

National Tax Agency, Japan

MAP Report 2016

When international double taxation arises from transfer pricing adjustments or others, 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”) in order to ensure the predictability of taxpayers and promote the proper and smooth administration of the transfer pricing taxation.

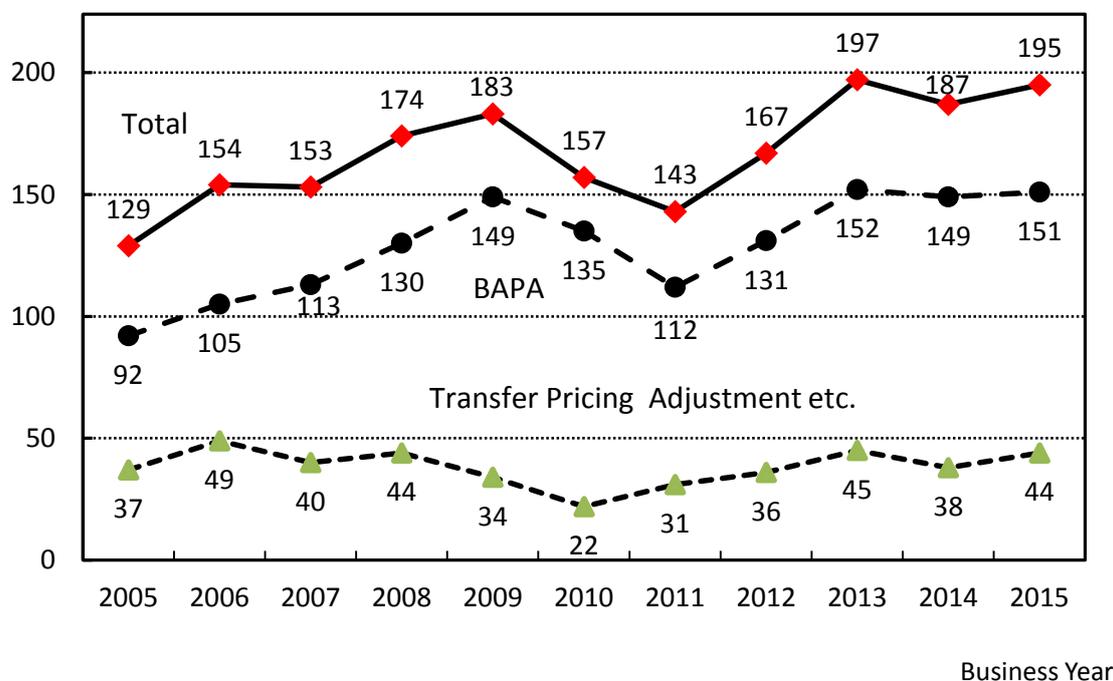
1. MAP requests received

- During the 2015 business year (from July 2015 to June 2016), the NTA received 195 MAP requests (BAPA 77%, Transfer pricing adjustment etc. 23%).
- The number of MAP requests received increased slightly compared to the 2014 business year (187 requests).

(Note) Attachment 1 shows more details.

Chart 1: MAP requests received

Number of requests



- (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 through foreign tax authorities.
 - 3 Transfer pricing adjustment etc. includes cases related to permanent establishments (PEs) and withholding taxes.

