

1 Promotion of proper and fair taxation

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

For malicious taxpayers who try to illicitly evade their tax burden, the NTA analyzes information from various angles, establishes appropriate examination systems, and conducts strict examinations by making full use of its organizational strength.

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

■ The number of field examinations

(thousands cases)

Operation year	2014	2015
Self-assessed income tax	68	66
Corporation tax	95	94

■ Undeclared income amount found in field examinations, per case

(¥million)

Operation year	2014	2015
Self-assessed income tax	7.39	7.94
Corporation tax	8.66	8.88

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

The NTA utilizes the system to select the subjects of tax examinations by analyzing the data related to income tax returns, corporation tax returns, and a variety of other data and information.

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

(1) Priority matters addressed in the tax examinations

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

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

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

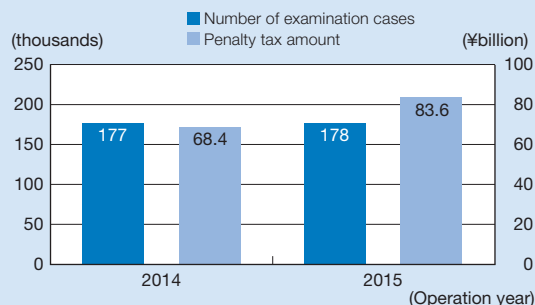
◎ Cases in which the NTA identified overseas assets not reported for Japanese tax purposes

- Based on materials provided by foreign tax authorities through information exchange under the tax treaty, the NTA discovered a failure to declare profits that were acquired from financial instruments held with overseas financial institutions.
- The NTA has discovered a reduction in tax burden by conducting transactions through a shell company established in a so-called tax haven.

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

Consumption tax is one of the main taxes for tax revenue, which is why it attracts the strong attention of the public. Therefore, proper tax administration is especially necessary. Especially, as there are cases where fraudulent consumption tax refunds were claimed through the filing of false returns, we work to prevent the filing of fraudulent refunds by instituting sufficient examinations of the facts.

Examinations of consumption tax (individual and corporation)



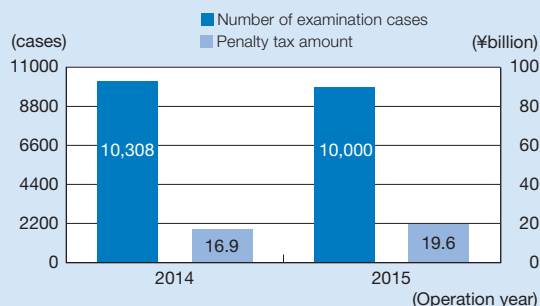
◎ Examples of examinations of the consumption tax

- The NTA has discovered intentional underreporting of income to avoid being a payer of consumption tax.
- The NTA has discovered a fraudulent refund of consumption tax by means of falsifying books to disguise domestic sales as sales subject to export exemption.

~ Discover the file no returns by utilizing information ~

Since the file no returns will cause a strong sense of unfairness to compliant taxpayers, the NTA precisely identifies file no returns by further collecting and utilizing information from materials, and actively conducts examinations.

Examination results of file no returns (individuals and corporations)



◎ Examples of examinations of file no returns

- The NTA has discovered that a company employee has not reported income from a side business of Internet sales.
- The NTA has discovered that a business continued under the false pretense of the discontinuance of business.

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

When conducting tax examinations, the NTA 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 defined as legal requirements.

(2) Other approaches for ensuring compliance than field examinations

～ Promote various contact methods in addition to field examinations ～

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

◎ Efforts to ensure voluntary fulfillment of tax obligations by taxpayers

- The NTA encourages voluntary review of filing by sending written inquiries, to the person who seemingly has made some calculation error or has applied incorrect tax laws, and the person who seemingly has failed to file a return based on available information.
- The NTA has been making effort to improve the level of tax filing among all industries and regions, and to ensure future proper tax filing by utilizing various approaches. Such approaches include drawing taxpayers' attention to proper tax filing in written form, holding briefings, and distributing leaflets to taxpayers in certain industries and regions.

Approaches to enhance the large corporate governance on tax matters

● Approaches to enhance the corporate governance on tax matters

From the viewpoint of maintenance and improvement of tax return filing standard of Japan as a whole, maintenance and improvement of tax compliance of large enterprises is very important. To this end, the NTA, taking the opportunities of examination of large corporations, checks the status of corporate governance on tax matters, exchanges opinions with executive officers, and presents them effective examples of approaches to promote their spontaneous efforts for the enhancement of corporate governance.

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

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

Details of this activity are available at the NTA website [<https://www.nta.go.jp> (Home > Tax filing and payment procedure > Corporation Tax > Reference for tax filing procedure) (in Japanese)] (This location is as of May 2017).

● Publication of the “voluntary inspection of tax returns and voluntary audit of tax items” at large enterprises

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

The site provides two types of check sheets: “Check sheet for tax returns,” which can be used for the voluntary inspection of tax returns before submission, and “Check sheet for tax items that require special attention at large enterprises.”

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

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

[<https://www.nta.go.jp> (Home > Tax filing and payment procedure > Corporation Tax > Reference for tax filing procedure) (in Japanese)] (This location is as of May 2017).

● Publication of the “Transfer Pricing Guidebook for Taxpayers”

Under the environmental change surrounding transfer pricing taxation, including progress in the BEPS Project and the establishment of documentation rules for transfer pricing, the NTA has reviewed the administrative processes (policy initiatives and specific measures), aiming to enhance voluntary tax compliance by taxpayers regarding transfer pricing taxation. We have also publicized the “Transfer Pricing Guidebook for Taxpayers” in June 2017 to enhance predictability for taxpayers and administration transparency.

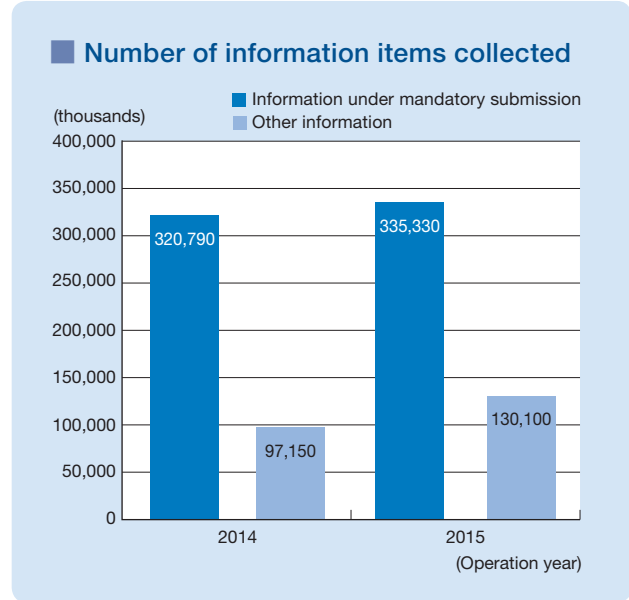
Please refer to page 47 for details.

