stipulated in the tax treaty. As of end of October 2018, the NTA received approximately 550 reports from tax authorities of 29 jurisdictions, while the NTA provided approximately 600 reports for tax authorities in 39 jurisdictions.

In addition, when the amount of the transactions with a foreign related party becomes more than a certain amount, corporations are required to prepare or obtain and store local files by the deadline for the submission of final tax returns. Local files must be presented or submitted by a certain appointed day that comes after the day when a tax examiner requests to present or submit local files (this applies to the business year that begins on or after April 1, 2017).

About the NTA
Efforts to Enhance Services for Taxpayers and to Boost Efficiency of Tax Administration
Proper and Fair Taxation and Collection
Remedy for Taxpayer Rights
Liquor Administration
Ensuring Proper Administration of Services by Certified Public Tax Accountants (CPTAs)
Evaluation of Policies
Statistics

■ Conceptual diagram of a reporting system of information on multinational enterprises



¹ The ultimate parent entity of an MNE group that earns a total revenue of 100 billion yen or more in the preceding fiscal year of the ultimate parent entity is required to submit a CbC Report and a master file via e-Tax no later than 12 months after the last day of the fiscal year of the ultimate parent entity (this applies to the fiscal year of the ultimate parent entity that begins on or after April 1, 2016).

III Proper and Fair Taxation and Collection

(3) Enhancement of human resources for examination (establishment and expansion of a system for implementation areas)

~ Establishment of dedicated divisions and project teams ~

To deal with the more complicated and diversified cross-border transactions and international tax avoidance, the NTA has established a division dedicated to examinations relating to international taxation.

Moreover, from the perspective of further enhancing information collection regarding the affluent class, the NTA has established a project team for the selective management of the affluent class in the Tokyo, Osaka, and Nagoya Regional Taxation Bureaus in the 2014 operation year. The project team collects and analyzes information through an integrated management of taxpayers who in particular hold a large amount of assets among the affluent class, relevant parties, the presiding company, and companies involved as a group subject to management.

The project teams are established in all Regional Taxation Bureaus from July, 2017 and similar initiatives are implemented nationwide.

(4) Reinforcement of global networks (cooperation with competent foreign authorities)

~ Enhance cooperation with the foreign competent authorities ~

With cross-border economic activities being more active, it is essential to cooperate with the foreign competent authorities to ensure proper and fair taxation. Therefore, the NTA has been striving to enhance cooperation with the foreign competent authorities.

① Participation in global framework

(1) Formation and implementation of international agreements

The BEPS Project was initiated by the OECD in 2012 to address the problem of tax avoidance by MNEs that are artificially manipulating taxable income by using the mismatch among the domestic law of each jurisdiction. With the G20 members that are non-OECD countries participating in discussions, the final report was publicized in October 2015.

The final report presents various recommendations, by means of reviewing the overall international tax rules, to address international tax avoidance by MNEs and to increase the transparency of each jurisdiction's tax system and MNEs' business activities. The NTA has been proactively engaged in implementing those recommendations appropriately.

■ The 15 actions discussed in the BEPS Project:

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

(2) Participation in the activities at the OECD

For the purpose of ensuring implementations of the recommendations in the final report of the BEPS Project to the broader economies including emerging and developing countries, the “Inclusive Framework on BEPS” has been established in 2016. As of April 2019, 129 jurisdictions including Japan are participating in the “Inclusive Framework on BEPS,” and monitoring the implementation of the recommendations through the peer review process, etc.

In addition, discussions concerning review of the recommendations, slated for 2020, are ongoing.

Regarding exchange of information under tax treaties, the legal and regulatory framework and the practical implementation in each country and region are mutually examined at the “Global Forum on Transparency and Exchange of Information for Tax Purposes,” in which 154 jurisdictions participate.

