

1 Promotion of proper and fair taxation

~ 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, we establish appropriate examination systems, and conduct 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, we make brief contact via in writing or by telephone.

■ The number of field examinations

(thousand cases)

Operation year Tax category	2017	2018	2019
Self-assessed income tax	73	74	60
Corporation tax	98	99	76
Consumption tax	132	133	105
Inheritance tax	13	12	11

■ The additional tax amount of field examinations

(billion yen)

Operation year Tax category	2017	2018	2019
Self-assessed income tax	94.7	96.1	99.2
Corporation tax	194.8	194.3	164.4
Consumption tax	102.1	109.9	100.4
Inheritance tax	78.3	70.8	68.1

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

The NTA utilizes a 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 fictitious purchases were registered pretending that an expensive fixed asset was purchased.

～ 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 and non-residents' financial account information based on Common Reporting Standard (CRS).

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.

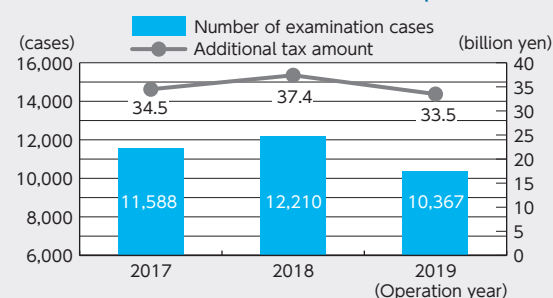
◎ Cases in which the NTA identified overseas assets not reported for Japanese tax purposes or international tax avoidance

- The NTA uncovered a case in which a foreign corporation owned shares but did not report dividends and gains on sale of shares, using overseas remittance reports, etc.
- The NTA used the exchange of information based on the tax treaty and uncovered a case in which a representative had sales proceeds deposited in his/her personal account at an overseas bank and did not properly report sales,

～ 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 non-filers 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 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 cases in which large profits made by sales of goods through the Internet were not reported, and only part of gains on cryptocurrencies managed with the profits was reported.

～ Precise Action Towards New Fields of Economic Activities including the Sharing Economy¹ ～

Recently, as new fields of economic activities, such as the sharing economy, exhibit increasing expansion, necessity for efforts and systematic measures to address the securing of fair taxation is mutually recognized as an issue 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, we 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_taiou/pdf/01.pdf [in Japanese]) uploaded on the NTA website.

¹ "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

We carry 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 enterprises, 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.

We will establish the mutual trustful relationship with those corporations under favorable corporate governance on tax matters and lower the examination frequencies when judged that they require lower attention, and will focus our 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, we expect the effects of 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 the effect of 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.

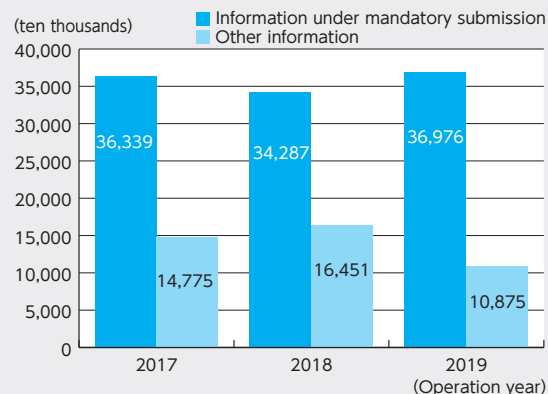
(3) Data and Information

~ 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.

Note that we are striving to enrich information further, using the legal system enacted since January 2020 concerning collection of information, as well.

■ Number of information items collected



Column 7

Management of examination processes considering the spread of the Covid-19 pandemic

It has been decided that on-site examinations, etc. would be conducted in line with taxpayers' situation while determining the spread of the Covid-19 pandemic, and we undertook on-site examinations after ensuring taxpayers' understanding and cooperation.

In addition, for cases in which examinations could be conducted without attending to taxpayers, we provided administrative guidance by phone or in a written form, or in other ways other than on-site examinations.

