

# NATIONAL TAX AGENCY REPORT 2012



# From the Commissioner



The NTA's mission is to "Help taxpayers properly and smoothly fulfill their tax duties." To fulfill this mission, the NTA is first of all working to provide excellent services, so taxpayers can carry out "simple, convenient and smooth" filings and payments.

This especially applies to e-Tax (online national tax return filing and tax payment system), and the use of e-Tax reached approximately half the total individual and corporation tax return filings in FY2011. This year, the NTA will continue to work proactively on further promoting and establishing e-Tax, based on the new "Business Process Reengineering Plan" that incorporates perspectives of improved user convenience and efficient administrative management, as well as percentage of online use.

Secondly, the NTA is working toward proper examinations and collections, while protecting taxpayer rights and interests.

Recent revisions to the Act on General Rules for National Taxes reflect the needs for transparent tax examination procedures and enhanced foreseeability for taxpayers, and all tax examinations will be conducted in compliance with the prescribed tax examination procedures, where appending of the reasons are required for all adverse dispositions and disapproval of applications from January 2013. The NTA will work on proper and smooth tax administration based on the purpose and content of this law revision.

In conducting tax examinations, we will strictly respond to large and vicious fraudulent cases, as well as proactively respond to important issues such as the

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affluent class, non-filing of returns, and internationalization in order to meet with changes in society and the economy. We are also promoting international information exchange based on tax treaties to cope with international tax avoidance cases. We are also taking measures to encourage large corporations to enhance their corporate governance in tax matters.

Thirdly, to gain the people's understanding and trust, we hope to provide easy-to-understand information on the NTA's creation and implementation of effective plans for issues the national tax authorities should work on, about policy initiatives and various measures, and on evaluation and verification of the results of their implementation through websites, press releases, the NTA report (annual report), performance assessment, etc. We will work on improving tax administration, based on evaluation and verification of the results of implementation of various measures.

The NTA hopes to gain and maintain the people's trust in tax administration by promoting and maintaining high-quality tax administration in various aspects.

Based on this thinking, the "National Tax Agency Report 2012" was created to provide easy-to-understand explanations of the activities of the NTA. We hope it helps deepen understanding amongst the people.

September 2012

古谷一文

Kazuyuki Furuya  
Commissioner  
National Tax Agency, Japan

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\* The fiscal year ranges from April 1 through March 31 of the following year (i.e. fiscal year 2011: April 1, 2011 to March 31, 2012), while the operation year is from July 1 through June 30 of the following year (i.e. operation year 2011: July 1, 2011 to June 30, 2012).

# I About the NTA

The NTA is the administrative agency in charge of the assessment and collection of internal taxes. The Agency was organized in 1949 as an external organ of the Ministry of Finance.

The NTA supervises 12 Regional Taxation Bureaus (including the Okinawa Regional Taxation Office, and the same applies hereinafter) and 524 Tax Offices throughout Japan. The NTA Head Office plans the tax administration, and supervises and oversees the administration of the Regional Taxation Bureaus and the Tax Offices. Each of the Regional Taxation Bureaus, which are supervised and overseen by the NTA, supervises and oversees the assessment and collection administration of Tax Offices in its jurisdiction. In addition, the Bureaus directly assess and collect taxes from large taxpayers. The Tax Offices under the guidance and oversight of the NTA and Regional Taxation Bureaus serve as the frontline organizations which assess and collect national taxes, and as the administrative bodies maintaining the closest relationships with taxpayers.

There is also the National Tax College which trains tax officials, while the National Tax Tribunal serves as a special body engaged in examining requests for review from taxpayers.

## 1 Assignment and missions of the NTA

### (1) Assignment of the NTA

Article 19 of the Act for Establishment of the Ministry of Finance provides that the NTA achieves its duties of “Realizing proper and fair assessment and collection of internal taxes.” To fulfill these duties, the NTA provides public relations activities and tax education (taxpayer services) to help taxpayers understand and perform their tax obligations, and reliably corrects taxpayers who fail to fulfill their tax obligations by providing proper guidance and tax examinations (promotion of the proper and fair tax administration) in order to prevent good taxpayers from feeling that taxation is unfair.

In addition, the NTA works to carry out its duties as set forth in Article 19: “Sound development of the liquor industry” and “Ensure proper administration of services by Certified Public Tax Accountants (CPTAs).”

### (2) Missions of the NTA

The NTA believes that in carrying out these duties, it is critically important to gain the understanding and confidence of citizens, who are the taxpayers.

To this end, the NTA puts together standards of assigned duties and its code of conduct, which are provided to tax officials and released to the public as the Missions of the NTA (see page 6 on right).



NTA

# Missions of the NTA

**Mission: Help taxpayers properly and smoothly fulfill their tax duties**

## Assignment

- To achieve the above mission, the NTA carries out its duties as stipulated in Article 19 of the Ministry of Finance Establishment Act, while keeping in mind transparency and efficiency.

### 1 Achieving proper and fair assessment and collection of internal taxes

#### (1) Development of tax payment environment

- ① Provide and publicize easily understood accurate information on legal and regulatory interpretations and procedures concerning tax filing and payment.
- ② Respond quickly and accurately to inquiries or consultations from taxpayers.
- ③ Make efforts to obtain broad cooperation and participation of the relevant ministries, agencies, and citizens in order to build cooperation with tax administration and understanding of the roles of taxes.

#### (2) Promotion of proper and fair tax administration

- ① To achieve proper and fair taxation,
  - (i) Properly apply the relevant laws and regulations.
  - (ii) Work to achieve proper tax filing, and reliably correct errors by conducting examinations and guidance for people who filed improper returns.
  - (iii) Work to help taxpayers pay taxes by the due date, and implement procedures to collect taxes from delinquent taxpayers.
- ② Respond properly and promptly to taxpayers' requests for review, to address infringements of taxpayers' legitimate rights and interests.

#### 2 Sound development of the liquor industry

- ① Stabilize the business foundations of the liquor industry, and ensure brewing technology research and development and the quality and safety of liquor.
- ② Work for effective use of resources related to liquor.

#### 3 Proper administration of services by Certified Public Tax Accountants (CPTAs)

Work for proper administration of CPTA services, to ensure that CPTAs play important roles in the proper and smooth administration of the self-assessment system, based on the missions assigned.

## Code of Conduct

- The above duties shall be carried in accordance with the following Code of Conduct.

#### (1) Code of Conduct for performing duties

- ① Maintain tax administration transparency, so that taxpayers are knowledgeable of the legal and regulatory interpretations and administrative procedures.
- ② Work to improve taxpayer convenience in filing and payment.
- ③ Work to improve the administrative processes in order to improve efficiency in tax administration.
- ④ Work to actively collect and use information and data, to accurately implement tax examinations and procedures against tax delinquencies.
- ⑤ Take strict action against taxpayers who engage in malicious tax evasion and tax delinquency.

#### (2) Code of Conduct for officials

- ① Respond to taxpayers in good faith.
- ② Maintain confidentiality about information acquired on the job, and maintain official discipline.
- ③ Work to gain the specialized knowledge required to accomplish assigned tasks.

## Challenges

- The NTA correctly and flexibly copes with changes in an economic society faced with the advanced use of ICT and globalization, etc., while continuously reviewing and improving the organization and tax administration operation in order to meet taxpayer needs.

## 2 Concepts for management of tax administration

The NTA's mission is to "Help taxpayers properly and smoothly fulfill their tax duties."

To fulfill this mission with the people's understanding and trust, the NTA manages its tax administration based on these basic concepts:

- ① Provide excellent services, so taxpayers can do "simple, convenient and smooth" filing and payments
- ② Do proper examinations and collections, while protecting taxpayer rights and interests
- ③ Provide easily understood information on NTA's various initiatives, and improve tax administration based on evaluation and verification of the results of implementing various measures

The NTA carries out the following initiatives based on these basic concepts.

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### NTA Initiatives

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#### (1) Enhancement of services for taxpayers

- Use websites etc. to provide tax information needed for filing etc., and information to clarify interpretations of laws and regulations, so taxpayers make correct tax filing and payments themselves.
- Work to provide excellent filing and tax payment means that are highly convenient for taxpayers, using ICT such as e-Tax and filing assistance on the NTA website.
- Respond to advance inquiries and advance pricing arrangement of transfer price taxation, so the taxpayer can predict in advance the tax treatment of its own economic activities.
- For the withholding tax system, provide more thorough information and publicity to withholding agents, to work for its proper administration. Provide payment guidance via written and phone inquiries as needed.
- CPTAs play important roles in proper filing and payment by taxpayers. Therefore, work on cooperation with tax accountants' associations, for wider use of e-Tax, use of the system of document attached by CPTAs to tax returns, etc.
- Based on the thinking that tax education should be worked on by the entire society, provide support for its enhancement, and cooperate with related ministries, agencies, educators, and private organizations such as tax accountants' associations.

#### (2) Proper tax examination and collection

- Perform proper examination and collection, such as taking a strict stance against malicious taxpayers, while protecting taxpayer rights and interests.
- Be fully aware that dispositions for taxation and delinquent tax are forcible procedures against taxpayer rights and interests. At the examination stage, correctly understand what the taxpayer asserts, objectively scrutinize it, and accurately confirm the facts, then apply the laws and regulations.
- Systematically work in response to increasingly complex economic transactions, etc. Work to enhance the system to collect information, and accurately prioritize issues such as response to the increasing diversity of asset investments and fraudulent refunds for consumption tax.
- For international transactions, exchange information with foreign tax authorities based on tax treaties, and take a strict stance towards tax avoidance etc. in which taxation problems are found.
- Corporate governance is important for maintaining and enhancing tax compliance of large companies. Therefore, advance initiatives such as exchanging opinions with executive officers, etc., and describing effective examples.



### (3) Proper management of liquor administration

- Make efforts to assure the safety and quality of liquor in cooperation with the National Research Institute of Brewing (NRIB), in order to supply consumers with safe, high quality liquor, because concern regarding security and safety of food remains high among consumers.
- To respond to social demands, such as preventing underage drinking, work to ensure proper sales control of liquor, so there is proper compliance with the duty of assigning liquor sales managers and signs in liquor display locations.
- Implement a survey on the status liquor business transactions based on the Guidelines on Fair Liquor Trade, to encourage of liquor business operators to push forward voluntary activities to ensure a fair trade environment for liquor. If transactions such as setting irrational prices are found, provide guidance for improvement, and work together with the Fair Trade Commission when necessary.

### (4) Promotion of administrative work efficiency and enhancement of organizational foundations

- To appropriately perform the NTA's duties under harsh fiscal conditions, work to secure the necessary structure, staff and budgets, appropriately allocate them, and take the taxpayers viewpoint in working to boost efficiency and cut costs.
- Constantly review to simplify and boost efficiency, for example by computerization of clerical processes. Especially for the income tax return filing period when filings are concentrated in a short period of time, focus to encourage use of e-Tax which contributes to enhanced taxpayer convenience.
- Accurately assign personnel corresponding to their experience and abilities, while paying attention to hiring and promoting female staff. To enhance needed specialized knowledge, provide excellent guided development policies such as training.
- Thoroughly control administrative documents and information.

### (5) Policy evaluation and improvement of tax administration

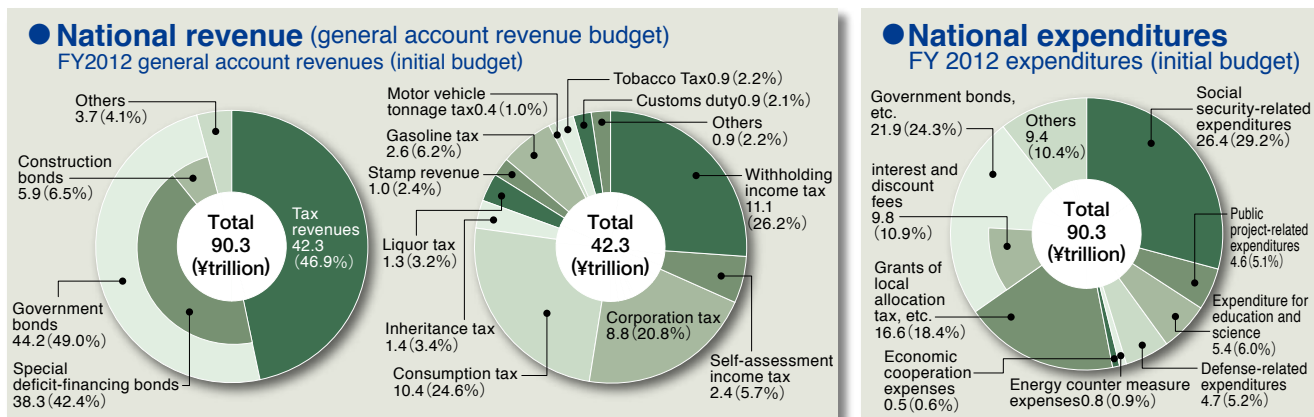
- To gain the people's understanding and trust, provide easily understood information on the NTA's creation and implementation of effective plans for issues the national tax authorities should work on, about policy initiatives and various measures, and on evaluations and verifications of results of their implementation. Work to improve tax administration, based on evaluation and verification of the results of implementation of various measures.

### 3 Overview of the national tax organization

#### (1) National revenue and taxes

National revenue (initial budget for general account revenues) in fiscal 2012 stands at ¥90,333.9 billion, of which ¥42,346 billion is from taxes and stamp revenues. Deducting from them customs tax revenues and stamp revenues from Japan Post Holdings Co., Ltd., leaves ¥36,716.9 billion (about 87%)<sup>1</sup> as national tax revenues.

The income tax, corporation tax, and consumption tax account for about 80% of tax revenues.



\* Government bonds are revenues generated by special deficit-financing bonds issued to compensate for the revenue shortfalls and construction bonds to finance public project-related expenditures. All are debts which are to be repaid in the future. The total amount of each item and the amount indicated as "Total" do not exactly match, due to rounding of fractional figures.

#### (2) NTA budget and number of personnel

The NTA budget (initial) in fiscal 2012 stands at ¥709.3 billion, and general expenses excluding salary cost amount to ¥135 billion. As for general expenses, priorities are placed on the Kokuzei Sogo Kanri (KSK) System (hereinafter called "KSK system". See page 50 for detailed information on the KSK system) and the e-Tax (see page 16 for detailed information of e-Tax) to improve administrative efficiency and taxpayer services.

The headcount at the NTA stayed at around 52,000 from the 1970s through the first half of the 1980s. Thereafter the number increased, as the consumption tax was introduced in fiscal 1989. After hitting a peak in fiscal 1997, the headcount decreased by more than 1,000 over the 9 years until fiscal 2006.

The headcount turned to increase during the period from fiscal 2007 to fiscal 2011. However, in fiscal 2012, it turned to a net decrease in 6 years with the latest number at 56,194.

In the face of the tough fiscal situation of today, the NTA is trying to cut administrative expenses and streamline the headcount, while securing the budget and headcount necessary to perform the NTA's duties.

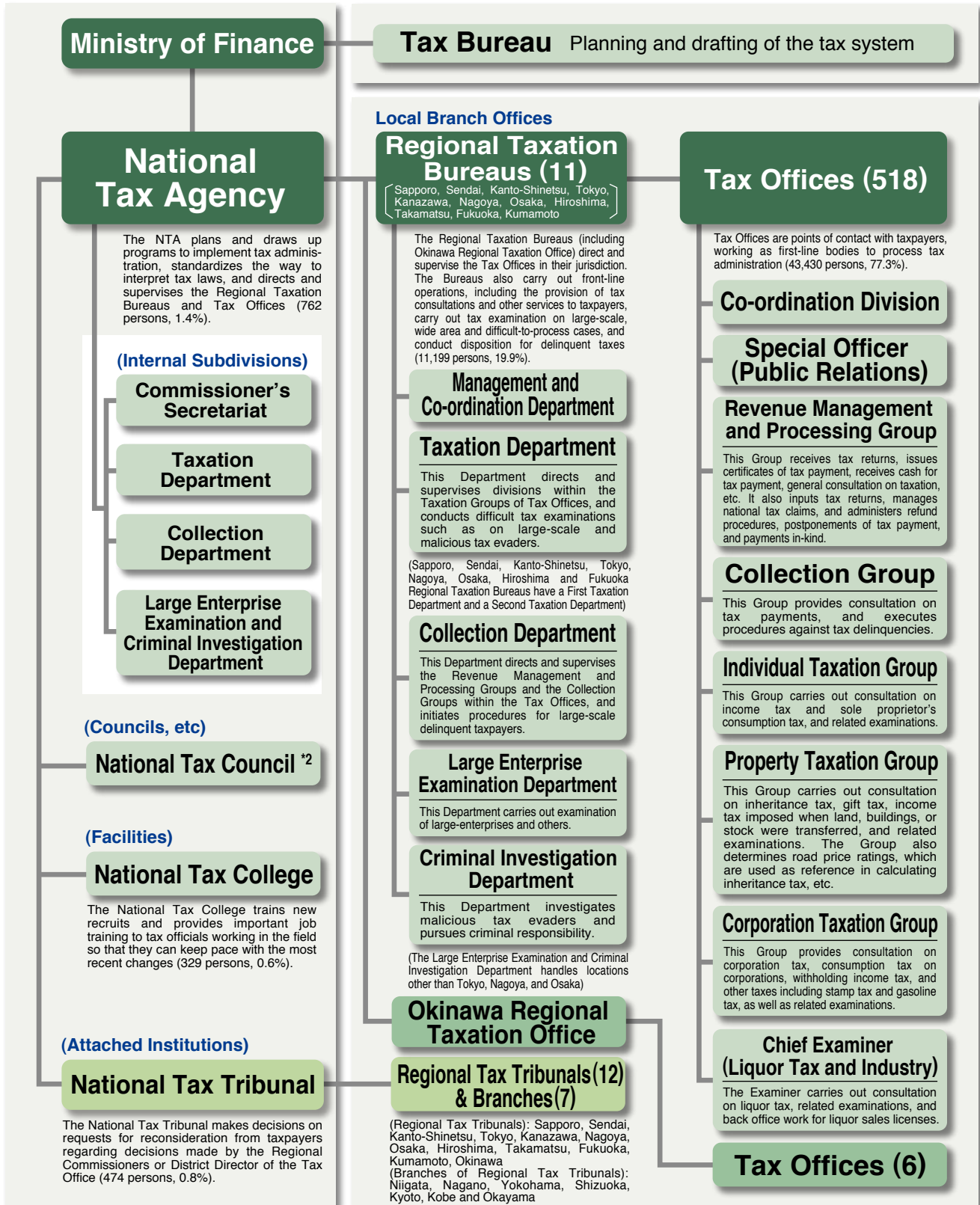
	FY 1975	FY 1997	FY 2012	(Reference) FY 2012/FY 1975
Budget (¥billion)	236.0	654.8	709.3	300.6%
Headcount (persons)	52,440	57,202	56,194	107.2%
① Number of income tax returns filed (1,000 persons)	7,327	20,023	21,853	298.3%
② Number of corporations (1,000 cases)	1,482	2,793	2,978	200.9%
③ Number of establishments subject to commodity tax (1,000 cases)	117	-	-	-
④ Number of enterprises subject to consumption tax (1,000 cases)	-	2,521	3,290	-
①+②+③+④ (1,000 cases)	8,926	25,337	28,121	315.0%

\* The budget in fiscal 2012 includes expenses recorded in the special account for reconstruction from the Great East Japan Earthquake.  
 ① Number of income tax returns filed in fiscal 2012 shows the figure for 2011  
 ② Number of corporations in fiscal 2012 shows the figure as of June-end 2011.  
 ④ This shows the number of submissions of Notification of Opting to Taxable Status for Consumption Tax. The figure in fiscal 2012 shows the figure as of March-end 2012.  
 (Reference) indicates the percentage for fiscal 2012, with fiscal 1975 as 100.

<sup>1</sup> Tax revenue of the national tax organization is calculated based on the ratio of the NTA revenue final account amount divided by the taxes and stamp revenue final account, from April 1, 2010 to March 31, 2011.

### (3) Organizational structure of the NTA

The NTA supervises 12 Regional Taxation Bureaus throughout Japan and 524 Tax Offices throughout Japan, to process tax administration.\*1



\*1 The headcount and percentage indicated in each department represents the prescribed number of personnel in fiscal 2012, and its percentage of the overall number of personnel in the NTA.

\*2 The National Tax Council addresses the following: ① studies and deliberation on matters requested by the NTA Commissioner, where the Director-General of the National Tax Tribunal determines the case by interpreting laws differently from the notification issued by the NTA Commissioner; ② implementation of CPTAs examination and decision on the disciplinary actions applied to CPTAs; and ③ deliberations on the establishment of labeling standards for liquor, and other matters.

# II Enhanced Taxpayer Services to Promote Proper Filing and Payment

## ~Enhanced taxpayer services achieved by public relations activities, tax education, tax consultation, etc.~

Japan adopts a self-assessment system for most of national taxes. Under this system, taxpayers themselves determine the amount of tax and pay it. On the other hand, for local taxes, the official assessment system is generally adopted.

For national taxes, the official assessment system was used before World War II, in which tax authorities calculated income, and notified taxpayers of the tax amount. In 1947, in order to democratize the tax system, the self-assessment system was adopted for three taxes (income, corporation, and inheritance), and this method has since been adapted to many of the national taxes.

In order for the self-assessment system to function properly, it is necessary for taxpayers to have a high level of awareness regarding tax payment, and to proactively and properly fulfill the obligation of tax responsibilities as provided by the constitution and law. To this end, the NTA is working to enhance a variety of services for taxpayers to help them correctly file and pay taxes by themselves. These include (1) public relations activities and tax education relating to the significance and function of taxes and knowledge about the tax law, (2) clarification of legal interpretation and of practices and procedures, etc., and (3) efforts to improve taxpayer convenience in tax consultation and filing returns.