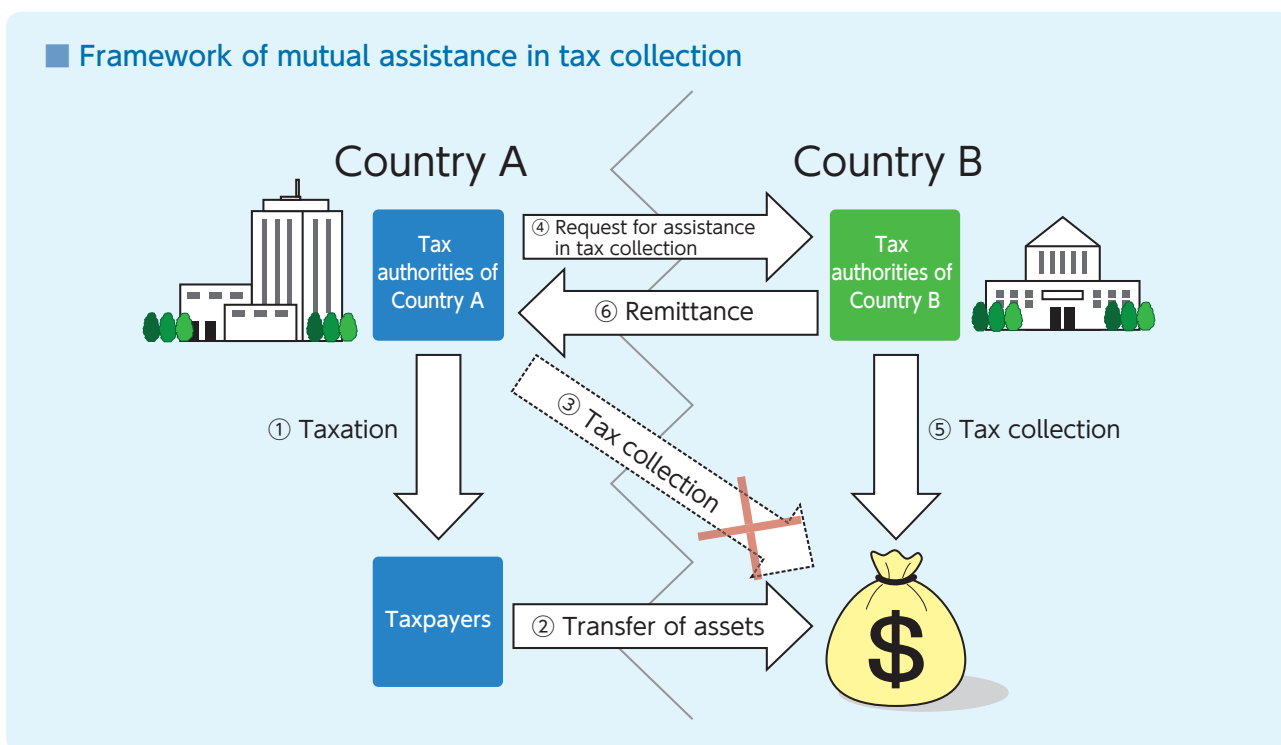
Moreover, at the “Joint International Taskforce on Shared Intelligence and Collaboration (JITSIC)” of the “OECD Forum on Tax Administration,” participants are taking part in activities with the objective to share information among participating countries, and to work together on common challenges, such as tax avoidance on a global scale.

The NTA is actively participating in these activities and discussions.

② Utilization of a mutual tax collection assistance system

While the collection of tax claims is subject to the restrictions of executive jurisdiction (which means that a country’s tax authorities cannot exercise its public authorities outside the country’s territory), the avoidance of tax collection by means of transfer of assets to overseas can be coped with the framework of “mutual assistance in tax collection”, which enables each country’s tax authorities to mutually enforce tax claims of treaty partners in cooperation under tax treaties.

In Japan, international tax collection is promoted by actively utilizing the mutual assistance system for tax collection under treaties such as the Multilateral Convention on Mutual Administrative Assistance in Tax Matters¹ which became effective in October 2013.



¹ It is a multilateral convention on mutual assistance for the exchange of tax-related information, tax collection and service of documents and has become effective by 96 jurisdictions including Japan (as of May 1, 2019).