(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 towards cases with socially strong ripple effects ~

In FY2020, in view of the purpose of the tax criminal investigation system, the NTA focused on and actively engaged in cases with strong social ripple effects, such as consumption tax cases, failure to file tax return cases, international cases and up-to-date and distinctive cases.

As a result, we accused a fraudulent refund case by misusing the export tax exemption system for consumption tax, and for an international tax evasion case by booking fictitious costs to an overseas corporation. We also accused for so-called poverty businesses and a real estate case in a popular resort area among inbound tourists.

◎ An example of accusations filed to the prosecutor in FY2020

The NTA accused a foreign resident who received fraudulent consumption tax refunds.

The NTA accused a foreign resident who intentionally booked an excessive amount of tax-exempted export sales and tax credit for consumption tax on purchases not based on real transactions and received fraudulent consumption tax refunds by misusing the export tax exemption system for consumption tax.

The NTA accused the foreign resident of an attempted crime about fraudulent consumption tax refunds withheld by the tax office of jurisdiction.

■ Status of criminal investigations

	Number of cases conducted	Number of cases closed	Number of cases with accusation filed to the prosecutor	Total amount of tax evasion cases (portion with accusation filed to the prosecutor)	Amount of tax evasion per case (portion with accusation filed to the prosecutor)
	cases	cases	cases	million yen	million yen
FY2019	150	165	116	11,985 (9,276)	73 (80)
FY2020	111	113	83	9,050 (6,926)	80 (83)

※ Figures of tax evasion include additional tax.

■ Ruling Status in the first trial of criminal investigation cases

	Number of judgements 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
	cases	cases	%	persons	million yen	months	million yen
FY2019	124 (9)	124 (9)	100.0	5 (4)	47	15.5	12
FY2020	87 (3)	86 (3)	98.9	6 (2)	57	14.1	13

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

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

◎ An example in FY2020 resulted in conviction

The first crypto-asset case resulted in a conviction in Japan

For the first time in Japan, a crypto-asset case of income tax evasion by not reporting gains on crypto-asset transactions resulted in a judgement of conviction with a one-year imprisonment (three-year suspended sentence) and a fine of 18,000,000 yen.

Case where hidden properties were found in criminal investigations

The NTA found cash in the storage space under a bed in a bed room.



2 Ensuring tax payment

(1) Establishment of voluntary tax payment

~ Approximately 65.7 trillion yen of taxes paid within the fiscal year (98.3% paid within the fiscal year) ~

Self-assessed national tax becomes revenue when paid into the national treasury. In FY2019, about 66.8 trillion yen of taxation (amount determined for collection) was self-assessed in Tax Offices. Of this, about 65.7 trillion yen of tax (collected amount) was paid into the national treasury within the fiscal year, for a 98.3% 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 Tax Accountants' Associations.

So that taxpayers do not forget their deadlines for tax payment and to settle their payments in a planned 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.

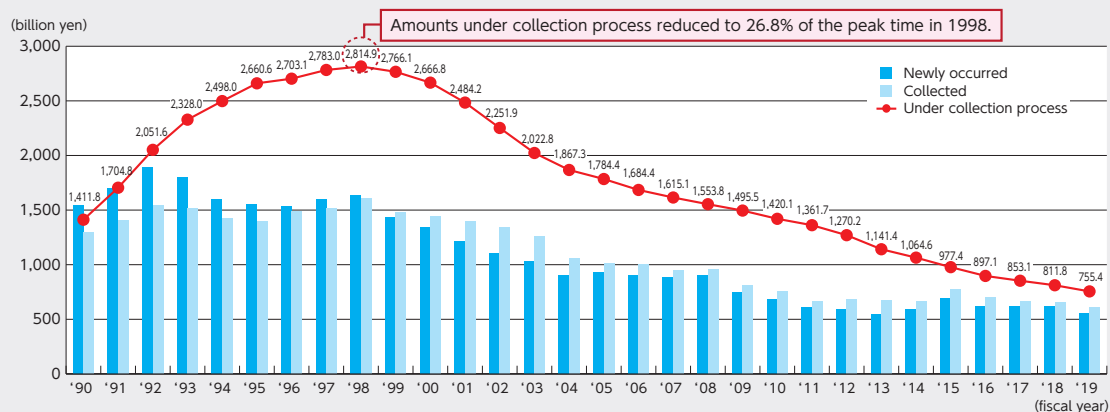
※ Delinquency signifies that the national tax was not paid by due date and a payment demand letter was sent.