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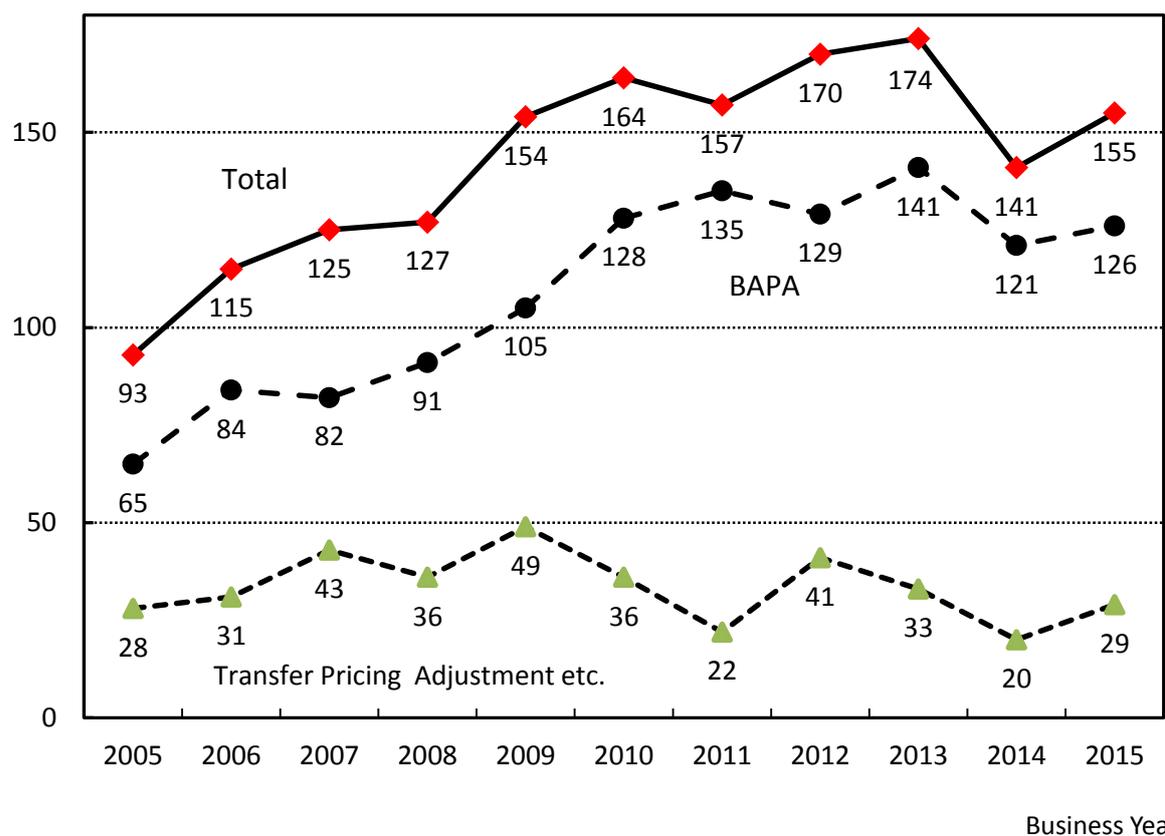
2. MAP cases closed

2.1 The number of MAP cases closed

- The number of MAP cases closed in the 2015 business year amounted to 155 (BAPA 81%, Transfer pricing adjustment etc.19%), which was increased by 10% from the 2014 business year. (Note) Attachment 1 shows more details.

Chart 2: MAP cases closed

Number of cases closed



2.2 Average processing time on a MAP case

- The average processing time on a MAP case closed in the 2015 business year increased to 26.0 months (22.4 months in the 2014 business year).
- The average processing time on a BAPA case also increased to 25.7 months (22.2 months in the 2014 business year).
- The average processing time on a transfer pricing adjustment etc. reached 27.2 months (23.8 months in the 2014 business year).