In order to check that the tax returns filed by taxpayers, and to guide them to file correctly, there is a need to provide accurate tax examinations and guidance, and cooperation and coordination with Certified Public Tax Accountants (CPTAs) and relevant private organizations. Furthermore, if national taxes are not paid by the due date, the NTA encourages voluntary tax payment, and if they are still not paid, then it is necessary to work on certain collection of national taxes, e.g. by implementing disposition for delinquent tax.

To this end, the NTA works to promote proper and fair tax administration, giving appropriate instructions and conducting examinations on taxpayers who need to be corrected in order to have accurate filings, as well as conducting strict and appropriate delinquent tax collection based on laws and regulations, while considering the actual situation of each delinquent taxpayer.

## 1 Providing information, etc.

### ~Various public relations activities to improve taxpayer services~

For taxpayers to proactively and properly file and pay taxes, they first of all must understand their tax payment duty.

To this end, the NTA carries out public relations activities to enhance a variety of services for taxpayers to help them correctly file and pay taxes. These include significance of tax payment, provision of information regarding tax law and procedures, tax education and efforts to enhance convenience of tax consultations and tax procedures.

As specific public relations, focused on the NTA website [www.nta.go.jp](http://www.nta.go.jp) (accessed 133,932,000 times in fiscal 2011), the NTA provides a variety of information on the significance and roles played by taxes, and on the tax system. The information is provided through mass media such as TV and newspapers, public relations media such as pamphlets made available at the Tax Offices as well as municipal offices, and various explanatory meetings.

The NTA also responds to general inquiries and consultations related to taxes on the telephone, while providing information on the interpretation and handling of general tax law through the NTA website, etc. Furthermore, it responds to advance inquiries where there are questions in tax application to transactions taxpayers are going to make. The NTA thus works for proper self-assessment by taxpayers.

### (1) Information provided on the NTA website

#### ~The NTA website is designed with a focus on taxpayer convenience~

The NTA website provides information on tax filing and payment procedures, etc. To enable anyone to easily use it, the NTA is working to enhance the website's guidance functions according to user aims, and pays attention to convenience for the visually disabled and elderly by providing text enlargement, voice reading functions, etc.

To give people easy access to the information they want to know, the NTA website's top page is designed to give entry to various information as shown below.

# Overview of the NTA website

\* The following diagram is as of April 2012.

- 1 Tax Answer System**
  - ◆ Portal to the FAQ where frequently asked inquiry and general answers are posted
- 2 Search for Regional Taxation Bureaus and Tax Offices**
  - ◆ Portal to the pages of each Regional Taxation Bureau

- 3 Filing assistance on the NTA website**
  - ◆ In this system, if a taxpayer follows the screen guidance and inputs monetary amounts etc., taxes are automatically calculated, and tax returns for income tax, consumption tax and gift tax can be prepared
  - ◆ Prepared tax returns can be submitted by e-Tax (except for gift tax)
  - ◆ Printouts can be submitted by postal mail

- 4 Online national tax return filing and tax payment system (e-Tax)**
  - ◆ Information to support filing tax returns and payment using e-Tax for "Prior preparation," "Advanced registration," "Flow of procedures," etc.
- 5 Road price rating map**
  - ◆ Road price rating information for 3 years throughout Japan



- 6 Auction information**
  - ◆ Auction properties of Regional Taxation Bureaus and Tax Offices throughout Japan, auction procedure information, etc.
- 7 Web-TAX-TV (Internet programs)**
  - ◆ Specific explanations of tax procedures, how to prepare tax returns, e-Tax use, etc.
  - ◆ Shows the NTA activities like tax examination and collection, in an easily understood drama format

- 8 Tax learning section**
  - ◆ Section to have fun learning about taxes, with games and quizzes for both children to adults
  - ◆ Provides tax education learning materials for school teachers
- 9 Text enlargement / voice readings**
  - ◆ Support functions for the elderly and those who have visual disorders

- 10 Introduction of the NTA's activities by illustration and videos (the role of taxes and the work of tax offices)**
  - ◆ "The role of taxes and the work of tax offices" and the NTA activities are illustrated for easy understanding
- 11 Email magazine**
  - ◆ Registration of "What's new?" and Email magazine delivery service"

\*1 Newly created to provide information on the Great East Japan Earthquake.

\*2 The NTA website and the free video sharing site "YouTube" deliver videos with information on the NTA activities (including publicity activities of each Regional Taxation Bureau and Tax Office) and support for self-assessment procedures.

## II Enhanced Taxpayer Services to Promote Proper Filing and Payment

### (2) Tax education

#### ~Developing the environment for, and providing support for enhanced tax education~

The NTA works on developing the environment for, and providing support for enhanced tax education, based on the thinking that tax education should be solidly provided in basic school education, and that it should be worked on by the entire society. The NTA is working to develop the environment for, and provide support for solid tax education, so that children and students who will serve as the next generation correctly understand the significance and roles of taxation which forms the country's basis, and to foster sound taxpayer consciousness.



Tax☆Space UENO

Furthermore, in order for the Ministry of Internal Affairs and Communications, Ministry of Education, Culture, Sports, Science and Technology and the NTA to work together and cooperate to develop the environment promoting tax education, the “Council for Promoting Tax Education” among related ministries, etc. was established in November 2011. Effective support measures will be discussed in this council.

Past work includes dispatching teachers to tax education classes on the request of schools, development and distribution of tax education supplementary materials, organizing tax essay contests, via cooperation from the relevant private organizations, mainly by councils for promoting tax education established in each prefecture (members comprised of government, local authorities, educational leaders, etc.).

Also, a “Tax learning section” is provided on the NTA website to enable students and those who are interested to study taxes on their own. Pages that describe the purpose and role of taxes are provided for easy understanding, as well as “tax education material” in electronic form for educational leaders such as school teachers to use for educational purposes

Also, the Tax☆Space UENO facility for tax education is set up in the Tokyo-Ueno Tax Office.

For detailed information, please see the NTA website,  
<http://www.nta.go.jp/tokyo/shiraberu/gakushu/taiken/01.htm> (in Japanese language)

Tax☆Space UENO contacts for questions or to apply to use it  
Special Officer (Public Relations), Tokyo-Ueno Tax Office  
Tel 03-3821-9001 (Ext 361, 362)

### Providing tax knowledge through the Tax Museum

The Tax Museum, located on the Wako campus of the National Tax College, has valuable collections of historical documents and materials regarding national taxes. The Museum displays the large number of collections throughout the year and is open to a wide variety of visitors from specialists on tax history to high school students and other people.

Besides, specialized staffs at the Museum engage in research of archives and past tax system.

For further information, please visit the National Tax College section within this website,  
[www.nta.go.jp/ntc/english/index.htm](http://www.nta.go.jp/ntc/english/index.htm)



Tax Museum

### (3) Briefings for taxpayers

#### ~Organizing various educational sessions to provide information about taxes~

To help taxpayers better understand the tax procedures and tax system revisions, the NTA holds briefings at Tax Offices throughout Japan.

Specifically, a variety of briefings are held to provide information on taxes, including: 1) briefings on the necessity of bookkeeping and maintaining accounting books, with guidance on how to prepare tax returns and financial statements, 2) year-end adjustment briefings for withholding agents, 3) briefings on revisions to the tax laws, and 4) briefings for newly established corporations.

#### ● Frequency of briefings and number of participants (operation year 2010)

Various briefings	
Frequency held	24,910 times
Number of participants	1,162 thousand people

### (4) Tax consultation

#### ~General tax consultations are handled at centralized telephone consultation centers~

Tax consultations are provided as part of taxpayer services, so that taxpayers can do proper self-assessment and tax payment themselves. These provide information on taxation, and answer general questions on taxation. The NTA established Phone Consultation Centers in Regional Taxation Bureaus to answer taxpayer questions and provide consultation on taxes. These provide centralized handling of general tax consultations.

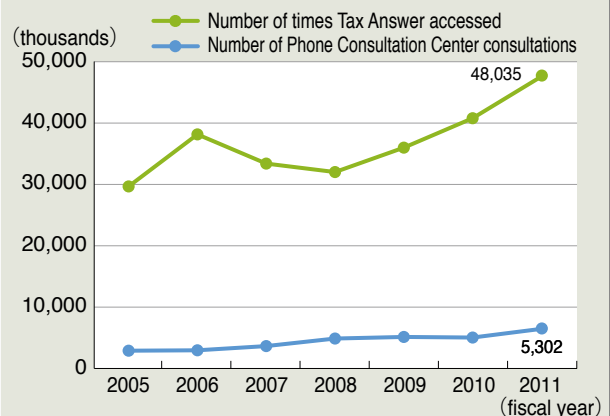
For foreigners, there are also Tax Counselors who can handle tax consultation in English, who are assigned to Phone Consultation Centers at Regional Taxation Bureaus in Tokyo, Nagoya and Osaka.

Also, the NTA website provides information in its "Tax Answers," which posts general answers to frequently asked questions (it also provides a mobile phone site).



Phone Consultation Center

#### ● Phone Consultation Center: Number of Consultations and number of times Tax Answer was accessed



The number of consultations and access to the "Tax Answer" system has increased since 2008

#### ~Tax Offices will provide individual and specific tax consultation services on a prior appointment basis~

When consultation by interview is required, for example if it is necessary to check specific documents or facts, there is an appointment system at the Tax Office with jurisdiction. This serves to eliminate wait time at the Tax Office, as part of our efforts for effective and efficient operation which matches the content of consultations.

## II Enhanced Taxpayer Services to Promote Proper Filing and Payment

### (5) Advance inquiries

#### ~Enhanced predictability~

In case taxpayers have some doubts regarding specific applicability of tax laws to the transactions conducted or to be conducted, Tax Offices and Regional Taxation Bureau provide advance tax consultations. When requested, a written answer may be provided under certain conditions, together with such answers to be disclosed to the public on the NTA website in order to help other taxpayers to improve its predictability as well. The NTA may also disclose selected oral answers to the inquiries made by taxpayers as Q&As on the NTA website, so that it can serve as reference for other taxpayers, in order to enhance predictability of application of tax laws.

#### ● Advance inquiries by written reply procedure: Number received

Fiscal year	2010	2011
Number of occurrences	150	178

#### ● Number of Q&A examples posted on website

Fiscal year	2010	2011
Number of Q&A posted	1,678	1,728

#### ◎ Examples of answers provided in writing

- Income tax treatment relating to compensation payments received by individuals who suffered damage from the accident of the nuclear power plant.
- Characterization of business in case an apartment management partnership allowed non-equity interest holders to use a part of the apartment parking lot.

## 2 Centralization of taxpayer contact points

#### ~Enhanced taxpayer convenience by means of centralized contact points~

For customer contact related work previously done at multiple departments in Tax Offices, customer contact was unified in the Revenue Management and Processing Group since July 2009. This aims to improve taxpayer convenience.

For example, applications were required to be submitted to multiple counters according to the content of such requests in the past. At present, only a single counter can handle the request, regardless of the content of the request.

This contact point handles requests for certificates of tax payment, and also submission of tax returns and applications, tax payments, and general consultation on taxes.





### 3 e-Tax (online national tax return filing and tax payment system)

#### ~ Strongly promote various measures in order to encourage and stabilize the use of e-Tax ~

e-Tax enables users to file income, corporation and consumption tax returns, as well as submit statutory records, apply for blue return filing, etc. via internet instead of submitting paper-based documents.





All tax items can be paid via direct payment, the Internet, Pay-Easy<sup>1</sup> compatible ATMs, etc.

e-Tax enables taxpayers and CPTAs to file and pay from homes and offices without actually visiting tax offices or banks. Also, when taxpayers use tax and accounting software compatible with e-Tax, they will reduce paperwork as the set of work from data preparation to filing can be done digitally.

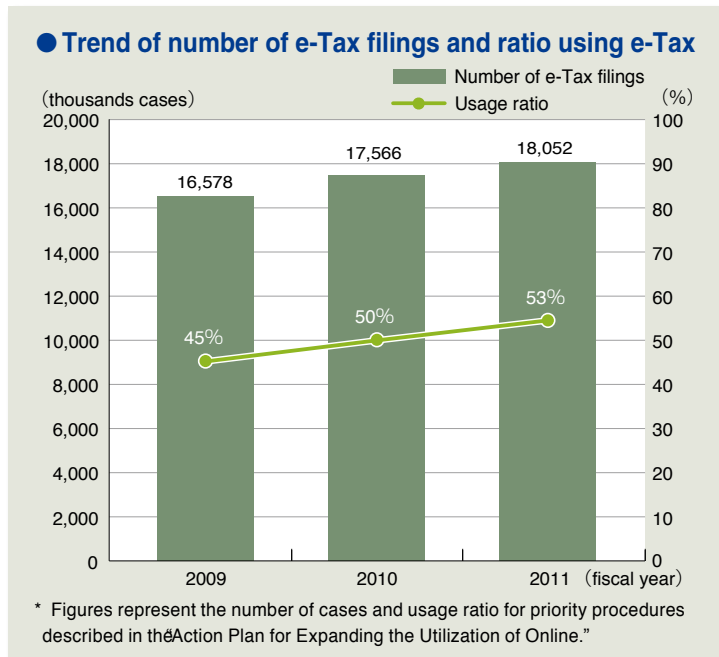
e-Tax will also directly reduce administration work such as receiving tax returns at the counter or by postal mail, and inputting data as well as indirectly reduce document management costs for tax authorities, thereby promoting the efficiency of tax administration.

Based on these reasons, in order to encourage and stabilize the use of e-Tax, the NTA strongly promoted various measures which have incorporated in the “Action Plan for Promoting the Utilization of Online” relating to national tax procedures (decided March 2006, revised March 2007), the “Action Plan for Expanding the Utilization of Online” (decided September 2008). Specifically, tax refund period for filings made via e-Tax was shortened, submission of a certain attachment documents such as medical receipts by individuals to claim medical deduction can be omitted<sup>2</sup>, digital signature by the taxpayers can be omitted in cases where CPTAs files returns on behalf of the taxpayers, etc.

### How to use e-Tax...

1. Obtain digital certificates 
2. Obtain IC card readers/writers 
3. Obtain user identification numbers 
4. Register digital certificates (initial registration) 

For details, please see e-Tax website, [www.e-tax.nta.go.jp](http://www.e-tax.nta.go.jp)



<sup>1</sup> “Pay-Easy” is a service where taxpayers can use PCs connected to the Internet and ATMs to pay public utility charges, which used to be paid at the counters of financial institutions and convenience stores.

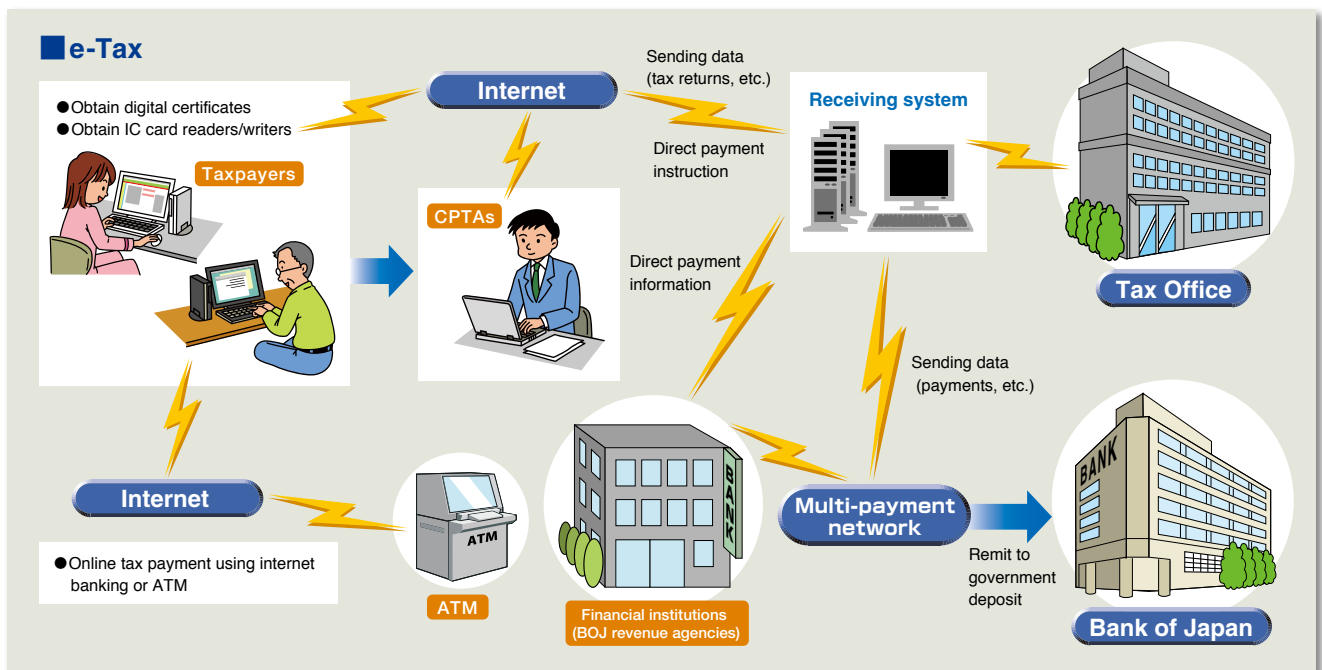
<sup>2</sup> In case submission of attachment documents are omitted, the entries of descriptions of the attachment documents are required to be inputted and transmitted together with tax returns.

In order to check on the entries of descriptions, if it is necessary, the Tax Offices may ask taxpayers to submit or present original copies during a five-year period from the legally required due date for filing.

## II Enhanced Taxpayer Services to Promote Proper Filing and Payment

### ~“Business Process Restructuring Plan” established within the NTA~

Based on the “Plan for new online use” as approved in the IT Strategy Division of the government in August 2011, the NTA established the “Business Process Restructuring Plan,” which was applied within the NTA in May 2012. In this “Business Process Restructuring Plan”, the NTA fixed certain criteria relating to enhanced taxpayer convenience and efficiency of administrative management such as “percentage of online use”, “e-Tax user satisfaction” and “cost per receipt of online application”, and the NTA will work on toward the achievement of each goal. The NTA will actively promote “Business Process Restructuring Plan” in order to maximize improvement in taxpayer convenience and clerical efficiency by encouraging and stabilizing the use of e-Tax.



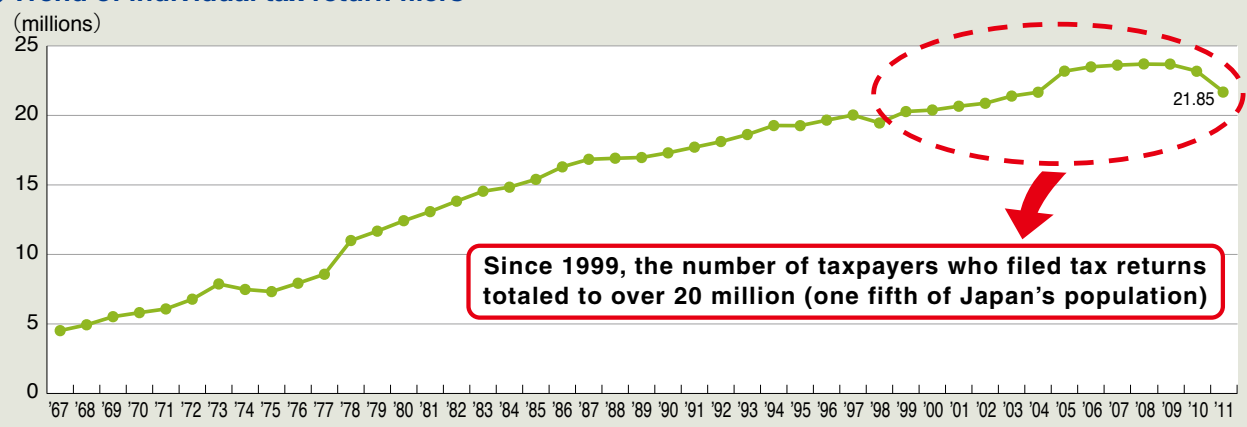
## 4 Filing for tax return

### ~The number of taxpayers who filed tax returns totaled 21.85 million. More than half filed for tax refunds~

Tax filing is a procedure under the self-assessment tax system, in which the taxpayer calculates income and tax amount for a one year period, and files and pays taxes. In addition to persons obligated to file, there are people who file taxes to obtain an income tax refund, for example because they paid large medical bills. 21.85 million people filed their income taxes for 2011, thus one out of five residents filed taxes. Of these, over 12.79 million people filed for refunds, comprising over half of people filing income tax returns.

In response to diverse needs of many taxpayers who file tax returns, the NTA is working to provide diverse services, to reduce the burden of filing and to enable simple and convenient filing.