(2) Efforts to promote reduction of tax delinquency

~ Amounts under collection process reduced to 26.8% of the peak time ~

At the end of FY2019, the tax delinquency amount was about 755.4 billion yen.

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



※ 1 Figures are current cases under the collection process 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 paying in a lump sum, the NTA will consider applying measures to relax conditions of the tax payment, such as grace of tax payment or grace of asset conversion, 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 the default of commitments to pay the tax is repeated, the NTA will take disposition for collecting 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 tax¹. This crime of evading disposition for collecting delinquent tax is referred to the prosecutor.

◎ Cases of accusations filed to the prosecutor in FY2020

The NTA accused the case in which disposition for collecting delinquent tax was evaded by depositing money to a bank account in the name of a relative, etc.

For the purpose of evading disposition for collecting delinquent tax, the suspect withdrew part of commission fees transferred from a client in cash and hid his/her asset, including by depositing it in a bank account in the name of a relative.

~ Organizational response to difficult-to-handle cases ~

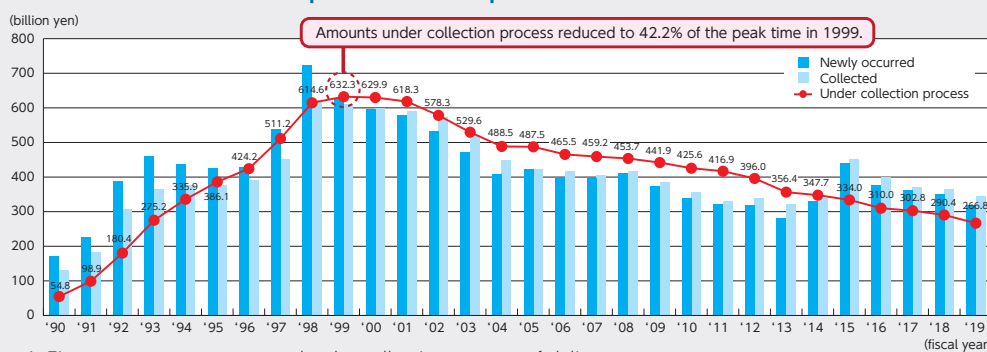
For delinquency processing of difficult-to-handle cases, such as complicated transactions and disguise of transfer of asset, the NTA secures sufficient resources necessary to solve the case and takes organizational actions such as disposition for delinquent tax by management over a wide geographic area,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

The NTA also takes legal action, such as a lawsuit to demand the rescission of a fraudulent act² 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 Figures are current cases under the collection process 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 collecting 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 taxpayer 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 Article 42 of Act on General Rules for National Taxes and Article 424 of the Civil Code).

(3) Office of Tax Collections Call Center

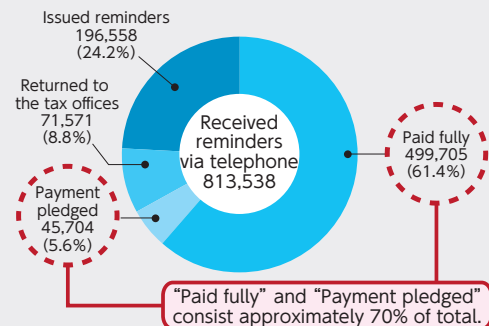
~ Conduct effective and efficient phone notices ~

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 2019 to end of June 2020, the office provided notifications to about 810,000 people, of which about 500,000 people (61.4 %) fully paid, and about 50,000 people (5.6 %) pledged payment.

