

## 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 of cases)

Operation year	2015	2016
Self-assessed income tax	66	70
Corporation tax	94	97
Consumption tax	125	130
Inheritance tax	12	12

#### ■ The penalty tax amount of field examinations

(billion yen)

Operation year	2015	2016
Self-assessed income tax	79.8	81.9
Corporation tax	159.2	173.2
Consumption tax	78.0	103.0
Inheritance tax	58.3	71.6

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

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

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

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

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

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

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

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

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

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

# III Proper and Fair Taxation and Collection

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

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

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

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

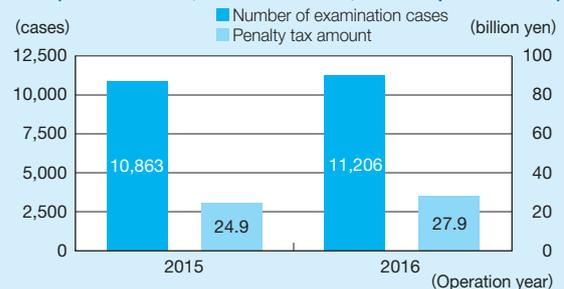
### ◎ Cases of examinations of the consumption tax

- The NTA uncovered a case in which an individual concealed the fact that he was the actual beneficiary of income by filing his income tax under another person's name every few years, and evaded payment of consumption tax.
- The NTA uncovered a fraudulent refund of consumption tax by means of falsifying books to disguise domestic sales as sales subject to export exemption.

## ～ Uncover the file no returns by utilizing information ～

Since the file no returns will cause a strong sense of unfairness to voluntary 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 (individual tax, inheritance tax, and corporation tax)



### ◎ Cases of examinations of file no returns

- The NTA has uncovered that a company employee has not reported income from a side business of Internet sales.
- The NTA uncovered a case in which a business operator conducted its business in a location distanced from the registered address of the head office with the purpose of concealing its business activities, and illegally evaded filing its taxes.

## ～ 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) Utilizing other approaches 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 who seemingly has failed to file a return based on accumulated information by the NTA.
- 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.

### Efforts through cooperative means

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

#### ● 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 of burdens due to tax examinations.

Details of this activity are available at the NTA website “Approaches to enhance the corporate governance on tax matters (for corporations handled by the Large Enterprise Division)” (<https://www.nta.go.jp/taxes/tetsuzuki/shinsei/shinkoku/hojin/sanko/cg.htm> (in Japanese)).

#### ● Promotion 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.” Details of this activity are available at the NTA website “Voluntary inspection of tax returns and voluntary audit of tax items (for corporations handled by the Large Enterprise Division)” (<https://www.nta.go.jp/taxes/tetsuzuki/shinsei/shinkoku/hojin/sanko/tk.htm> (in Japanese)).

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

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

#### ● Efforts through cooperative means concerning transfer price taxation

For aiming to maintenance and enhance voluntary tax compliance by taxpayers, we have publicized the “Transfer Pricing Guidebook for Taxpayers” (<https://www.nta.go.jp/taxes/shiraberu/kokusai/itenkakakuzeisei/index.htm> (in Japanese)) in June 2017 to enhance predictability for taxpayers and administration transparency.

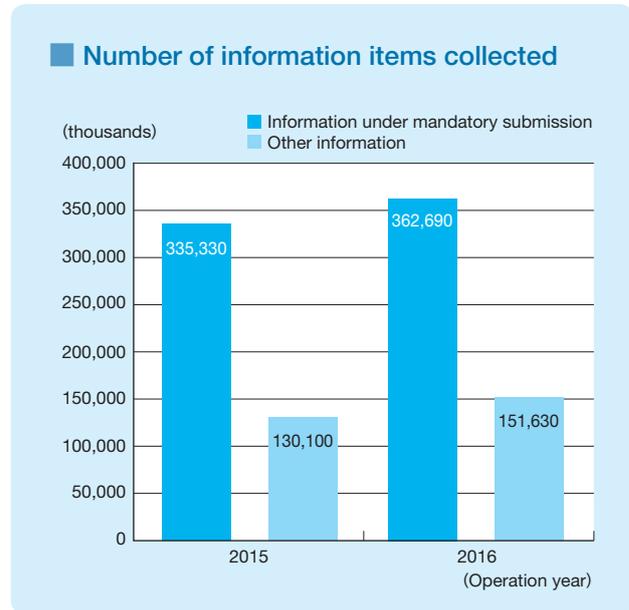
The NTA also releases announcements and communications on documentation policy related to transfer price taxation, and offers consultation services, striving to ensure smooth execution and solid footing of the policy. Please refer to page 50 for details.

## (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 ICT in 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. The NTA is also paying attention to transactions related to cryptocurrencies and sharing economy (i.e., home sharing).



## (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, more globalized and computerized, the methods of tax evasion are becoming more complex and sophisticated. 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 FY2017, 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. Moreover, the NTA took aggressive actions against those who failed to file taxes by concealing one’s income, achieving the highest number of prosecutions in the past 5 years.

In addition, the NTA took aggressive actions against cases conforming to the social landscape of recent years, such as cross border cases and solar power generation, achieving the significant number of prosecutions.

### ■ Cases of accusations filed to the prosecutor in FY2017

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

A corporation in the business of import and export of cosmetic products was illegally benefiting from excessive refund of consumption tax by registering fictitious procurements (taxable transaction) and fictitious export sales (tax-exempt transaction) to a company overseas, despite the fact that none of these transactions actually took place.

## ■ 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)
FY2016	178 <small>cases</small>	193 <small>cases</small>	132 <small>cases</small>	16,106 (12,692) <small>¥million</small>	83 (96) <small>¥million</small>
FY2017	174	163	113	13,509 (10,001)	83 (89)

\* Figures of tax evasion include additional tax.