(3) Data and Information

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

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

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



(4) Criminal investigation

~ Pursues criminal responsibility of malicious tax evaders ~

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

As business transactions become broader, globalized, and computerized, the methods of tax evasion are becoming more complex and sophisticated. Tax investigators are making all efforts to expose malicious tax evaders by appropriately responding to the changes in the economic and social environment.

~ Positive action toward cases with socially strong ripple effects ~

In FY2016, the NTA took positive action against consumption tax cases; for example, an accusation was filed to the prosecutor for a large amount of illegal refund using the export exemption system for consumption tax.

We have also actively worked on cases relating to photovoltaic power generation and earthquake disaster reconstruction, the markets of which have been rapidly expanding.

■ Examples of accusations filed to the prosecutor in FY2016

Example of an illegal refund using the export exemption system for consumption tax

A corporation in the business of exporting luxury watches exported goods in stock (luxury watches) at an affiliated company, pretending that these were sold to an overseas corporation; however, the same goods returned to Japan to be sold. In such a manner, the corporation recorded fictitious purchases and sales through repeated false transactions and illegally received a large refund on consumption tax.

III Proper and Fair Taxation and Collection

■ 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)
FY2015	189 cases	181 cases	115 cases	¥million 13,841 (11,204)	¥million 76 (97)
FY2016	178	193	132	16,106 (12,692)	83 (96)

*Figures of tax evasion include additional tax.

■ Ruling Status in the first instance of criminal investigation cases

	Number of rulings ①	Number of convictions ②	Percentage of cases convicted ②/① %	Number of convictions with prison sentences without probation ③	Amount of tax evaded per case ④	Term of prison sentence per person ⑤	Amount of fines per person (company) ⑥
FY2015	133 cases (12)	133 cases (12)	100.0 %	2 persons (1)	¥million 64	months 15.2	¥million 15
FY2016	100 (12)	100 (12)	100.0	14 (9)	59	13.9	14

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

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

Past cases where hidden properties were found in criminal investigations

Cash was found in a travel bag placed in a closet at a dwelling.



Funds obtained from tax evasion were, for example, retained as cash, deposits, stocks, or deposits for foreign exchange margin trading; spent on dwellings, imported luxury cars, luxury watches, gold bullion, or race horses; appropriated for financial support to an associated person; and spent on amusement, such as gambling.

In addition, part of the illicit funds was, for example, retained as overseas deposits, spent on overseas condominiums, and spent on amusements at overseas casinos.

2 Reliable tax payment

(1) Establishment of voluntary tax payment

~ Approximately ¥61.9 trillion taxes paid into the national treasury within the fiscal year (98.8% paid within the fiscal year) ~

Self-assessed national tax becomes revenue when paid into the national treasury. In FY2015, about ¥62.7 trillion of taxation (amount determined for collection) was self-assessed in Tax Offices, etc. Of this, about ¥61.9 trillion of tax (collected amount) was paid into the national treasury within the fiscal year, for a 98.8% collection ratio.

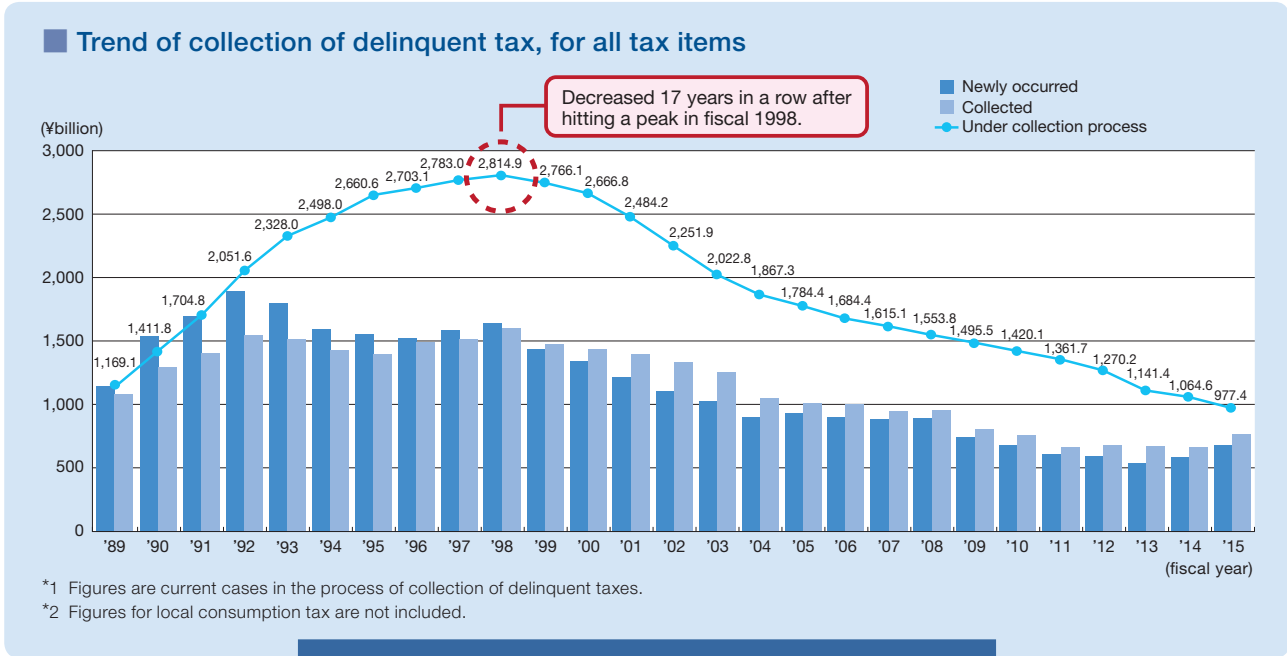
~ Measures to prevent delinquencies ~

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.

(2) Reduction of tax delinquency

~ Amounts under collection process reduced to 34.7% 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 FY2015, the tax delinquency amount was about ¥977.4 billion.



Amounts under collection process remains high at approximately ¥1 trillion

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

For delinquent national taxes, from the viewpoint of fairness with the great majority of taxpayers who pay within the due date, the NTA is working for early 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 taxpayers' rights and interests. Therefore, in collection of delinquent tax, appropriate actions such as seizure, auction and other disposition, are taken based on an accurate understanding of the facts. On the other hand, tax payment relief measures can be provided, such as postponement of tax payment, or suspension of conversion into cash. As described above, the NTA deals with delinquent tax based on laws and regulations while considering the actual situation of each delinquent taxpayer.

Regarding the grace period which appropriate action is taken based on the objectives of the revision, which were to reduce the burden on taxpayers and to secure tax collection early and adequately.

~ 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 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 tax¹ is aggressively referred to the prosecutor.

