

## 1 Proper and Fair Taxation and Collection

### ~ Strict examination on malicious taxpayers, but brief contact for simple mistakes ~

The NTA analyzes information from various angles and for malicious taxpayers who try to illicitly evade their tax burden, the NTA establishes appropriate examination systems, and conducts strict examinations.

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)

Tax category \ Operation year	2016	2017	2018
Self-assessed income tax	70	73	74
Corporation tax	97	98	99
Consumption tax	130	132	133
Inheritance tax	12	13	12

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

(billion yen)

Tax category \ Operation year	2016	2017	2018
Self-assessed income tax	81.9	94.7	96.1
Corporation tax	173.2	194.8	194.3
Consumption tax	103.0	102.1	109.9
Inheritance tax	71.6	78.3	70.8

### ~ 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

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

As consumption tax is one of the main taxes for tax revenue and 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 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.

#### ◎ Cases of examinations of consumption tax

- The NTA uncovered a case in which a bogus contract was prepared with the aim to illegally receive tax refunds on consumption tax by registering fictitious purchases while registering fictitious export sales (tax-exempt transaction) at the same time.
- The NTA uncovered a case in which an overseas business operator who distributes gaming applications was not filing consumption tax.

### ～ 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

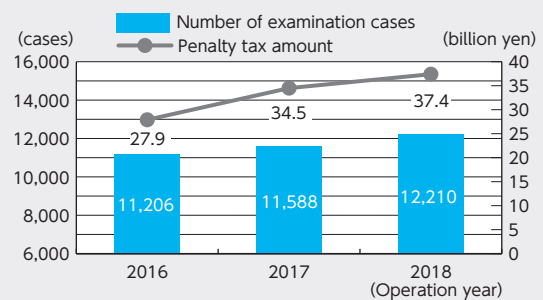
- The NTA ascertained the fact from a foreign assets statement that the subject of the examination possessed real estate and savings account abroad, and incomes of rent generated through the real estate and interest from the savings account had been excluded from the tax return.
- The NTA ascertained from information obtained through exchange of information based on the tax treaty that subcontracting expenses paid to an overseas corporation had been inflated.

※ Details of the activity mentioned above 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])

### ～ Identify non-filers by utilizing information ～

Since failure to file tax return will cause a strong sense of unfairness to voluntary compliant taxpayers, the NTA precisely identifies failure to file by further collecting and utilizing information from materials, and actively conducts examinations.

#### ■ Examination results of non-filers (income tax, inheritance tax and corporation tax)



#### ◎ Cases of examinations of non-filers

- The NTA has discovered that a company employee was obligated to file a final tax return related to earnings (affiliate income) gained from corporate advertisements displayed on his/her website together with his/her salary income, but failed to do so.
- The NTA uncovered a case in which an individual illicitly avoided filing tax returns by intentionally discarding prepared documents, despite recognizing the fact that a significant amount of profit was being generated.

### ～ Precise Action Towards New Fields of Economic Activities including the Sharing Economy<sup>1</sup> ～

Recently, as new fields of economic activities, such as the sharing economy, exhibit increasing expansion, the theme of necessity for efforts and systematic measures to address the securing of fair taxation is mutually recognized within Japan and abroad.

The NTA is striving to develop an environment for appropriate filing in these fields while broadening its collection of information. Through these efforts, the NTA will accurately identify taxpayers who are suspected of taxation issues, and take actions to ensure fair taxation, including provision of administrative guidance.

Please refer to the section titled “Precise Action Taken Towards New Fields of Economic Activities including the Sharing Economy” ([https://www.nta.go.jp/information/release/kokuzeicho/2019/sharingu\\_economy\\_taio/pdf/01.pdf](https://www.nta.go.jp/information/release/kokuzeicho/2019/sharingu_economy_taio/pdf/01.pdf) [in Japanese]) uploaded on the NTA website.

<sup>1</sup> “New fields of economic activities including the sharing economy” is used as a collective term for sharing business and service, transactions of crypto-assets (virtual currency), online advertising (affiliate etc.), digital contents, online shopping and auctions and new other economic transactions.

## ~ Accurately understanding claims made by taxpayers and executing proper tax administration ~

When conducting tax examinations, the NTA consistently strives to accurately interpret assertions made by the taxpayer and study the laws and regulations based on accurate fact finding to exercise proper taxation. Towards this end, we are thoroughly adhering to the procedures and processes as defined in legal requirements.

## (2) Utilizing approaches other 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

- Initiatives to encourage voluntary review by contacting by documents or telephone, 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
- Initiative to promote proper declaration by publication through the NTA website on points to pay extra attention to when filing one's tax return

## Cooperative approaches

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

### ● Approach to enhance the corporate governance on tax matters

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 extend the period until the next examination to focus its resources for examinations on other corporations which require higher attention.

With this action, the NTA will be able to effectively utilize the limited human resource. 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.

The results of evaluation about details of measurement indices on 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 "self-inspection of tax returns and self-audit of tax items" at large enterprises

#### ~ Publication of check sheets 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 "Self inspection of tax returns and self-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 self-audit of, for example, omissions in entering adjustments in settling accounts and in adjustments for taxable income before tax return preparation. 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 approach concerning transfer price taxation

The NTA has published the “Transfer Price Guidebook-Towards Maintenance and Enhancement of Voluntary Tax Compliance” (June 2017) (<https://www.nta.go.jp/taxes/shiraberu/kokusai/itenkakakuzeisei/index.htm> [in Japanese]) with the aim to increase the predictability of taxpayers and transparency of public administration concerning transfer price taxation.