## ◎ Cases in which sentencing were served during FY2017

Three companies in the business of export of high-end wrist watches were illegally benefiting from significant amount of consumption tax refunds by registering fictitious procurements (taxable transaction) in the country and fictitious export sales (tax-exempt transaction) by means of circulating wrist watches repeatedly inside and outside of the country, utilizing the group company's inventory of high-end wrist watches.

The individual who managed these 3 companies were sentenced to 7-years and 6-month's prison term for violation of Consumption Tax Law and Local Tax Law by these and related companies.

## ■ 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
FY2016	100 (12) <small>cases</small>	100 (12) <small>cases</small>	100.0 %	14 (9) <small>persons</small>	59 <small>¥million</small>	13.9 <small>months</small>	14 <small>¥million</small>
FY2017	143 (5)	143 (5)	100.0	8 (4)	62	14.7	15

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

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

## ~ Retained funds which obtained from tax evasion ~

Funds obtained from tax evasion were, for example, retained as cash, deposits or stocks; spent on dwellings or solar power plants, imported luxury cars or watches; 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, and spent on amusements at overseas casinos.

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

Cash was located from within a safe positioned beneath a removable flooring inside the residential closet.



## 2 Reliable tax payment

### (1) Establishment of voluntary tax payment

~ Approximately ¥61.6 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 FY2016, about ¥62.3 trillion of taxation (amount determined for collection) was self-assessed in Tax Offices, etc. Of this, about ¥61.6 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 ~

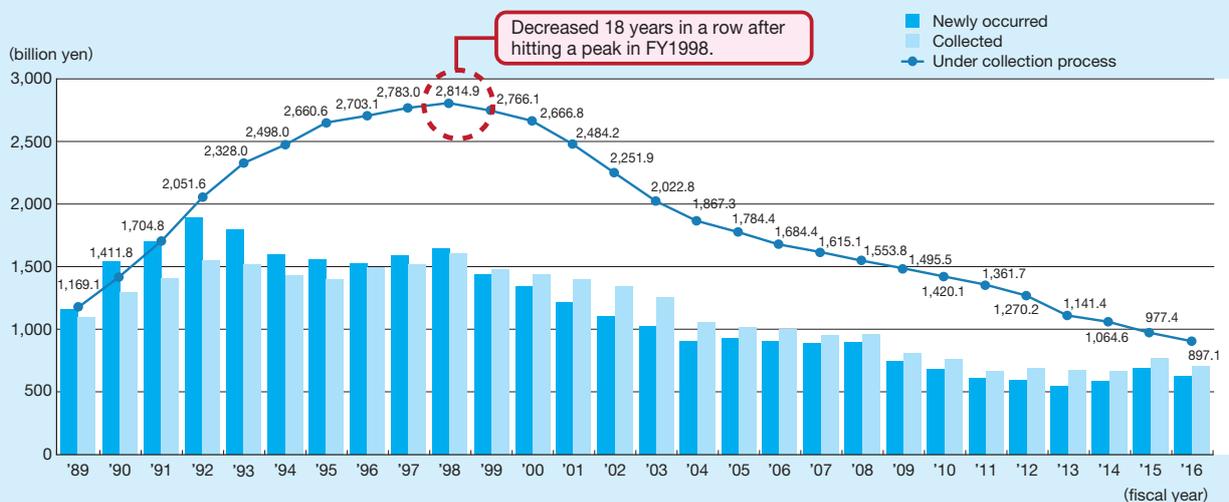
The NTA is taking the following measures to prevent delinquencies. A written notice is sent in advance to taxpayers who paid after the due date the previous time. After the due date has passed, a phone call is placed to taxpayers before the payment demand letter is sent.

### (2) Reduction of tax delinquency

~ Amounts under collection process reduced to 31.9% 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 FY2016, the tax delinquency amount was about ¥897.1 billion.

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



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

\*2 Figures for local consumption tax are not included.

Amounts under collection process remains high at approximately ¥0.9 trillion

→ 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<sup>1</sup>. This crime of evading disposition for delinquent tax is aggressively referred to the prosecutor.

## ~ Organizational response 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 act<sup>2</sup> and actively uses legal means to collect delinquent taxes.

## ~ Certain handling of consumption tax delinquency cases ~

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

■ Trend of collection of delinquent consumption tax



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

\*2 Figures for local consumption tax are not included.

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

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

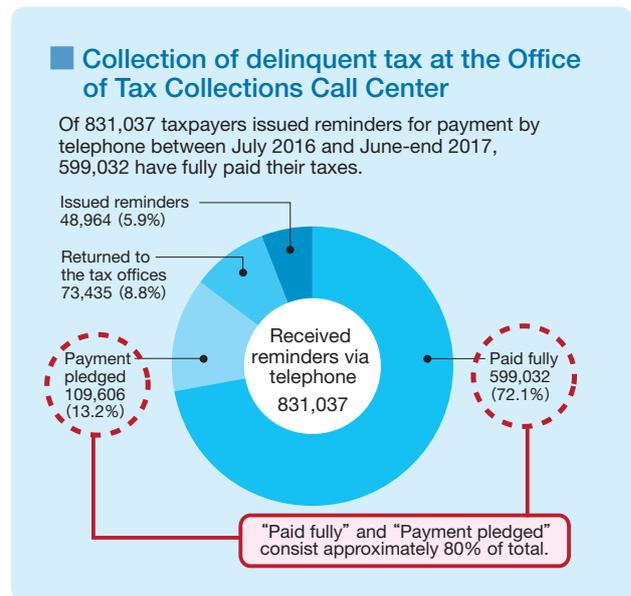
# III Proper and Fair Taxation and Collection

## (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 2016 to June-end 2017, this office provided notifications to about 830,000 people, of which about 600,000 people (72.1%) fully paid, and about 110,000 people (13.2%) pledged payment.



## (4) Auction by Internet

### ~ Sold approximately 800 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 places 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 FY2017. As a result, a total of about 9,000 people participated, and about 800 items such as automobiles, jewelry goods, real estate, etc. were sold, for a total sales value of about ¥400 million.