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

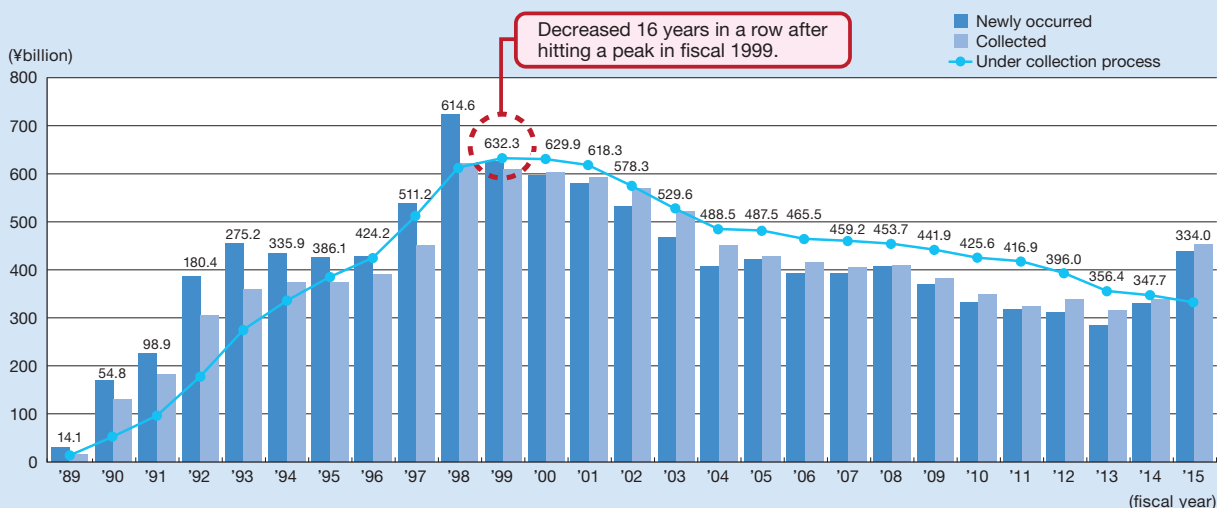
~ Organizational response, etc. of difficult-to-handle cases ~

To handle difficult-to-handle cases, for example where a party subject to examination has a broad scope of assets, a considerable amount of office work and use of sophisticated collection techniques are required. For that reason, the NTA takes organizational actions such as disposition for delinquent tax by management over a wide geographic area, with timely project team formation. The NTA also takes legal action, such as a lawsuit to demand the rescission of a fraudulent act¹ and actively uses legal means to collect delinquent taxes.

~ Certain handling of consumption tax delinquency cases ~

While the delinquent balance of consumption tax has been decreasing year after year, it is an increasingly large percentage of all delinquencies each year. Therefore, the NTA is striving to reduce the balance of delinquent consumption tax by steadily collecting all delinquencies including delinquent consumption taxes through Regional Taxation Bureaus and Tax Offices.

■ Trend of collection of delinquent consumption tax



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

*2 Figures for local consumption tax are not included.

(3) Office of Tax Collections Call Center

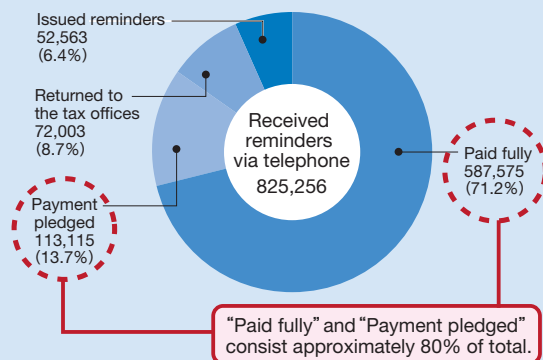
~ Conduct effective and efficient phone notices ~

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

Over the year from July 2015 to June-end 2016, this office provided notifications to about 830,000 people, of which about 590,000 people (71.2%) fully paid, and about 110,000 people (13.7%) pledged payment.

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

Of 825,256 taxpayers issued reminders for payment by telephone between July 2015 and June-end 2016, 587,575 have fully paid their taxes.



¹ A lawsuit to demand the rescission of fraudulent act is a lawsuit to negate the validity of a legal act (fraudulent act) between the delinquent person and third party, where such act harms the claimant (country). The lawsuit aims to take back from the third party that asset separated from the delinquent taxpayer, and return it to the delinquent taxpayer (refer to Act on General Rules for National Taxes, Article 42, and the Civil Code, Article 424).

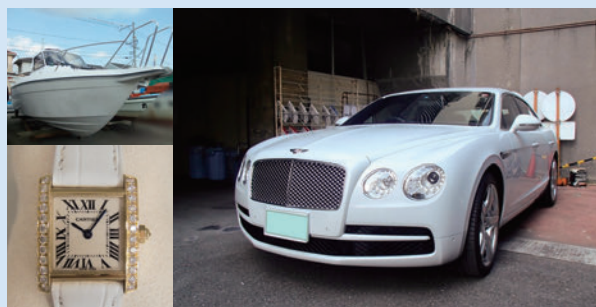
(4) Auction by Internet

~ Sold approximately 400 items by internet auctions ~

The NTA has conducted internet auctions using a private-sector auction website. 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.

Four internet auctions were held in FY2016. As a result, a total of about 4,000 people participated, and about 400 items such as automobiles, jewelry goods, real estate, etc. were sold, for a total sales value of about ¥500 million.

Examples of properties that have been sold by internet auctions



(5) Accurate and efficient management of claims and liabilities

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

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

There are about 42.5 million tax payments each year. To efficiently process this huge amount of payments, the NTA is working on more efficient processing operations. There is optical character recognition (OCR) processing¹ for tax payment slips at the Bank of Japan, the income tax and sole proprietors' consumption tax payments by transfer account², online tax payment using internet banking etc., and direct online tax payment. The NTA centralized transfer processing then adopted online transfer procedures. In these ways, the NTA is pursuing efficient and speedy payment processing.

Reference 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 examination and collection.

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 has given regular training on information security to its officials. When interviewing taxpayers, tax officials consider taxpayers' privacy and refrain from interviewing them in their storefronts or in front of their homes.

Because the NTA deals with Specific Personal Information (means Personal Information that includes My Number), 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 based on the purpose of the "Act on the Use of the Numbers to Identify a Specific Individual in the Administrative Procedure."

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

² Tax payment by transfer account is a method of tax payment whereby the Tax Offices send tax payment slips to financial institutions designated in advance by taxpayers, and debit the amount of tax payment from their deposits and savings accounts. If it is necessary to send tax payment slips to financial institutions in large quantities, the Tax Offices send 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.