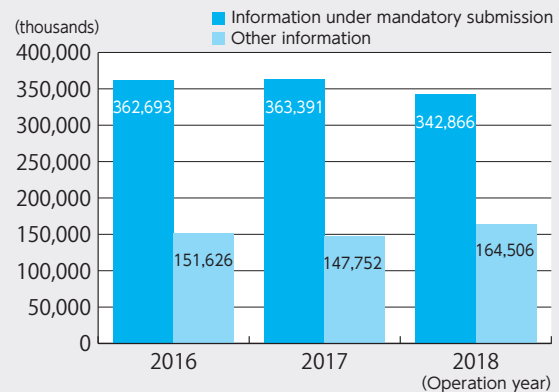
## (3) Data and Information

### ～ 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.

The legal framework around collection of data and information has been organized and put into effect since January 2020. The NTA is undertaking efforts to enhance collection of data and information within this framework.

#### ■ Number of information items collected



## (4) Criminal investigation

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

The tax criminal investigation system aims to pursue criminal responsibility of malicious tax evaders and 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.”

### ～ Positive action toward cases with socially strong ripple effects ～

During FY2019, based on the current socio-economic situation, the NTA actively engaged cases with socially strong ripple effects, such as illicit receipt of consumption tax refunds, failure to file tax returns, international cases, tax evasion cases in business areas where markets are expanding, and tax evasion cases where tax evaders utilize the current unique factors.

In particular, the NTA applied for the first time the penalty for failure to present a foreign asset statement in an international case where illicit funds were concealed abroad. In addition, the NTA charged an Internet advertising agency and an accountant who benefitted from a significant amount of profits through his consulting services specializing in consumption tax refunds.

#### ◎ Cases of accusations filed to the prosecutor in FY2019

##### First application of the penal provision for failure to present a foreign asset statement

The NTA charged an individual with failure to present a foreign asset statement. In that case, the individual evaded a significant amount of income tax by depositing sales proceeds into a third-party savings account and concealing his income. He also failed to submit a foreign asset statement on an overseas savings account in which the proceeds was deposited without a justifiable cause.

## ■ 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)
FY2018	166 cases	182 cases	121 cases	million yen 13,999 (11,176)	million yen 77 (92)
FY2019	150	165	116	11,985 (9,276)	73 (80)

※ Figures of tax evasion include additional tax.

## ■ Ruling Status in the first trial 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
FY2018	cases 122 (5)	cases 122 (5)	% 100.0	persons 7 (2)	million yen 61	months 14.3	million yen 14
FY2019	124 (9)	124 (9)	100.0	5 (4)	47	15.5	12

※ 1 Figures in the brackets indicate cases combined with non-tax crimes.

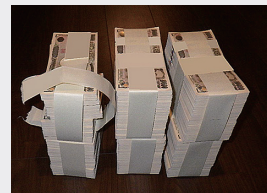
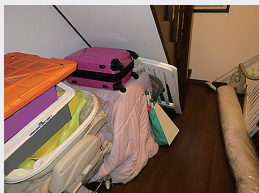
※ 2 ④ to ⑥ exclude those combined with non-tax crimes.

## ◎ Cases in FY2019 resulted in actual prison sentences Malicious tax evaders sentenced to imprisonment

A company who develops, manufactures, and sells processors hid income by recording fictitious outsourcing expenses, evaded a significant amount of corporate and consumption taxes. In combination with fraud, the previous representative of the company was sentenced 5 years in prison without a stay of execution.

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

Cash was discovered from hidden safe under a staircase in a residence.



## 2 Reliable tax payment

### (1) Establishment of voluntary tax payment

~ Approximately 66.5 trillion yen of taxes paid within the fiscal year (98.9% paid within the fiscal year) ~

Self-assessed national tax becomes revenue when paid into the national treasury. In FY2018, about 67.2 trillion yen of taxation (amount determined for collection) was self-assessed in Tax Offices. Of this, about 66.5 trillion yen of tax (collected amount) was paid into the national treasury within the fiscal year, for a 98.9% collection ratio.

~ Measures to prevent delinquencies ~

In order to prevent delinquencies, the NTA is proactively increasing publicity of payment deadlines and saving funds for tax payment with the cooperation of relevant private organizations and Certified Public Accountants' Associations.

So that taxpayers do not forget their deadlines for tax payment and to settle their payments in a programmed manner, the NTA has introduced various payment options, such as transfer tax payments and advance payments utilizing direct payment, while promoting active adoption of these options.

A written notice is sent in advance to taxpayers who paid after the due date for the previous time. After the due date has passed, a phone call is placed to taxpayers before the payment demand letter is sent.

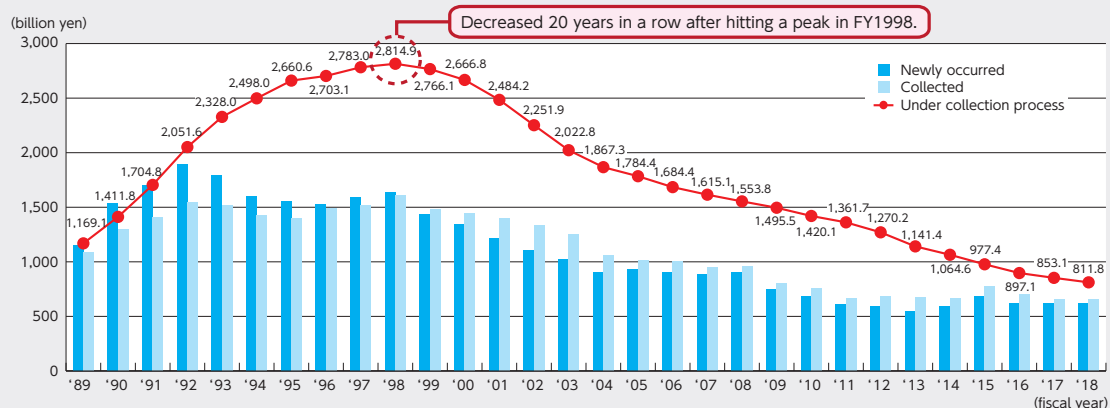
※ Delinquency signifies that the national tax was not paid by due date and a payment demand letter was sent.