### 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 42.9 million tax payment cases each year. To efficiently process this huge amount of payment cases, the NTA is working on more efficient processing operations. There is optical character recognition (OCR) processing<sup>1</sup> for tax payment slips at the Bank of Japan, the income tax and sole proprietors' consumption tax payments by transfer account<sup>2</sup>, 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.

### Strict control of information

The NTA has a variety of information such as on personal income. Personal information must be controlled strictly. 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."

<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

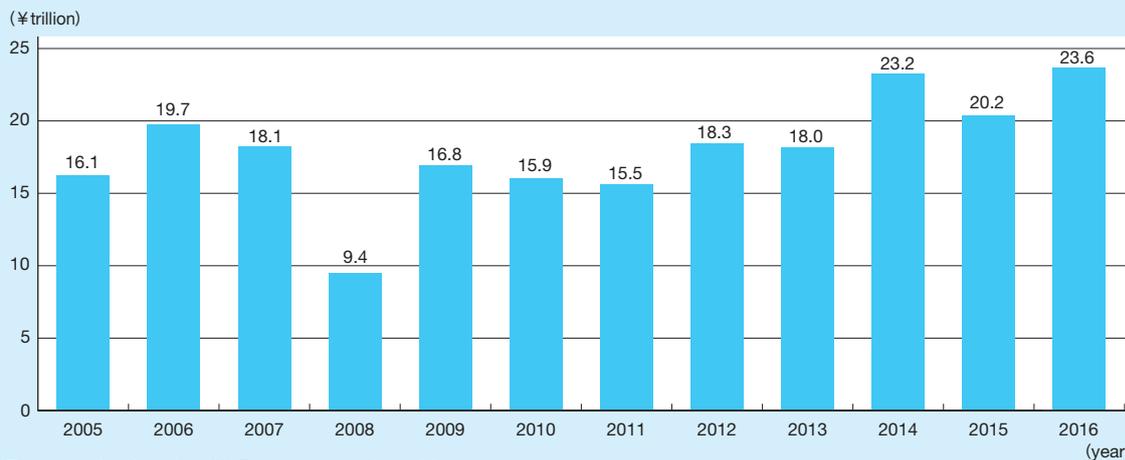
### (1) Background

#### ~ Public interest increase in international tax avoidance cases ~

In recent years, the economy has been increasingly globalized with an increase in overseas investment by individual investors and cross-border transactions conducted by corporations. Under such circumstances, due to the disclosure of the so-called “Panama Papers”, “Paradise 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.

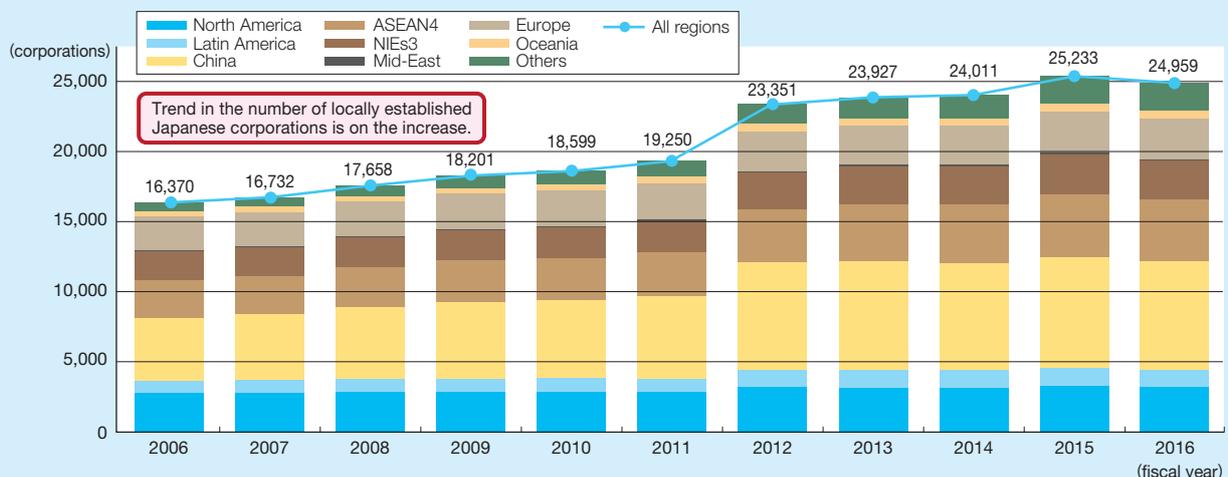
The NTA considers that realizing proper and fair taxation in view of such global trends as well as domestic trends will lead to securing trust from all citizens.

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



\* Figures are data from June 2017, post retrospective revisions  
(Source: “Japan’s Flow of Funds Account” by Bank of Japan)

■ 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)

## Column 4

# The policy initiatives and specific measures based on “International Strategic Total Plan”

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 NTA has aggressively continued its actions towards international taxation after the publication of the “International Strategic Total Plan,” and with the release of the “Paradise Papers” in November of 2017, public interest on this subject has grown even larger than ever before.

Under such circumstances, in December of 2017, the NTA released “The Policy Initiatives Based on ‘International Strategic Total Plan’” and “Specific Measures Based on ‘International Strategic Total Plan,’” which compiles the agency’s policy initiatives and specific measures concerning international taxation.

