

# National Tax Agency, Japan

## Mutual Agreement Procedures Report 2019

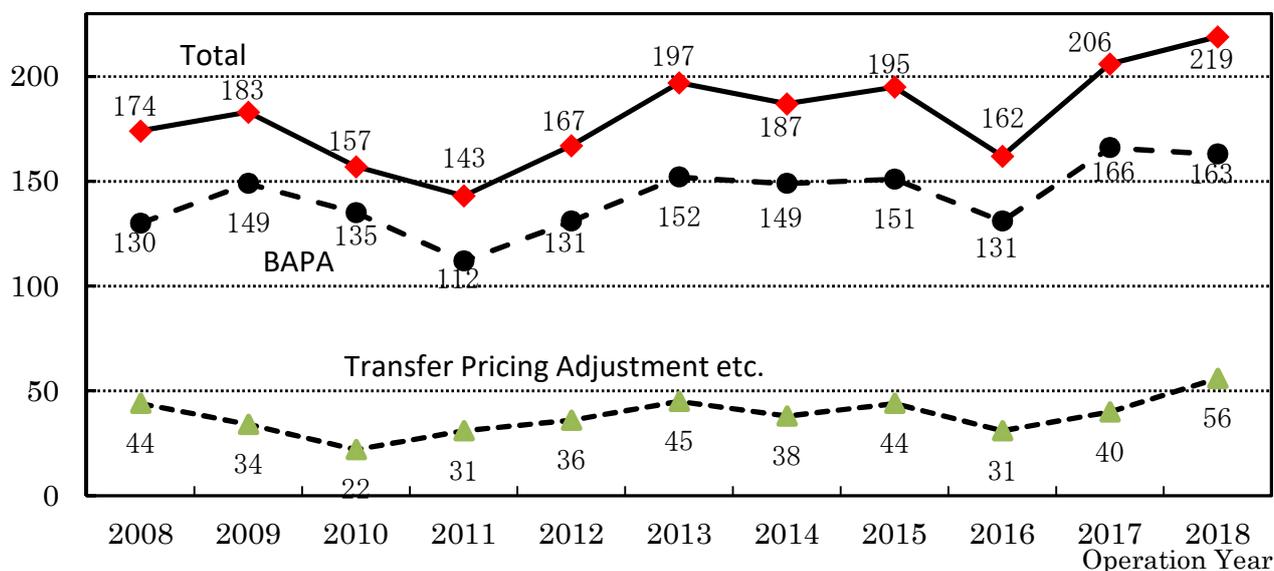
When international double taxation arises from transfer pricing adjustments or others, the National Tax Agency (“NTA”) enters into Mutual Agreement Procedures (“MAP”) with relevant foreign tax authorities under the provisions of applicable tax treaties to resolve such double taxation upon request from taxpayers. 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 2018 operation year (from July 2018 to June 2019), the NTA received 219 MAP requests (BAPA 74%, Transfer pricing adjustment etc. 26%).
- The number of MAP requests received marked a record high.  
(Note) Please see Attachment 1 for the details of type of MAP requests.

Chart 1: MAP requests received

Number of requests received



- (Notes)
- 1 The operation 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. In some countries or regions, taxpayers make one request for one taxation year and, when we count these requests in a collective way, the number of MAP requests received during the 2018 operation year is 190.
  - 3 Transfer pricing adjustment etc. includes cases related to permanent establishments (PEs) and withholding taxes.