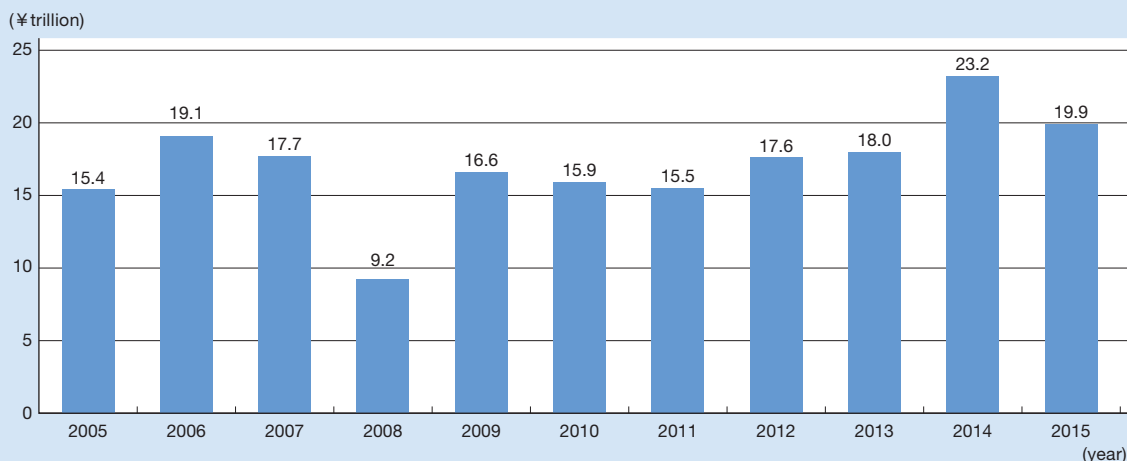
3 Addressing international transactions

(1) Background

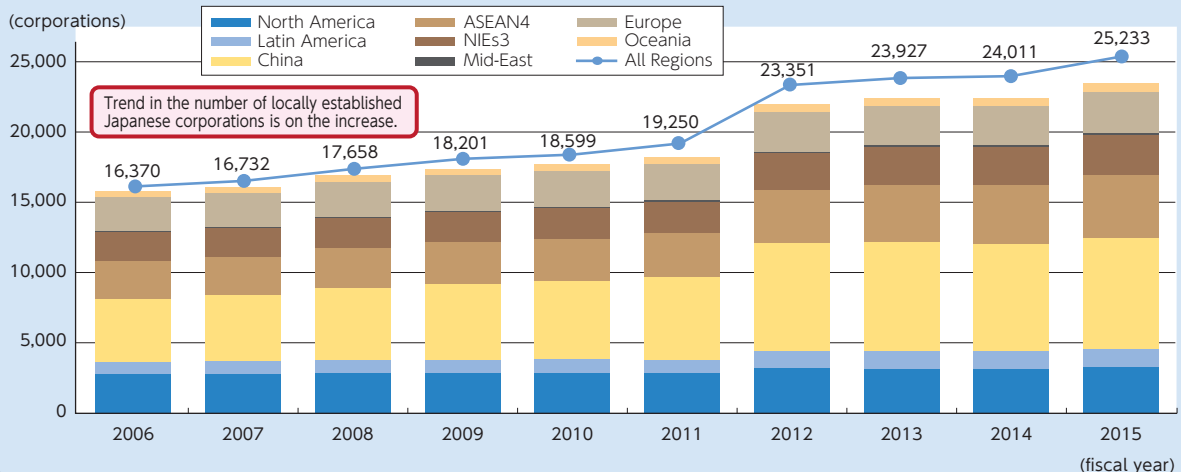
In recent years, the economy has been increasingly globalized with an increase in overseas investment by individual investors and cross-border transactions conducted by corporations. Under such circumstances, due to the disclosure of the so-called “Panama Papers” and progress in the Base Erosion and Profit Shifting (BEPS) Project, public interest has been significantly increasing in international tax avoidance cases, such as the act of hiding assets overseas performed by the affluent class and corporations that conduct cross-border transactions and the act of reducing tax burden using corporations established overseas or the difference in the tax systems and tax treaties of other countries.

The NTA considers that realizing proper and fair taxation in view of such global trends as well as domestic trends will lead to securing trust from all citizens.

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



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



*1 “ASEAN4” signifies Malaysia, Thailand, Indonesia and Philippines.

*2 “NIEs3” signifies Singapore, Taiwan and South-Korea.

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

While the NTA has set the addressing of international taxation as an important task, we have especially publicized the “International Strategic Total Plan,” where the present state of efforts toward international taxation and the future direction are compiled, in October 2016.

The affluent class and corporations that conduct cross-border transactions

- Hiding assets overseas
- International tax avoidance using corporations established overseas
- International tax avoidance using the difference in the tax systems and tax treaties of other countries

International Strategic Total Plan	
Enhancement of information resources	
[Utilization of records of remittances and receipts related to foreign countries] • Recognition of outward and inward overseas remittances exceeding ¥1 million	[Exchange of information under tax treaties, etc.] • Collection of information on the actual situation of transactions, dividends, income from real estate, etc.
[Utilization of foreign asset statements] • Recognition of assets exceeding ¥50 million held overseas (deposits, securities, real estate, etc.)	[Automatic exchange of information on financial accounts based on the CRS ^{*1}] • Collection of information on overseas financial accounts (account balance, etc.) (A first exchange will be conducted by September 2018.)
[Utilization of statements of assets and liabilities] • Recognition of assets totaling ¥300 million or more (deposits, securities, real estate, etc.) or securities, etc. totaling ¥100 million or more (for individuals earning an income of exceeding ¥20 million)	[Establishment of a reporting system of information on multinational enterprises] • Collection of information on multinational enterprise groups (A first exchange will be conducted by September 2018.)
Enhancement of human resources for examination	
[Chief Examiners (International Taxation) of Taxation Department and the International Examination Divisions at Regional Taxation Bureaus] • Collection and analysis of information of international tax avoidance, and examination planning • Research and development of examination methods concerning complicated cross-border transactions	[Establishment and expansion of a project team for the selective management of the affluent class] • Management of individuals especially holding a large amount of assets among the affluent class, and examination planning
[Senior Examiners (International Taxation) at Regional Taxation Bureaus and Tax Offices] • Identifying cases that have international taxation issues and actively conducting examinations	[Establishment of an organizational infrastructure related international taxation (establishment is budgetary-requested for FY2017)] • Request for the establishment, etc. of a headquarters for international taxation (Director (International Taxation) at the NTA) • Request for increasing dedicated personnel in charge of international taxation
Reinforcement of global networks	
[Exchange of information under tax treaties, etc.] (aforementioned) [Automatic exchange of information on financial accounts based on the CRS] (aforementioned)	[Participation in global frameworks] • Response to international discussions concerning the BEPS ^{*2} and the tax transparency
[Utilization of a mutual tax collection assistance system] • Request for tax collection regarding assets held in a tax treaty contracting state to the tax authority of the treaty partner	[Promotion of the Mutual Agreement Procedure] • Solution of international double taxation issues

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

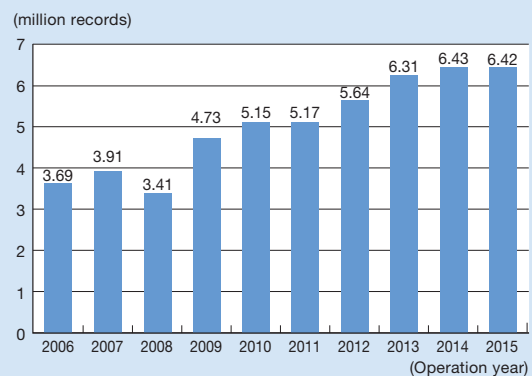
(2) Enhancement of information resources (reinforcement of information collection and utilization)

For the purpose of detecting cross-border fund transfers and assets held overseas, the NTA has been utilizing the following systems:

① Records of remittances and receipts related to foreign countries

Records of remittances and receipts related to foreign countries is a report to be submitted to Tax Offices by financial institutions that conduct outward and inward overseas remittances exceeding one million yen. The record states the name and address of the sender and receiver of funds, remittance amount, and My Number or Corporate Number (enforced in April 1998; the number of records submitted in the 2015 operation year was roughly 6.42 million).