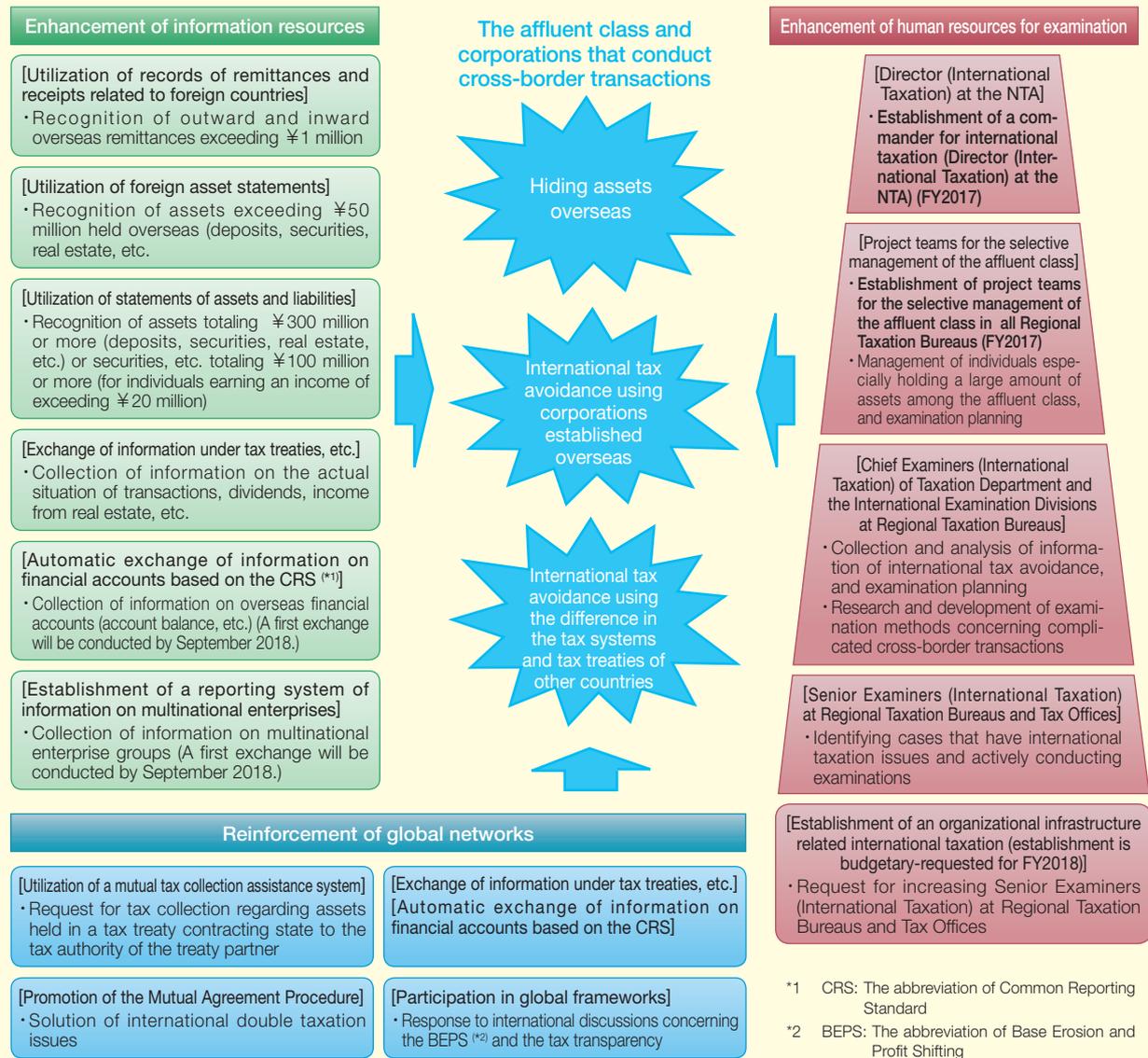
## ■ The policy initiatives based on “International Strategic Total Plan” (December 2017)

### The policy initiatives based on “International Strategic Total Plan”

#### Policy of National Tax Agency

◎ In recent years, the economy has been increasingly globalized. Under such circumstances, due to the disclosure of the so-called “Panama Papers”, “Paradise Papers”, and progress in the Base Erosion and Profit Shifting (BEPS) Project, public interest has been significantly increasing in international tax avoidance cases.

⇒ The NTA will advance each of the initiatives outlined in the “International Strategic Total Plan,” and should there be any tax issues, the NTA will properly take action, such as active commencement of examinations.



About the NTA

Efforts to Enhance Services for Taxpayers and to Boost Efficiency of Tax Administration

Proper and Fair Taxation and Collection

Remedy for Taxpayer Rights

Proper Management of Liquor Administration

Proper Administration of Services by Certified Public Tax Accountants (CPTAs)

Evaluation of Policies

Statistics

## ■ The specific measures based on “International Strategic Total Plan” (December 2017)

### The specific measures based on “International Strategic Total Plan” (December 2017)

#### Specific measures related to examination and collection by the NTA (examples of examination cases, etc.)

- 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.
- In response to these changes in the economic environment, the NTA recognizes the importance of initiatives on international taxation, and actively initiates examinations on acts, such as those below, by affluent class and corporations engaged in 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
- In these examinations, in addition to records of remittances and receipts related to foreign countries, foreign asset statements and statements of assets and liabilities, requests for exchange of information based on tax treaties in place are being actively utilized in order to accurately ascertain taxation issues. (Case 1 to 7)
- The NTA is also striving to shed light on issues concerning not only self-assessment income taxes and corporate taxes related to cross-border transactions, but a wide array of tax categories, such as inheritance tax, gift tax, withholding income tax, consumption tax, international taxation and application of the Controlled Foreign Company (CFC) Rule (Case 8 to 13), while at the same time, making efforts to protect our country's revenue from tax income by utilizing the mutual tax collection assistance system on collections (Case 14).