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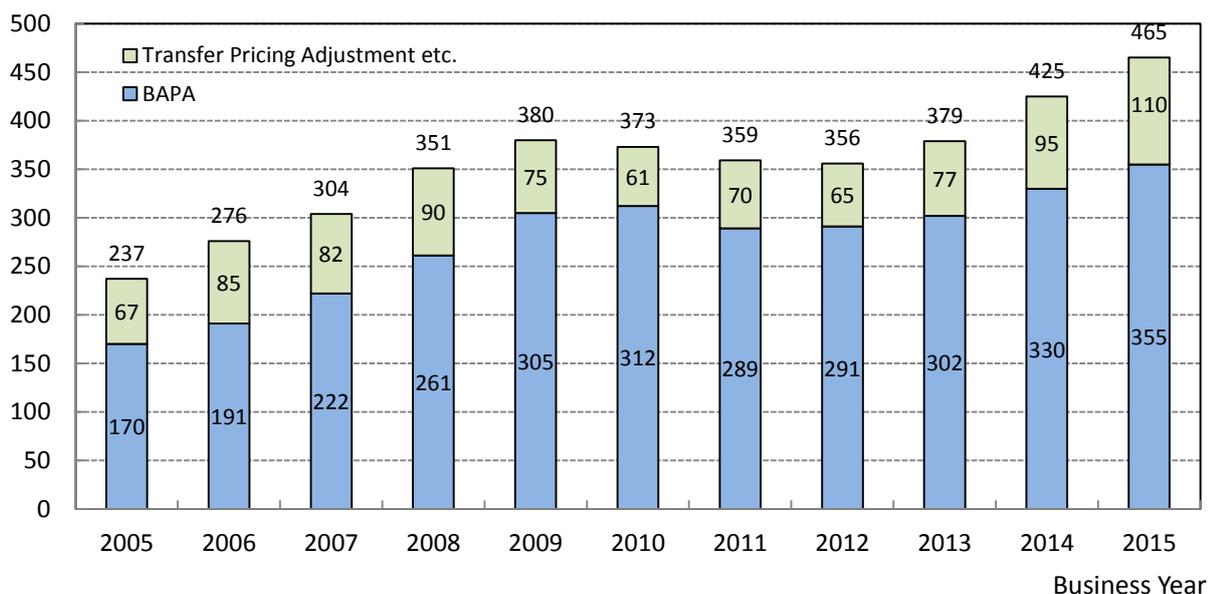
3. Year-End Inventories

3.1 The number of Year-End Inventories

- In the 2015 business year, the number of MAP requests received was over the number of MAP cases closed, which brought to the increase in year-end inventories.
- (Note) Attachment 1 shows more details.

Chart 3: Year- End Inventories

Number of year end inventories

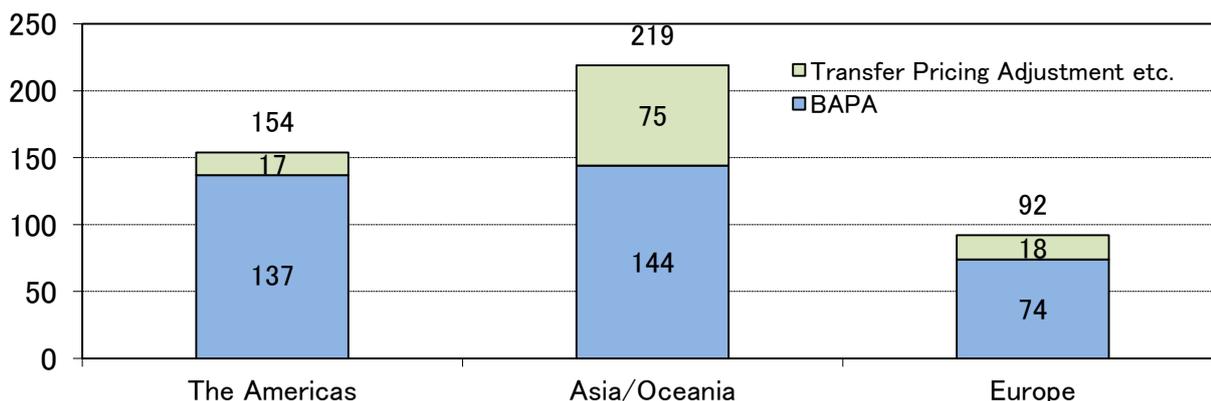


3.2 Region-by-region inventories

- In the 2015 business year, the number of cases with Asia/Oceania accounted for the largest part of the total inventory.
 - The treaty partner with which the NTA has year-end inventories most is the United States (31%), followed by China (18%), Korea (10%), India (9%) and the United Kingdom (6%).
- (Note) Attachment 2 shows a list of treaty partners with which the NTA has MAP inventories as of June 30, 2016.