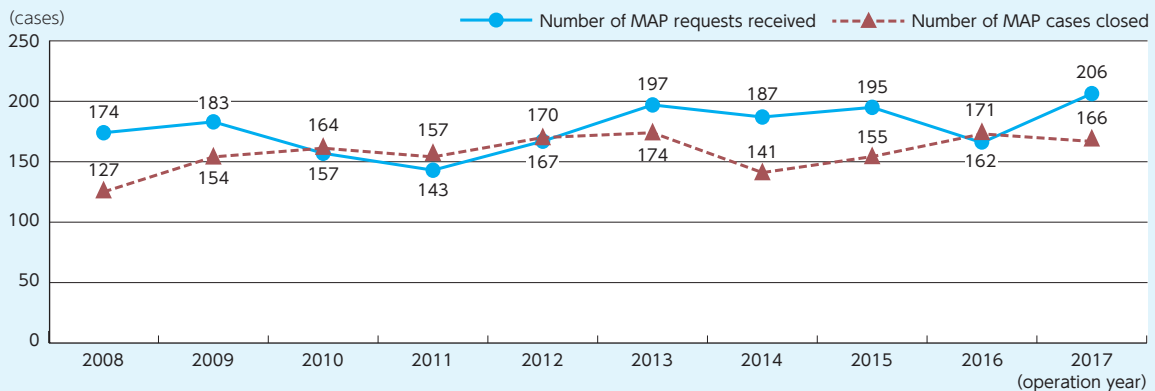
③ Promotion of the Mutual Agreement Procedure (MAP)

When international double taxation arises from transfer pricing adjustments or others, the NTA enters into Mutual Agreement Procedure (MAP)¹ with relevant foreign tax authorities under the provisions of applicable tax treaties to resolve such double taxation upon request from taxpayers. Also, the NTA enters into MAP related to Advance Pricing Arrangement (APA)² in order to ensure the predictability of taxpayers and promote the proper and smooth administration of the transfer pricing taxation.

In the 2017 operation year, the number of MAP cases requested was 206, and the number of MAP cases closed was 166, and the number year-end inventories were 496.³ Of the MAP cases requested, approximately 80% were related to APA, and about 20% were related to transfer pricing adjustments, etc.

The NTA has been making every effort to resolve the MAP cases appropriately and promptly. Specifically, we have been enhancing the environment conducting MAP by ensuring staffing and have been striving to conduct swift and smooth negotiations through promoting cooperative relationship with relevant foreign tax authorities⁴. In addition, through active provision of technical assistance towards emerging countries, the NTA strives to promote penetration of international taxation rules, and at the same time, shares knowledge and best practices on process and procedure of MAP, in order to promote resolution of MAP cases.

■ The number of MAP cases requested, closed and year-end inventories



* 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.

1 "Mutual Agreement Procedure (MAP)" is a formalized set of procedure between tax authorities of treaty partners which are provided in tax treaties. The NTA enters into MAP when taxpayers consider that international double taxation arise or will arise from transfer pricing adjustments or others, or when taxpayers request bilateral APA.

2 In an APA on transfer pricing taxation, based on the Japanese taxpayer's request, the tax authorities give advance confirmation of the method for calculating the arm's length price in transactions with foreign related parties.

3 In Japan, 63 tax treaties (applicable to 74 jurisdictions) contain provisions regarding MAP, and MAP is held with 26 of those jurisdictions (as of June 2018).

4 The number of persons in charge of MAP was 23 in the 2008 operation year, but it has increased to 44 as of the 2018 operation year. In addition, the number of occurrences and cumulative number of days spent on MAP during the 2017 operation year were 39 and 144, respectively.