● Trend of individual tax return filers



Since 1999, the number of taxpayers who filed tax returns totaled to over 20 million (one fifth of Japan's population)

Various services are provided to meet with various needs of taxpayers  
 → Implemented systems to enable easy and convenient filing process

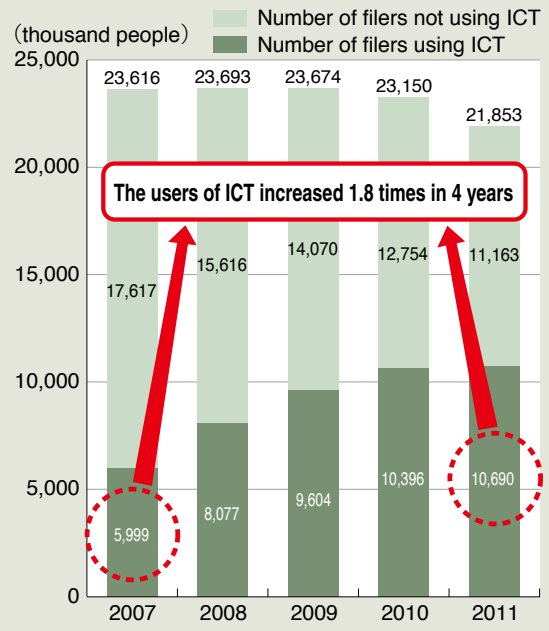
(1) Promotion of filing using ICT

~e-Tax and filing assistance on the NTA website~

The NTA is actively using the advances in ICT in recent years to provide taxpayer services, using ICT to enable filing from home, etc. By using ICT such as filing assistance on the NTA website and e-Tax, taxpayers can file tax returns conveniently without visiting Tax Offices, anytime and without calculation errors.

To this end, the NTA carries out various activities such as publicity and briefings etc., so more taxpayers file using ICT. Also, at consultation sites of Tax Offices, there are PCs where people can use filing assistance on the NTA website, and taxpayers who came to consult about filing use the PCs to prepare tax returns and transmit them using e-Tax, experiencing the convenience of filing using ICT.

● Filers who used ICT to file an income tax return



The users of ICT increased 1.8 times in 4 years

~Income tax returns prepared at the “filing assistance corner on the NTA website” totaled 7.9 million cases~

With the filing assistance on the NTA website, if a taxpayer enters the amounts and other necessary information according to guidance on the PC screen, income amounts and tax amounts are automatically calculated, and it allows taxpayers to complete their tax returns for income tax, individual consumption tax, and gift tax as well as financial statements for blue returns.

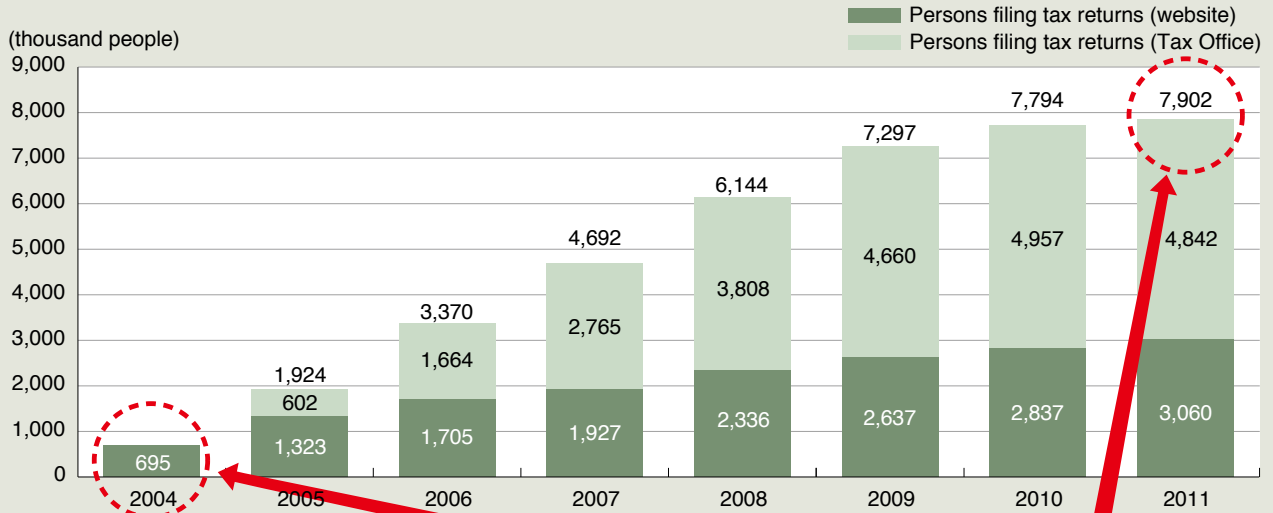
e-Tax can be used to file the prepared data directly from this website area (excluding gift tax), or it can be printed and submitted to the Tax Office by post, etc.

The number of users has increased each year since the filing period for 2002. In the filing period for 2011, the number of people who submitted income tax returns prepared with filing assistance on the NTA website reached 7,900,000, including those prepared via PCs set up at consultation sites. This comprised over 36% of all people who submitted returns. About 64% of these submitted their returns via e-Tax.

## II Enhanced Taxpayer Services to Promote Proper Filing and Payment

We will continue our efforts to improve the system to make it easier to use based on feedback from users, so that it can be used by as many taxpayers as possible.

### ● Trend in income tax return submissions prepared in filing assistance on the NTA website



\* Figures represent those submitted by the end of March of the following year.

The use of filing assistance on the NTA website at PCs installed in the Tax Office started from tax returns for 2004. However, the number of taxpayers who submitted returns using this method remains unaccounted for.

The number of taxpayers who submitted tax returns for years before 2003 remains unaccounted for.

The number of taxpayers who submitted tax returns for years since 2007 includes cases using e-Tax.

**The use of filing assistance on the NTA website increased by approximately 11 times in 7 years.**

## (2) Response to diverse taxpayer needs

### ~Opening tax office on Sunday during filing period~

Taxpayers said that “It’s a problem that filing consultations can only be handled on weekdays; I would like it if they were also provided on days when government offices are closed.” In response, the NTA receives tax returns and provides filing consultations on two Sundays during the tax return filing period at some Tax Offices, inside the Tax Office and at joint meeting sites outside the Tax Offices.

For the 2011 tax return filing period, the offices were open on February 19 and 26, 2012, during which 261,000 income tax returns were filed.

Also, to enable taxpayers and their agents to obtain necessary information and forms without visiting Tax Offices, the NTA provides various filing information via the NTA website, as well as arranging various information sessions relating to filing and free consultation sessions by CPTAs for small business owners. The NTA plans to implement filing administration smoothly and efficiently by the limited number of staff, while meeting the various needs of taxpayers.

### Cooperation with the local tax authorities

Among local taxes, tax mechanisms and taxpayers subject to local taxes are often the same as for national taxation. Therefore, in an effort to simplify taxpayer filing procedures, the NTA is working on close cooperation between national taxation (the NTA) and local tax (authorities) in system aspects and implementation aspects. For example, in the case of income tax filings, the NTA provides such information to local tax authorities, so there is no need to file for individual enterprise tax and individual inhabitant tax, which are local taxes.

Also, starting January 2011, as an initiative for much more efficient national and local tax operations, the NTA has been providing data such as income tax filings to local public bodies. Such increased use of ICT is an effort to boost efficiency and reduce the costs of administrative operations of national government and local public bodies.

## 5 Proper withholding tax system operation

### ~Providing more thorough information and publicity to withholding agents~

In the withholding tax system, withholding agents finalize the taxation process by doing year-end adjustments, which eliminate the procedures for tax returns for a large portion of the over 50 million wage and salary earners. The withholding tax system is as important in tax administration as smooth operation of the self-assessment system.

To have withholding agents properly process withholding tax procedures and pay taxes, the NTA provides information and publicity about the withholding tax system by holding briefings about year-end adjustment, distributing guidebooks and pamphlets, etc.

## 6 Certified Public Tax Accountants (CPTAs) system

### ~Missions of Certified Public Tax Accountants (CPTAs)~

Certified Public Tax Accountants (CPTAs) are professional specialists on taxes. Their public mission is to respond to the trust of a person with a tax obligation in line with the principles of the self-assessment system, and achieve proper tax compliance as provided for in the tax laws and regulations, based on their independent and fair standpoint. As of March-end 2012, 72,635 persons are registered as CPTAs, and 2,366 CPTAs corporations are established.

### ~Services provided by CPTAs~

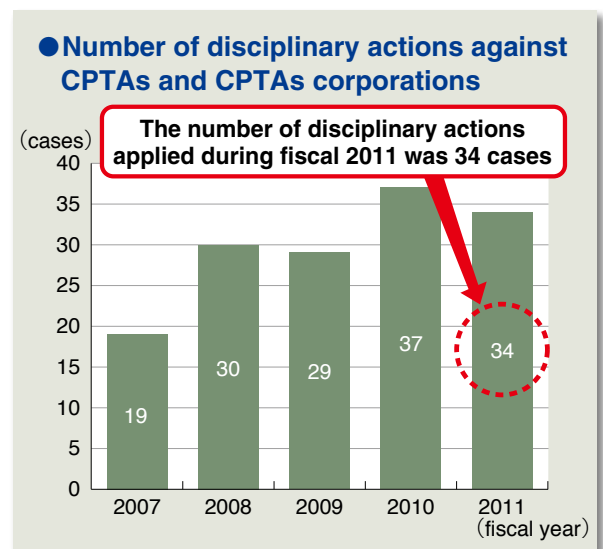
CPTA services are ① tax proxy, ② preparation of tax documents, ③ tax consultation service. These operations must not be performed by persons other than CPTAs, even at no charge. At the same time, CPTAs are required to fulfill various obligations and responsibilities. For example, they are prohibited from providing tax evasion consultation and engaging in conduct which harms the credibility or dignity of CPTAs.

Taxpayers are able to use CPTA services (tax return preparation or professional advice) to properly file returns and pay taxes. In addition, because corporations and sole business proprietors often ask CPTAs to process accounting books or seek advice on accounting, they also play important roles in promoting correct bookkeeping that constitutes the basis for filing tax returns.

### ~Ensuring proper services are provided by CPTAs~

In order to ensure public trust in the CPTA system, the NTA utilizes every opportunity to alert people and prevent CPTAs' delinquency. Also, the NTA conducts appropriate examinations of CPTAs, and take strict action against CPTAs who violate the Certified Public Tax Accountant Act and so called "fake CPTAs" who conducts CPTA services without licenses, by applying disciplinary actions and filing accusations seeking prosecution.

The NTA discloses the names of disciplined CPTAs in the official gazette and via the NTA website.



## II Enhanced Taxpayer Services to Promote Proper Filing and Payment

### ~Coordination and cooperation with tax accountants' associations, etc.~

#### (1) Promotion of document attached by CPTAs to tax returns

The documents attached by CPTAs to tax returns as provided for in the Certified Public Tax Accountant Act clarify the roles played by them in filing tax returns. The NTA is respecting such roles played by them. Specifically, this system allows CPTAs to attach to tax returns the documents regarding the calculation, information arrangement, or consultation service that they provided for the preparation of tax returns. If the Tax Office intends to provide notification of the date, time and place it will conduct a tax examination to a taxpayer who filed a tax return along with such documents, then the CPTA possessing the certificate evidencing the authority of tax proxy must be given the opportunity to state an opinion on the items written in the attached documents, before the taxpayer is notified.

Because this system contributes to the correct preparation and filing of tax returns, facilitation and simplification of tax administration, and eventually establishment of a trusted CPTA system, the NTA is actively consulting with tax accountants' associations with an aim to enhance the content of attachments and raise the percentage of returns with attachments. The NTA is also respecting this system. It is thereby further promoting and establishing this system.

#### (2) Promotion of e-Tax usage

CPTAs play important roles in promoting use of e-Tax, the NTA requests tax accountants' associations, etc. for cooperation to promote the use of e-Tax, as well as dispatching lecturers to training sessions arranged by tax accountants' associations (see page 16 for detailed information of e-Tax).

#### Tax accountants' associations and Japan Federation of CPTAs' Associations

In order to improve the work of CPTAs, tax accountants' associations are designated in the Certified Public Tax Accountant Act as organizations which provide guidance, liaison and supervision to CPTAs and CPTAs corporations. There are now 15 tax accountants' associations throughout Japan. Tax accountants' associations engage in a wide range of activities, including ① Training to enhance the qualities of CPTAs, ② Dispatch of lecturers for tax workshops in elementary and junior high schools, ③ Free tax consultation for small taxpayers.

The Japan Federation of Certified Public Tax Accountants' Associations is the only organization in Japan specified in the CPTA Act, consisting of member tax accountants' associations. The Federation provides guidelines, liaison, and supervision for tax accountants' associations and their members. It also handles the administration to register members, and conducts research on the CPTA system. For further details, please visit the website of the Federation at [www.nichizeiren.or.jp](http://www.nichizeiren.or.jp)

## 7 Cooperation with private organizations

### ~Provide necessary tax information to taxpayers in cooperation with relevant private organizations ~

The NTA is implementing measures not only to provide information on taxes directly to taxpayers but also to convey information on taxes via cooperation from the relevant private organizations, such as blue return taxpayers' associations and corporations associations. These relevant private organizations are playing a large role in achieving a proper self-assessment system and in spreading knowledge about taxes.

The NTA is working to strengthen coordination and cooperation between these relevant private organizations, for example by holding various joint events to encourage use of e-Tax and for "Think About Tax Week."

## Blue return taxpayers' associations

Blue return taxpayers' associations are organized to widen participation in the blue return system and promote the submission of proper tax returns through honest bookkeeping. They are formed mainly by sole business proprietors who use the system. There are about 3,200 associations nationwide, and the total number of members is about 890,000 (as of April 2012). Each blue return taxpayers' association performs a wide range of activities including the guidance on bookkeeping, holding seminars, and encouraging filing of blue returns. For further details, please contact the nearest blue return taxpayers' association.

## Corporations associations

Corporations associations are organized for the purpose of spreading knowledge of tax and establishing a proper self-assessment system. There are 483 corporations associations as incorporated associations, including the National General Federation of Corporations Association and prefectural level federations. Membership stands at about 910,000 corporations (as of December 2011).

Corporations associations arrange tax seminars and classes and campaigns for healthy development of businesses and society.

For further details, please visit the website of the National General Federation of Corporations Associations at [www.zenkokuhojinkai.or.jp](http://www.zenkokuhojinkai.or.jp)

## Indirect tax associations

Indirect tax associations are organized for the purpose of contributing to the spreading of knowledge about indirect taxes, and achieving fair taxation and proper administration in the self-assessment system. There are 571 associations nationwide with about 90,000 members (as of March 2011). Indirect tax associations make suggestions to the government on ways to enhance the tax system and to improve tax implementation. They also perform activities to spread knowledge about the consumption tax and to prevent tax delinquency. For further details, please visit the website of the National Federation of Indirect Tax Associations at [www.kanzeikai.jp](http://www.kanzeikai.jp)

## Savings-for-tax associations

Savings-for-tax associations are organized by taxpayers aiming at continually completing payment of tax within the due date by means of savings. The associations are established pursuant to the Tax Fund Saving Partnership Act, and there are now about 44,000 associations (as of March 2011).

Savings-for-tax associations conduct activities to promote payment of tax by the due date and coordinating tax essay contests for junior high school students.

For further details, please visit the website of the National Federation of Savings-for-Tax Associations at [www.zennoren.jp](http://www.zennoren.jp)

## Tax payment associations

Tax payment associations are organized under the jurisdiction of the Tax Offices of the Osaka Regional Taxation Bureau, for the purpose of aiming to spread knowledge about taxes, promote proper filing of returns and uplift tax payment morality.

There are the Federation of Tax Payment Associations and 83 tax payment associations. About 190,000 members belong to these associations (as of March 2011). The associations carry out activities which have large public benefits, such as holding various briefings, conducting publicity activities, working on tax education, etc.

For further details, please visit the website of the Federation of Tax Payment Associations at [www.nouzeikyokai.or.jp](http://www.nouzeikyokai.or.jp)

## II Enhanced Taxpayer Services to Promote Proper Filing and Payment

### Column Response to the Great East Japan Earthquake (As of end of March, 2012)

#### 1 Disaster and recovery status

The Great East Japan Earthquake struck at 14:46 on Friday, March 11, 2011. This was right before the income tax filing deadline, it hit while many taxpayers were visiting a filing site. The tsunami flooded the first floor of the Ofunato Office of Sendai Regional Taxation Bureau. There was also damage to many government buildings with Taxation Bureaus and Tax Offices: interior and exterior walls cracked or peeled, ceiling panels fell, bookcases fell over, window glass broke, etc.

As a result, soon after the earthquake, on March 14, operations were suspended at 10 offices under the Sendai and Kanto-Shinetsu Regional Taxation Bureaus, and 34 offices could only serve as contact points. On April 18, all offices reopened for normal operations, except for the Ofunato Office and Sukagawa Office which are in unusable government buildings. (At present, Ofunato Office and Sukagawa Office are continuing operations in temporary buildings.)

Also, due to effects of the Fukushima nuclear power plant accident, from March 14 to 28, there were rolling blackouts at a total 150 offices under the jurisdictions of Kanto-Shinetsu, Tokyo and Nagoya Regional Taxation Bureaus. This prevented use of the KSK System, etc., which affected some operations, such as issuance of certificates of tax payment.

#### 2 Responses right after the earthquake

##### (1) Extension of filing and payment deadlines for national taxes

On March 12, 2011, extension of filing and payment deadlines for national taxes (for designated areas) was announced regarding national taxes in Aomori prefecture, Iwate prefecture, Miyagi prefecture, Fukushima prefecture and Ibaraki prefecture (announced on March 15).

For these areas, the extension of deadlines was designated by stages based on the conditions after the earthquake. Accordingly, July 29 is set for Aomori prefecture and Ibaraki prefecture, September 30 for approximately 80% of inland municipalities of Iwate prefecture, Miyagi prefecture and Fukushima prefecture, December 15 for a part of maritime municipalities of Iwate prefecture and Miyagi prefecture, April 2, 2012 for Ishinomaki city, Higashi Matsushima city and Onagawa cho of Miyagi prefecture.

Also, for taxpayers who have difficulty in filing or paying taxes by the extended deadline, extension of deadline can be permitted on an individual basis (individual designation). Such deadlines and individual designations were notified and publicized to provide proper response to inquiries from taxpayers.

##### (2) Providing information and publicity on tax treatment relating to the disaster

The NTA promptly provided information and publicity regarding tax treatment relating to the disaster by the use of pamphlets and its website.

##### (3) Response to taxpayers who are evacuated

Since March 22, 2011, based on the situations of the taxpayers who suffered from damage from the Great East Japan Earthquake having evacuated to areas all over Japan, the NTA worked on constructing systems so that the nearest Tax Offices of evacuated places can handle tax consultations, respond to inquiries for tax refund payments, and issue certificates of tax payment.

#### 3 Response to Earthquake Special Measures Act

##### (1) Response accompanying the enforcement of the Earthquake Special Measures Act

On April 27, 2011, in order to reduce the burdens of victims of the Great East Japan Earthquake, “the Act on Temporary Special Provisions of Acts Related to National Tax, in Relation to Victims, etc. of the Great East Japan Earthquake” (Earthquake Special Measures Act) was established, enabling tax deductions of miscellaneous losses for damaged houses and household items in 2010 income tax returns.



For this reason, many filing and payment consultations, request for correction to the tax return and submission of returns requesting tax refunds are estimated to be handled, especially at Tax Offices in charge of damaged areas, and the following actions were implemented:

- ① At Tax Offices in charge of damaged areas, necessary staff are placed by backup staffing from other Tax Offices and Regional Taxation Bureaus.
  - ② A special number “0” is assigned for telephone inquiries relating to the Great East Japan Earthquake at Sendai, Kanto-Shinetsu and Tokyo Regional Taxation Bureau and the number of consultants was increased. After May 13, a satellite office of Sendai Regional Taxation Bureau telephone consultation center was opened within Tokyo Regional Taxation Bureau.
  - ③ Notification and publicity concerning the content of Earthquake Special Measures Act via pamphlets and the NTA website.
  - ④ Conduct seminars and on-site consultation sessions according to the conditions of damaged areas and taxpayers.
  - ⑤ Notification and publicity of the system, arrangement of educational sessions, etc. were conducted in alliance and cooperation with local bodies and relevant private organizations.
  - ⑥ Respond to filing consultations at the nearest Tax Offices from evacuated places.
- (2) **Response to filing for tax refunds, etc. based on Earthquake Special Measures Act (income tax related)**

Many taxpayers who suffered significant damage to their houses and household items are located in the area centering on Iwate, Miyagi and Fukushima prefectures, where destruction from the tsunami was very significant. Those taxpayers were entitled to an income tax refund by the application of miscellaneous loss deductions for fiscal 2010, based on the Earthquake Special Measures Act. As such, the Sendai Regional Taxation Bureau in charge of these prefectures positioned the period until the end of November 2011 as the intensive response period, and worked on active publicity using press releases, etc. and providing individual consultations to taxpayers, so that those who suffered damage could obtain income tax refunds at the earliest possible date.



Filing consultations during the period of intensive response

- (3) **Special measures relating to the valuation of lands, etc. based on Earthquake Special Measures Act (inheritance tax and gift tax related)**

Generally, valuation of land, etc. will be determined based on the market value at the time of the inheritance or gift took place. However, pursuant to the Earthquake Special Measures Act, inheritance taxes and gift taxes concerning the land within the designated areas which were acquired prior to March 10, 2011 due to inheritance or gift and its filing deadline arriving on or after March 11 can elect to apply “the value immediately after the earthquake” instead of the value at the time of inheritance or gift, so that the drop in the land price due to the earthquake can be reflected.

For the determination of “the value immediately after the earthquake”, “adjustment ratio” reflecting the drop in land prices due to the earthquake can be multiplied by the road price ratings (or “rosen-ka”) applicable for 2011. This “adjustment ratio” is specified on the area by area basis and was announced on November 1, 2011.