Cases	Item	Overview	Tax Category
Case 1	Case of utilization of records of remittances and receipts related to foreign countries (remittance)	Case in which the violator maintained an offshore fund reserve by conspiring with an overseas acquaintance to register fictitious expenses	Corporation tax
Case 2	Case of utilization of records of remittances and receipts related to foreign countries (receipt)	Case in which the violator maintained an offshore reserve fund by executing transactions off the books	Self-assessment income tax
Case 3	Case of utilization of foreign asset statements and statements of assets and liabilities	Case in which income generated from assets registered on the foreign asset statement was not being declared	Self-assessment income tax
Case 4	Case of utilization of requests for exchange of information based on tax treaties in place ①	Case in which business consignment fees paid to overseas tour conductors were being fictitiously recorded or inflated	Self-assessment income tax
Case 5	Case of utilization of requests for exchange of information based on tax treaties in place ②	Case in which gratuity paid to an employee of the business counterpart was disguised as payments of sales commission in consideration for the relationship with the business counterpart	Corporation tax
Case 6	Case of utilization of information gained from a foreign tax authority through the Automatic Information Exchange program	Case in which interest gained through an offshore bank account and capital gains from transfer of foreign real estate were not being filed	Self-assessment income tax
Case 7	Case of utilization of information gained from a foreign tax authority through the spontaneous exchange of information	Case in which funds were being reserved overseas through off-the-book transactions executed overseas	Corporation tax
Case 8	Case of application of the Controlled Foreign Company (CFC) Rule	Case in which the Controlled Foreign Company (CFC) Rule was applied based on capital funding of related subsidiary overseas	Corporation tax
Case 9	Case in which foreign assets were being excluded from an inheritance tax filing	Case in which foreign assets were not declared despite prior knowledge of the inheritance located overseas	Inheritance tax
Case 10	Case in which gift tax on foreign assets were not filed	Case in which gift tax was not filed despite accepting real estate property located overseas as a gift	Gift tax
Case 11	Case of failure to file inheritance tax on foreign assets and dividend income tax on inherited foreign securities	Case in which inheritance tax on inherited foreign assets were not being declared, and dividend income generated by inherited foreign securities were not being declared	Inheritance tax Self-assessment income tax
Case 12	Case of failure to withhold tax on payments made to an overseas business counterpart	Case in which tax was not withheld on compensation payments for services rendered, paid to a foreign business counterpart	Withholding income tax
Case 13	Case in which illegal refund of consumption tax was prevented prematurely	Case in which the violator was attempting to receive illegal refund of consumption tax by disguising domestic transactions as export transactions	Consumption tax
Case 14	Case of mutual tax collection assistance	Case in which delinquent tax was collected through the mutual tax collection assistance system, from assets of the delinquent who returned to his home country	Collection
Reference Case	Case of spontaneous exchange of information from Japan to a foreign authority	Case in which tax was levied by a foreign authority based on information provided to the foreign authority	-

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

### ~ Detect precisely cross-border fund transfers and assets held overseas ~

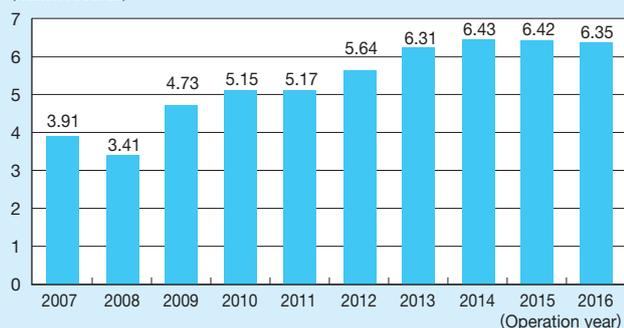
For the purpose of detecting cross-border fund transfers and assets held overseas, the NTA has been utilizing the following systems:

#### 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 ¥1 million. The record states the name and address of the sender and receiver of funds, remittance amount, and My Number or Corporate Number (enforced in April 1998).

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

(million records)

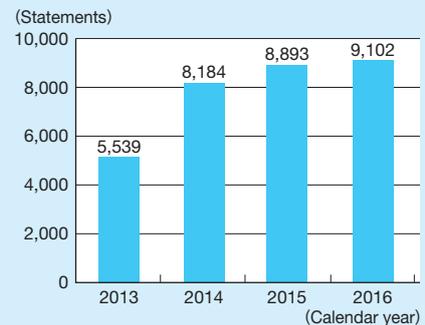


\* From April 2009, the threshold amount for submission was decreased from more than ¥2 million to more than ¥1 million.

## 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 foreign asset statements submitted



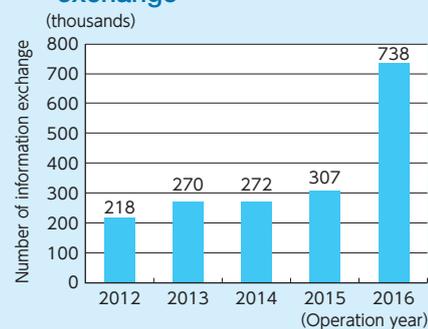
## ③ Statements of assets and liabilities

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 2016 was roughly 73,000 as of the end of June 2017).

## ④ Exchange of information under tax treaties, etc.

There are cases in which the NTA cannot sufficiently clarify the cross-border transactions only with the information obtained in Japan. In such cases, the NTA can exchange information with foreign tax authorities under bilateral tax treaties or provisions of the multilateral Convention on Mutual Administrative Assistance in Tax Matters makes it possible to acquire the necessary information for proper and fair taxation from other countries. In recent years in particular, the network of exchange of information has been expanding and strengthening. As of April 2018, Japan has 70 tax treaties<sup>1</sup> in force, which cover 123 jurisdictions, 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 and cases sent for requesting information each operation year.

## ⑤ Automatic exchange of information on financial accounts of non-residents 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 2018, 102 jurisdictions have committed to implement exchanging information based on the CRS by the end of 2018<sup>2</sup>.

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.

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

2 Some of these countries and regions have already begun to implement automatic exchange of information based on the CRS.