(5) Actions against the affluent class and corporations that conduct cross-border transactions

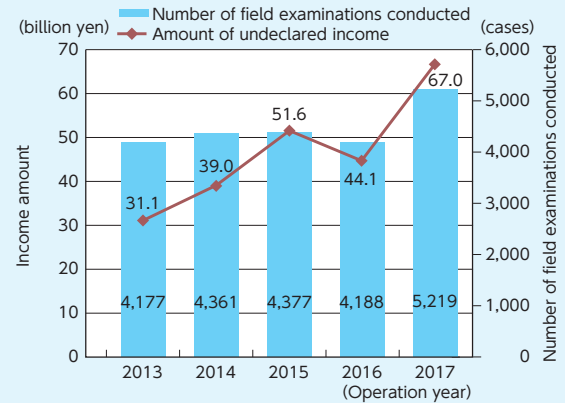
~ Actively conducting examinations the affluent class and corporations that conduct cross-border transactions ~

A peculiarity of corporations conducting cross-border transactions is that we cannot easily confirm transaction details as the business partner companies in these transactions are located overseas. We have detected corporations that use this peculiarity and illegally decrease the income amount by manipulating transaction amounts and corporations that avoid taxation through applying Controlled Foreign Company (CFC) Rules by misrepresenting investors at overseas subsidiaries.

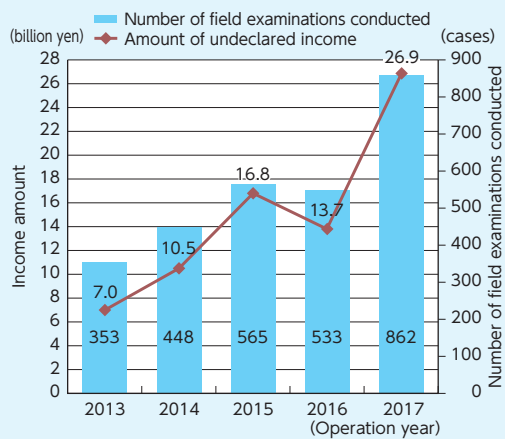
Moreover, there is an international tax avoidance scheme for reducing the tax burden for the overall corporate group by utilizing the difference among taxation systems in each country. We need to strictly address these issues that are peculiar to corporations conducting cross-border transactions.

For this reason, the NTA has set actions against affluent class and corporations conducting cross-border transactions as a priority issue and has been actively conducting examinations.

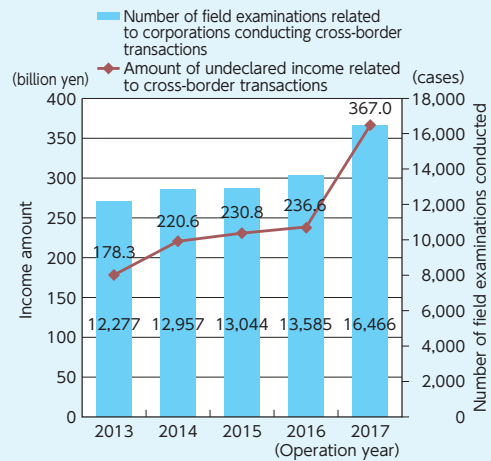
Actual examination of the affluent class



Actual examination of the affluent class related to cross-border transactions



Actual examination of corporation tax related to cross-border transactions



~ Providing an environment for proper and smooth operation of transfer pricing taxation ~

As company activities become increasingly global, more transactions are becoming subject to the transfer pricing taxation¹, and transactions are becoming more complex, with growing importance of transactions. To increase predictability for taxpayers, the NTA has announced its administration policy on the operations and its application criteria, by revising directive on the interpretation of laws and administrative guidelines relating to the transfer pricing taxation. The Advance Pricing Arrangement (APA) for transfer pricing taxation ensure predictability and legal stability for taxpayers, and contribute to the proper and smooth operation of transfer pricing taxation. Based on these situations, the NTA has been providing an environment where taxpayers can smoothly use this APA.

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

4 Cooperation with foreign tax authorities

(1) Technical cooperation for developing countries

~ Technical cooperation for developing countries with a focus on Asia ~

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



International Seminar on Taxation

Overview of technical cooperation

1 Dispatch of NTA officials to developing countries

Based on the requests of the foreign tax authorities, the NTA has dispatched its officials to give lectures in fields such as international taxation, tax collection and taxpayer services. In FY2018, the NTA dispatched its officials to Cambodia, Indonesia, Lao PDR, Myanmar and Vietnam, and gave lectures to those countries' tax officials.