**Valuation immediately after the earthquake = Road price ratings (“rosen-ka” price as of January 1, 2011) × adjustment rate**

(Note) Designated areas are: All areas of Aomori prefecture, Iwate prefecture, Miyagi prefecture, Fukushima prefecture, Ibaraki prefecture, Tochigi prefecture and Chiba prefecture, as well as Saitama prefecture Kazo city (former areas of Kita kawabe cho and Ohtone cho), Saitama prefecture Kuki city, Niigata prefecture Tohka-ichi city, Niigata prefecture Naka-uonuma gun Tsunan cho and Nagano prefecture Shimo-minauchi gun Sakae mura.

## II Enhanced Taxpayer Services to Promote Proper Filing and Payment

### 4 Support given to areas damaged by the earthquake

#### (1) Support to the Tax Offices located in the areas damaged by the earthquake

In order to respond to many tax consultations for filing and payment, request for correction to the tax return and returns filed for tax refund, Sendai Regional Taxation Bureau ensured to maintain adequate staffing by sending backup staffing to tax offices in charge of damaged areas from other tax offices or Regional Taxation Bureau in the jurisdiction of Sendai Regional Taxation Bureau (a total of approximately 22,400 officers) as well as Tokyo and Kanto-Shinetsu Regional Taxation Bureaus, etc. (a total of approximately 1,400 officers) since April 25, 2011 (number of backup staff as of the end of December 2011).

#### (2) Physical support to local governments by the NTA staff

Since March 19, 2011, Sendai Regional Taxation Bureau has dispatched a total of approximately 6,400 officers to two prefectural governments and 29 municipal offices, etc. to support issuance of earthquake damage certificates.

### 5 Support during the filing period

In the filing period for 2011, in order to provide adequate services to taxpayers in the jurisdiction of Sendai Regional Taxation Bureau who suffered significant damage, backup staff (a total of approximately 7,000 officers) was arranged for tax offices (19 offices) in the jurisdiction of damaged areas from other tax offices and regional taxation bureaus. All the NTA staff worked together across jurisdiction boundaries in ways such as:

① During the period February 6 through March 16, a total of approximately 4,500 officers were dispatched to 8 tax offices in the jurisdiction of Sendai Regional Taxation Bureau from Sapporo, Tokyo, Nagoya, Osaka and Fukuoka Regional Taxation Bureaus, in order to support tax filing consultation services.

② During the period January 17 through March 15, a satellite office for telephone consultation service was opened within Osaka Regional Taxation Bureau, and approximately 55 officers a day on average from the Osaka, Hiroshima, Takamatsu and Kumamoto Regional Taxation Bureaus and Okinawa Regional Taxation Office responded to telephone inquiries from taxpayers within the jurisdiction of Sendai Regional Taxation Bureau.

③ Officers in the Kanazawa Regional Taxation Bureau responded to the telephone inquiry calls transferred from the Tokyo Regional Taxation Bureau (the Kanazawa Regional Taxation Bureau indirectly backed up the Sendai Regional Taxation Bureau by helping the Tokyo Regional Taxation Bureau baking up the Sendai Regional Taxation Bureau)



Filing consultations sites at Sendai Regional Taxation Bureau

### 6 Measures related to liquor industry

#### (1) Ensuring the safety of liquors

The NTA provided technical information to prevent radioactive contamination to all the liquor manufacturers in Japan. Besides, the NTA conducted radioactive examination for liquors and brewing water located within the liquor manufacturing sites prior to the shipment of the liquors therefrom.

#### (2) Issuance of certificates for liquors to be exported

The NTA issued certificates (certificates of date and place of production and certificates of radioactive examination) on liquors to be exported in accordance with the requirements by importing countries. Besides, through the diplomatic channel via the Ministry of Foreign Affairs of Japan, the NTA worked to relax the regulations towards the importing countries and areas that impose import restrictions.

#### (3) Special measures in procedures for liquor licenses and others

The NTA introduced flexible treatments on the procedures related to liquor license and to refunds of liquor tax, the amount of which is equivalent to the liquor tax levied on the liquors damaged by the earthquake.

#### (4) Reducing liquor tax pursuant to Earthquake Special Measures Act (liquor tax related)

Following the policy measures to reduce liquor tax for small and medium-sized liquor manufacturers with their factories damaged significantly, the NTA clarified the applicable criteria for the measures and notified the criteria to liquor manufacturers.

#### (5) Support for effective use and application of policy measures for small and medium-sized companies

The NTA properly provided information on various policy measures for small and medium-sized companies (such as recovery and reconstruction support and assistance, special loan to reconstruct from the Great East Japan Earthquake) available to small and medium-sized liquor businesses. Besides, the NTA consulted properly with liquor businesses for inquiries regarding use of the policy measures in cooperation with other governmental departments, as well as arranged study sessions for those engaged in the liquor industry.

## Special tax measures if damaged by the Great East Japan Earthquake

In order to reduce the burdens of victims of the Great East Japan Earthquake, Earthquake Special Measures Act entered into force on April 27, 2011.

Besides, in order to reduce the burdens of victims of the Great East Japan Earthquake, and to promote policy measures to reconstruct from the Great East Japan Earthquake, the law to revise a part of Earthquake Special Measures Act entered into force on December 14, 2011.

Under this partially revised Earthquake Special Measures Act and Earthquake Special Measures Act, principal tax treatments applicable to those who suffered damage from the Great East Japan Earthquake are as follows:

Income tax	<p>For ① casualty loss deduction methods determined in the Income Tax Act, and ② methods of tax reduction or release determined in the Act on Reduction or Release, Deferment of Collection and Other Measures Related to Tax Imposed on Disaster Victims, people with housing and household assets damaged by the Great East Japan Earthquake can choose to receive these reduction measures etc. for either 2010 or 2011.</p>
	<p>For losses of inventory assets and business use assets etc. due to the Great East Japan Earthquake, such loss amounts can be included in necessary expenses when calculating amounts of business income for 2010.</p> <p>① If a dwelling was receiving application of special credit for loans relating to a dwelling, but can no longer be lived in due to the Great East Japan Earthquake, application of the special credit for loans relating to a dwelling can continue to be received, during the remaining application period of special credit for loans relating to a dwelling, for that dwelling.</p> <p>② In the case of a taxpayer who lost a dwelling as it was destroyed by the Great East Japan Earthquake subsequently reacquired an alternative dwelling, such a taxpayer may elect “special measures for credit relating to reacquisition of a dwelling,” instead of normal special credits for loans relating to a dwelling.</p> <p>③ The above ① and ② can be applied simultaneously.</p>
Corporation tax	<p>For corporations designated by an approved local government during the period December 26, 2011 through March 31, 2016, which were newly established in the reconstruction industrial park zone, the following special measures that allow deferral of corporation tax in each business year from the designated date to the date 5 years after from the designated date:</p> <p>① Tax deduction of reserves for re-investment allowed with the upper limit of income amount.</p> <p>② Special depreciation of re-investment reserves allowed in the fiscal year when re-investment of equipment or buildings in the reconstruction industry park zone with upper limit of reserve balance.</p>
Motor vehicle tonnage tax	<p>If a vehicle or a motorcycle was damaged by the Great East Japan Earthquake and scrapped within the valid period of its motor vehicle inspection certificate, then the owner can do the procedure for Permanent Deletion Registration or for notice of demolishing or dismantling at a Transport Branch Office or Light Motor Vehicle Inspection Organization, and submit a request for refund of motor vehicle tonnage tax, and thereby obtain refund of motor vehicle tonnage tax.</p>
	<p>If a person who was a user of a motor vehicle or a motorcycle damaged by the disaster acquires a replacement vehicle and obtains a motor vehicle inspection certificate, etc. during the period until April 30, 2014, then by submitting a notification of tax exemption for motor vehicle tonnage tax to a Transport Branch Office or Light Motor Vehicle Inspection Organization, the motor vehicle tonnage tax which pertains to the initially obtained motor vehicle inspection certificate, etc. is exempted.</p>
Stamp tax, etc.	<p>Stamp tax on a “contract on consumer loan” is exempted for a money loan to a person victimized by the Great East Japan Earthquake, at conditions which compared to conditions of other money loans are specially advantageous, by a local government or government related financial institution, etc.</p>
	<p>For cases such as a building acquired to replace a building demolished and removed because it was destroyed or damaged by the Great East Japan Earthquake and a building located in the area subject to the designation of evacuation zone, etc. as of the date when such designation of evacuation zone, etc. was made, the stamp tax is exempted for “contracts on transfer of real estate” and “contracts on contracting of construction work” made by that victimized person. Also, registration and license tax in relation to the registration of transfer of ownership will be exempt.</p>

\* For other measures and details, see the NTA website [www.nta.go.jp](http://www.nta.go.jp) or visit a nearby Tax Office.

# III Proper Tax Examination and Collection

## 1 Promotion of proper and fair tax administration

### ~Balanced allocation of tax officials and conduct strict examination to fraudulent tax avoidance cases~

In order to achieve proper and fair taxation, the NTA takes care of its administration processes in an effective and efficient manner by balancing its allocation of limited human and material resources. For example, it makes full use of its organizational strengths to conduct accurate examinations of large-scale and malicious taxpayers, while making only brief contacts for correcting simple mistakes.

Especially for taxpayers who try to illicitly evade tax burdens, the NTA analyzes information from various angles, chooses subjects to examine, and conducts strict examinations.

#### ● Number of cases related to tax examinations, etc.

(thousands)

Operation year	2008	2009	2010
Number of examinations	332	312	283
Number of cases by brief contact	732	644	639

\* "Brief contact" refers to correction of tax declaration by telephone or by summoning taxpayers to the tax offices.

Approximately 900,000 tax examination cases were conducted annually

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

Specifically, the subjects of tax examinations are selected through the KSK system, which contains data related to income tax returns, corporation tax returns, and a variety of other data and information, from the viewpoints of business type, business form, and business size. Data and information are recognized as important to achieve proper and fair taxation, so we have in place a structure to efficiently collect information which is very effective for examinations.

### ~Additional income identified per tax examination amounting to ¥8.79 million for self-assessment income tax and ¥10.07 million for corporation tax~

Tax examinations aim to check the content of tax returns based on taxpayers' records, and if mistakes are discovered, to ask taxpayers to correct them. We place great importance on the examination of malicious taxpayers using a sufficient number of days for the procedures.

The field examinations in operation year 2010 found ¥8.79 million<sup>1</sup> of undeclared income per case for self-assessed income tax, and ¥10.07 million for corporation tax.

#### ● Undeclared income amount of self-assessed income tax and corporation tax found in field examinations, per case



Active promotion of initiatives for effective examination

<sup>1</sup> Amount related to special and general field examinations.

## (1) Priority matters addressed in the tax examinations

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

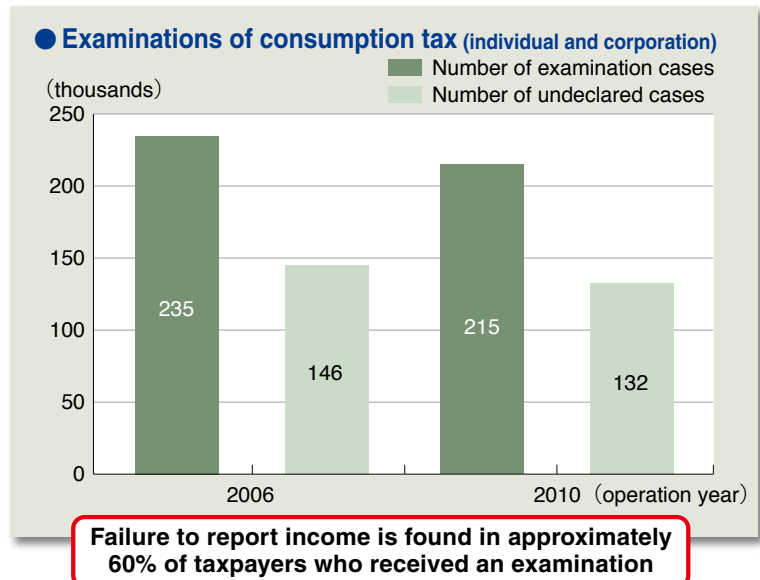
For taxpayers who expect a high income but who filed a low income or did not file, we are addressing tax examinations keeping in mind diversification and globalization of asset management.

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

- An executive of a Japanese corporation retained remunerations received outside Japan at an overseas financial institution, which generated a large investment income. However, this Japanese taxpayer has excluded this investment income from the book.
- Overseas bank deposits not reported in the inheritance tax return were identified as a result of information exchange (see page 40 for information exchange) with foreign tax authorities.

### ~ Prevent fraudulent consumption tax refunds by means of sufficient examination, etc. ~

Consumption tax is one of the main taxes, and is similar to a deposit, which is why it attracts the strong attention of the public. Therefore, proper tax administration is especially necessary. In particular, 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. As a result, if the reasons for a tax refund are not clear, we make contact through tax examinations, etc.



#### ◎ Examples of malicious fraud in the consumption tax

- Consumption tax refunds were illicitly received by the trick of falsifying books etc., to disguise domestic sales as tax exempt export sales.
- Personnel costs paid by a business are not tax deductible transactions, but by pretending that the costs were outsourcing costs for affiliated companies (temp agencies, etc.) which are deductible transactions, fraudulent consumption tax refunds were received.
- Consumption tax refunds were illicitly received through the trick of falsifying books etc., by disguising a lease (rental) transaction as a purchase and recording the leased asset as own fixed asset.

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

To build faith in the tax administration, it is important that taxation is applied with the proper interpretation of laws and regulations upon correct fact finding.

To this end, we always try 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 to ascertain whether all legal requirements are properly met.

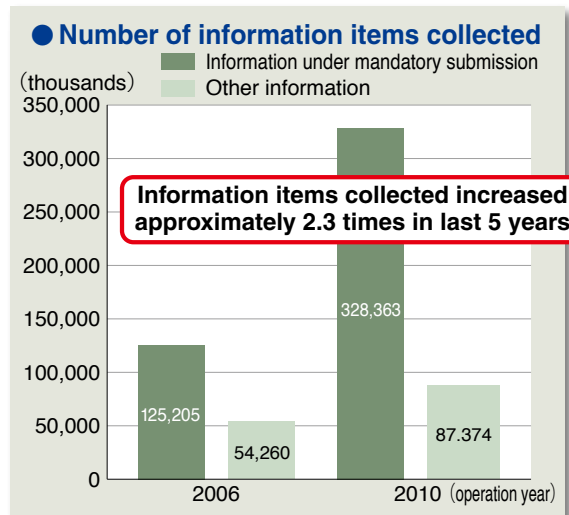
### III Proper Tax Examination and Collection

#### (2) Information collection

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

The NTA collects a variety of information on off-the-books and fake transactions found in the course of tax examinations, in addition to the withholding records of employment income, payment records of interest etc., which are required to submit pursuant to the provisions of the tax laws, and uses such information for accurate guidance as well as tax examinations.

The NTA constantly focuses on changes in illicit forms and the increasing globalization, computerization, complexity and geographic scope of business transactions in recent years. We actively collect information on new asset investment techniques and transaction forms, and collect information on overseas investments, information on transactions with overseas companies, electronic commerce transactions using the internet, etc.



#### (3) Criminal investigation

##### ~Pursues criminal responsibility for malicious tax evaders~

The tax criminal investigation system pursues criminal responsibility for malicious tax evaders, and uses the effect of punishing one to serve as a warning to all, with the aim of contributing to the achievement of proper and fair taxation and to maintaining the self-assessment system. In order to achieve this goal, the NTA examines taxpayers who deliberately evaded taxes by falsehood and other illegal acts, exercising compulsory authority equivalent to normal criminal investigation differently from general tax examination, and files the accusation to prosecutor seeking for prosecution, in addition to imposing the correct taxation on them.

As business transactions became broader and globalized, the means of tax evasion are becoming more complex and sophisticated. Tax investigators take all efforts to expose malicious tax evaders, appropriately responding to the change in the environment surrounding economies and societies.

##### ~Tax evasion cases for FY2011 amounting to ¥19.2 billion in total, of which prosecuted cases accounted for ¥15.7 billion~

In fiscal 2011, the NTA commenced 195 criminal investigations, processing 189 cases, including those carried over from the previous fiscal year, of which it accused 117 cases that were forwarded to public prosecutors. The total amount of tax evasion cases was ¥19.2 billion, with the average amount of tax evasion at ¥134 million per case.

Illegally excluding sales from the book was commonly seen as a tax evasion technique. There were also cases which used international transactions, such as disguised foreign transaction where the real transaction is conducted by the taxpayer in Japan. Funds obtained by tax evasion were stored as cash, deposits or securities in some cases, or were spent on real estate properties or personal entertainment in other cases.

##### ● 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	¥million
FY2010	196	216	156	24,819 (21,315)	115 (137)
FY2011	195	189	117	19,221 (15,686)	102 (134)

\* Figures of tax evasion include additional tax.

**~In FY2011, all cases were convicted in court in the first instance, including 9 cases in which prison sentences without probation were issued~**

In fiscal 2011, 150 cases were all convicted at the court of first instance, with an average prison sentence of 15.3 months and average fines of ¥23 million. Nine persons were sentenced to prison without probation. Prison sentences without probation have been handed down every year since 1980.

**●Ruling status of criminal investigation cases**

	Number of rulings ①	Number of convictions②	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	Months	¥million
FY2010	152	152	100.0	6	80	13.8	20
FY2011	150	150	100.0	9	120	15.3	23

\* ③ to ⑥ exclude those combined with non-tax crimes.

**Past cases where hidden properties were found in criminal investigations**

Large amounts of cash were found in a safe located under the floor of an individual residence.



## III Proper Tax Examination and Collection

### Column Revision of Act on General Rules for National Tax relating for better tax payment environment

In FY2011 tax reform, the Act on General Rules for National Tax was revised relating to the tax payment environment by the “Law for the Partial Revision of Income Tax Law et al. to Develop Taxation System in Response to Structural Changes of Economies and Societies” (Act No. 114 of 2011) (enacted on November 30, 2011, promulgated on December 2, 2011)

#### 1 Tax examination procedures

Tax examination procedures such as advance notice and close of examination were conducted in accordance with directives, however, the below six items have been legislated based on the following purposes:

- To enhance the clearness of examination procedures and predictability for taxpayers.
- To strengthen accountability to taxpayers.
  - ① Advance notice
  - ② Written notice where it is determined that no assessment will be made
  - ③ Explanation of examination result
  - ④ Recommendation to file amended returns or returns after due date
  - ⑤ Re-examination
  - ⑥ Retention of items submitted by taxpayers, etc.

#### 2 Request for correction to the tax return

“Request for correction to the tax return” to request reduction of taxes or additional tax refunds in case returns already filed contains mistakes and there are excessive tax payments or refund shortages, such request period used to be limited to one year from the statutory filing due date in principle. However, for the purpose of establishing remedies to taxpayers, balanced taxation and simplified system, the period for request for correction to the tax return was extended to 5 years from the statutory filing due date in principle.

Also, the period in which tax authorities can make additional correction (currently 3 years) was extended to 5 years.

#### 3 Reasons to be stated

Stating reasons for dispositions in relation to national taxes has not been generally required except for cases in which such reasons are required to be stated by individual laws such as the income tax act. However, in order to ensure the properness of correction and predictability of taxpayers, stating reasons will be required to all dispositions (denial against applications in article 2 of Administrative Procedure Act and adverse disposition in article 3 of the said act).

However, for corrections to individuals who file white returns, etc., statement of reasons will be required together with the expansion of duties to maintain books and accounting records(to be enforced on January 1, 2014).

(Note) After January 2014, the maintenance of books and accounting records will be also required for all individuals who file white returns and conduct business generating business, real estate or timber income (including individuals who do not need to file tax returns), which previously was only required if such income is over ¥3 million in prior year or the year prior to the first preceding year.

As the extension of the period of request for correction to the tax return has come into force on December 2, 2011 at the time of promulgation of the law, specific details of revisions and procedures after revisions are published on the NTA website.

Tax examination procedures and statement of reasons will come into force on or after January 1, 2013 (However, statement of reasons for individuals who file white returns will be applied on the dispositions made on or after January 1, 2014, except for specific individuals such as those imposed with duties to maintain books and accounting records as of the year 2013.). Based on such purpose of the revision of the law, the NTA will work on appropriate and smooth tax administration.



## Strict control of information

The NTA has a variety of information such as on personal income. If that information is easily leaked, taxpayers cannot be expected to cooperate with the NTA, which would hinder smooth examinations.

This is why tax officials who have leaked confidential information obtained through tax examinations are subject to a criminal penalty (up to two years in prison or up to a ¥1 million fine) under the tax law, which is heavier than the penalty (up to one year in prison or up to a ¥500,000 fine) under the National Public Service Act. The NTA conducts regular training of tax officials to thoroughly inform them of such penalty provisions. When interviewing taxpayers, tax officials consider taxpayers' privacy and refrain from interviewing them in their storefronts or in front of their homes.

Based on the purpose of the "Act on the Protection of Personal Information Held by Administrative Organs," the NTA is also striving to conduct strict control of taxpayer information by making a periodic inspection of the status of control of administrative documents.

## Treatment and exemption from additional tax and delinquent tax

To encourage taxpayers to properly file tax returns and pay taxes, delinquent tax may be imposed in addition to self-assessed income tax, corporation tax, etc., if tax returns are not properly filed or taxes are not paid by the due date. There are also cases where an additional tax for a deficient return, or for no return, or an additional tax for fraud are imposed.

Delinquent Tax	Up to two months from the day after the due date for tax payment	Annual rate of 4.3% (in 2012)*
	Starting on the date two months from the day after the due date for tax payment	Annual rate of 14.6%

\* May change each year due to financial conditions.