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## 2. MAP requests resolved

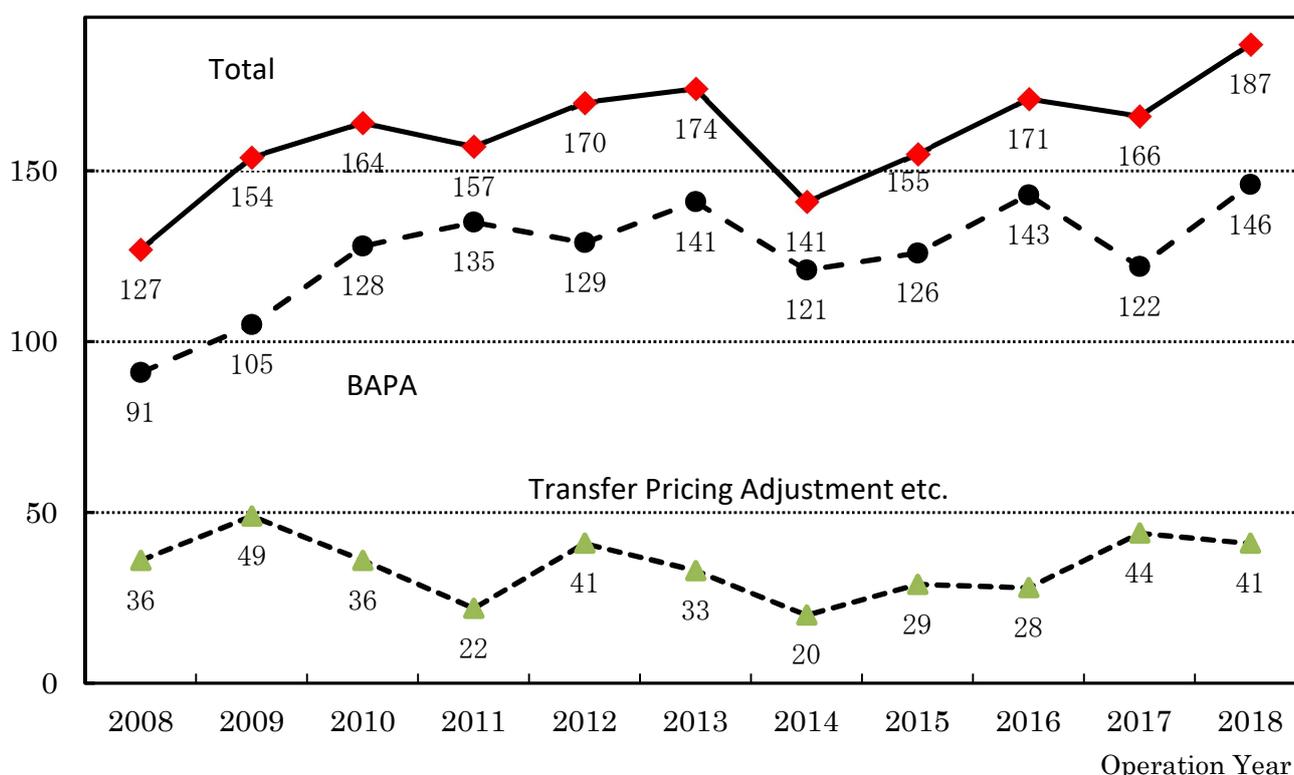
### 2.1 The number of MAP requests resolved

- The number of MAP requests resolved during the 2018 operation year amounted to 187 (BAPA 78%, Transfer pricing adjustment etc. 22 %), which was increased to 113% of the 2017 operation year.

(Note) Please see Attachment 1 for the details of type of MAP requests.

Chart 2: MAP requests resolved

Number of requests resolved



- (Notes) In some countries or regions, taxpayers make one request for one taxation year and, when we count these requests in a collective way, the number of MAP requests resolved during the 2018 operation year is 181.

### 2.2 Average processing time on a MAP case

- The average processing time on a MAP request resolved in the 2018 operation year was 34.1months (29.9months in the 2017operation year).
- The average processing time on a BAPA case resolved was 34.5 months (30.7months in the 2017 operation year).
- The average processing time on a transfer pricing adjustment etc. case resolved was 32.7months (27.7months in the 2017 operation year).

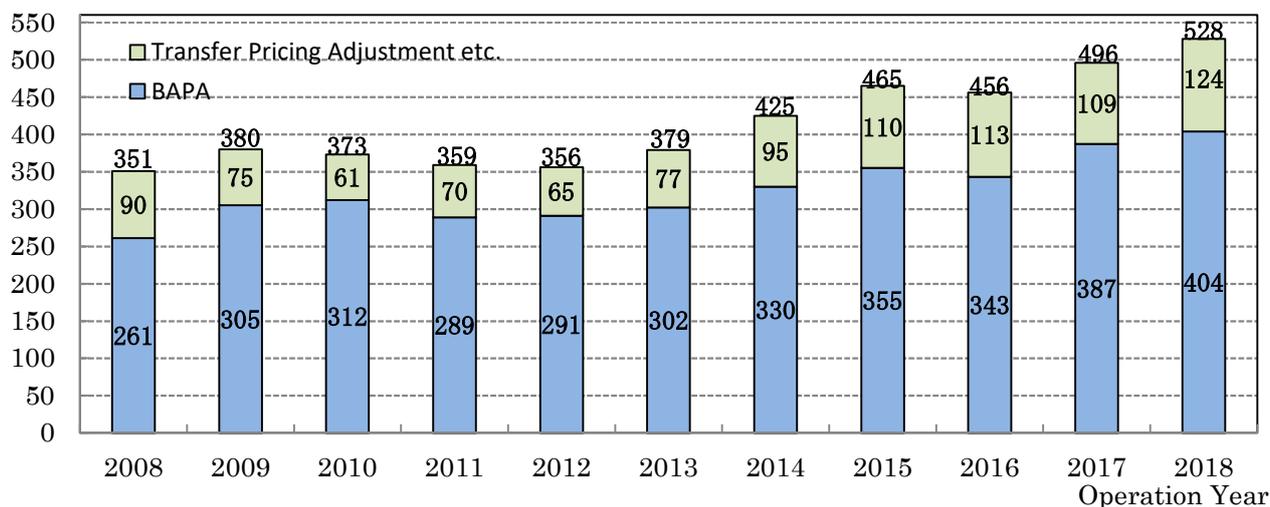
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## 3. Year-End Inventories