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

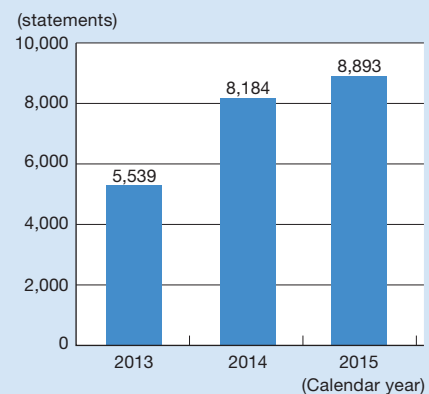


* From April 2009, the threshold amount for submission was decreased from more than ¥2 million to more than ¥1 million.

② Foreign asset statements

Those who have assets in foreign countries totaling over 50 million yen as of December 31 in the year are to submit a statement describing the type, quantity, and value of the assets overseas, My Number, etc. by March 15 of the following year to Tax Offices (enforced in January 2014; the number of statements submitted for 2015 was roughly 8,900 as of the end of June 2016).

■ The number of foreign asset statements submitted



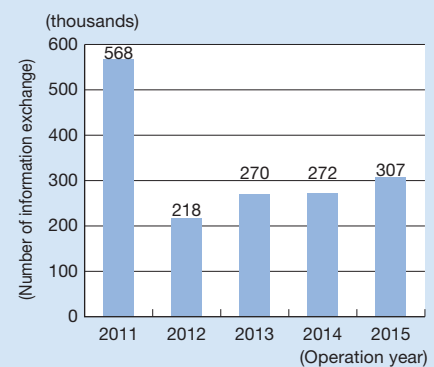
③ Statements of assets and liabilities

Those who earn an income of over 20 million yen in the year, and hold assets totaling 300 million yen or more or securities, etc. totaling 100 million yen or more (assets subject to exit taxation) as of December 31 in the year are to submit a statement describing the type, quantity and value of the assets, the amount of debt, My Number, etc. by March 15 of the following year to Tax Offices (enforced in January 2016; the number of statements submitted for 2015 was roughly 75,000 as of the end of June 2016).

④ Exchange of information under tax treaties, etc.

There are cases in which the NTA cannot sufficiently clarify the cross-border transactions only with the information obtained in Japan. In such cases, the exchange of information under bilateral tax treaties or provisions of the multilateral Convention on Mutual Administrative Assistance in Tax Matters makes it possible to acquire the necessary information for proper and fair taxation from other countries. In recent years in particular, the network of exchange of information has been expanding and strengthening; for example, the Tax Information Exchange Agreement with the Republic of Panama recently entered into force. As of April 2017, Japan has 68 tax treaties in force, which cover 110 countries or regions, and the number of information exchange amounts to some hundred thousand cases per year.

■ Trend in number of information exchange



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

⑤ Automatic exchange of information on financial accounts based on the CRS

To address international tax evasion and avoidance performed through overseas financial institutions, in 2014, the OECD developed the Common Reporting Standard (CRS) which is the international standard for automatic exchange of information on financial account of non-residents among tax authorities. As of April 2017, 100 countries and regions have committed to implement exchanging information based on the CRS.

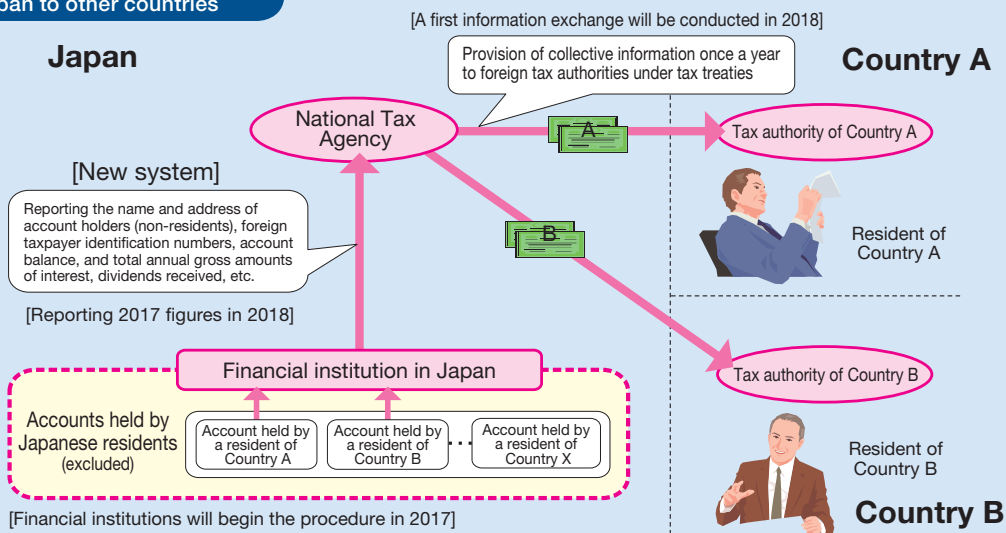
Tax authorities of each country will ① receive financial account information (name, address, account balance, etc.) held by non-residents from financial institutions located in each country and ② provide such information each other with tax authorities of the country which those non-residents reside based on the provisions of exchange of information set forth in tax treaties and other agreements.

In Japan, we introduced the system in the tax reform of 2015, which requires financial institutions located inside the country to report financial account information held by non-residents to the NTA.