Additional Tax		Regular Case	Fraudulent Concealment Case
	Returns are filed by the due date, but tax amount is understated.	Additional tax for deficient returns (10% or 15%)	Additional tax for fraud case (35%)
	Returns are not filed by the due date	Additional tax for no return (15% or 20%)	Additional tax for fraud case (40%)

Where legitimate reasons are recognized with no causes attributable to taxpayers, additional tax for deficient return or additional tax for no return will not be imposed.

Also, where certain requirements are met, namely, taxpayers have been granted postponement of tax payments due to disaster or have failed to file returns or pay taxes due to erroneous guidance by the NTA officials, taxpayers may be exempted from all or part of a delinquent tax. The NTA has set up rules for when no additional tax is imposed, and has published the rules on the NTA website.

## 2 Reliable tax payment

### (1) Establishment of voluntary tax payment

#### ~Approximately ¥44 trillion taxes paid into the national treasury within the fiscal year (98.1% paid within the fiscal year)~

Self-assessed national tax becomes revenue when paid into the national treasury. In FY2010, about ¥45.1 trillion of taxation (amount determined for collection) was self-assessed in Tax Offices, etc. Of this, about ¥44.2 trillion of tax (collected amount) was paid into the national treasury within the fiscal year, for a 98.1% collection ratio.

#### ~Enhanced taxpayer services by offering various payment methods~

Under the self-assessment system, national tax is in principle assessed by taxpayers themselves, who themselves pay that tax amount by the due date. Therefore, the NTA works on publicity so taxpayers do not forget the due date and make a late payment.

Moreover, to enhance taxpayer services, diverse payment means such as online payment using internet banking, payment at convenience stores, and direct payment, have been introduced in stages for taxpayers to be able to choose the payment method of national tax, instead of paying at the counters of financial institutions and tax offices in cash with tax payment slips.

Taxpayers can also use transfer tax payments from a deposit account for self-assessed income tax and sole proprietors' consumption tax.

#### ~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. The NTA is thus taking measures to prevent delinquencies.

### Direct payment (direct type online payment of national tax)

Direct payment is a procedure that enables taxpayers to pay tax by a simple operation after filing tax returns digitally by e-Tax, by submitting an application indicating bank account information.

Direct payment can only be used at bank accounts held at financial institution used by the taxpayer is compatible with direct payment. This is why the NTA is working to expand the number of financial institutions in which direct payment can be used, by requesting that non-compatible financial institutions become compatible, etc. As of the end of March 2012, it was usable in 328 financial institutions.

### National tax payment at convenience stores

For the payment of national taxes, taxpayers are able to make tax payments at night or on holidays at convenience stores when financial institutions or the Tax Offices are closed. Tax payments were made at convenience stores in about 1.14 million cases in FY2010

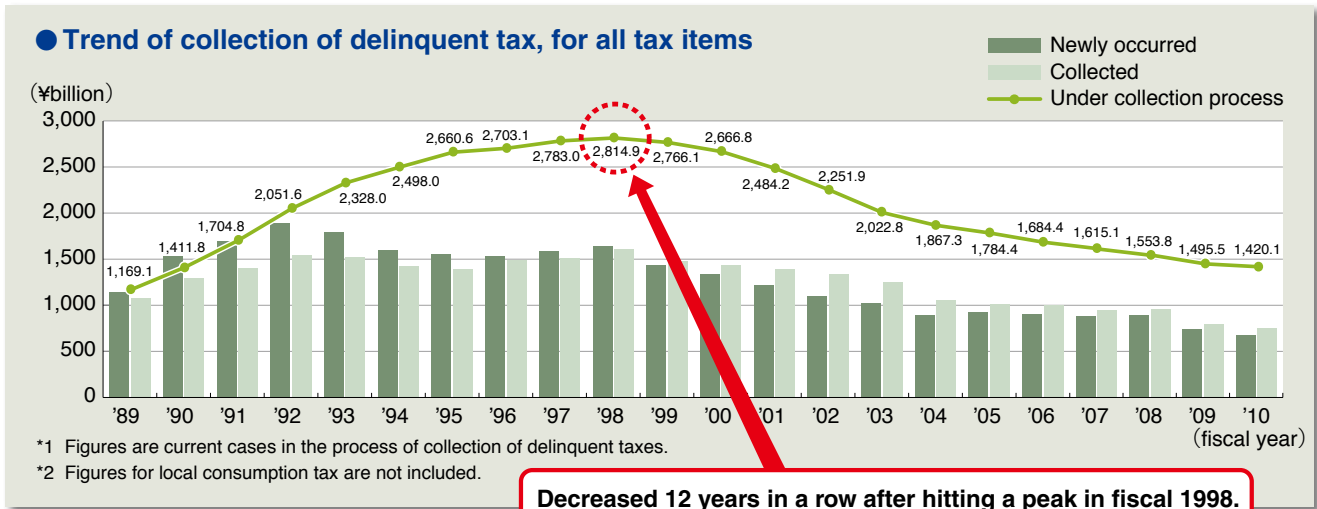
When making a convenience store tax payment, a tax payment slip with bar code is needed, with the amount limited to ¥300,000 or less. The bar-coded vouchers are issued by the Regional Taxation Bureaus and Tax Offices with jurisdiction, in the following cases:

- ① If the determined tax amount is notified before the due date (estimated income tax prepayment, etc.)
- ② If the tax payment is demanded by letter or telephone (for all tax items)
- ③ If the tax payment is under the official assessment system (for various additional taxes)
- ④ If the taxpayer requested the issuance of tax payment slips for the determined tax amount (for all tax items)

## (2) Reduction of tax delinquency

### ~Amounts under collection process reduced to 50.4% of that of the peak time~

Delinquency signifies that the national tax was not paid by the due date and a payment demand letter was sent. At the end of FY2010, the tax delinquency amount was about ¥1,420.1 billion.



Amounts under collection process remains high at approximately ¥1.4 trillion  
→ Continue to work on preventing and reducing delinquencies

The NTA considers it important to first of all avoid delinquency. In order to work for certain collection of national tax, the entire national tax organization is working to prevent delinquency and for early collection.

Therefore, 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 start and early completion, and works to resolve delinquencies under the following basic policy.

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

Executing disposition for delinquent tax greatly impacts taxpayer rights and interests. Therefore, in collection of delinquent tax, appropriate action is taken based on laws and regulations, while considering the actual situation of each delinquent taxpayer, based on an accurate understanding of the facts. Seizure or auction or other disposition for delinquent tax can be done. On the other hand, tax payment relief measures can be provided, such as postponement of tax payment, or suspension of conversion into cash.

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

When collecting delinquent tax in a large and malicious delinquency case, strict and resolute action is taken, such as executing strict and accurate disposition for delinquent tax by search, seizure, auction, etc.

Particularly strict action is taken in especially malicious cases with an attempt to hide assets or otherwise evade execution of disposition for delinquent tax. This crime of evading disposition for delinquent tax<sup>1</sup> is aggressively referred to the prosecutor.

<sup>1</sup> 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 fine can be imposed.

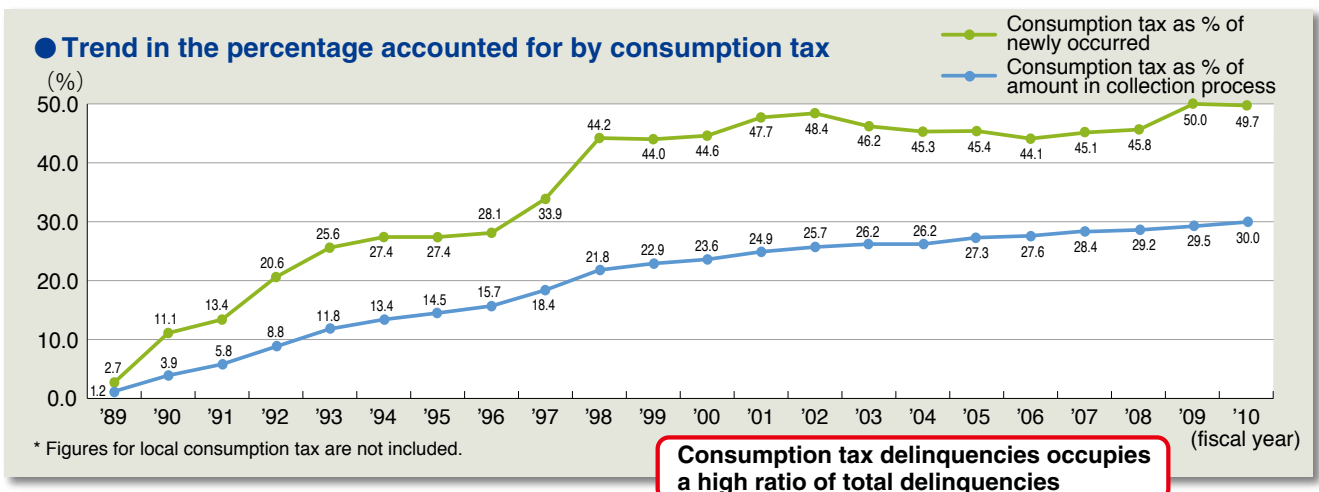
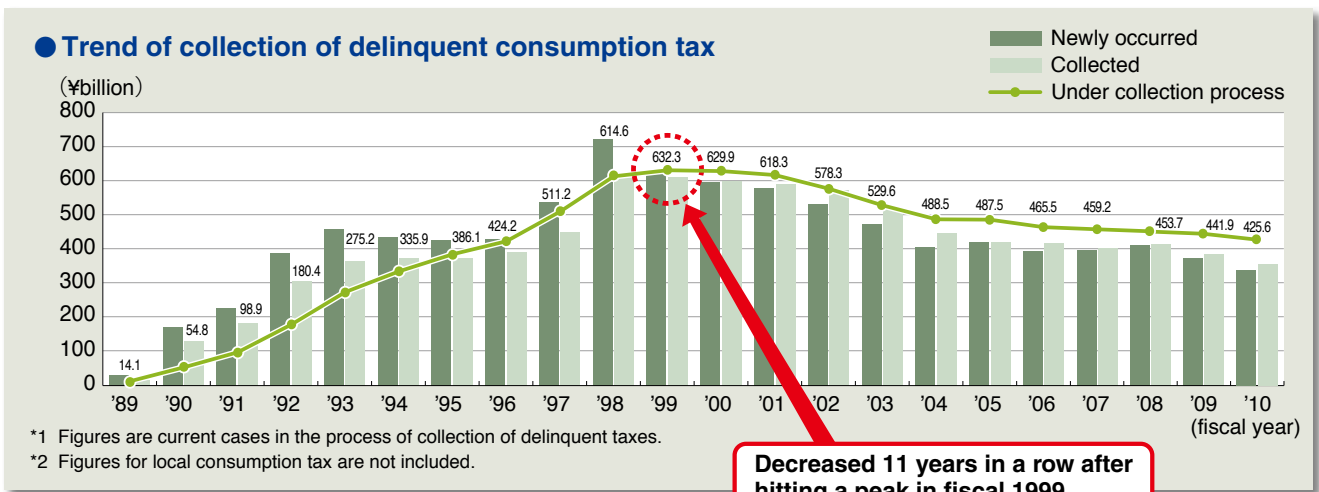
# III Proper Tax Examination and Collection

## ~ Priority handling of difficult to handle cases ~

For difficult to handle cases, for example those needing large amounts of office work to develop procedures for a party subject to examination with a broad scope of assets, there is a need for large amounts of office work and use of advanced collection techniques to develop the procedures. Therefore, the NTA takes organizational action such as disposition for delinquent tax by management over a wide geographic area, with timely project team formation. The NTA can also take legal action, such as a lawsuit to demand the rescission of a fraudulent act<sup>1</sup>. The NTA thus actively uses legal means to collect delinquent taxes.

## ~ Certain handling of consumption tax delinquency cases ~

The public is strongly aware of delinquent consumption tax, and delinquent consumption tax is an increasingly large percentage of all delinquencies each year. Therefore, certain handling is executed through Regional Taxation Bureaus and Tax Offices in order to conclude delinquency cases containing delinquent consumption taxes. The NTA is working to reduce the balance of delinquent consumption taxes.



## (3) Office of Tax Collections Call Center

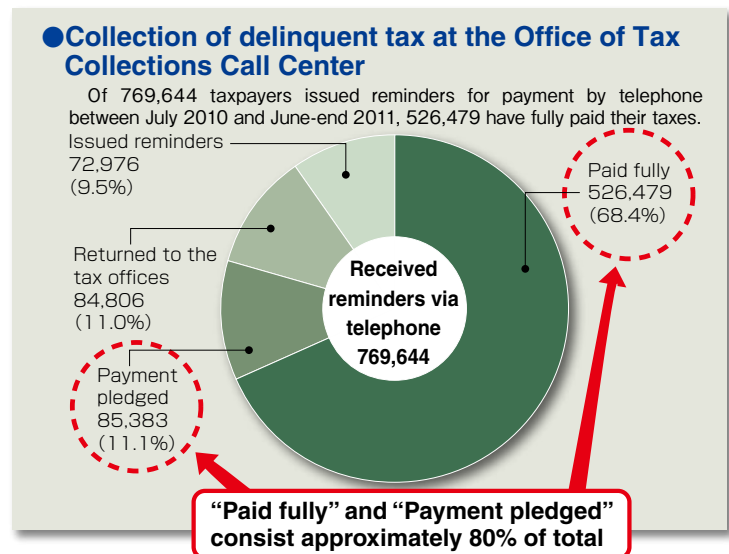
### ~ Conduct effective and efficient phone notices ~

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.

<sup>1</sup> 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 Tax, Article 42, and the Civil Code, Article 424).

Over the year from July 2010 to June 2011, this office provided notifications to about 770,000 people, of which about 530,000 people (68.4%) fully paid, and 90,000 people (11.1%) pledged payment.

\* At the Office of Tax Collections Call Center, the computer system automatically phones delinquent taxpayers, and staff refer to delinquent taxpayer information shown on the terminal screen, to provide effective and efficient payment reminders.



## (4) Auction by Internet

~Sold approximately 300 items by internet auctions~

The NTA has conducted internet auctions using a private-sector auction website, since June 2007.

Internet auctions are very convenient in such ways as the participants do not need to visit a real auction site and can apply for the purchase 24 hours during the auction period on the internet, and can attract more auction participants. It is among the effective means to sell the assets or goods of high value that have been seized.

Three internet auctions were held in FY2011. As a result, a total of about 4,000 people participated, and about 300 items such as paintings, precious metals, automobiles, real estate, etc. were sold, for a total sales value of about 300 million yen.

## (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 KSK System so that these claims and liabilities are managed accurately and efficiently.

There are about 40 million tax payments each year, focused on income tax. To efficiently process this huge volume of payments, the NTA is working on more efficient processing operations. There is optical character recognition (OCR)<sup>1</sup> processing of tax payment slips by the Bank of Japan, and income tax and sole proprietors' consumption tax payment by transfer account.<sup>2</sup> Online tax payment using internet banking etc. began in 2004, and direct online tax payment without passing through internet banking began in 2009. Transfer procedures to pay refunds used to be performed through written documents from Tax Offices, but the NTA centralized transfer processing in 2001 and developed paperless procedures for refund transfer by magnetic tapes, then adopted online transfer procedures in September 2006. In these ways, we are pursuing efficient and speedy payment processing.

Management of national tax claims and liabilities is a cornerstone of taxation and tax collection. We are working to improve services by conducting procedures speedily and accurately through the advanced application of ICT systems, delivering refunds to taxpayers as quickly as possible.

<sup>1</sup> 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.

<sup>2</sup> 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 magnetic tapes containing 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 record the processing results on the magnetic tapes and return the tapes to the Tax Offices.

## ③ Addressing international transactions

### ~Strengthening examination system and cooperation with foreign tax authorities~

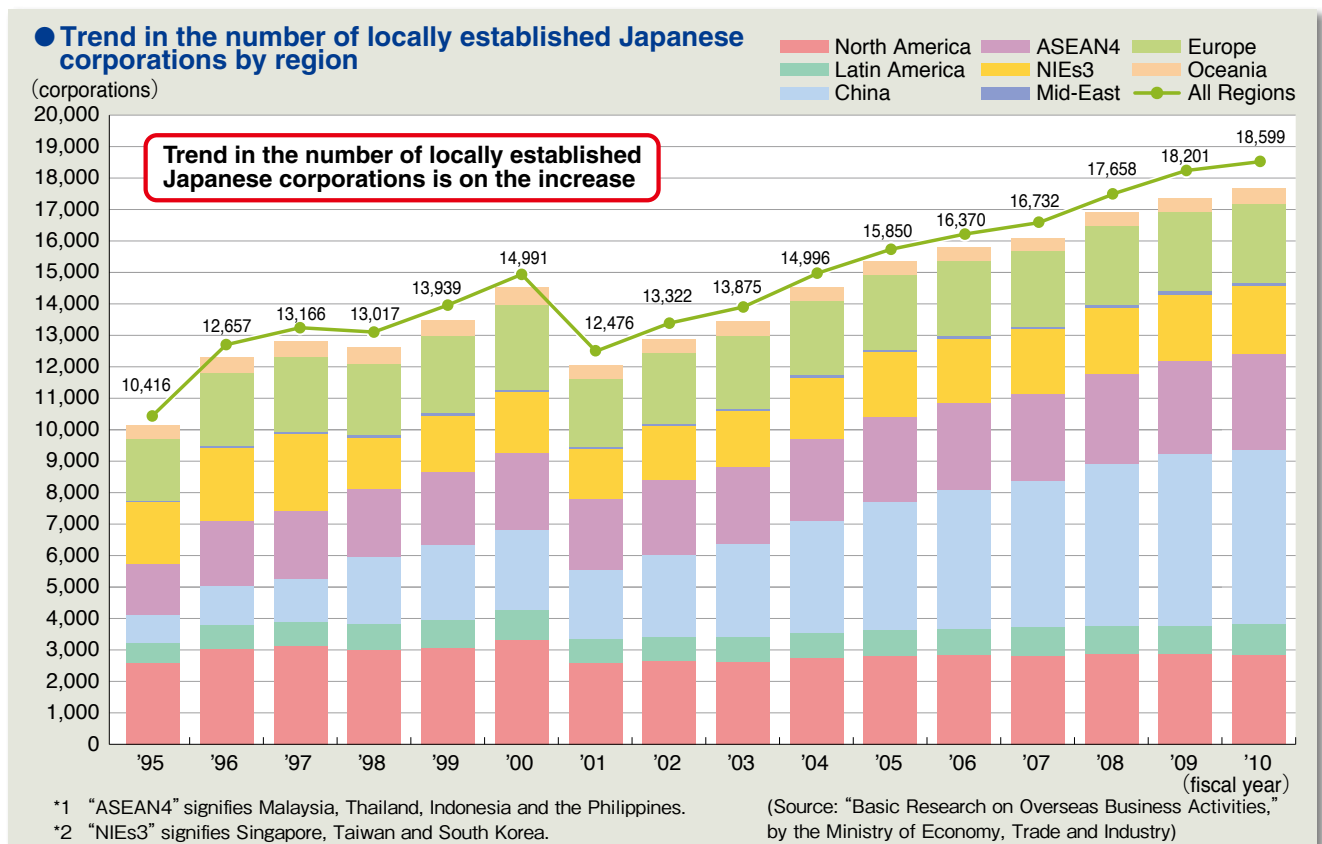
Cross-border economic activities by companies and individuals are becoming more complex and diverse. These changes have brought international tax avoidance, in which revenues received overseas are not declared, or which use complex international transactions to avoid paying tax to any country on earnings gained. On the other hand, there is the large problem of double taxation, in which more than one country have different views and impose taxes on the same income. In response to these problems, the NTA is working on internal improvements such as in its examination system, and is also building stronger cooperative relations by sharing information and experience with the tax authorities of foreign countries. The NTA is also in discussions with the authorities to resolve double taxation.

### (1) Changes in the environment surrounding international taxation

#### ~Cross-border business and investment activities expand along with the progress in globalization of economic transactions~

##### ① Status of overseas establishments by Japanese corporations

The following is the status of overseas establishments by Japanese corporations. The number of overseas locally organized corporations increased from 10,416 in FY1995 to 18,599 in FY2010, about an 80% increase, with a particularly rapid growth of establishments in China.

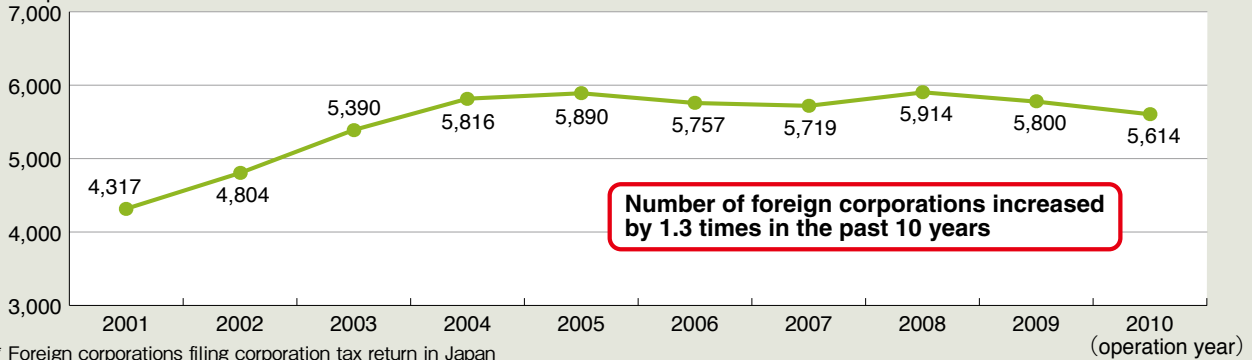


##### ② Trend in the number of foreign corporations

The trend in the number of foreign corporations carrying out business activities in Japan is shown on the following page. There were 5,614 corporations in the 2010 operation year, which was 186 less than the previous year. The growth rate reversed, but this is still about 30% more than in the 2001 operation year.