### 3.1 The number of Year-End Inventories

- The number of MAP requests received and resolved marked a record high. Also, the number of MAP requests received was larger than the number of MAP requests resolved. As a result, the number of year-end inventories in the 2018 operation year increased.

(Note) Please see Attachment 1 for the details of type of MAP requests.



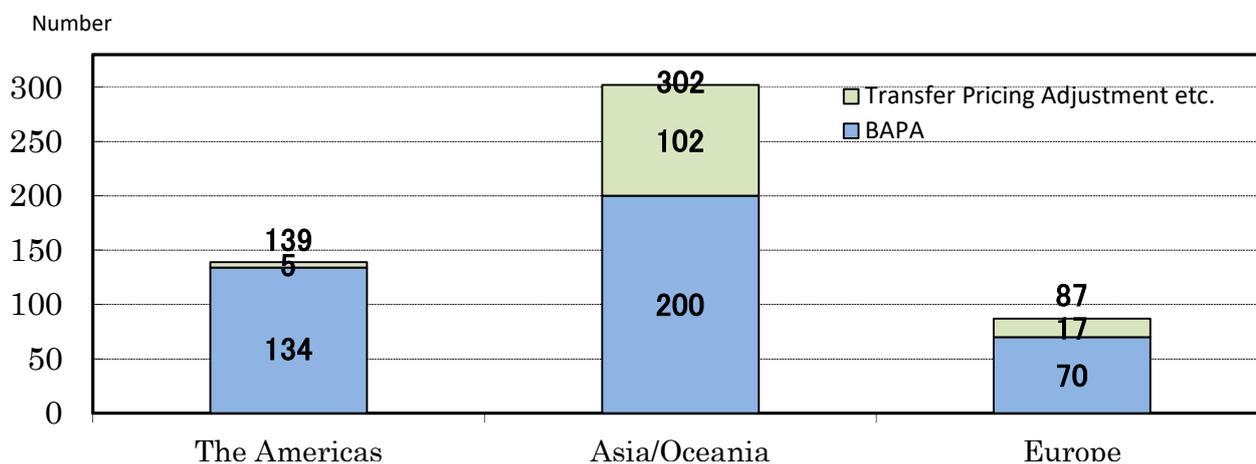
- (Notes) In some countries or regions, taxpayers make one request for one taxation year and, when we count these requests in a collective way, the number of year-end inventories in the 2018 operation year is 464.

### 3.2 Region-by-region inventories

- In the 2018 operation year, the number of requests with Asia/Oceania accounted for the largest part of the total year-end inventories.
- The treaty partner with which the NTA has year-end inventories most is the United States (25%), followed by India (17%), China (14%), Korea (9%) and Thailand (6%).

(Note) Please see Attachment 2 for a list of treaty partners with which the NTA has MAP inventories as of June 30, 2019.

Chart 4: Year-End Inventories by region



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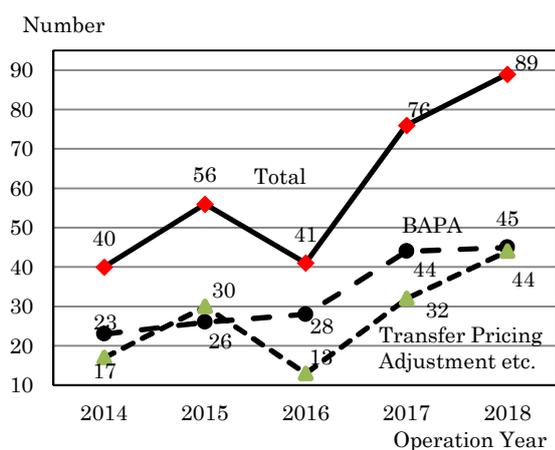
## 4. MAP requests with non-OECD economies