Chart 4: Year-End Inventories by region

Number of inventories



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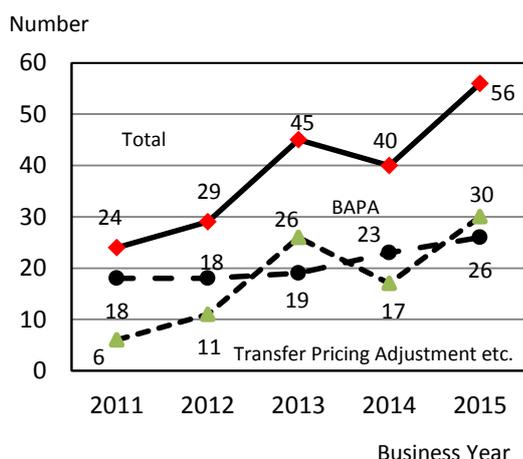
4. MAP cases with non-OECD economies

4.1 The number of MAP cases

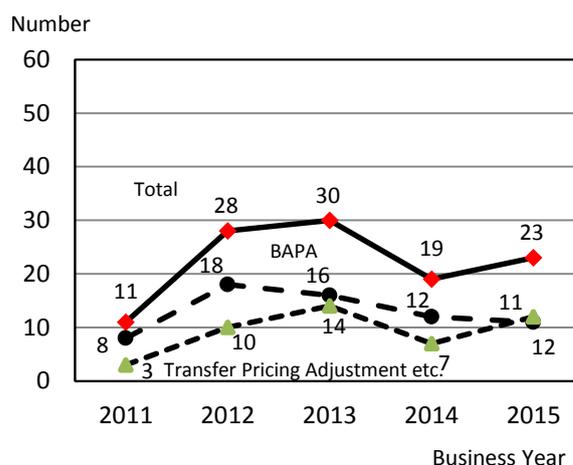
- In the 2015 business year, non-OECD economies accounted for 29% of the total MAP requests received, 15% of the total MAP cases closed and 35% of the total year-end inventories.

Chart 5:

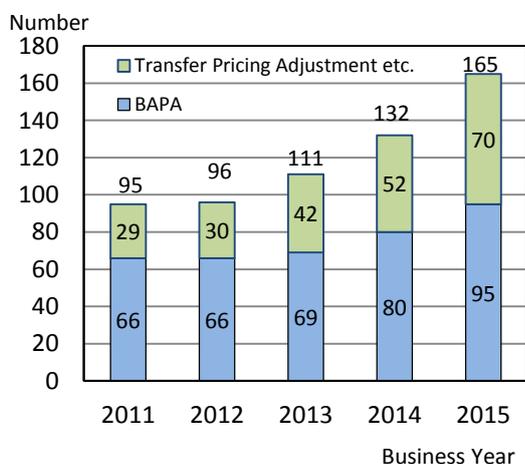
MAP requests received with non-OECD economies



MAP cases closed with non-OECD economies



Year-end inventories with non-OECD economies



4.2 Average processing time on a MAP case with non-OECD economies

- The average processing time on a MAP case with non-OECD economies in the 2015 business year increased to 33.3 months (30.6 months in the 2014 business year).
- The average processing time on a BAPA case with non-OECD economies also increased to 41.4 months (38.9 months in the 2014 business year).
- The average processing time on transfer pricing adjustment etc. amounted to 26.0 months (16.3 months in the 2014 business year).