### ●Trend in the number of foreign corporations

(corporations)



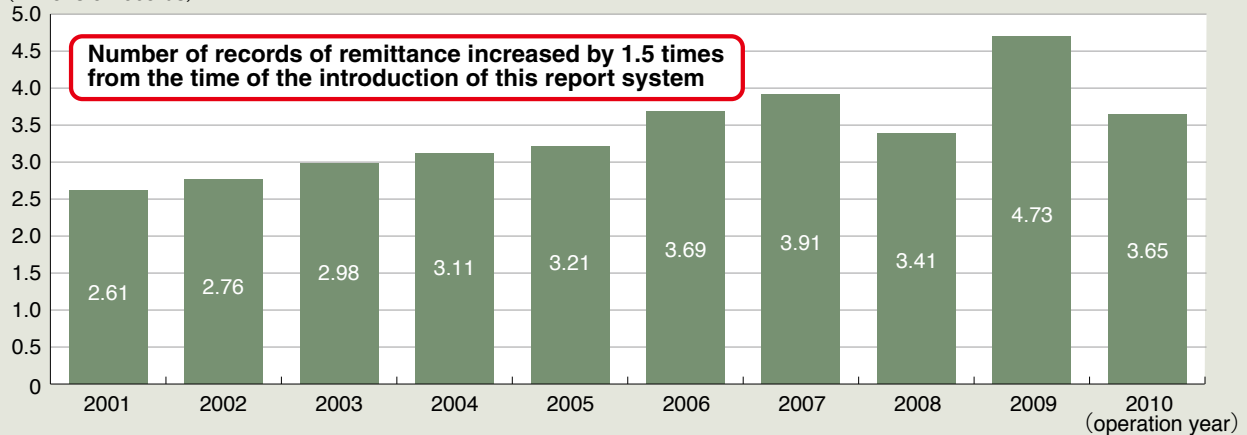
### ③ Trend in the number of records of remittances and receipts related to foreign countries

A record of remittance and receipt related to foreign countries<sup>1</sup> is submitted when a large remittance is sent to a foreign country. The figure below shows the number of these submitted.

Number of records of remittance in the 2010 operation year was 3.65 million, which was 1.08 million less than the previous year, however, it is approximately 1.5 times increase compared to 2.44 million in the 1998 operation year, when this system was introduced.

### ●Trend in the number of records of remittance and receipt related to foreign countries

(millions of records)



## (2) Addressing international taxation

### ~Examination of international taxation cases~

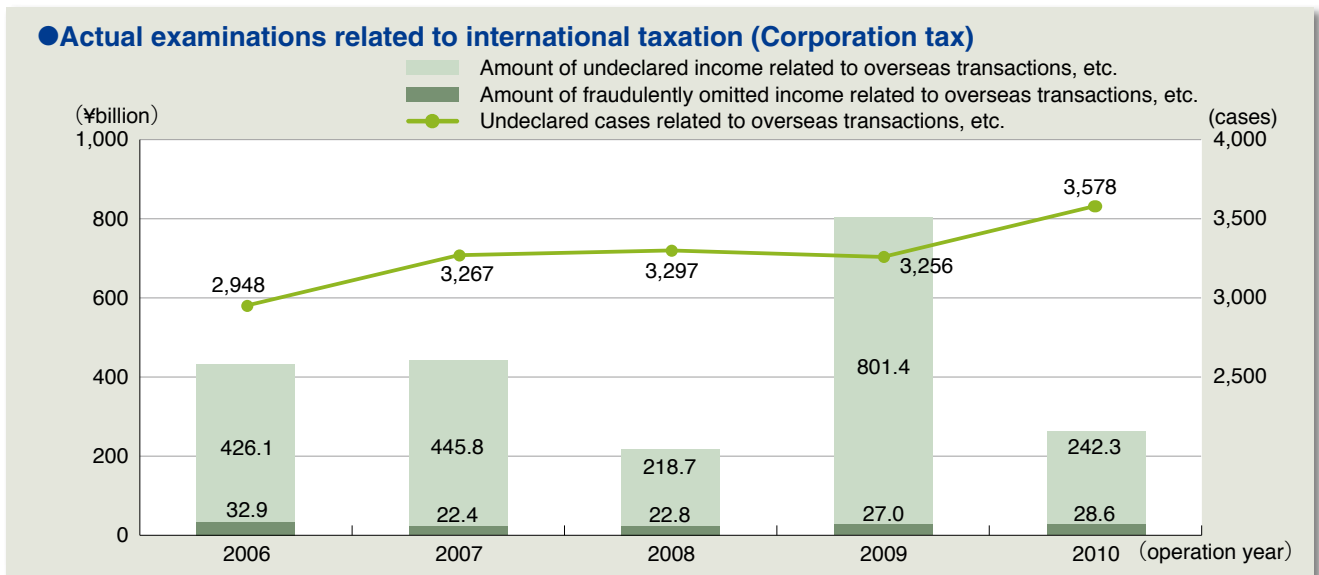
As cross-border business and investment activities have been expanded, the NTA has focused on examining taxpayers who conduct transactions with foreign companies or hold assets in foreign countries. The NTA is performing deep examinations which effectively use the records of remittances and receipts related to foreign countries, and information exchange systems based on tax treaties and tax information exchange agreements.

### ~Enhancement of examination system~

The NTA is increasing the number of its Senior Examiners (International Taxation) who are dedicated to work on international taxation. We also established a department for specialized handling of international tax avoidance cases. These are parts of our efforts to enhance and strengthen our examination system. The National Tax College is a training institution for staff, which provides training on international tax related laws and regulations, tax treaties, financial transactions, language study, etc. This works to enhance staff abilities for examinations concerning international taxation. The NTA also recruits lawyers and financial specialists to handle complex tax problems.

<sup>1</sup> The record of remittance and receipt related to foreign countries is a report legally required to be submitted to the Tax Offices by financial institutions. These indicate the amount remitted to or received from overseas nations, if exceeding ¥2 million (the amount was decreased from more than ¥2 million to more than ¥1 million, starting April 2009).

### III Proper Tax Examination and Collection



### (3) International tax avoidance

#### ~International tax avoidance, one of the most problematic issues in international taxation~

International tax avoidance problems are arising, as revenues gained overseas are hidden, and as people cleverly use differences between each country's tax system and tax treaties to avoid paying taxes to any country, despite gaining earnings.

International tax avoidance, often involved by financial, legal and tax specialists, often uses complex transactions which combine shell companies or cooperatives, derivatives (derivative financial instruments), etc., which makes it difficult to clarify the whole picture of the transactions. Recently, such problems are not only found among large companies, as it has also spread to small and medium companies and wealthy individuals.

#### ~Addressing international tax avoidance~

Chief Examiners established in the Tokyo, Osaka, Nagoya and Kanto-Shinetsu Regional Taxation Bureaus and the International Examination of Large Enterprise Division etc. play central roles in collecting and analyzing information, planning examinations and clarifying facts on international tax avoidance conduct.

Furthermore, aiming to clarify international tax avoidance, Japan, the USA, the U.K., Canada, Australia, South Korea, China, France and Germany participate in the Joint International Tax Shelter Information Centre (JITSIC). JITSIC works to exchange information relating to international tax avoidance conduct and wealthy individuals and to share knowledge on examination methodologies, etc. through tax officials dispatched from member countries.

### (4) Transfer pricing issues

#### ~Enhancing predictability for taxpayers corresponding to the change in the environment surrounding transfer pricing~

Transfer pricing taxation was introduced in the FY1986 tax reform. From the perspective of working to achieve proper international taxation, this prevents transferring income overseas through transactions with foreign affiliated companies.

Specifically, if a Japanese company does a transaction with a foreign affiliated company, and that transaction price differs from the transaction price between third parties (this price is called an "arm's length price"), resulting in lower taxable income for the Japanese company, then that transaction is deemed to have been done at an arm's length price, and income is recalculated under this system.

As company activities become increasingly global, more transactions are becoming subject to the transfer pricing system, and transactions are becoming more complex, with growing importance of transactions involving intangible assets. It is necessary to appropriately handle such changes, increase predictability for taxpayers, and achieve proper and fair taxation.



## ~Initiatives to clarify the administration of transfer pricing taxation~

In order to increase predictability for taxpayers, it is important that the NTA publishes and works to clarify its administration policy for the system's operation, and its application criteria.

In 2011, the NTA worked on compliance with the recently revised OECD Transfer Pricing Guidelines which plays as the international standard, as well as revised directives for interpretation of laws and its own administrative guidelines to further clarify the administration of the rules.

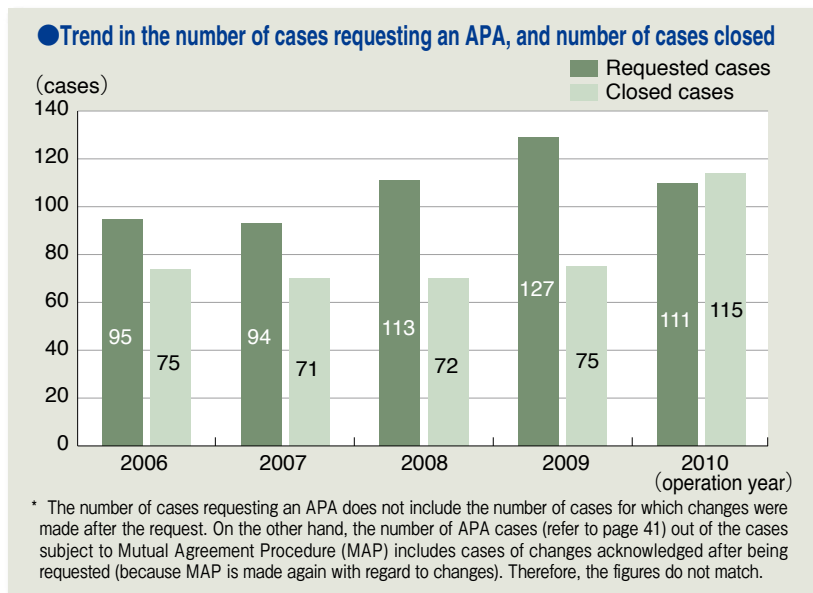
## ~Development of an environment in which taxpayers can use the Advance Pricing Agreement (APA) system smoothly~

In an APA on transfer pricing taxation, based on the Japanese taxpayer's request, the tax authority gives advance confirmation of the method for calculating the arm's length price in transactions with a foreign affiliated company. The number of requests for APA has been showing an increasing trend, as a result of the increase in international transactions.

This is why the NTA is working to improve its administration system and quickly process APAs. For example, a division dedicated to APA examinations was established in the Tokyo Regional Taxation Bureau and the Osaka Regional Taxation Bureau, where there are many companies which do international transactions. Also, a contact point is set up in each Regional Taxation Bureau, which handles advance consultations with national tax authorities before requesting an APA. This contributes to our development of an environment enabling taxpayers to smoothly use APAs.

APAs ensure predictability and legal stability for taxpayers. They also contribute to proper and smooth operation of the transfer pricing taxation. This is why the NTA will continue to provide them appropriately.

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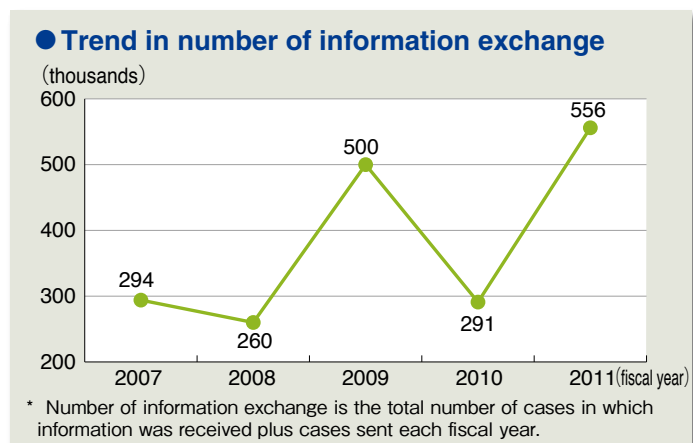
## (5) Exchange of information under tax treaty and tax information exchange agreement

### ~Effective and efficient exchange of information~

There are cases in which the NTA cannot sufficiently clarify international transactions by individuals and corporations only with the information obtained in Japan. In such a case, the exchange of information under a bilateral tax treaty and tax information exchange agreement makes it possible to acquire the necessary information.

The NTA actively involves itself in exchange of information with foreign tax authorities in the context of recent expansion and strengthening of the tax treaty network. Japan now has 53 tax treaties in force, which cover 64 countries or regions and the number of information exchange amounts to some hundred thousand cases per year.

In addition, the NTA is making every effort to implement exchange of information in an effective and efficient manner by holding face to face meetings, when necessary, with tax officials of foreign tax authorities, which would enable us to explain and talk the examination cases in detail and the points to be clarified.



## 4 Mutual Agreement Procedure (MAP)

~MAP cases processed properly and promptly in order to resolve international double taxation issues~

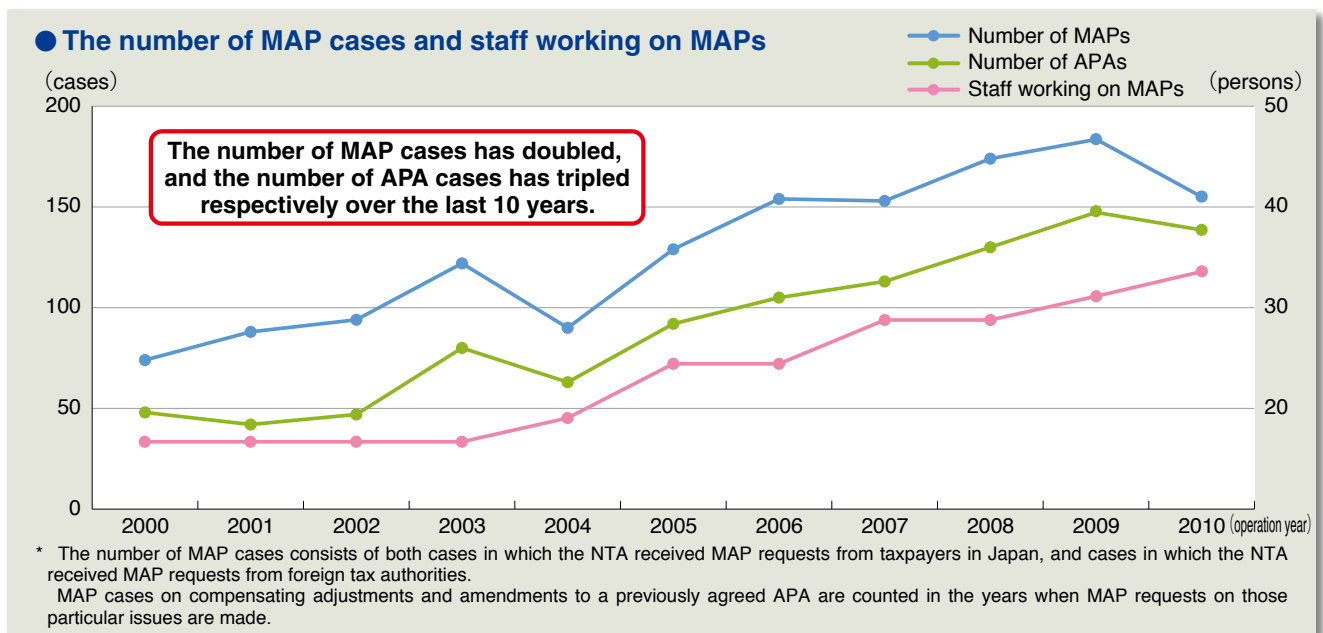
With the globalization of the Japanese economy, where the Japanese taxpayers move in on foreign markets or foreign taxpayers do the same on the Japanese market, they may encounter the international double tax situation, in which both Japan and the foreign country impose tax on the same income.

The aforementioned transfer pricing taxation is one of the major areas of the international double taxation. We exert ourselves to resolve such double taxation problems, including transfer pricing, by negotiating with foreign tax authorities through the Mutual Agreement Procedures<sup>1</sup> prescribed in tax treaties.

For the operation year 2010, while the number of MAP requests we have received decreased year on year, it still continues to remain at a high level. Over 90% of such MAP requests relate to transfer pricing. Among those, the percentage of APA cases for the purpose of ensuring predictability of transfer pricing issues is on the increase.

The number of treaty partners with MAP cases, especially the number of Non-OECD treaty partners which do not have sufficient MAP experience, are increasing (increased to 23 countries as of the end of June 2011 from 15 countries 10 years ago).

The NTA has been making every effort to resolve MAP cases as appropriately and promptly as possible by enhancing staffing and making operations more efficient and effective, as well as promoting cooperative relationship with foreign tax authorities.



### ■ Treaty partners with MAP cases (as of June 30 2011)

	Europe	Asia Pacific	North America
OECD Member countries	Belgium * Czech Republic * Denmark France * Germany * Ireland * Italy *	Luxemburg * The Netherlands * Spain Sweden * Switzerland * United Kingdom *	Australia * South Korea *
Non-OECD countries		China * India * Indonesia Malaysia Singapore * Thailand *	Canada * United States *
	13 countries	8 countries	2 countries

(Note) Countries with active MAP cases as of June 30 2011 (23 countries). The symbols "\*" indicate countries with APA cases (18 countries).

<sup>1</sup> "Mutual Agreement Procedure (MAP)" means the negotiation procedure between the tax authorities of countries party to a tax treaty, to relieve taxpayers from taxation that is not in accordance with the provisions of the treaty, where the actions of one or both of the countries result in or will result in taxation that is not in accordance with the provisions of the tax treaty.

## 5 Cooperation and coordination with foreign tax authorities

### (1) Cooperation for developing countries

#### ~ Technical cooperation to developing countries mainly for Asian countries ~

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



International Seminar on Taxation

#### Overview of technical assistance

##### 1 Dispatch of tax officials to developing countries

Based on the requests of the foreign tax authorities, the NTA dispatches its officials as lecturers in fields such as taxpayer services, international taxation and staff training. In FY2011, officials were dispatched to provide lectures, etc. to China, Indonesia, Malaysia, Vietnam, etc.

With a view to giving continuous advice on tax administration to developing countries, the NTA is dispatching tax officials in the capacity of long-term experts from JICA. In FY2011, our tax officials remain in Indonesia, Malaysia and Vietnam.

##### 2 Lectures and other training in Japan

###### (1) International Seminar on Taxation (ISTAX)

ISTAX is a seminar for tax officials in developing countries on the tax system and tax administration of Japan, providing lectures, etc. It has two courses: the general course for mid-career officials, and the senior course for upper management-level officials. Counting both courses, a total of 32 tax officials participated in FY2011.

###### (2) Country-Focused Training Courses in Tax Administration

The courses are given to tax officials from specified developing countries at their request.

51 tax officials from Cambodia, Indonesia, Kenya, Tanzania, Uganda and Vietnam participated in the courses in FY2011.

###### (3) Training Course of International Taxation for Asian Countries

Training is directed at tax officials in Asian countries on the subject of international taxation. Seven persons from three countries (Malaysia, Philippines and Vietnam) participated in FY2011.

###### (4) NTA Practical Training Course (Practicum)

Training on the Japanese tax system and tax administration is provided for tax officials from developing countries who are studying in master courses at the graduate schools of Japanese universities on a scholarship program from the World Bank, etc. A total of 19 foreign students studying at graduate schools of Keio University, Yokohama National University, National Graduate Institute of Policy Studies, Waseda University and Hitotsubashi University participated in FY2011.

### III Proper Tax Examination and Collection

#### ● Status of training conducted in Japan

(number of countries, people)

		FY2007	FY2008	FY2009	FY2010	FY2011
International Seminar on Taxation (ISTAX) general course	Countries	18	18	19	18	20
	People	19	20	20	18	20
International Seminar on Taxation (ISTAX) senior course	Countries	10	10	11	14	12
	People	10	10	11	14	12
Country-Focused Training Courses in Tax Administration	Countries	6	8	8	4	6
	People	95	108	100	54	51
Training Course of International Taxation for Asian Countries	Countries	6	6	6	4	3
	People	11	12	11	9	7
NTA Practical Training Course (Practicum)	Countries	13	10	9	12	12
	People	18	17	21	20	19

## (2) Participation by tax authorities in international conferences

### ~Active participation in various international conferences~

As globalization and computerization of the economy brings an increase in new forms of transactions, there is the double taxation problem of more than one country imposing taxes on one income, and the taxation loophole problem of tax avoidance in which tax is not imposed in any country. These are becoming issues which should be addressed by each country's tax authorities. In order to solve such problems and to cooperate and share experience among each country's tax authorities, the NTA actively participates in various international conferences. The main conferences are described below: ① OECD Forum on Tax Administration (FTA), ② Study Group on Asian Tax Administration and Research (SGATAR), and ③ OECD Committee on Fiscal Affairs (CFA).

#### ① OECD Forum on Tax Administration (FTA)

The OECD Forum on Tax Administration is a forum for sharing each country's knowledge and experience on a wide range of fields in tax administration, etc.

It was held in Buenos Aires in Argentina in January 2012, with discussions about improvement of tax compliance through enhanced corporate governance of large business, countermeasures against international tax avoidance and evasion conducted by using cross-border transactions, efficiency in tax administration and further development of cooperation among tax authorities.