Moreover, with a view to giving continuous advice on tax administration to developing countries, the NTA has also dispatched its officials as long-term experts of JICA. In FY2018, they stayed in Cambodia, Indonesia, Lao PDR, Myanmar and Vietnam.

2 Training conducted in Japan

(1) International Seminar on Taxation (ISTAX)

ISTAX is a seminar for tax officials in developing countries, and gives lectures on Japan's tax system and tax administration. It has 2 courses: "General" for mid-career officials, and "Advanced" for upper management-level officials. In FY2018, 23 tax officials from 17 countries participated in both courses in total.

(2) Country-Focused Training Courses in Tax Administration

The courses target tax officials from specified developing countries, and give lectures based on their requests. In FY2018, 86 tax officials from Cambodia, China, Lao PDR, Mongolia, Myanmar and Vietnam participated in the courses.

(3) International Taxation for Asian Countries

This course targets tax officials from Asian developing countries and gives lectures on "international taxation". In FY2018, 7 tax officials from 5 countries (Cambodia, Lao PDR, Mongolia, Sri Lanka and Vietnam) participated in the course.

(4) Practicum at the NTA

This course targets tax officials from developing countries who are studying at Japanese graduate schools (master's courses) on a scholarship from the World Bank etc., and gives lectures on Japan's tax system and tax administration. In FY2018, 17 students studying at graduate schools of Keio University, Yokohama National University, National Graduate Institute of Policy Studies, and Hitotsubashi University participated in total.

■ Status of training conducted in Japan

(number of countries, people)

		FY2014	FY2015	FY2016	FY2017	FY2018
International Seminar on Taxation (ISTAX) (General)	Countries	17	16	15	15	14
	People	17	16	15	15	14
International Seminar on Taxation (ISTAX) (Advanced)	Countries	13	9	8	9	9
	People	13	9	10	9	9
Country-Focused Training Courses in Tax Administration	Countries	6	3	4	4	6
	People	111	56	96	79	86
International Taxation for Asian Countries	Countries	6	6	7	6	5
	People	12	8	11	12	7
Practicum at the NTA	Countries	13	14	9	11	11
	People	17	18	15	15	17

Column 9 Commencement of OECD Asia-Pacific Academy for Tax and Financial Crime Investigation

In recent years, international tax and financial crimes are becoming an issue in every country, and the necessity for nations to counteract against these crimes based on the cooperation of the countries is increasing. In response, it was agreed that, with the OECD taking a leading role, the “OECD Academy for Tax and Financial Crime Investigation” (hereinafter, referred to as the “Academy”) for tax crime investigators etc. shall be held in each region. The Academy was launched in Europe (Italy) in 2013, Africa (Kenya) in 2017, and South America (Argentina) in 2018, and the programs on investigative methods on tax crimes, bribery and money laundering and international cooperation among countries started.

In consideration of this situation, the NTA, in collaboration with the OECD, commenced the Academy mainly for countries in Asia-Pacific region in May 2019. The NTA will continue to hold the Academy periodically in cooperation with the OECD, and contribute to enhancing investigative techniques and to promoting the development of an international collaborative relationship.



OECD Asia-Pacific Academy for Tax and Financial Crime Investigation

(2) Participation in international conferences

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

In order to cooperate and share experiences with foreign tax authorities, the NTA actively participates in international conferences including the OECD Forum on Tax Administration and the Study Group on Asian Tax Administration and Research.

① OECD Forum on Tax Administration (FTA)

The FTA is a forum for Commissioners from 36 OECD and 17 non-OECD jurisdictions to share each authority’s knowledge and experience on a wide range of fields in tax administrations. In March 2019, the 12th Plenary Meeting was held in Santiago, Chile with discussions about measures to improve tax compliance, etc.

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

SGATAR is comprised of tax authorities of 17 countries and regions in Asia-Pacific. This is a forum for discussions on cooperation and sharing of knowledge in the region. In November 2018, the 48th meeting was held in Hangzhou, China with discussions about improvement of tax payment environment and measure of enhancing tax officials’ ability.