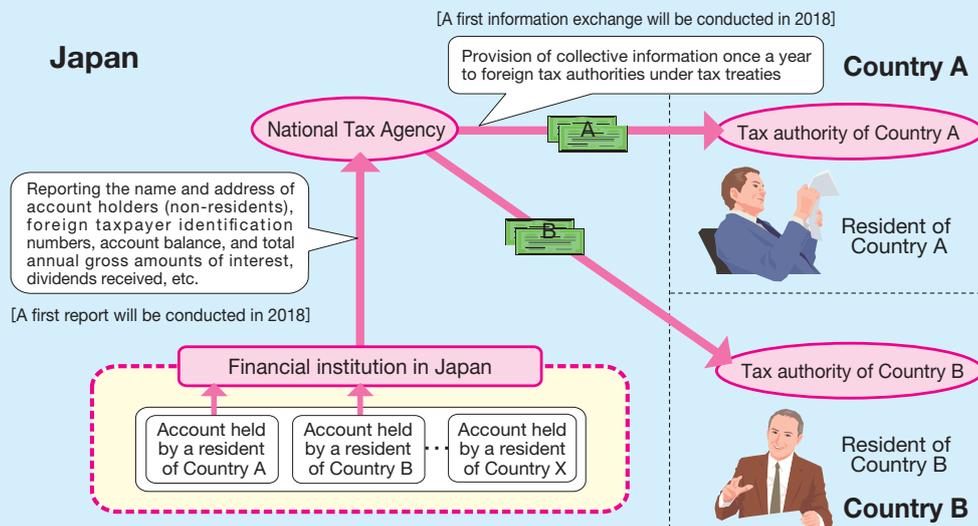
# III Proper and Fair Taxation and Collection

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.

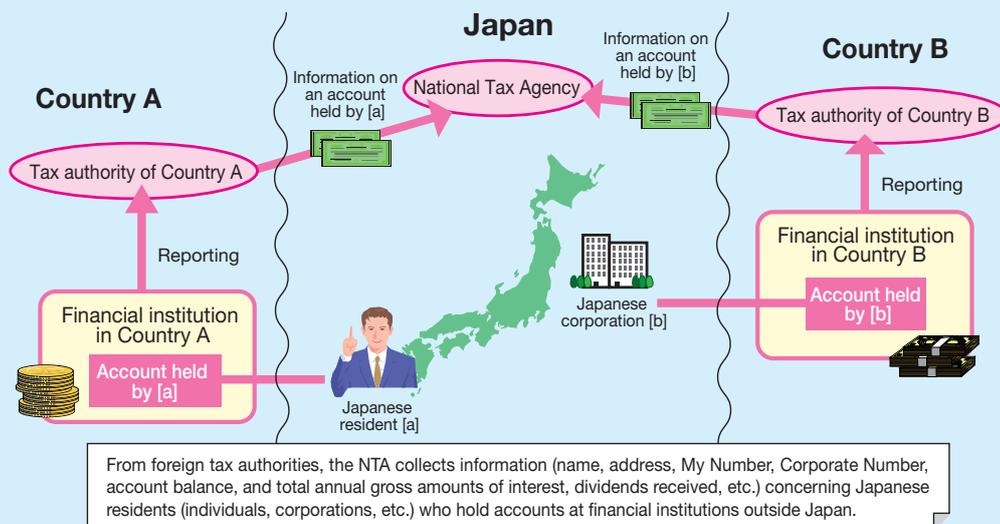
The system has come into force on January 1, 2017. The NTA will receive the report from financial institutions located inside the country by the end of April every year<sup>1</sup>, and provide information for foreign tax authorities by the end of September of that year. The NTA will also receive financial 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



<sup>1</sup> The deadline for 2018 is May 1.

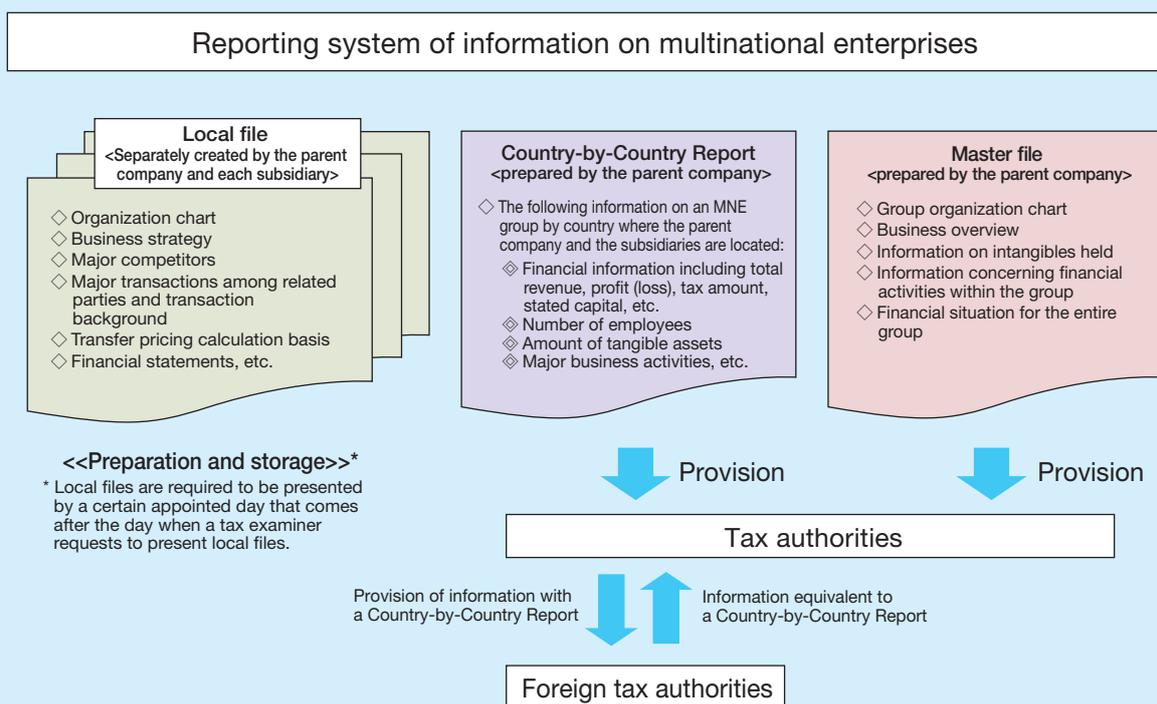
## ⑥ Establishment of a reporting system of information on multinational enterprises

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

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

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



<sup>1</sup> The ultimate parent entity of an MNE group that earns a total revenue of ¥100 billion 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).