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

The Study Group on Asian Tax Administration and Research is comprised of tax authorities of 16 countries and regions in Asia. This is a forum for discussions on cooperation and sharing of knowledge in the region.

In November 2011, the 41st meeting was held in Malaysia, with discussions about promotion of international cooperation in the area of tax administration and common problems the countries are facing.

#### ③ OECD Committee on Fiscal Affairs (CFA)

The OECD Committee on Fiscal Affairs is a forum where the Model Tax Convention and Transfer Pricing Guidelines are reviewed, and the tax authorities share their knowledge and experience.

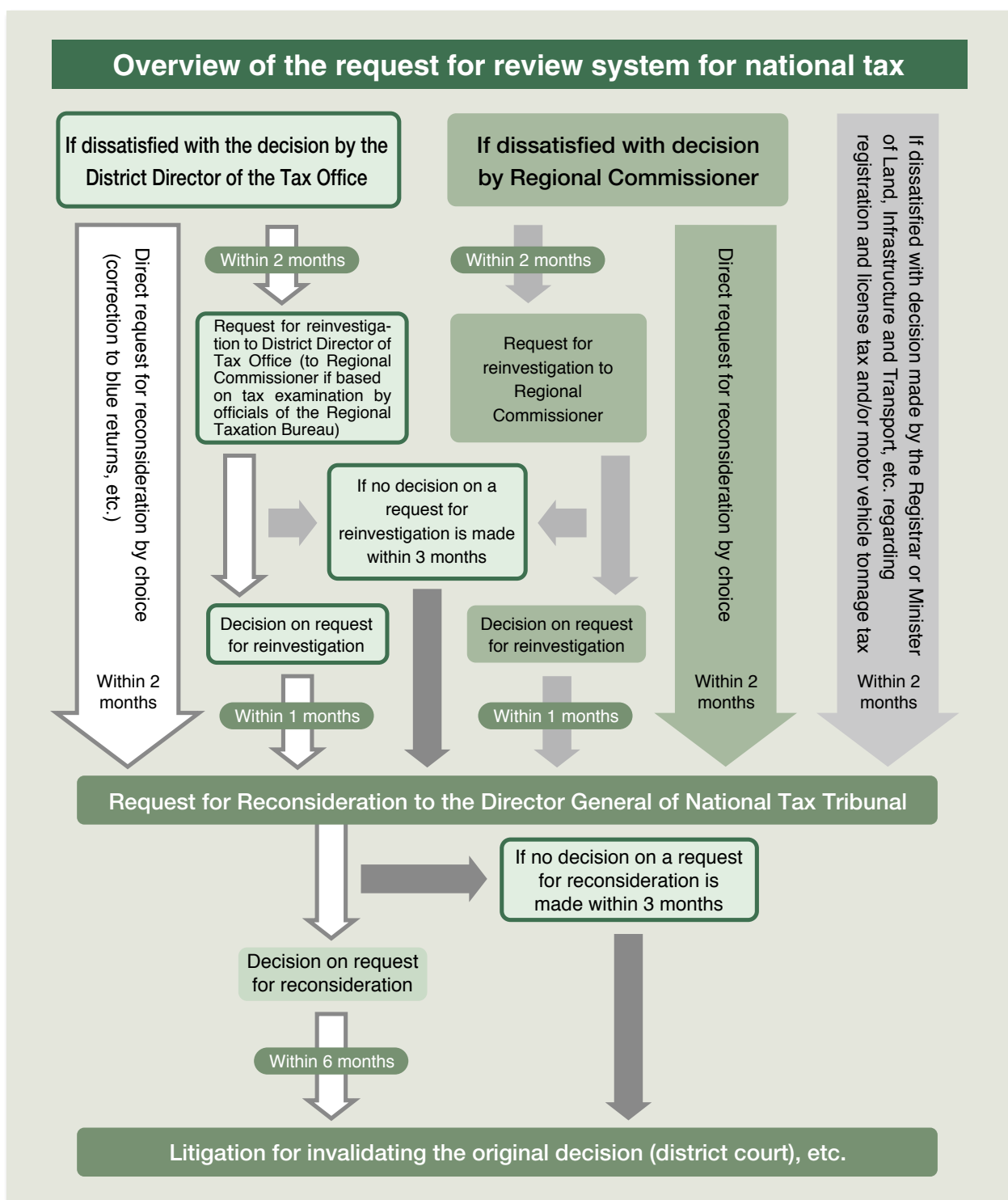
Under the CFA, study groups are formed to discuss individual themes and exchange views. The NTA has been actively participating in such activities of CFA. For further details, please refer to the NTA website "OECD Committee on Fiscal Affairs (CFA)". [www.nta.go.jp/sonota/kokusai/oecd/oecd.htm](http://www.nta.go.jp/sonota/kokusai/oecd/oecd.htm)

# IV Remedy for Infringement of Taxpayer Rights

When the District Director of Tax Office etc. does a disposition for taxation or disposition for delinquent tax, if the taxpayer objects to that disposition, the taxpayer can file a request for review, for example to cancel that disposition. This system of request for review is a procedure to simply and quickly protect taxpayer rights and interests. In principle, a taxpayer who objects to a disposition shall first file a request for review before bringing a lawsuit in court.

A request for review can be a request for reinvestigation to the District Director of the Tax Office etc., or a request for reconsideration to the Director-General of the National Tax Tribunal, but in principle, a request for reconsideration cannot be done until after a request for reinvestigation was done.

Moreover, when there is an objection to the ruling on the request for reconsideration, the taxpayer can bring lawsuit in court and seek relief via the judiciary.



- About the NTA
- Enhanced Taxpayer Services to Promote Proper Filing and Payment
- Proper Tax Examination and Collection
- Remedy for Infringement of Taxpayer Rights
- Proper Management of Liquor Administration
- Promotion of Administrative Work Efficiency
- Statistics

## IV Remedy for Infringement of Taxpayer Rights

### (1) Request for reinvestigation

#### ~Simplified, prompt and appropriate remedies for infringement of taxpayer rights~

A request for reinvestigation is the first stage in the administrative appeal filed with regard to national taxes. In case the District Director of the Tax Office etc. took action for a correction, determination, or seizure with which a taxpayer is dissatisfied, this is a procedure to request to the District Director of the Tax Office (a government agency) etc., that the ruling be revoked or changed.

In recent years, cases requesting a reinvestigation are increasingly complicated, due to greater geographic scope and globalization of economic transactions. Increasing numbers of cases involve difficulties in grasping the facts and in the interpretation and application of law. In response, the NTA established Rulings and Legal Affairs Divisions and assigned Special Officers (Legal Affairs) in each Regional Taxation Bureau. The NTA is also providing various training to develop tax officials who are skilled in reviewing, in order to address the uniform enforcement of tax laws across the country based on correct interpretations. We are thereby endeavoring to properly and promptly handle taxpayer requests for reinvestigations.

### (2) Request for reconsideration

#### ~Remedies for infringement of taxpayer rights by a fair third-party institution~

Taxpayers who are dissatisfied with the determination made in relation to the above request for a reinvestigation are entitled to file a request for reconsideration with the Director-General of the National Tax Tribunal.

The National Tax Tribunal, which aims to remedy the legitimate rights and interests of taxpayers, makes its decisions on requests for reconsideration as a fair third party between the claimant and the District Director of the Tax Office etc. Important posts such as the Director-General for the National Tax Tribunal, as well as the Directors of the Tokyo and Osaka Regional Tax Tribunals, are appointed from among those who have been justices or public prosecutors.

Appeals judges for the National Tax Tribunal are also appointed as officials with fixed terms of office from among those who have been specialists such as CPTAs and lawyers in the private sector.

In handling a request for reconsideration, the National Tax Tribunal contacts the claimant and the Tax Office etc. early on to have a good grasp of claims made. It clarifies their arguments early on, for example by drafting a confirmation chart outlining the points of the dispute.

The Tribunal fully investigates the content of documentary evidence etc. presented by both parties, conducts its own tax examinations, and strives to properly and quickly handle the request for reconsideration from the taxpayer.

Decisions by the Director-General of the National Tax Tribunal will not be more disadvantageous to taxpayers than those made by the District Director of the Tax Office. The decision is a final ruling given within the NTA, against which the District Director of the Tax Office etc. are not entitled to file litigation, even if dissatisfied.

### (3) Litigation

#### ~Remedies by law~

Even after the decision by the Director-General of the National Tax Tribunal, taxpayers who remain dissatisfied are entitled to file litigation with the judiciary seeking a legal remedy.

### (4) Trend in remedies for infringement of taxpayer rights

#### ~The NTA is working to finish processing requests for reinvestigation within 3 months and requests for reconsideration within one year in principle~

##### a. Request for reinvestigation

###### ① Target

The NTA is striving to finish processing requests for reinvestigations within three months in principle.

② Result

In FY2011, 92.6% of requests for reinvestigation were closed within 3 months.

4,511 reinvestigations were requested in the fiscal year (4,118 in taxation and 393 in tax collection). Of these, 8.3% of taxpayer claims were approved in whole or in part due to new facts, etc.

**b. Request for reconsideration**

① Target

With respect to requests for reconsideration, the NTA is working to finish processing within one year in principle.

② Result

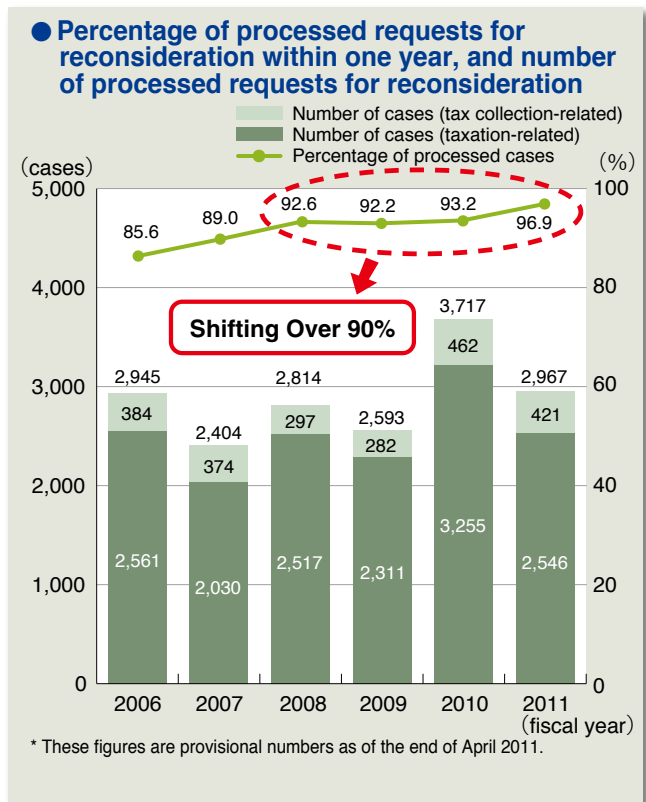
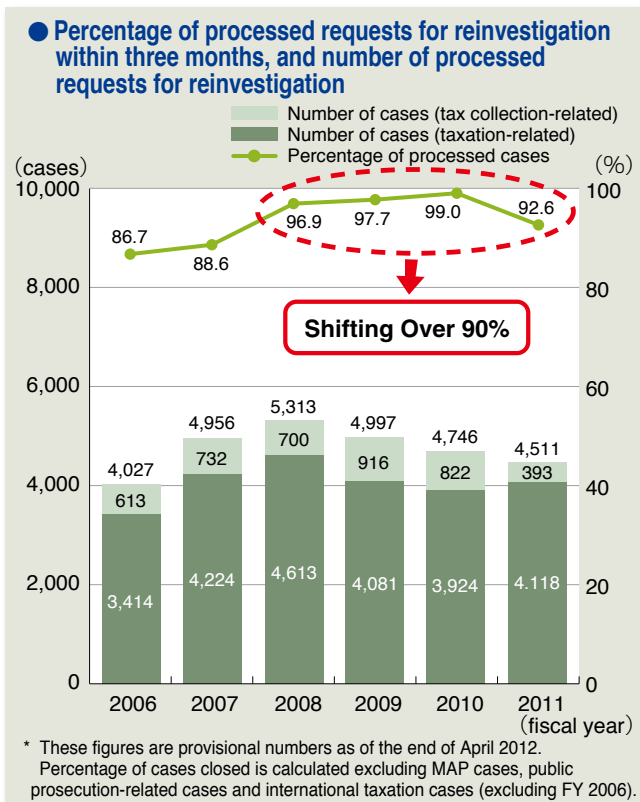
In FY2011, 96.9% of requests for reinvestigation were closed within one year.

There were 2,967 requests for reconsideration in the fiscal year (2,546 in taxation and 421 in tax collection). Of these, 13.6% of taxpayer claims were approved in whole or in part.

**c. Litigation**

For litigation, 380 cases were closed in FY2011 (311 in taxation, 63 in tax collection and 6 in the National Tax Tribunal). Of these, about 13.4% of taxpayer claims were approved in whole or in part.

\* The NTA and the National Tax Tribunal provide information such as overviews of the requests for review and litigation, and cases of decisions on requests for reconsideration, to deepen understanding about remedies for infringement of taxpayer rights. These are on the NTA website and on the National Tax Tribunal website [www.kfs.go.jp](http://www.kfs.go.jp)



**Response to complaints from taxpayers**

The NTA receives from taxpayers such reactions as complaints, requests, criticism, or consultation on problems they have, not only with regard to requests for review of decisions by the NTA, but also about tax administration in general including the attitude of officials or the methods of tax examinations, etc. The NTA believes it essential to sincerely respond to a variety of opinions from taxpayers in order to obtain their understanding and confidence and endeavors to give a prompt, accurate response from the perspective of taxpayers. In July 2001, the NTA appointed Taxpayer Support Officers to properly respond to taxpayer complaints on decisions made in relation to taxpayers' rights and interests, for example by explaining the procedures to remedy infringements of taxpayer rights.

# V Proper Management of Liquor Administration

## ~Conducted various initiatives in order to secure liquor tax revenues and achieve sound development of the liquor industry~

Both the land tax and the liquor tax have been large revenue sources since the Meiji government was established. Liquor tax revenues even exceeded land tax revenues at one time, becoming the largest revenue source. Thereafter, there was an increase in the relative weight of direct taxes such as income tax and corporation tax, and in FY2010, liquor tax comprised only 3.2% (¥1,389.3 billion) of all tax revenues. However, it is not affected much by the economy, and is expected to provide stable tax revenues. Therefore, the liquor tax fulfills an important role even today.

In contrast to general food items, a high rate of liquor tax is imposed on liquor. In order to secure this revenue source and smoothly shift the tax burden onto consumers, there is a system of licensing for manufacture of liquor and sale of liquor. In line with the goals of this system, the NTA strives for proper operation and proper and fair taxation.

In addition, the NTA is the government agency with jurisdiction over the liquor industry. The NTA takes various actions in order to secure liquor tax revenues and work for sound development of the liquor industry, from a comprehensive perspective of development of the entire liquor industry, while considering changes in the environment faced by the liquor industry, such as the arrival of a decreasing population, the people's increasing awareness of health and safety, and diversifying lifestyles.

### (1) Initiatives to ensure safety of liquor and enhance quality levels

#### ~For the purpose of providing consumers with safe and good quality liquors~

Consumers are increasingly interested in "security and safety of food," not limited to liquor. The NTA works to ensure safety and enhance quality levels in all stages, from production through consumption. We are working to enable provision of safe and good quality liquor to consumers.

Specifically, the NTA examines safety, quality and labeling of commercially sold liquor, and the results are published for consumers on the NTA website. If not properly labeled, the NTA gives corrective guidance to the liquor business operator. Also the NTA gives guidance concerning safety of manufacturing processes.

Responding to the recent nuclear power plant accident, the NTA is also conducting measures to ensure the safety of liquors with regard to radioactive material in alliance with the National Research Institute of Brewing, in such ways as surveying radioactive material on liquors prior to shipment stored in liquor manufacturing site.

#### National Research Institute of Brewing (NRIB)

NRIB performs advanced analyses and appraisals of liquors, and provides research, studies and information on liquors and the liquor industry. It thereby aims to contribute to proper and fair application of the liquor tax, work for the sound development of the liquor industry, and raise people's understanding of liquor. For further details, please visit the NRIB website: [www.nrib.go.jp/English/index.htm](http://www.nrib.go.jp/English/index.htm)



Analysis being conducted



## (2) Response to social demands

### ~To prevent underage drinking~

To respond to social demands such as prevention of underage drinking, the NTA is working for thorough compliance with duty in appointment of liquor sales managers, and with obligatory displays where liquor is exhibited. In cooperation with related ministries, agencies and the industry etc., the NTA is also working for development of proper sales management systems.

### ~Promoting effective use of resources such as liquor containers~

In order to ensure effective use of resources, the NTA also works to build awareness of systems, to support liquor business operator initiatives for liquor container recycling and reducing food waste generated in liquor manufacturing processes, etc.



## (3) Initiatives to develop a fair trading environment in liquor

### ~Building awareness of "Guidelines on Fair Liquor Trade"~

In order to secure liquor tax revenues and stable trading in liquor, the NTA is working to build awareness and understanding of its Guidelines on Fair Liquor Trade established in August 2006, so that voluntary initiatives of liquor business operators ensuring fair trading are promoted.

The NTA also surveys actual trade practices according to these guidelines, and if it finds cases such as trading which is not according to the rules of these guidelines, it provides guidance for improvements, etc. If as a result of examination it seems there are violations of the Anti-monopoly Act, it takes actions such as reporting these facts to the Fair Trade Commission (FTC), and cooperates with the FTC to take appropriate action.

## (4) Providing information to liquor business operators and development of the environment for export

### ~Support to stimulate the liquor industry by providing information~

The NTA objectively examines and analyzes industry trends, and provides these results as information on the NTA website. We provide support by describing examples of initiatives such as business innovation at training meetings by lecturers such as business guidance specialists, providing information on measures for small and medium companies, supporting the establishment of local brands, etc.

### ~Development of the environment for export of Japan's liquors to stimulate the liquor industry~

As part of the NTA's initiatives to stimulate the liquor industry, we are working to develop the environment for export of Japan's liquors by EPA negotiations for removal of custom duties and other non-tariff barriers, issuance of certificate of exportation, etc.

Furthermore, the NTA post information regarding export statistics of liquors, etc. on the NTA website, as well as working on appropriate promotion of Japan's liquors at various official events such as receptions at overseas diplomatic facilities and international conferences, in cooperation with relevant institutions.



"Japan Night" at annual World Economic Forum in Davos

# VI Promotion of Administrative Work Efficiency

## ~Promotion of administrative work efficiencies using ICT~

The “e-Government Establishment Plan” was decided in July 2003, and initiatives are progressing in the entire government. The government is using ICT in administrative operations and revising its system, to enhance convenience for the people, and for more simple, efficient, reliable and transparent administrative operations.

For implementing various measures, ministries and agencies created a medium term plan to optimize operations and ICT systems aiming at overall optimization, and are working according to that plan.

## 1 Optimization of operations and systems

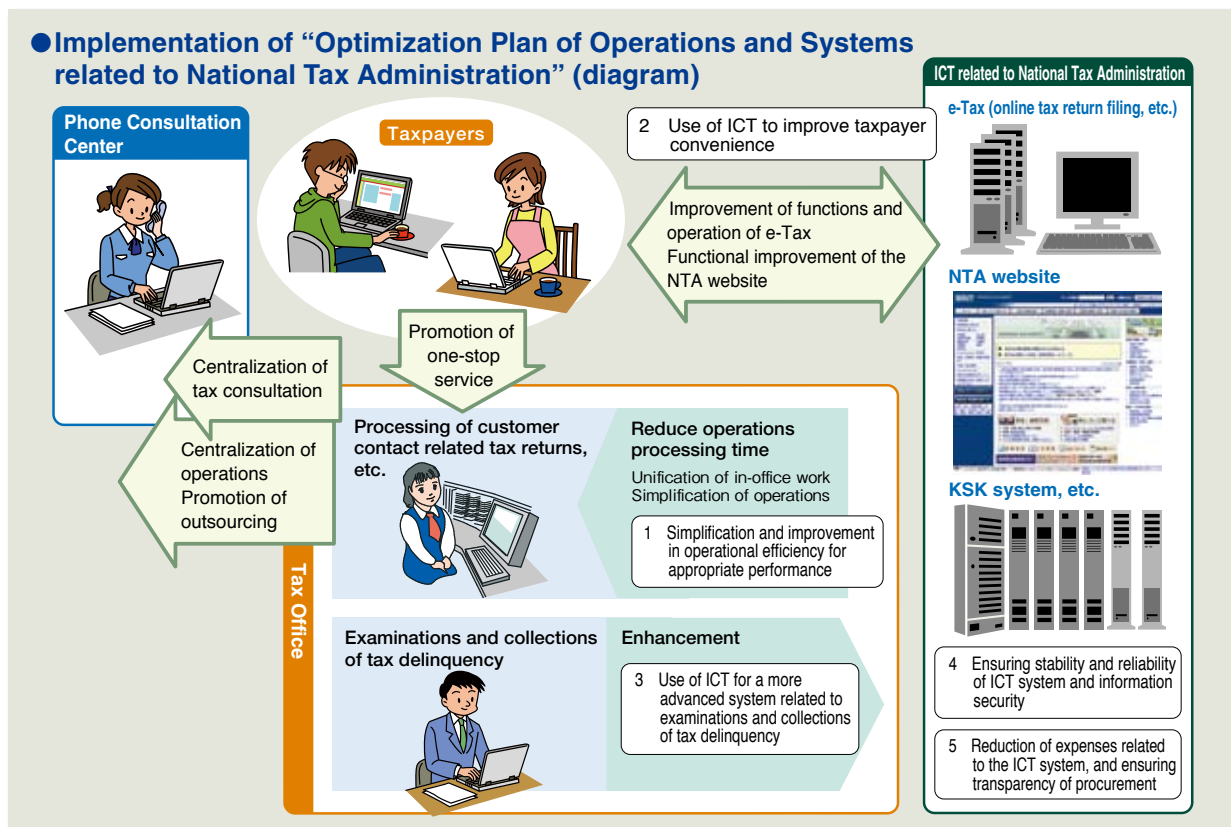
### ~FY2010 cost reduction effect by optimization initiative amounts to approximately ¥6.4 billion~

Based on the “e-Government Establishment Plan” decided in July 2003, the NTA adopted the basic principles of: ① Simplification and improvement in operational efficiency for appropriate performance, ② Improvement in the convenience of taxpayers by utilization of ICT, ③ Sophistication of the system related to examinations and collections of tax delinquency through the utilization of ICT, ④ Ensuring stability and reliability of ICT system and information security, ⑤ Reduction of ICT system related expenses and ensuring transparency of procurement. The NTA used these principles to form the “Optimization Plan of Operations and Systems related to National Tax Administration,” which was decided and published in March 2006 (revised in February 2012), and has worked on optimization of operations and systems in accordance with this plan.