### (2) Efforts to promote reduction of tax delinquency

~ Amounts under collection process reduced to 28.8% of the peak time ~

At the end of FY2018, the tax delinquency amount was about 811.8 billion yen.

#### ■ Trend of collection of delinquent tax, for all tax categories



※ 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 0.8 trillion yen

→ 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 completion, and works to resolve delinquencies under the following basic policy.



## ~ Appropriate action in collection while considering each delinquent taxpayer's situation ~

In the collection of delinquent taxes, voluntary payment is urged and the taxpayer's intention to pay is confirmed while the resolution policy is determined following a thorough examination of the situation of each delinquent taxpayer, such as the condition of its business, assets and balance of income and expenditure.

In particular, should the taxpayer consult with the NTA concerning difficulties it may have in settling in a lump sum payment, the NTA will consider applying measures to relax conditions of the tax settlement, such as deferred payment or conversion of assets into cash, after thoroughly listening to the taxpayer's circumstances, and permit payment in installments provided it satisfies the requirements of laws and regulations. On the other hand, should sincere intentions towards payment of taxes not be recognized, including where default of commitments to pay the tax is repeated, the NTA will take disposition for delinquent tax, such as seizure and auctioning off of assets in a timely and appropriate manner.

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

When collecting delinquent tax in a large and notably malicious delinquency case, strict and resolute action is taken, such as search and seizure or collection of delinquent tax through public auctions, exercised in a timely and appropriate manner.

In addition, stricter actions are 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 referred to the prosecutor.

### ◎ Cases of accusations filed to the prosecutor in FY2019

#### Prosecution of a case involving evasion of collection of delinquency by altering the account of accounts receivable payments

With the aim to evade collection of delinquency, the suspect established a paper company appointing his wife as the company's nominal representative, and concealed his asset by having his accounts receivable payments remitted to this company's account.

## ~ Organizational response to difficult-to-handle cases ~

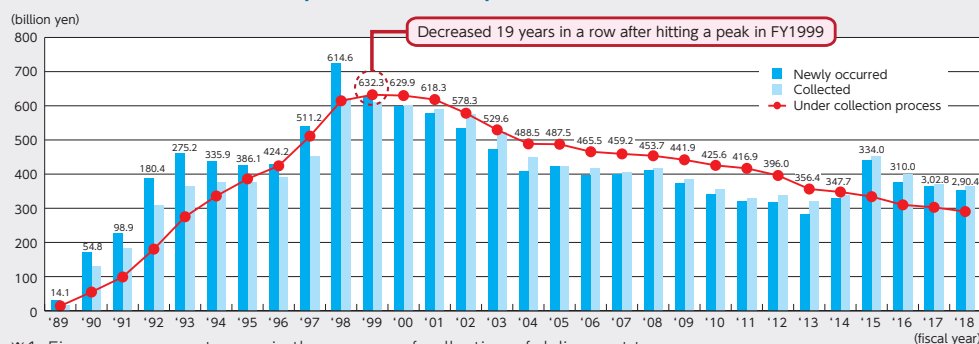
For delinquency processing of difficult-to-handle cases, such as complicated transactions and disguise of transfer of asset, the NTA secures sufficient resources necessary to solve the case and takes organizational actions such as disposition for delinquent tax by management over a wide geographic area, 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 ~

With respect to delinquency of consumption taxes, the NTA is striving to reduce the balance of delinquent consumption tax in a decisive manner, such as by making sure that new cases are dealt with swiftly.

### ■ Trend of collection of delinquent consumption tax



- 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 yen 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) regarding assets 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).

### (3) Office of Tax Collections Call Center

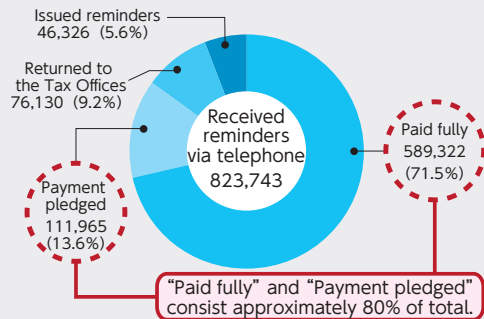
#### ~ Conduct effective and efficient phone notices ~

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

Over the year from July 2018 to end of June 2019, this office provided notifications to about 820,000 people, of which about 590,000 people (71.5%) fully paid, and about 110,000 people (13.6%) pledged payment.

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

Of 823,743 taxpayers issued reminders for payment by telephone between July 2018 and end of June 2019, 589,322 have fully paid their taxes.



### (4) Public auction by Internet

#### ~ Sold approximately 2,200 items by Internet auctions ~

The NTA is auctioning off properties which were seized for the collection of delinquent taxes.

In a public auction, participants either place their tender or participate in an auction for a property. The NTA hosts an Internet auction by using a private-sector auction site.

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 the effective means to sell the assets or goods of high value that have been seized.

Six Internet auctions were held in FY2019. As a result, a total of about 10,000 people participated, and about 2,200 items such as automobiles, jewelry goods, real estate were sold, for a total sales value of about 460 million yen.