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

Of 813,538 taxpayers issued reminders for payment by telephone between July 2019 and end of June 2020, 499,705 have fully paid their taxes.



(4) Public auction by Internet

~ Sold approximately 300 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 place 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.

Five Internet auctions were held in FY2020. As a result, a total of about 4,000 people participated, and about 300 items such as automobiles, jewelry goods, real estate were sold, for a total sales value of about 100 million yen.

■ Examples of properties that were sold by Internet auctions in FY2020



(5) Accurate and efficient management of claims and liabilities

～ 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 a system so that these claims and liabilities are managed accurately and efficiently.

There are about 41.56 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) processing¹ for tax payment slips at the Bank of Japan, income tax and sole proprietors' consumption tax payments by transfer account 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

～ Increase of public interest 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 ～

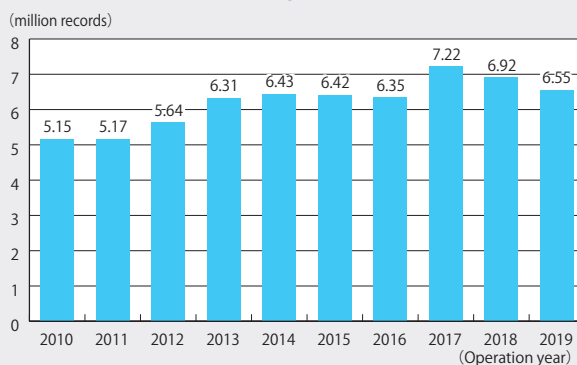
The NTA adopts the following systems in order to precisely detect cross-border transactions and assets within and outside of Japan, while comprehensively analyzing collected or given information and others to deal accurately with cases of international tax avoidance.

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.

a. 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).

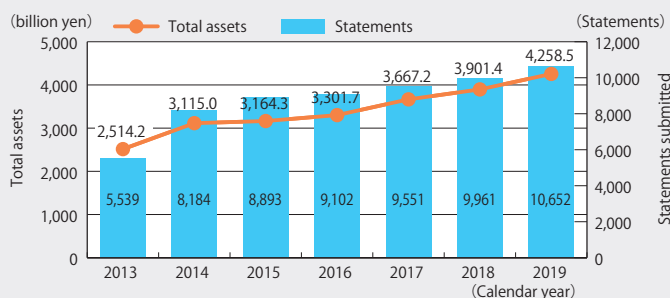
■ The number of Records of remittances and receipts related to foreign countries submitted



b. 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).

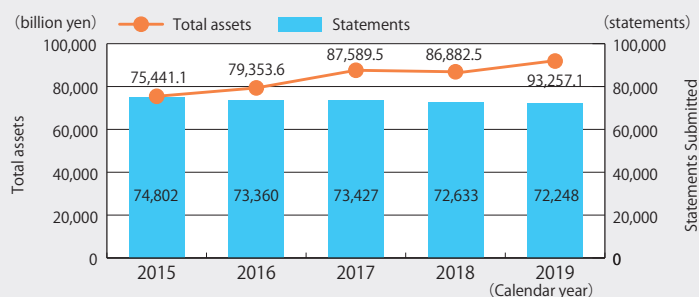
■ The number of foreign asset statements submitted and total amount of assets reported



c. 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).

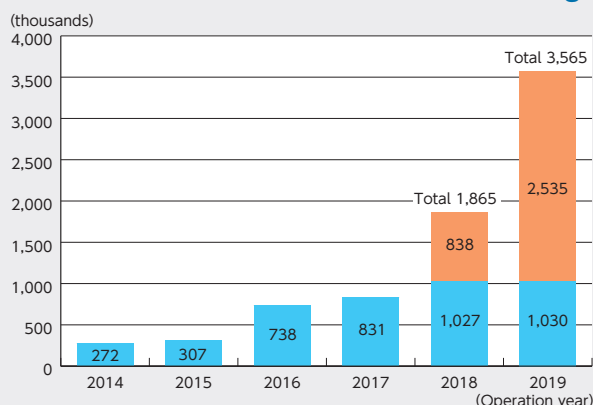
■ The number of statements of assets and liabilities submitted and total amount of assets reported



d. Exchange of information under tax treaties, etc.