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(Attachment 1)

The number of MAP cases in the last three years

Business Year		BAPA	Transfer Pricing Adjustment	Others	Total
2013	Requests Received	152	37	8	197
	Cases Closed	141	21	12	174
	Year-End Inventories	302	62	15	379
2014	Requests Received	149	35	3	187
	Cases Closed	121	13	7	141
	Year-End Inventories	330	84	11	425
2015	Requests Received	151	36	8	195
	Cases Closed	126	23	6	155
	Year-End Inventories	355	97	13	465

- (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 through 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, 2016)

Europe	Asia/Oceania	The Americas	Total
(OECD countries)			
Belgium France Germany Ireland Italy Netherlands Sweden Switzerland United Kingdom	Australia Korea	Canada Mexico United States	14 partners
(Non-OECD economies)			
	China Hong Kong India Indonesia Singapore Thailand Malaysia Vietnam		8 partners
9 partners	10 partners	3 partners	22 partners

- (Notes)
- 1 As of June 30, 2016, the number of treaty partners with which the NTA had MAP inventories was 22.
 - 2 The NTA had BAPA inventories with all treaty partners listed in the chart above.
 - 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 23 in 2012 to 22 in 2016).

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(Reference 1)

Terminologies

【Mutual Agreement Procedures (MAP)】

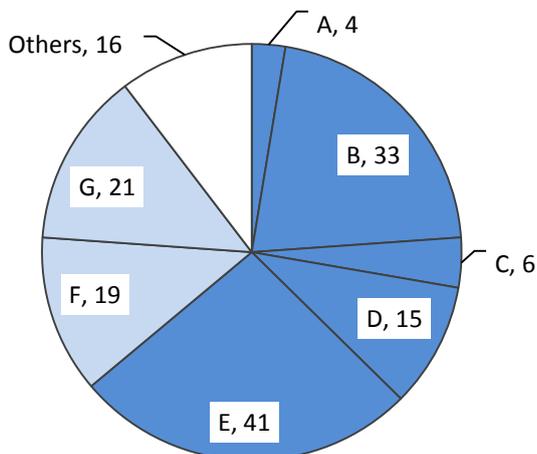
Mutual Agreement Procedures (MAP) are a formalized set of procedures between tax authorities of treaty partners which are provided in tax treaties to resolve international tax disputes such as those represented by double taxation cases arising as a result of taxation not in accordance with the applicable tax treaties imposed or to be imposed on the taxpayers. 60 tax treaties that Japan has concluded (which covers 71 countries/regions as of the end of June 2016) contain 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 a set of criteria such as methods, comparables and 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.

Types of MAP cases in the 2015 business year

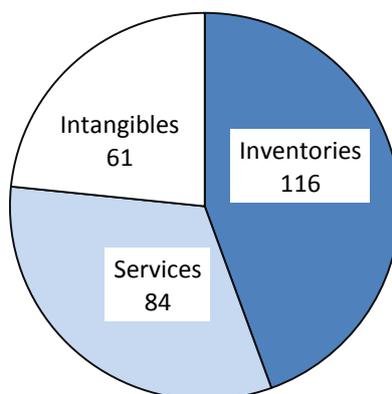
Industry



Manufacturing	99	(63.9%)
Wholesale/Retail	40	(25.8%)
Others	16	(10.3%)
Total	155	(100.0%)

- 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

Type of transaction

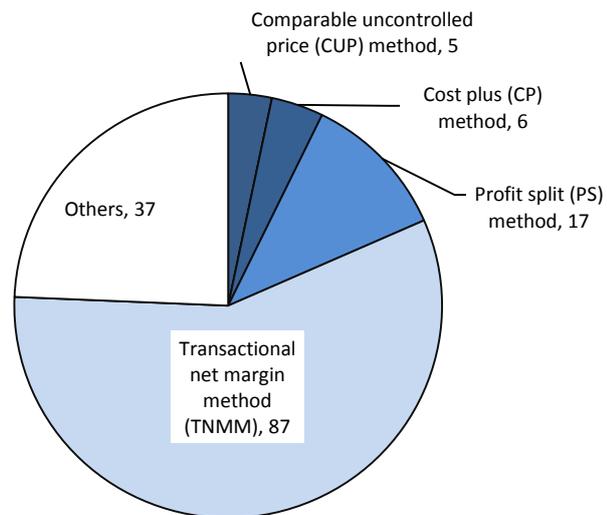


(Notes)

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 the 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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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 the 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.