#### ■ Examples of properties that were sold by Internet auctions in FY2019





## (5) Accurate and efficient management of claims and liabilities

### ~ Proper and prompt process realized by advanced 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 43.04 million tax payment cases each year. To efficiently process this huge amount of payments, the NTA is working on more efficient processing operations with optical character recognition (OCR) processing<sup>1</sup> for tax payment slips at the Bank of Japan, income tax and sole proprietors' consumption tax payments by transfer account<sup>2</sup> and online tax payment and Direct payment. The NTA is also pursuing efficient and speedy refunds with adopting online transfer procedures.

## 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, progress in the Base Erosion and Profit Shifting (BEPS) Project and Automatic Exchange of Financial Account Information of non-residents under the Common Reporting Standard (CRS) developed by the OECD, public interest has been significantly increasing on international tax avoidance cases. Those include hiding assets overseas by the affluent class and corporations that conduct cross-border transactions and reducing tax burden using the mismatch in the tax systems among jurisdictions.

In consideration of this situation, the NTA considers that achieving proper and fair taxation in view of both global and domestic trends will lead to securing trust from taxpayers.

### (2) Actions against the affluent class and corporations conducting cross-border transactions

#### ~ Active engagement with international tax avoidance cases ~

The NTA places undertakings in international taxation high on its list of priorities, and actively carries out examinations of international tax avoidance cases, while at the same time: (1) enhancement of information resources (reinforcement of information collection and utilization), (2) enhancement of human resources for examination (establishment and expansion of a system for implementation areas), and (3) reinforcement of global networks (cooperation with foreign tax authorities).

#### ① Enhancement of information resources (reinforcement of information collection and utilization)

#### ~ Detect precisely cross-border transactions and domestic and foreign assets ~

The NTA adopts the following systems in order to precisely detect cross-border transactions and assets within and outside of Japan, while comprehensively analyzing collected or given information and others to deal accurately with cases of international tax avoidance.

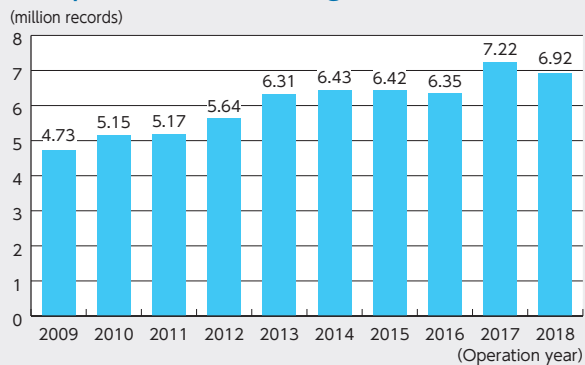
1 OCR processing (optical character recognition processing) converts the characters written on a tax payment slip into electronic data. This electronic data is communicated between the Bank of Japan and the NTA, providing more efficient information transfer and paperless processing.

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 or savings accounts. If it is necessary to send tax payment slips to financial institutions in large quantities, the Tax Offices send 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 return the data of the processing results to the Tax Offices.

### (i) 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 over 1 million yen. The record states the name and address of the sender and receiver of funds, remittance amount, etc. (enforced in April 1998).

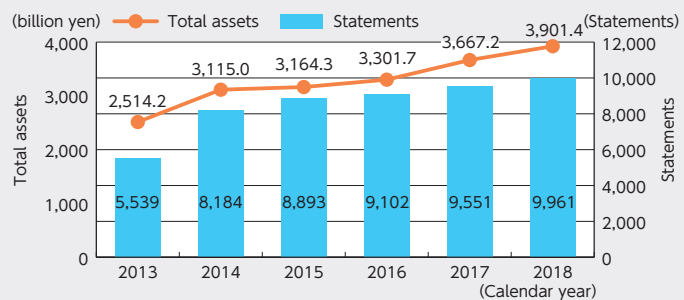
#### ■ The number of Records of remittances and receipts related to foreign countries submitted



### (ii) Foreign asset statements

Those who have foreign assets totaling over 50 million yen as of December 31 in the year are to submit a statement describing the type, value of the assets overseas, etc. by March 15 of the following year to Tax Offices (enforced in January 2014).

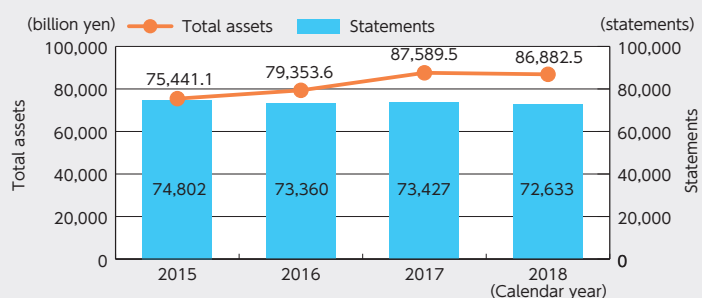
#### ■ The number of foreign asset statements submitted and total amount of assets reported



### (iii) 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 as of December 31 in the year are to submit a statement describing the type, value of the assets, the amount of debt, etc. by March 15 of the following year to Tax Offices (enforced in January 2016).