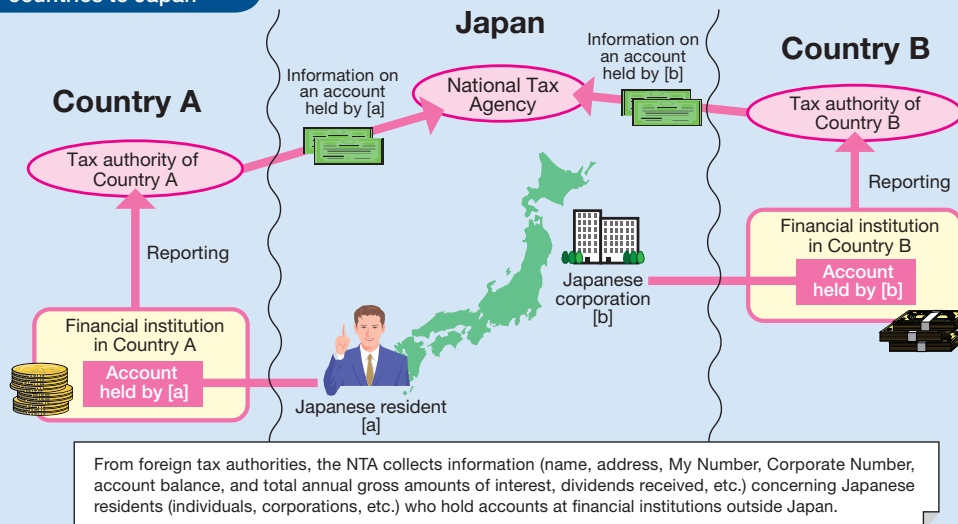
The system has come into force on January 1, 2017. The NTA will receive the first report from financial institutions located inside the country by April 2018, and will begin providing information for foreign tax authorities by September 2018. The NTA will also receive financial account information of Japanese residents from foreign tax authorities, which is expected to expedite voluntary and proper declaration through enhancing transparency relating assets overseas. The NTA will identify financial assets overseas and income derived from those assets, and detect and reveal whole picture of cross-border transactions which contains taxation issues by utilizing information provided by foreign tax authorities.

■ Conceptual diagram of the automatic exchange of information on financial accounts based on the CRS

Provision of information from Japan to other countries



Provision of information from other countries to Japan



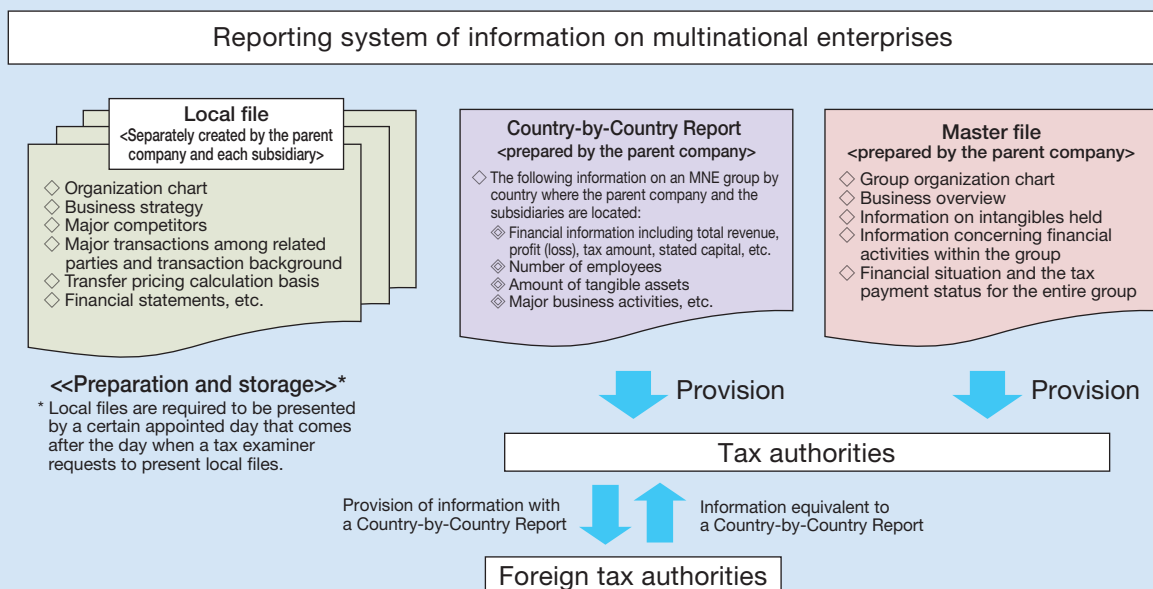
⑥ Establishment of a reporting system of information on multinational enterprises

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

The ultimate parent entity of an MNE group that earns a total revenue of 100 billion yen or more in the preceding fiscal year of the ultimate parent entity is required to submit a CbC Report and a master file via e-Tax no later than 12 months after the last day of the fiscal year of the ultimate parent entity (this applies from the fiscal year of the ultimate parent entity that begins on or after April 1, 2016). Based on the automatic exchange of information prescribed in tax treaties, etc., a CbC Report is to be transmitted to the tax authority of the residence country of the constituent entity of an MNE group. Japan will begin providing information for foreign tax authorities by September 2018 and will also begin receiving information equivalent to a CbC Report from other countries.

When the total amount of the transactions with a foreign related party during the previous business year was 5 billion yen or more, or the total amount of the transactions of intangibles with the foreign related party during the previous business year was 300 million yen or more, corporations are required to prepare or obtain and store local files by the deadline for the submission of final tax returns. Local files must be presented or submitted by a certain appointed day that comes after the day when a tax examiner requests to present or submit local files (this applies starting from the business year that begins on or after April 1, 2017).

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



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

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

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

The project team will be established nationwide starting from the 2017 operation year.

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

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

① Participation in global framework

● Formation and fulfillment of international agreements

The BEPS Project was initiated by the OECD in 2012 to deal with the problem of tax avoidance conducted by MNEs by artificially manipulating taxable income through the use of the difference between the MNEs' actual activities and the tax system of each country or international tax rules. With the participation of G20 members that are non-OECD countries in discussions, the final report was publicized in October 2015.

The final report presents various recommendations to deal with international tax avoidance conducted by MNEs and to increase the transparency at the governments and the MNEs by means of reviewing the overall international tax rules. The NTA has been playing an active role for the smooth implementation of the recommendations with the Ministry of Finance.

■ The 15 actions discussed in the BEPS Project:

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

● Participation in the activities at the OECD

For the purpose of spreading recommendations on the final report of the BEPS Project to the broader area of emerging and developing countries and of monitoring the implementation status in these countries, the Inclusive Framework on BEPS has been established. As of April 2017, 96 jurisdictions including Japan are participating in the Inclusive Framework on BEPS.

Regarding exchange of information under on tax treaties, the legal and regulatory framework and the practical implementation in each country and region are mutually examined at the “Global Forum on Transparency and Exchange of Information for Tax Purposes,” in which 141 countries and regions participate.