### 4.1 The number of MAP requests

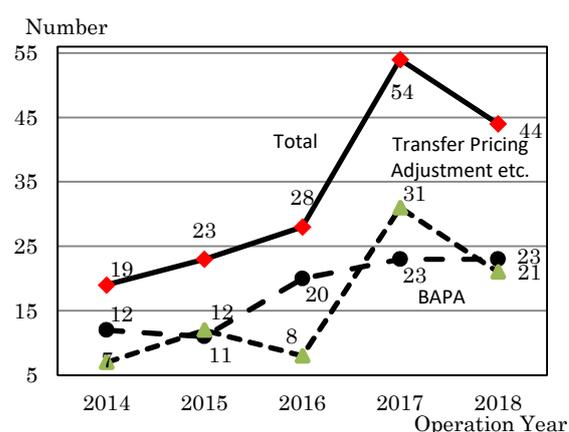
- In the 2018 operation year, as for the number of the MAP requests with non-OECD economies, 89 were received and 44 were resolved.
- The number of year-end inventories with non-OECD economies was 245, accounting for 46% of the total year-end inventories.

Chart 5:

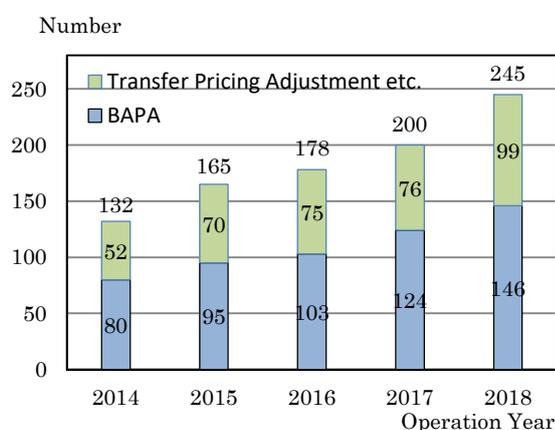
MAP requests received with non-OECD economies



MAP requests resolved 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 request resolved with non-OECD economies in the 2018 operation year was 37.1 months (40.1 months in the 2017 operation year).
- The average processing time on a BAPA case resolved with non-OECD economies was 43.6 months (52.0 months in the 2017 operation year).
- The average processing time on transfer pricing adjustment etc. resolved was 29.9 months (31.1 months in the 2017 operation year).

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(Attachment 1)

## The number of MAP requests in the last three years

| Operation Year |                      | BAPA | Transfer Pricing Adjustment | Others | Total |
|----------------|----------------------|------|-----------------------------|--------|-------|
| 2016           | Requests Received    | 131  | 25                          | 6      | 162   |
|                | Requests Resolved    | 143  | 28                          | 0      | 171   |
|                | Year-End Inventories | 343  | 94                          | 19     | 456   |
| 2017           | Requests Received    | 166  | 37                          | 3      | 206   |
|                | Requests Resolved    | 122  | 37                          | 7      | 166   |
|                | Year-End Inventories | 387  | 94                          | 15     | 496   |
| 2018           | Requests Received    | 163  | 54                          | 2      | 219   |
|                | Requests Resolved    | 146  | 37                          | 4      | 187   |
|                | Year-End Inventories | 404  | 111                         | 13     | 528   |

- (Notes)
- 1 The operation 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 requests related to compensating adjustments and amendments to previously agreed APAs are included in the years when the MAP requests on those issues were made.
  - 4 The number of MAP requests resolved includes requests withdrawn by taxpayers as well as requests settled with treaty partners.
  - 5 "Others" includes cases related to permanent establishments (PEs) and withholding taxes.

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(Attachment 2)

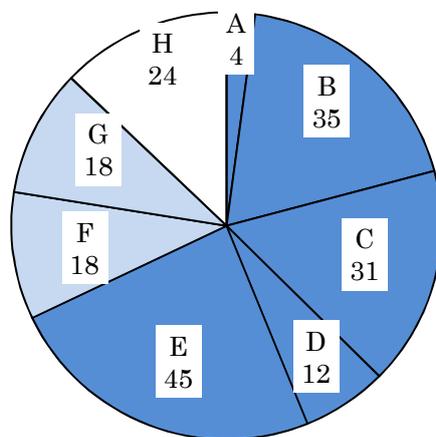
## Treaty Partners with which the NTA has MAP inventories (as of June 30, 2019)

| Europe  | Asia/Oceania   | The Americas                      | Total       |
|---|--|-----------------------------------|-------------|
| (OECD countries)  |  |                                   |             |
| Belgium<br>Czech Republic<br>Finland<br>France<br>Germany<br>Ireland<br>Italy<br>Luxembourg<br>Netherlands<br>Switzerland<br>United Kingdom<br>Spain<br>Hungary<br>Slovakia | Australia<br>Korea   | Canada<br>Mexico<br>United States | 19partners  |
| (Non-OECD economies)  |  |                                   |             |
|   | China<br>Hong Kong<br>India<br>Indonesia<br>Malaysia<br>Singapore<br>Taiwan<br>Thailand<br>Vietnam |                                   | 9 partners  |
| 14 partners   | 11 partners  | 3 partners                        | 28 partners |