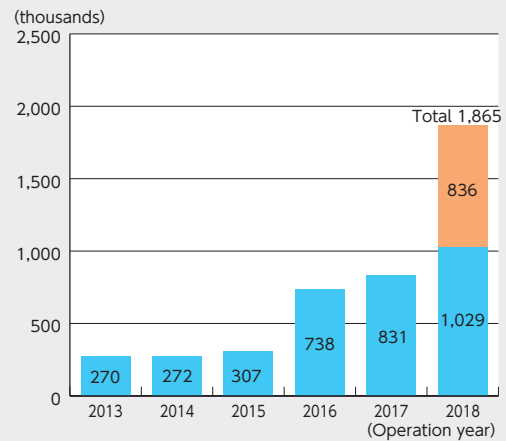
#### ■ The number of statements of assets and liabilities submitted and total amount of assets reported



(iv) Exchange of information under tax treaties, etc.

In some cases, it is difficult for the NTA to clarify the cross-border transactions sufficiently 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, which makes it possible to acquire the necessary information for proper and fair taxation from other jurisdictions. In recent years in particular, the network of exchange of information has been expanding and strengthening. As of April 2020 Japan has 76 tax treaties<sup>1</sup> in force, which cover 136 jurisdictions, and exchanges information regarding taxation and collection.

■ Trend in number of information exchange



※1 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.  
 ※2 Figures for FY2018 include financial account information of non-residents under the CRS and Country-by-Country Report (836,000 cases).

(v) Automatic Exchange of Financial Account Information of non-residents based on the Common Reporting Standard (CRS)

To address international tax evasion and avoidance performed through foreign financial institutions, in 2014, the OECD developed the Common Reporting Standard (CRS) which is the international standard for Automatic Exchange of Financial Account Information of non-residents with other jurisdictions. According to the information published by the OECD, during 2019, tax authorities of 95 jurisdictions implemented Automatic Exchange of Information concerning financial accounts of non-residents (name, address, account balance, etc.) under the CRS.

Japan also commenced exchanging information with other foreign tax authorities in 2018. The NTA uses the information received to identify financial assets located overseas and income generated through those assets, and to detect and identify cross-border transactions with taxation issues after analyzing the information together with other documents and information, such as records of remittances and receipts related to foreign countries and foreign asset reports.

■ Table: Automatic Exchange of Information concerning financial accounts of non-residents under the CRS

	Receipt				Provision			
	July 2018~June 2019		July 2019~November 2019		July 2018~June 2019		July 2019~November 2019	
	Number of countries and regions	Number of accounts	Number of countries and regions	Number of accounts	Number of countries and regions	Number of accounts	Number of countries and regions	Number of accounts
Asia and Pacific	11	445,919	14	1,467,369	10	74,770	11	373,883
North America and Central & South America	15	41,995	19	96,288	9	6,261	11	33,523
EU and NIS Countries	40	232,492	41	294,636	35	8,895	37	64,078
Middle East and Africa	8	24,580	11	32,747	4	229	5	2,173
<b>Total</b>	<b>74</b>	<b>744,986</b>	<b>85</b>	<b>1,891,040</b>	<b>58</b>	<b>90,155</b>	<b>64</b>	<b>473,657</b>

<sup>1</sup> The term "Tax treaties, etc." refers to tax treaties, information exchange agreements, Convention on Mutual Administrative Assistance in Tax Matters and private-sector arrangement with Taiwan.

### ◎ Cases of effective use of the CRS information

- The NTA identified a savings account located overseas based on the CRS information, and revealed the fact that interest generated through that account remain undeclared.
- The NTA identified a savings account located overseas in the name of the deceased based on the CRS information, and revealed the fact that the account and a real estate property located overseas, which was identified separately through the examination, remain undeclared.
- The NTA identified the fact that a significant amount of balance remained in a savings account located overseas under the name of the corporate representative based on the CRS information, and revealed the fact that earned commission was being excluded from the corporate income deliberately by collecting that commission through the representative's individual account.

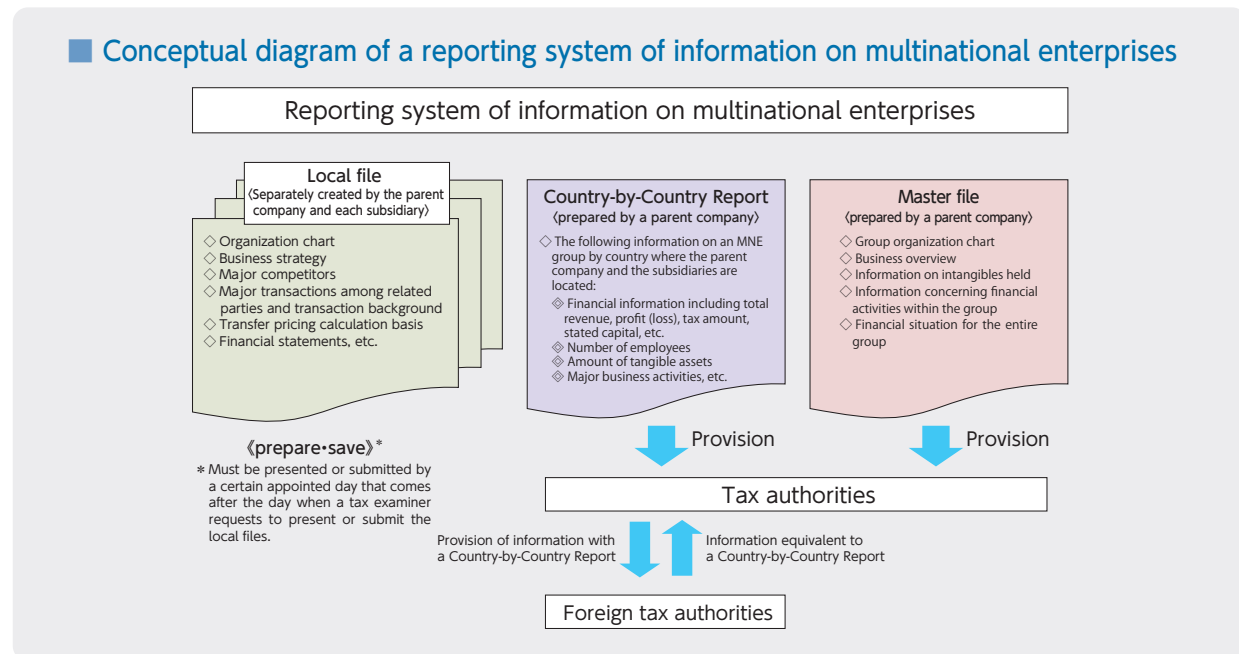
### (vi) Reporting system of information on multinational enterprises

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>.