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

### ～ Establishment of dedicated divisions and project teams ～

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

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

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

#### ■ Web-TAX-TV “Current situation of initiatives related to international taxation and future direction ~Future deployment of the Affluent Class PT ~”



Through its online broadcasting site, “Web-TAX-TV,” the NTA is streamlining “Current situation of initiatives related to international taxation and future direction ~Future deployment of the Affluent Class PT ~,” a program which illustrates the “International Strategy Total Plan” in an easy-to-understand format, highlighting the actions of the “project team for the selective management of the affluent class (Affluent Class PT)” who collect and analyze information on particular entities in the affluent class that command special attention. Please take a look when you have a chance.

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

### ～ Enhance cooperation with the foreign competent authorities ～

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

#### ① Participation in global framework

##### (1) Formation and 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 of the each jurisdiction’s tax system and business activities of 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	

## (2) Participation in the activities at the OECD

For the purpose of ensuring implementations of the recommendations in the final report of the BEPS Project to the broader area including emerging and developing countries, the “Inclusive Framework on BEPS” has been established in 2016. As of April 2018, 113 jurisdictions including Japan are participating in the “Inclusive Framework on BEPS”, and monitoring the implementation of the recommendations through the peer review process, etc.

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 150 jurisdictions participate.

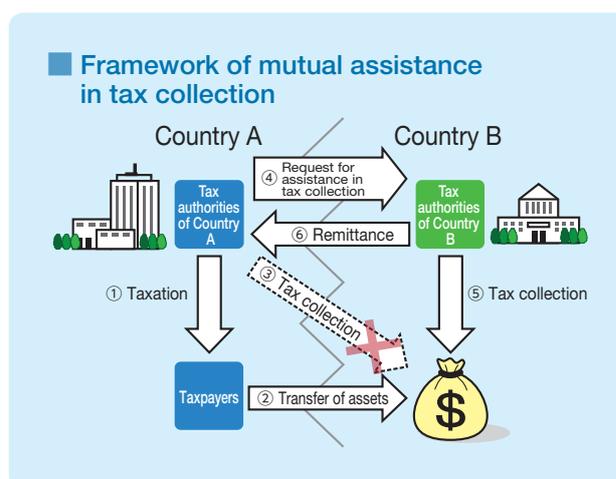
Moreover, at the “Joint International Taskforce on Shared Intelligence and Collaboration (JITSIC)” of the “OECD Forum on Tax Administration,” participants are taking part in activities with the objective to share information among participating countries, and to work together on common challenges, such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

The NTA is actively participating in these activities.

## ② Utilization of a mutual tax collection assistance system

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

In Japan, international tax collection is promoted by actively utilizing the mutual assistance system for tax collection under treaties such as the Multilateral Convention on Mutual Administrative Assistance in Tax Matters<sup>1</sup> etc., which became effective in October 2013.



<sup>1</sup> 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 85 jurisdictions including Japan (as of May 1, 2018).

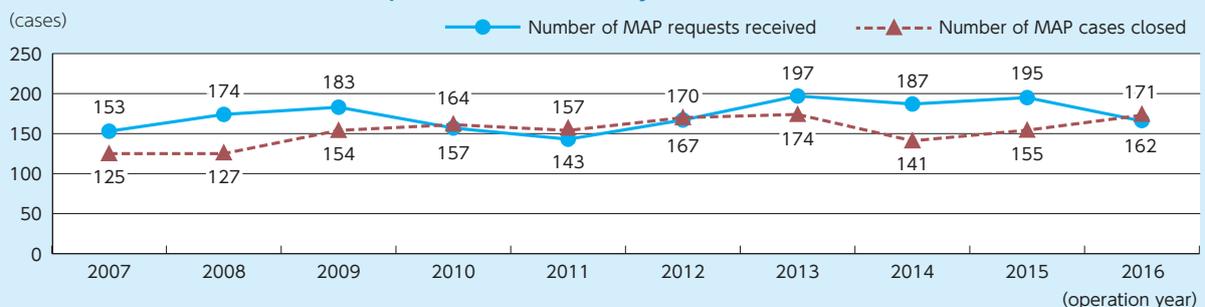
## ③ Promotion of the Mutual Agreement Procedure (MAP)

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

In the 2016 operation year, the number of MAP cases requested was 162, and the number of MAP cases closed was 171, and the number of MAP year-end inventories were 456.<sup>2</sup> Of the MAP cases requested and closed, approximately 80% were related to APA and about 20% were related to transfer pricing adjustments, etc.

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

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



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

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

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

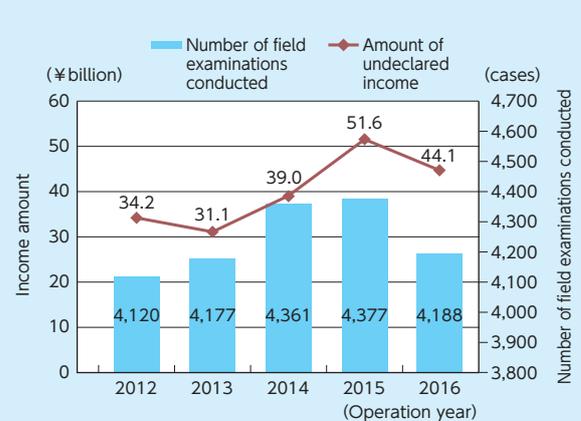
A growing number of corporations have been conducting cross-border transactions in Japan.

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 affluent class and corporations conducting cross-border transactions as a priority issue and has been actively conducting examinations.