Looking at initiatives over the past year, there were large improvements in simplification and improvement in operational efficiency, by utilizing digital data stored in e-Tax, etc.

Regarding improvement of the convenience to taxpayers, we have continued working towards the introduction of online return filing for gift tax since last year.

Regarding reduction of ICT-related expenses and ensuring transparency of procurement, the NTA is also moving towards turning the KSK System into an open system<sup>1</sup>, integrating equipment when replaced



<sup>1</sup> Turning into open systems means to shift to the use of systems with a high degree of interchangeability that can accept multiple widely available products rather than relying on specific manufacturer.

or updated, etc.

By completing all measures mentioned in the optimization plan, we estimate annual reductions of approximately ¥ 17.3 billion in costs, and approximately 137,000 working-days in total operation processing time. The cost reduction effect by means of measures actually taken for FY2010 amounted to approximately ¥ 6.4 billion.

## Ensuring stability and reliability of ICT system and information security

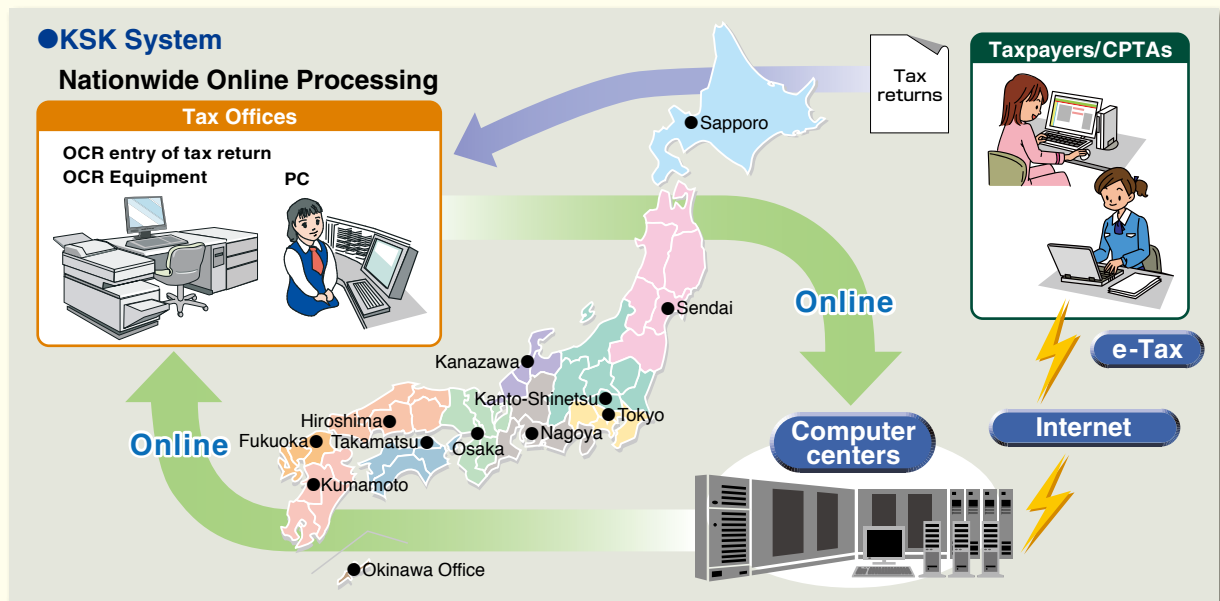
Because the national tax-related operations are closely connected to public rights and obligations, failure in its ICT system is likely to have a large impact on citizens and impair the credibility of tax administration. Therefore, the NTA is working to maintain stable operation of ICT systems related to national taxes by regularly updating ICT equipment.

At the computer center which stores data for e-Tax and the KSK System, the NTA built an information security management system (ISMS)<sup>1</sup> which complies with international standards, and in 2007 obtained certification based on the ISMS compliance evaluation system (certification based on ISO/IEC27001:2005 & JISQ27001:2006).<sup>2</sup> Obtaining certification led to development and strengthening of the information security management system for the entire national tax system. This also enhanced staff awareness of information security, as they work to operate the system with awareness and a sense of mission.

## KSK System

The KSK System, which links all Regional Taxation Bureaus and Tax Offices, is a computer system introduced to handle a variety of different administrative tasks. The entry of tax returns, tax payment records, and a variety of information enables the centralized administration of national taxes receivable. Analyzed data are used in tax examination and collection of delinquent tax. The computer system centralizes information management across geographical regions and items of taxes, to achieve sophisticated, efficient administration constituting the basis of tax administration.

The full-fledged development of the KSK System was started in 1990. The NTA phased in the introduction of the KSK System starting in 1995, and nationally in 2001.



<sup>1</sup> An Information Security Management System is an organizational initiative to implement the planning, operation, review and improvement which are required in order to maintain a situation of appropriate management for confidentiality and completeness and usability of information assets which should be protected.

<sup>2</sup> ISO/IEC27001:2005 is one of the standards created by the International Organization for Standardization. This became a global standard for information security management systems in October 2005. JISQ 27001:2006 is a Japanese domestic standard published in May 2006, corresponding to ISO/IEC27001.

# VII Statistics

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※ The time period of figures is indicated in its title or at the top right of individual tables.

The fiscal year is from April 1 through March 31 of the following year (i.e. fiscal year 2010: April 1, 2010 to March 31, 2011), while the operation year is from July 1 through June 30 of the following year (i.e. operation year 2010: July 1, 2010 to June 30, 2011). The calendar year ranges from January 1 through December 31 of the same year for which income tax and other returns are filed.

The amount of sub-total in each item of accounts may not accord with the amount indicated in the grand total, due to rounding of fractional figures.

## Tax revenues and budget

### Budget and final accounts of taxes and stamp revenues for fiscal year 2010

Item	Budget after correction	Actual
	Million yen	Million yen
Withholding income tax	10,491,000	10,677,036
Self-assessed income tax	2,317,000	2,307,316
Corporation tax	7,489,000	8,967,688
Inheritance tax	1,271,000	1,250,439
Consumption tax	10,155,000	10,033,311
Liquor tax	1,383,000	1,389,290
Tobacco tax	827,000	907,671
Gasoline tax	2,576,000	2,750,101
Liquefied petroleum gas tax	12,000	11,888
Aviation fuel tax	77,000	74,931
Petroleum and coal tax	480,000	501,932
Power resources development promotion tax	330,000	349,166
Motor vehicle tonnage tax	447,000	446,541
Customs duty	756,000	785,881
Tonnage due	8,000	9,512
Other ※	—	70
Stamp revenue	1,024,000	1,024,021
Subtotal	39,643,000	41,486,794
Local gasoline tax	275,600	294,249
Liquefied petroleum gas tax (transferred)	12,000	11,888
Aviation fuel tax (transferred)	14,000	13,624
Motor vehicle tonnage tax (transferred)	306,500	306,479
Special tonnage due	10,000	11,890
Special local corporation tax	1,290,000	1,419,977
Special tobacco tax	158,200	162,530
<b>Total</b>	<b>41,709,300</b>	<b>43,707,432</b>

※ "Other" includes collection of delinquent tax, such as the commodity tax and land value tax, etc.

### NTA initial budget for fiscal year 2012

Item	Budget
	Million yen
IT-related expenses	41,288
Expenses to improve convenience for taxpayers <sup>※1</sup>	9,712
Expenses related to internationalization measures	931
General operating expenses, etc. <sup>※2</sup>	58,891
Expenses to improve work environment and ensure safety <sup>※3</sup>	8,155
Expenses related to tax reforms	6,064
Expenses for National Tax College	2,545
Expenses for National Tax Tribunal	361
Expenses for National Research Institute of Brewing	992
Costs of recovery and reconstruction from the Great East Japan Earthquake	4,377
Common number system related costs	1,681
Subtotal	134,998
Salary costs <sup>※4</sup>	574,326
	Of those 63
<b>Total NTA budget<sup>※4</sup></b>	<b>709,325</b>
	Of those 4,441

※1 "Expenses to improve convenience for taxpayers" includes expenses related to maintenance of the e-Tax and the filing assistance on the NTA website.

※2 "General operating expenses, etc." includes expenses for tax forms and correspondence, wage expenses for part-timers, travel expenses, honoraria for hired bookkeeping instructors, and PR expenses.

※3 "Expenses to improve work environment and ensure safety" includes expenses to improve facilities and health care.

※4 The Details of "Salary costs" and "Total NTA budget" are "Costs of recovery and reconstruction from the Great East Japan Earthquake" recorded in the special-account spending on reconstruction from the Great East Japan Earthquake.

## Tax returns and taxation

### Income tax

(Calendar year 2011)

		Thousand people
Total population		128,060
Number of persons engaged		62,570
Number of final returns for income tax		21,850
Breakdown by income earners	Refund	12,790
	Tax payment	6,070
	Business income earners	1,540
	Other income earners	4,530
	Real estate income earners	1,060
	Employment income earners	2,300
	Miscellaneous income earners	940
Other	230	

※ "Total population" and "Number of persons engaged" are figures as of 2010.

### Withholding agents and withholding income tax

(Operation year 2010)

Income etc. category	Number of withholding agents	Amount of tax
Employment income (wages and salaries)	3,621	8,638,900
Retirement income	—	230,900
Interest income, etc.	44	519,600
Dividend income	126	1,670,100
Capital gains on listed shares etc. kept in special account	11	46,800
Income from remuneration, etc.	2,884	1,149,800
Income paid to non-residents and foreign corporations, etc.	23	303,700
<b>Total</b>	<b>—</b>	<b>12,559,700</b>

※ The figures of withholding agents are figures as of the end of June 2011.

### Number of corporations and corporation tax

(Operation year 2010)

Number of corporations	2,978	Thousands
Number of tax returns filed	2,762	Thousands
Percentage of corporations filing	89.2%	
Percentage of returns declaring a surplus	25.2%	
Amount of self-assessed income	36,183,600	Million yen
Amount of self-assessed loss	20,896,900	Million yen
Amount of tax	9,385,600	Million yen

※ The number of corporations is the figure as of the end of June 2011.

### Inheritance tax

(Calendar year 2010)

Number of deceased	1,197,012	People
Number of deceased subject to taxation	49,891	People
Number of taxpayers (number of heirs)	143,287	People
Taxable amount	10,463,000	Million yen
Amount of tax	1,175,300	Million yen

### Gift tax

(Calendar year 2010)

Number of people subject to taxation	310,324	People
Value of properties acquired	1,529,100	Million yen
Amount of tax	129,200	Million yen

※ Figures include the taxation system for settlement at the time of inheritance.

### Consumption tax

(Fiscal year 2010)

Category		Payment	Refund
Number of tax returns		Thousand cases	Thousand cases
	Individuals	1,328	37
	Corporations	1,906	115
	Total	3,234	151
Amount of tax		9,514,500	2,027,100
		Million yen	Million yen

### Liquor tax and liquor production

(Fiscal year 2010)

Type	Volume of production	Amount of tax
	Thousand kℓ	Million yen
<i>Sake</i>	425	68,838
<i>Sake compounds</i>	43	4,344
Consecutive distillation Japanese spirit ( <i>Shochu</i> )	403	94,291
Single system distillation Japanese spirit ( <i>Shochu</i> )	492	121,107
<i>Mirin</i> (rice wine for cooking)	102	2,114
Beer	2,664	641,243
Fruit wine	73	6,865
Sweet fruit wine	4	477
Whisky	80	29,594
Brandy	5	2,056
Sparkling liquor	863	128,795
Alcohol for raw materials & spirits	274	24,857
Liqueurs	1,610	143,736
Other brewed liquor		
Powder liquor & miscellaneous liquor	660	57,461
<b>Total</b>	<b>7,700</b>	<b>1,325,777</b>

※ "Production" column does not include those produced in Iwate prefecture, Miyagi prefecture and Fukushima prefecture.

## Tax examinations

### Examination of self-assessed income tax

(Operation year 2010)

Category	Number of cases	Amount of unrecorded income		Additional tax revenue collected	
		Billion yen	Thousand yen	Billion yen	Thousand yen
Field examination	Thousands	Billion yen	Thousand yen	Billion yen	Thousand yen
Special, General <sup>※1</sup>	57	503.6	8,790	92.9	1,620
Focusing <sup>※2</sup>	37	97.7	2,610	6.6	180
Brief contact <sup>※3</sup>	599	358.8	600	24.5	40
<b>Total</b>	<b>694</b>	<b>960.1</b>	<b>1,380</b>	<b>123.9</b>	<b>180</b>

※1 "Special, General" refers to a deep examination focused on the large amount and serious violations.

※2 "Focusing" refers to a quick examination to find unrecorded income, etc.

※3 "Brief contact" refers to correction of tax declaration by telephone or by summoning taxpayers to the tax offices.

### Examination of withholding income tax

(Operation year 2010)

Number of cases examined	Number of illegal cases	Additional tax revenue collected
Thousands	Thousands	Billion yen
169	45	38.1

### Field examination of corporation tax

(Operation year 2010)

Category	Number of cases	Amount of unrecorded income		Additional tax revenue collected
		Billion yen	Thousand yen	Billion yen
All corporations	Thousands	Billion yen	Thousand yen	Billion yen
	125	1,255.7	10,070	252.0
Of which, corporations handled by the large enterprise examination department	3	551.1	159,880	111.0

### Examination of consumption tax

(Operation year 2010)

Category	Number of cases	Number of undeclared cases	Additional tax revenue collected	
			Billion yen	Thousand yen
Individuals	Thousands	Thousands	Billion yen	Thousand yen
	98	67	25.3	260
Corporations	117	65	55.7	480

### Field examination of inheritance tax

(Operation year 2010)

Number of cases	Number of undeclared cases	Amount of unrecorded inheritance		Additional tax revenue collected	
		Billion yen	Thousand yen	Billion yen	Thousand yen
Thousands	Thousands	Billion yen	Thousand yen	Billion yen	Thousand yen
14	11	399.4	29,920	79.7	5,830

### Collected number of statutory information

(Operation year 2010)

Name of statutory information	Number collected
	Thousands
Withholding record of employment income	19,672
Payment record of interest and others	1,727
Payment record of dividends, distribution of surplus, and interest paid on guaranty capital	77,833
Withholding record of public pensions, etc.	36,688
Payment record of remuneration, fees, contracts and prize money	15,905
Payment record of consideration for transfer of stocks, etc.	4,684
Record of remittance and receipt related to foreign countries	3,655
Other	168,199
<b>Total</b>	<b>328,363</b>

## International taxation

### Fraudulent income through overseas transactions

(Operation year 2010)

Number of examinations of corporations conducting overseas transactions	13,804Cases
Number of undeclared cases related to overseas transactions	3,578Cases
Of which, cases of overseas fraudulent calculations	622Cases
Amount of undeclared income related to overseas transactions	242.3Billion yen
Of which, amount of overseas fraudulently omitted income	28.6Billion yen

### Transfer pricing taxation

(Operation year 2010)

Number of taxation cases	146Cases
Amount of taxable income	69.8Billion yen

### Cases of advance pricing arrangement related to transfer pricing

(Operation year 2010)

Number of cases requested	111Cases
Number of cases processed	115Cases

## Delinquency

### Tax delinquency cases of 100 million yen or more, by industry

(As of the end of fiscal year 2011)

Industry	Number of persons		Amount of tax	
	People	%	Million yen	%
Manufacturing	39	3.6	8,190	2.7
Distribution	72	6.7	19,014	6.3
Real estate & construction	295	27.5	75,523	24.9
Food & beverage	69	6.4	12,592	4.1
Financial	23	2.1	13,528	4.5
Other industries <sup>※1</sup>	294	27.4	69,765	23.0
Other <sup>※2</sup>	281	26.2	105,209	34.6
<b>Total</b>	<b>1,073</b>	<b>100.0</b>	<b>303,821</b>	<b>100.0</b>

※1 "Other industries" refers to hospitals (doctors), service industry, leisure industry, etc.

※2 "Other" refers to wage earners, pensioners, etc.

## Criminal investigation

### Criminal investigations

(Fiscal year 2011)

Number of cases conducted	Number of cases closed	Number of cases with accusation filed to the prosecutor	Amount of tax evasion		Amount of tax evasion (filed accusation to the prosecutor)	
			Per case	Per case	Per case	Per case
Cases	Cases	Cases	Million yen	Million yen	Million yen	Million yen
195	189	117	19,200	102	15,700	134

### Large-scale cases

(Fiscal year 2011)

Number of cases with accusation filed to the prosecutor	Cases of 300 million yen or more tax evasion	Cases of 500 million yen or more tax evasion
Cases	Cases	Cases
117	10	3

### Filed accusations to the prosecutor, by tax item

(Fiscal year 2011)

Tax item	Number of cases	Tax evasion	
		Per case	Per case
	Cases	Million yen	Million yen
Income tax	35	4,100	117
Corporation tax	64	7,900	124
Inheritance tax	6	2,600	430
Consumption tax	8	700	91
Withholding income tax	4	400	86
Total	117	15,700	134

## Remedy for infringement of taxpayer rights

### Request for reinvestigation

(Fiscal year 2010)

Category	Number of requests for reinvestigation	Number of new requests for reinvestigation ①	Number of cases processed ②	Number of requests approved ③	Percentage ③/②
	Cases	Cases	Cases	Cases	%
Taxation-related	5,245	4,303	3,924	472	12.0
Collection-related	887	800	822	4	0.5
Total	6,132	5,103	4,746	476	10.0

### Request for reconsideration

(Fiscal year 2010)

Category	Number of requests for reconsideration	Number of new requests for reconsideration ①	Number of cases processed ②	Number of requests approved ③	Percentage ③/②
	Cases	Cases	Cases	Cases	%
Taxation-related	5,215	2,625	3,255	466	14.3
Collection-related	696	459	462	13	2.8
Total	5,911	3,084	3,717	479	12.9

### Litigation

(Fiscal year 2010)

Category	Number of litigations	Number of cases filed for first instance ①	Number of cases closed ②	Number of lost cases and partial defeats ③	Percentage ③/②
	Cases	Cases	Cases	Cases	%
Taxation-related	600	151	279	23	8.2
Collection-related	113	41	68	4	5.9
National Tax Tribunal-related	10	3	7	—	—
Total	723	195	354	27	7.6

※ The figures for cases for litigation are the total numbers for each level of trial.

## Tax consultations

### The five tax items most frequently the subject of consultation

(Phone Consultation Centers) (Fiscal year 2011)

Rank	Tax category	Items	Thousand cases
1	Income tax	Obligations & procedures to file tax returns, etc.	474
2	Income tax	Special credit for loans relating to a dwelling	275
3	Income tax	Medical expenses deduction	242
4	Income tax	Year-end adjustment	224
5	Income tax	(Special) exemption for spouse, and exemption for dependents	158

(Tax Answer System) (Fiscal year 2011)

Rank	Tax category	Items	Thousand cases
1	Income tax	When have paid medical expenses (medical expenses deduction)	1,962
2	Income tax	Tax rate of income tax	1,370
3	Income tax	Medical expenses eligible for medical expenses deduction	1,131
4	Income tax	Exemption for dependents	1,043
5	Income tax	When have built a new house or purchased a newly built house (special credit for loans relating to a dwelling)	921

### Number of consultations at Phone Consultation Centers, by tax category

(Fiscal year 2011)

Number of consultations at Phone Consultation Centers, by tax category	Thousand cases	
	Item	Value
Income tax		2,738
Corporation tax		263
Property tax		843
Consumption tax		122
Other indirect taxes		180
General rules, collections		265
Other		891
<b>Total</b>		<b>5,302</b>

## Taxpayer satisfaction

(Fiscal year 2010)

Items	Percentage of Responses Highly Rated
	%
Attitude of officials in providing services	83.6
Satisfaction with guidance display in Tax Office, and use of reception & service	76.9
Satisfaction with use of facilities in Tax Office	66.0
PR activities	76.8
Activities to collect public opinions	88.7
Satisfaction level at Phone Consultation Center	94.1

※ The percentage of responses highly rated shows responses rated as "good" and "somewhat good" on a five point scale from "good" to "bad" in the questionnaire survey.



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About the NTA

Enhanced Taxpayer Services to Promote Proper Filing and Payment

Proper Tax Examination and Collection

Remedy for Infringement of Taxpayer Rights

Proper Management of Liquor Administration

Promotion of Administrative Work Efficiency

Statistics

# NATIONAL TAX AGENCY REPORT 2012

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