Of this information, the (1) CbC Report is agreed to be provided for the tax authority of the jurisdiction where a constituent entity of the MNE group is located, by each jurisdiction, based on the automatic exchange of information stipulated in the tax treaty. In the operation year 2018, the NTA received 2,100 reports from tax authorities of 42 jurisdictions, while it provided 831 reports for tax authorities in 51 jurisdictions.

In addition, 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 (3) "local files" by the filing deadline 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 to 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 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 to the fiscal year of the ultimate parent entity that begins on or after April 1, 2016).

## ② Enhancement of human resources for examination (establishment and expansion of a system for implementation 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.

In addition, the project team for the selective management of the affluent class established in each Regional Tax Bureau across the country in July 2017, collects and analyzes information through an integrated management of taxpayers who in particular hold a large amount of assets among the affluent class, by managing its relevant parties, the presiding company, and companies involved as an integrated group.

## ③ Reinforcement of global networks (cooperation with competent foreign authorities)

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

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

### (i) Participation in global framework

#### ● Formation and implementation of international agreements

The BEPS Project was initiated by the OECD in 2012 to address the problem of tax avoidance by MNEs that are artificially manipulating taxable income by using the mismatch among the domestic law of each jurisdiction. With the G20 members that are non-OECD countries participating in discussions, the final report was publicized in October 2015.

The final report presents 15 recommendations, by means of reviewing the overall international tax rules, to address international tax avoidance by MNEs and to increase the transparency of each jurisdiction's tax system and MNEs' business activities. The NTA has been proactively engaged in implementing those recommendations appropriately. For detailed information on each action plan, please refer to the section titled "BEPS Project" on the NTA website (<https://www.nta.go.jp/taxes/shiraberu/kokusai/beps/index.htm> [in Japanese]).

#### ● 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 economies, not only limited to OECD countries, but including emerging and developing countries, the "Inclusive Framework on BEPS" has been established in 2016. As of April 2020, 137 jurisdictions including Japan are participating in this framework, and monitoring the implementation of the recommendations through the peer review process and discussing review of the recommendations.

Regarding exchange of information under 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 160 jurisdictions participate.

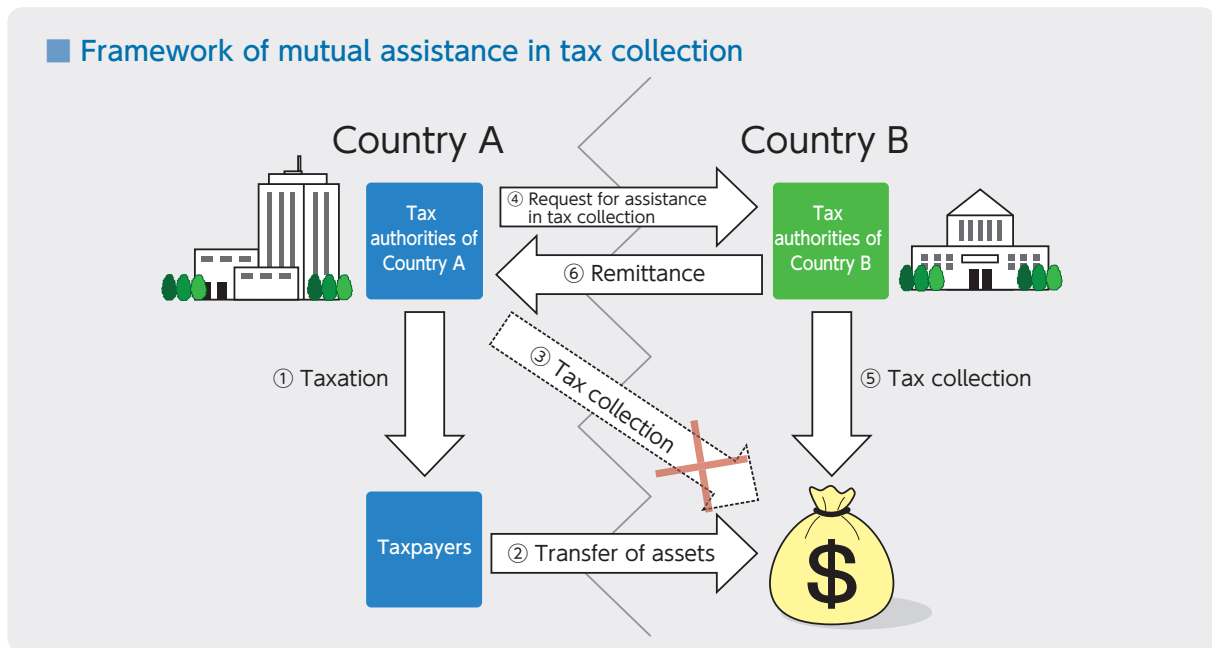
Moreover, at the "Joint International Taskforce on Shared Intelligence and Collaboration (JITSIC)" of the "OECD Forum on Tax Administration," participants are taking part in activities with the objective to share information among participating countries, and to work together on common challenges, such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

The NTA is actively participating in these activities and discussions.