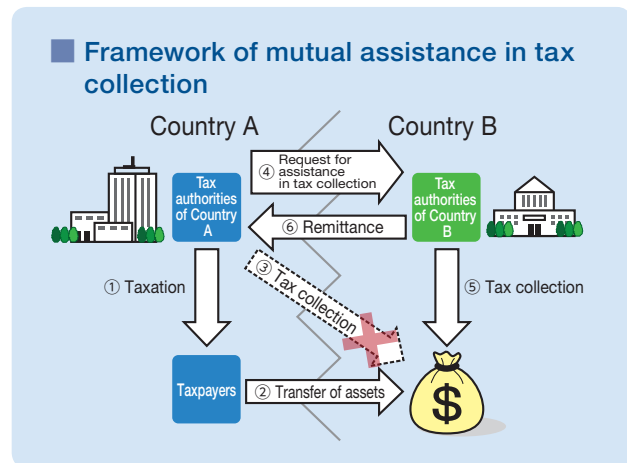
At the “Joint International Taskforce on Shared Intelligence and Collaboration (JITSIC)” at the “OECD Forum on Tax Administration,” many countries cooperate in exchange of information, including collaborative action in the light of the so-called “Panama Papers.”

The NTA will actively participate in these activities.

② Utilization of a mutual tax collection assistance system

While the collection of tax claims is subject to the restrictions of executive jurisdiction¹, the avoidance of tax collection by means of transfer of assets to overseas can be coped with the framework of “mutual assistance in tax collection,” which enables each country’s tax authorities to mutually enforce tax claims of treaty partners in cooperation under tax treaties.

In Japan, international tax collection is promoted by actively utilizing the mutual assistance system for tax collection under treaties such as the Multilateral Convention on Mutual Administrative Assistance in Tax Matters², which became effective in October 2013, etc.



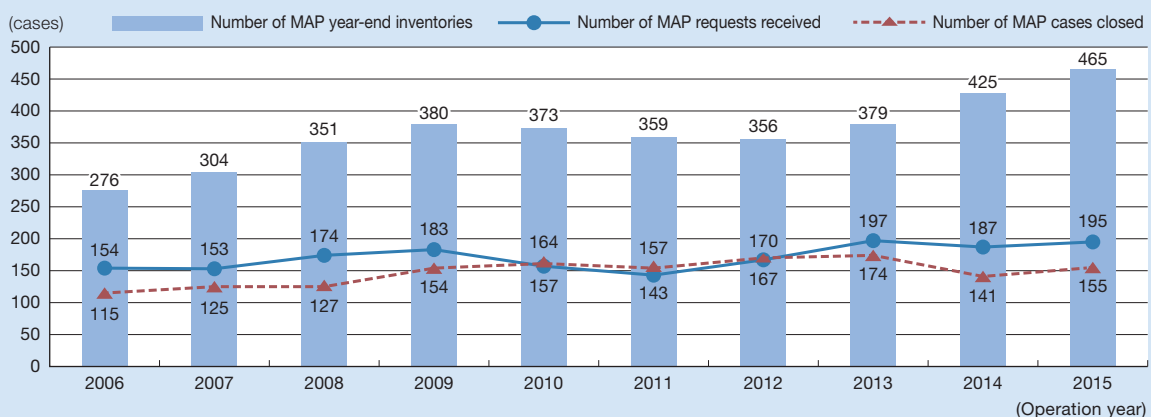
③ Promotion of the Mutual Agreement Procedure (MAP)

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. We exert ourselves to resolve such international double taxation problems by negotiating with foreign tax authorities through the Mutual Agreement Procedures (MAP)³ prescribed in tax treaties.

In the 2015 operation year, the number of MAP cases requested was 195, and the number of MAP cases closed was 155. Of the MAP cases requested and closed, more than 90% were related to transfer pricing taxation, and roughly 80% were related to the Advance Pricing Arrangements (APAs).

As the elimination of international double taxation through MAP will encourage mutual investments, the NTA has been making every effort to resolve the MAP cases appropriately and promptly. Specifically, we have been strengthening⁴ an frastructure by ensuring staffing and have been striving to conduct swift and smooth negotiations through promoting cooperative relationship with relevant foreign tax authorities. We have also been dealing with emerging countries multilaterally, such as an attempt to make progress in MAP through the establishment of an frastructure, etc. in those countries by providing technical cooperation.

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



* The number of MAP requests consists of both cases where the NTA received such requests from taxpayers and cases where the NTA received such requests from foreign tax authorities.

1 It means that a country’s tax authorities cannot exercise its public authorities outside the country’s territory.
 2 It is a multilateral convention on mutual assistance for the exchange of tax-related information, tax collection and service of documents and has become effective by 80 jurisdictions including Japan (as of May 1, 2017).
 3 “Mutual Agreement Procedures (MAP)” are a formalized set of procedures between tax authorities of treaty partners which are provided in tax treaties to resolve international tax disputes such as those represented by double taxation cases arising as a result of taxation not in accordance with the applicable tax treaties imposed or to be imposed on the taxpayers.
 4 The number of people in charge of MAP was 19 in the 2006 operation year; however, this increased to 43 in the 2016 operation year.

Treaty partners with which the NTA has MAP inventory (as of June 2016)

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

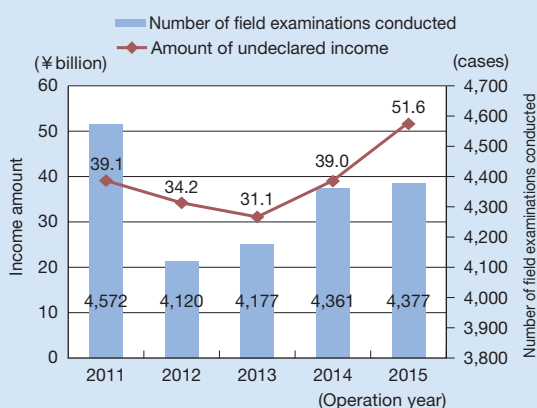
* In Japan, 61 tax treaties (applicable to 72 countries/economies) contain provisions regarding MAP (as of June 2017).

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

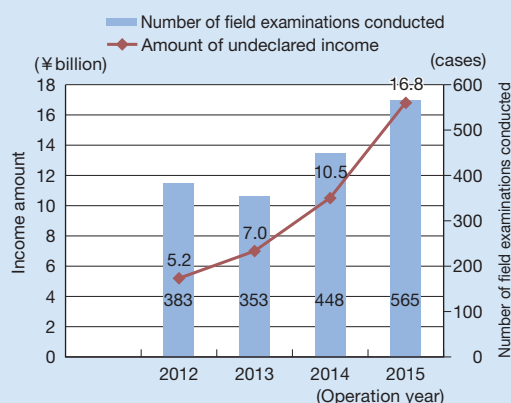
① Examinations of the affluent class

With the globalization of the Japanese economy, the NTA has focused on examining taxpayers who conduct cross-border transactions or hold assets in foreign countries. The NTA is performing thorough 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.

Actual examination related to the affluent class



Of the left, examination results concerning the affluent class investing overseas



*1 Undeclared income amount includes domestic transactions as well as overseas transactions.

*2 No data is available for the 2011 operation year.