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## Types of MAP cases in the 20178 operation year (Attachment 3)

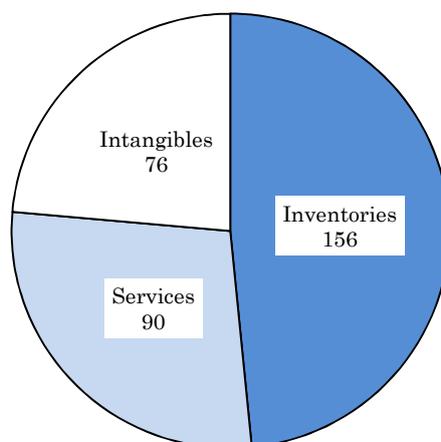
Industry



|                  |            |                 |
|------------------|------------|-----------------|
| Manufacturing    | 127        | (68%)           |
| Wholesale/Retail | 36         | (19%)           |
| Others           | 24         | (13%)           |
| <b>Total</b>     | <b>187</b> | <b>(100.0%)</b> |

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

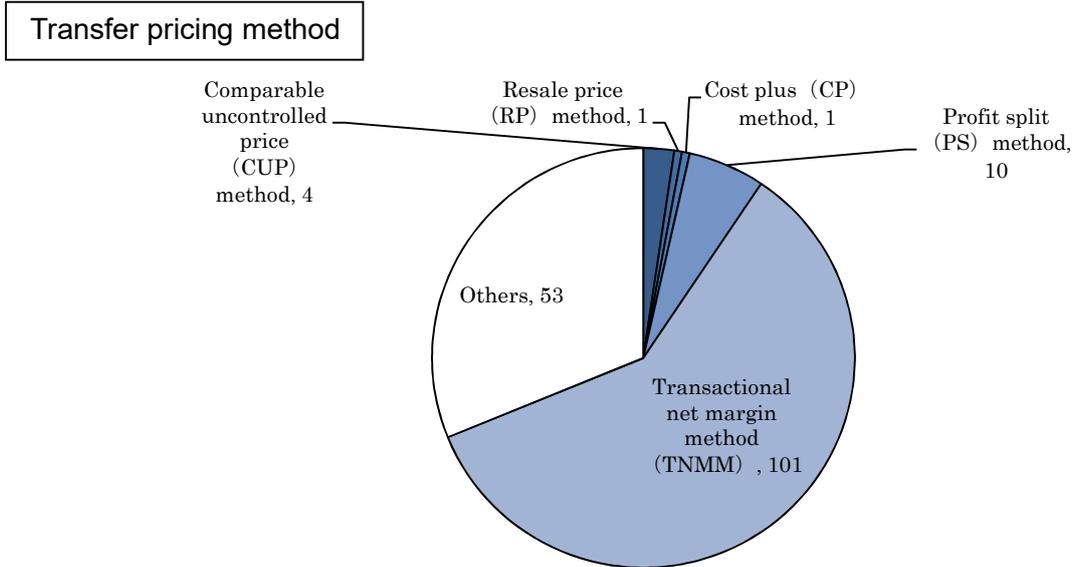
Type of transaction



(Notes)

1. Total number of MAP requests resolved does not correspond to the sum of the numbers in the chart above, as some cases are counted for each type of transaction when multiple types were covered.
2. In the case of MAP requests related to compensation adjustments and amendments to previously agreed APAs, it is counted as the same transaction in the original APA agreement.

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## (Notes)

1. Total number of MAP requests resolved does not correspond to the sum of the numbers in the chart above, as some cases are counted for each transfer pricing method when multiple methods were applied.
2. In the case of MAP related to compensating adjustments and amendments to previously agreed APAs, it is counted as the same transfer pricing method applied in the original APA agreement.

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(Reference)

## Terminologies

Mutual Agreement Procedures (MAP) are a formalized set of procedures 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.

(Note 1)

67 tax treaties that Japan has concluded (which covers 77 countries/regions as of the end of June 2019) contain the provisions on the Mutual Agreement Procedures.

(Note 2)

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. The tax administration will refrain from adjusting the transfer pricing set by the taxpayer if taxpayers files its tax returns in accordance with the confirmed APA conditions for the years covered by the APA.