## (ii) Utilization of a mutual tax collection assistance system

A country's tax authority cannot exercise its public authorities outside the country's territory for the purpose of tax collection. For this reason, in order to deal properly with international tax collection evasion through transfer of assets overseas, a framework of "mutual assistance in tax collection" which enables each country's tax authority to mutually collect tax claims of treaty partners is adopted in tax treaties.

The NTA promotes international tax collection 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>.



## (iii) Mutual Agreement Procedure (MAP)

When a taxpayer makes a request regarding international double taxation arises from transfer pricing adjustments or others, the NTA enters into Mutual Agreement Procedure (MAP)<sup>2</sup> with relevant foreign tax authorities based on the provisions of applicable tax treaties to resolve such double taxation. In addition, the NTA enters into MAP for Advance Pricing Arrangement (APA)<sup>3</sup> in view of the predictability for taxpayers and the proper and smooth administration of the transfer pricing taxation<sup>4</sup>.

The NTA makes every effort to resolve the MAP cases appropriately and promptly. Specifically, we have been ensuring adequate number of staff and establishing cooperative relationships with relevant foreign tax authorities<sup>5</sup> for swift and smooth MAP negotiations. In addition, through active provision of technical assistance towards emerging countries, the NTA strives to promote international taxation rules, and at the same time, shares knowledge and best practices on process and procedure of MAP, in order to facilitate resolution of MAP cases.

1 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 124 jurisdictions including Japan (as of June 1, 2020).

2 "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.

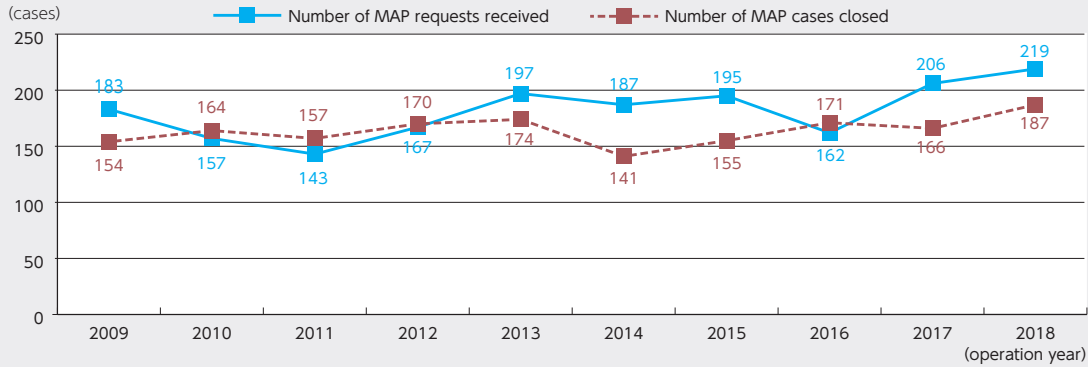
3 APA means the advance confirmation by a tax authority on taxpayer's method for calculating the arm's length price.

4 An adjustment of an enterprise's the income based on the transaction price between third parties (referred to as "arm's length price") when such enterprise engages in a transaction with a related enterprise abroad, and the income of such enterprise is diminished due to the fact that the transaction price is different from an "arm's length price."

5 The number of persons in charge of MAP was 31 in the 2009 operation year, but it has increased to 46 as of the 2019 operation year. During the 2018 operation year, the NTA conducted 38 times of MAP meeting for 147 days in total.



### Number of MAP requests received and MAP cases closed



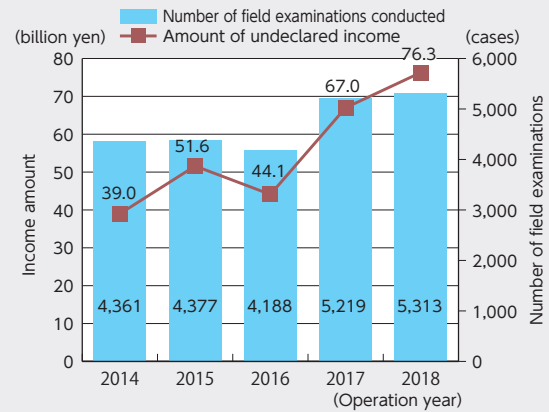
\* "Number of MAP requests received" consists of such requests from taxpayers and from foreign tax authorities.

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

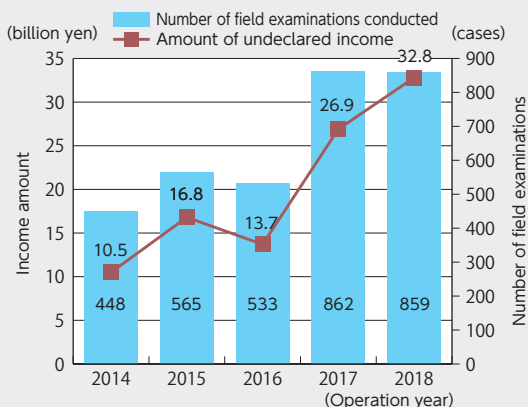
~ Actively conducting examinations the affluent class and corporations conducting cross-border transactions ~

The NTA has set actions against affluent class and corporations conducting cross-border transactions as a priority issue, and by pressing forward with the above initiatives, has been actively conducting examinations with the objective to properly deal with concealment of assets overseas and with acts of international tax evasion.