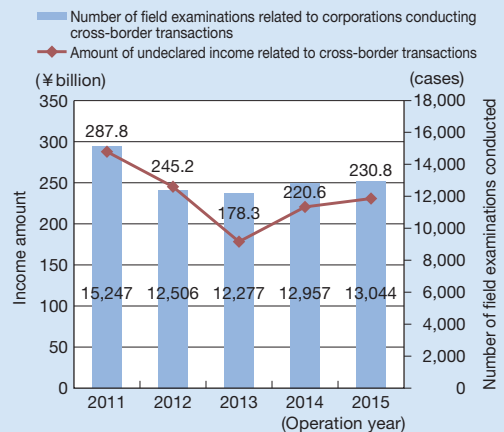
② Actions against corporations that conduct cross-border transactions

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

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

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

Actual examination of corporation tax related to cross-border transactions



③ Transfer pricing issues

As company activities become increasingly global, more transactions are becoming subject to the transfer pricing taxation¹, and transactions are becoming more complex, with growing importance of transactions. To increase predictability for taxpayers, the NTA has announced its administration policy on the operations and its application criteria, by revising directive on the interpretation of laws and administrative guidelines relating to the transfer pricing taxation. The Advance Pricing Arrangement (APA)² for transfer pricing taxation ensure predictability and legal stability for taxpayers, and contribute to the proper and smooth operation of transfer pricing taxation. Based on these situations, the NTA has been providing an environment where taxpayers can smoothly use this APA.

Column 8 Publication of the “NTA Transfer Pricing Guidebook for Taxpayers”

Under the environmental changes surrounding transfer pricing taxation, including progress in the BEPS Project and the establishment of transfer pricing documentation, the NTA has reviewed the administrative processes (policy initiatives and specific measures), aiming at enhancing voluntary tax compliance by taxpayers regarding transfer pricing taxation. We have also publicized the “NTA Transfer Pricing Guidebook for Taxpayers” in June 2017 to enhance the predictability for taxpayers and administration transparency.

Outline of the “NTA Transfer Pricing Guidebook for Taxpayers”

I Transfer pricing administration policy of National Tax Agency [Policy initiatives]

- Promoting measures contributing to the maintenance and improvement in voluntary tax compliance based on the establishment of transfer pricing documentation in addition to ensuring the predictability for taxpayers
- Selectively conducting field examinations of transactions where income is transferred overseas, such as BEPS cases

[Specific examples of measures (from July 2017)]

- Consultation desks will be established at each Regional Taxation Bureau to actively respond to individual inquiries and to provide consultation for corporations regarding transfer pricing documentation.
- The NTA will request foreign tax authorities to conform to the BEPS recommendations at the OECD based on concerns for the inappropriate use of CbC Reports by foreign tax authorities. In this situation, information collected from corporations at the consultation desks at Regional Taxation Bureaus will also be utilized as a reference.



II Points to consider and check for applying transfer pricing rules

With the aim of dispatching information to which taxpayers can refer for voluntary consideration, the NTA has prepared and publicized documentation indicating advice, etc. for taxpayers with specific examples from the viewpoints of the NTA and taxpayers in order to announce items to be considered and confirmed upon the application of transfer pricing taxation.

III Guide for contemporaneous documentation

The NTA has prepared and publicized a sample (an example for preparing local files) describing the overall perspective and items that should be stated on local files that are required to be prepared, following the establishment of transfer pricing documentation, with an example of a foreign related transaction conducted by a fictitious corporation.

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

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

4 Cooperation with foreign tax authorities

(1) Technical cooperation for developing countries

~ Technical cooperation for developing countries mainly in Asia ~

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



International Seminar on Taxation

Overview of technical cooperation

1 Dispatch of tax officials to developing countries

Based on the requests of the foreign tax authorities, the NTA has dispatched its officials to give lectures in fields such as taxpayer services, international taxation, and staff training. In FY2016, the NTA dispatched its officials to Cambodia, Indonesia, Mongolia, Myanmar, and Vietnam, and gave lectures to those countries' tax officials.

Moreover, with a view to giving continuous advice on tax administration to developing countries, the NTA has also dispatched tax officials as long-term experts of JICA. In FY2016, they stay in Cambodia, Indonesia, and Vietnam.

2 Training conducted in Japan

(1) International Seminar on Taxation (ISTAX)

ISTAX is a seminar for tax officials in developing countries, providing lectures on Japan's tax system and tax administration. It has 2 courses: "General" for mid-career officials, and "Advanced" for upper management-level officials. In FY2016, 25 tax officials participated in both courses in total.

(2) Country-Focused Training Courses in Tax Administration

The courses target tax officials from specified developing countries, and give lectures based on their request. In FY2016, 96 tax officials from Cambodia, Indonesia, Mongolia, and Vietnam participated in the courses.

(3) International Taxation for Asian Countries

This course targets tax officials from Asian developing countries and gives the lectures on “international taxation”. In FY2016, 11 tax officials from 7 countries (Indonesia, Lao PDR, Malaysia, Mongolia, Myanmar, Timor-Leste, and Vietnam) participated in the course.

(4) Practicum at the NTA

This course targets tax officials from developing countries who are studying at Japanese graduate schools (master’s courses) on a scholarship from the World Bank, etc., and provides lectures on Japan’s tax system and tax administration. In FY2016, 15 students studying at graduate schools of Keio University, Yokohama National University, and National Graduate Institute of Policy Studies participated in total.

■ Status of training conducted in Japan

(number of countries, people)

		FY2012	FY2013	FY2014	FY2015	FY2016
International Seminar on Taxation (ISTAX) (General)	Countries	15	16	17	16	15
	People	15	16	17	16	15
International Seminar on Taxation (ISTAX) (Advanced)	Countries	11	13	13	9	8
	People	11	13	13	9	10
Country-Focused Training Courses in Tax Administration	Countries	7	6	6	3	4
	People	95	116	111	56	96
International Taxation for Asian Countries	Countries	5	6	6	6	7
	People	11	16	12	8	11
Practicum at the NTA	Countries	12	11	13	14	9
	People	19	20	17	18	15

(2) Participation in international conferences for tax authorities

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

In order to cooperate and share experiences with foreign tax authorities for the purpose of solving problems, such as double taxation and tax avoidance, the NTA actively participates in international conferences including ① the OECD Forum on Tax Administration (FTA) and ② the Study Group on Asian Tax Administration and Research (SGATAR).

① OECD Forum on Tax Administration (FTA)

The OECD Forum on Tax Administration is a forum on tax administration for Commissioners from OECD and non-OECD countries, for sharing each country’s knowledge and experience on a wide range of fields in tax administrations. In May 2016, the 10th Forum was held in Beijing, China with discussions about multilateral cooperation on international taxation, including on the issue of BEPS, improvements in voluntary tax compliance by taxpayers, and the future course of action of the OECD Forum on Tax Administration.

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

The Study Group on Asian Tax Administration and Research (SGATAR) is comprised of tax authorities of 17 countries and regions in Asia. This is a forum for discussions on cooperation and sharing of knowledge in the region. In November 2016, the 46th meeting was held in New Zealand, with discussions about promotion of international cooperation in the area of tax administration and common problems the members are facing.