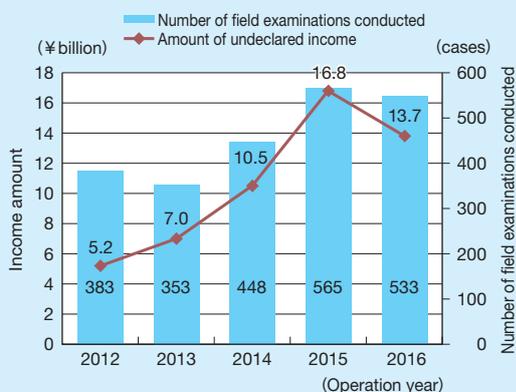
■ Actual examination of the affluent class



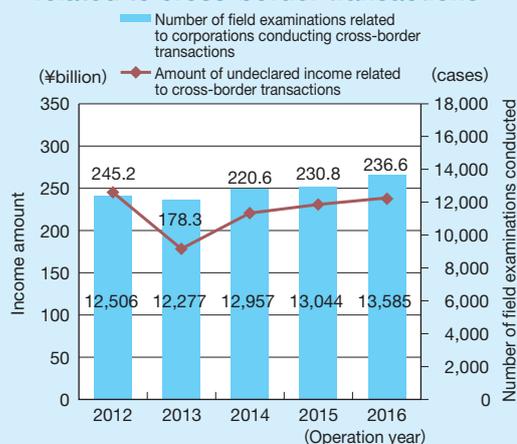
1 “Mutual Agreement Procedure (MAP)” is a formalized set of procedure between tax authorities of treaty partners which are provided in tax treaties. The NTA enters into MAP when taxpayers consider that international double taxation arise or will arise from transfer pricing adjustments or others, or when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

2 In Japan, 61 tax treaties (applicable to 72 jurisdictions) contain provisions regarding MAP, and MAP is held with 27 of those jurisdictions (as of June 2017).

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



## Actual examination of corporation tax related to cross-border transactions



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

As company activities become increasingly global, more transactions are becoming subject to the transfer pricing taxation<sup>1</sup>, 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)<sup>2</sup> 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 5 Engagement of the NTA through cooperative methods regarding transfer price taxation

As part of the FY2016 tax reform, documentation policy related to transfer price taxation was laid out, and the obligation for simultaneous documentation was enacted<sup>3</sup>. The NTA provides support for the preparation of “documents considered as necessary to calculate arm’s length price” (hereinafter, “local file”) of corporations that are subject to the obligation for simultaneous documentation. Since July 2017, the NTA has been actively engaged in individual reference concerning transactions subject to obligation for simultaneous documentation (hereinafter, “individual reference”) with the aim to maintain and enhance spontaneous tax compliance by corporations concerning transfer price taxation. Through the consulting service, as examples, the NTA responds to requests from taxpayers regarding individual references for the functional analysis, the selection of method to calculate arm’s length pricing and comparative transactions in preparation of local files.

In addition to responses to individual references, the NTA has been conducting a confirmation of local file preparation status and visiting corporations in accordance with the guidance<sup>4</sup> since July 2017. Based on the taxpayer’s understanding and cooperation, the NTA officers visit offices, and while confirming the status of its preparation, provides guidance and advice concerning details, if necessary.

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.

3 Corporations which have transactions with a single foreign affiliated entity with a total amount exceeding ¥5 billion, or the total amount of intangible asset transaction exceeding ¥300 million during the preceding business year, must prepare or obtain and store local files related to the subject foreign affiliated transaction, by the due date of the final tax return (Special Taxation Measures Law, Article 66-4, paragraph 6, Article 68-88, paragraph 6). The obligation for simultaneous documentation will become effective from the corporation’s business year commencing after April 1st, 2017.

4 Information on individual reference and corporate visitations may also be found in “NTA Transfer Pricing Guidebook for Taxpayers,” in the NTA web site. (<https://www.nta.go.jp/taxes/shiraberu/kokusai/itenkakakuzeisei/index.htm>)

## 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 FY2017, the NTA dispatched its officials to Cambodia, Indonesia, Lao PDR, Malaysia, 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 FY2017, they stayed in Cambodia, Indonesia, Lao PDR, Myanmar, and Vietnam.

### 2 Training conducted in Japan

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

ISTAX is a seminar for tax officials in developing countries, 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 FY2017, 24 tax officials from 24 countries participated in both courses in total.

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

The courses target tax officials from specified developing countries, and give lectures based on their request. In FY2017, 79 tax officials from Cambodia, China, Indonesia, 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 FY2017, 12 tax officials from 6 countries (Cambodia, Thailand, Lao PDR, Mongolia, Sri Lanka, and Vietnam) participated in the course.

#### (4) Practicum at the NTA

This course targets tax officials from developing countries who are studying at Japanese graduate schools (master's courses) on a scholarship from the World Bank, etc., and provides lectures on Japan's tax system and tax administration. In FY2017, 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)

		FY2013	FY2014	FY2015	FY2016	FY2017
International Seminar on Taxation (ISTAX) (General)	Countries	16	17	16	15	15
	People	16	17	16	15	15
International Seminar on Taxation (ISTAX) (Advanced)	Countries	13	13	9	8	9
	People	13	13	9	10	9
Country-Focused Training Courses in Tax Administration	Countries	6	6	3	4	4
	People	116	111	56	96	79
International Taxation for Asian Countries	Countries	6	6	6	7	6
	People	16	12	8	11	12
Practicum at the NTA	Countries	11	13	14	9	11
	People	20	17	18	15	15

## (2) Participation in international conferences

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

In order to cooperate and share experiences with foreign tax authorities 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 35 OECD and 15 non-OECD jurisdictions, for sharing each jurisdiction's knowledge and experience on a wide range of fields in tax administrations. In September 2017, the 11th Forum was held in Oslo, Norway with discussions including implementations of anti-BEPS measures.

#### 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 2017, the 47th meeting was held in Philippine, with discussions about future visions of capacity building programs that may be beneficial for tax officials of SGATAR Members.