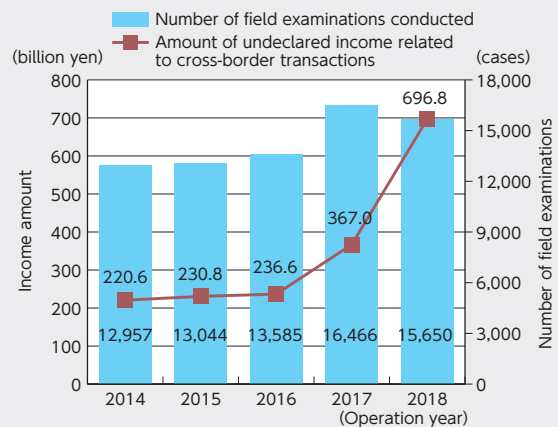
### Actual number of income tax examinations carried out against the affluent class



### Actual number of income tax examinations carried out against the affluent class related to cross-border transactions



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



### Example cases of examinations on the affluent class and enterprises engaged in cross-border transactions

- The NTA ascertained the fact that assets were being managed through an account under the family's name with an overseas financial institution, and the income generated through this assets was not being declared.
- The NTA ascertained the fact that an overseas account was being used to receive consulting fees from a foreign corporation, and the subject fee was not being declared as income.

### ~ Defining conditions for application of transfer price taxation ~

As company activities become increasingly global, more transactions are becoming subject to the transfer pricing taxation, 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. For the Advance Pricing Arrangement (APA) for transfer pricing taxation the NTA has been providing an environment where taxpayers can smoothly use this APA, such as engaging in consultations prior to accepting requests for APA.

## 4 Cooperation with foreign tax authorities

### (1) Technical cooperation for developing countries

#### ~ Technical cooperation for developing countries with a focus on Asia ~

Under the framework of technical cooperation by the Japan International Cooperation Agency (JICA), 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 foster the foreign officials who understand Japan's tax administration.



International Seminar on Taxation

## Overview of technical cooperation

### 1. Dispatch of officials to developing countries

Based on the requests of developing countries' tax authorities, the NTA dispatches its officials to give lectures in fields such as international taxation, tax collection and taxpayer services. In FY2019, the NTA dispatched its officials to Lao PDR, Malaysia, Myanmar, Philippines 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 also dispatches its officials as long-term experts of JICA. In FY2019, they stayed in Cambodia, Indonesia, Lao PDR, and Myanmar.

### 2. Trainings conducted in Japan

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

ISTAX is a seminar for tax officials from several developing countries, and gives 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 FY2019, 27 tax officials from 19 countries participated in both courses in total.

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

The courses target tax officials from a certain developing country, and give lectures based on its requests. In FY2019, 32 tax officials from Indonesia, Lao PDR and Myanmar participated in the courses.

#### (3) International Taxation for Asian Countries

This course targets tax officials from Asian developing countries and gives lectures on "international taxation." In FY2019, 7 tax officials from 7 countries (Cambodia, Indonesia, Lao PDR, Malaysia, Mongolia, Myanmar and Philippines) 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 gives lectures on Japan's tax system and tax administration. In FY2019, 15 students studying at graduate schools of Keio University, Yokohama National University and National Graduate Institute of Policy Studies participated in total.

### ■ Status of trainings conducted in Japan

(number of countries, people)

		2015	2016	2017	2018	2019
International Seminar on Taxation (ISTAX) (General)	Countries	16	15	15	14	16
	People	16	15	15	14	16
International Seminar on Taxation (ISTAX) (Advanced)	Countries	9	8	9	9	11
	People	9	10	9	9	11
Country-Focused Training Courses in Tax Administration	Countries	3	4	4	6	3
	People	56	96	79	86	32
International Taxation for Asian Countries	Countries	6	7	6	5	7
	People	8	11	12	7	7
Practicum at the NTA	Countries	14	9	11	11	12
	People	18	15	15	17	15

## OECD Asia-Pacific Academy for Tax and Financial Crime Investigation

In recent years, international tax and financial crimes have been a big concern in every country and international cooperation is vital to combat these crimes. To promote international cooperation, the OECD has played a central role to hold the “OECD Academy for Tax and Financial Crime Investigation” (hereinafter, referred to as “the Academy”) for tax crime investigators from various regions.

The Academies were held in various areas in the world, such as Italy in 2013, Kenya in 2017, and Argentina in 2018. There were programs on investigative methods on tax crimes, bribery and money laundering, and international cooperation.

In collaboration with the OECD, the NTA held the Academy in May 2019 at Wako Campus of the National Tax College which was mainly targeted to countries in the Asia-Pacific. The NTA would contribute to enhancing investigative techniques of officials from Asia-Pacific countries and promoting international collaboration by holding programs of the Academy periodically.



OECD Asia-Pacific Academy for Tax and Financial Crime Investigation

### (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, the NTA actively participates in international conferences including the OECD Forum on Tax Administration and the Study Group on Asian Tax Administration and Research.

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

The FTA is a forum for Commissioners from 37 OECD and 16 non-OECD jurisdictions to share each authority’s knowledge and experience on a wide range of fields in tax administrations. In March 2019, the 12th Plenary Meeting was held in Santiago, Chile with discussions about measures to improve tax compliance, etc. The 13th Plenary Meeting is scheduled to be held in the Netherlands towards the end of 2020.

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

SGATAR is comprised of tax authorities of 17 countries and regions in Asia-Pacific. This is a forum for discussions on cooperation and sharing of knowledge in the region. In October 2019, the 49th meeting was held in Indonesia with discussions about taxation on digital economy and trends in tax administration of recent years.