Regarding the cross-border transactions, the NTA acquires the necessary information for proper and fair taxation and collection from other jurisdictions by utilizing exchange of information with foreign tax authorities under Tax Treaties, etc.¹ (As of April 2021, Japan has 79 Tax Treaties, etc. in force, which cover 143 jurisdictions).

■ Trend in number of information exchange



※1 Number of information exchange represents the total of provisions and receipts in each operation year.

※2 Figures for operation year 2018 and onwards include financial account information of non-residents under the CRS and Country-by-Country Report.

e. 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 (name, address, account balance, etc.) with other jurisdictions on a periodical basis. So far, over 100 jurisdictions participate in exchange of information based on this framework, and the number of participating jurisdictions is expected to increase going forward.

Japan has also exchanged information with other foreign tax authorities based on the framework every year since 2018. The NTA uses the information received to detect and identify financial assets located overseas and income generated through those assets, and cross-border transactions with taxation issues after paying attention to changes in asset balances and 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~June 2020		July 2018~June 2019		July 2019~June 2020	
	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	15	1,630,421	10	74,770	11	373,870
North America and Central & South America	15	41,995	19	96,288	9	6,261	11	33,526
EU and NIS Countries	40	232,492	41	299,313	35	8,895	38	64,129
Middle East and Africa	8	24,580	11	32,755	4	229	5	2,174
Total	74	744,986	86	2,058,777	58	90,155	65	473,699

¹ 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.

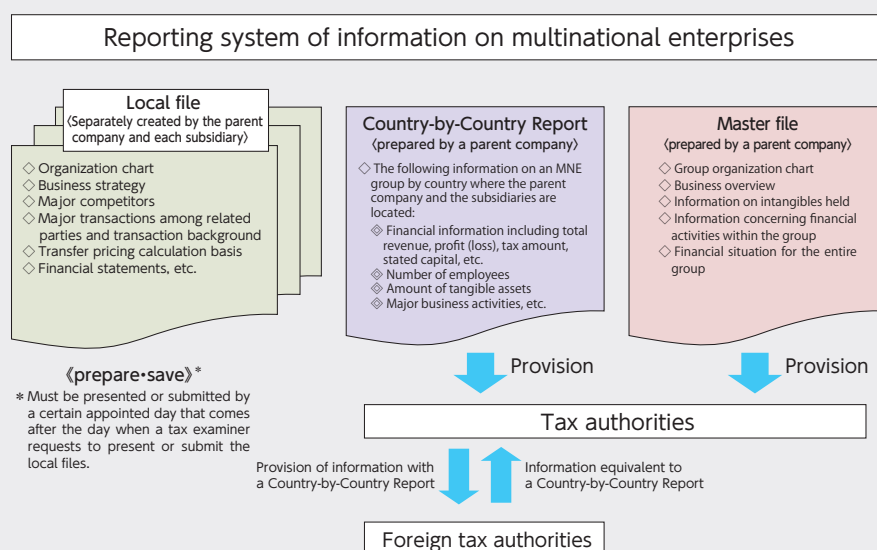
f. Reporting system of information on multinational enterprises

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")¹.

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 2019, the NTA received 1,751 reports from tax authorities of 44 jurisdictions, while it provided 844 reports for tax authorities in 52 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



¹ 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.

a. Participation in global frameworks

(a) Development 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]).

(b) 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 2021, 139 jurisdictions including Japan have been participating in this framework, and monitoring the implementation of the recommendations through the peer review process. As well as discussing review of the recommendations in themselves, in these days, participants have discussed solutions for taxation issues arising from digitalization of the economy.

Regarding exchange of information under tax treaties, the framework and the practical implementation in each country and region are monitored through the peer review process at the "Global Forum on Transparency and Exchange of Information for Tax Purposes," in which 162 jurisdictions participate as of April 2021.

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 international tax avoidance.

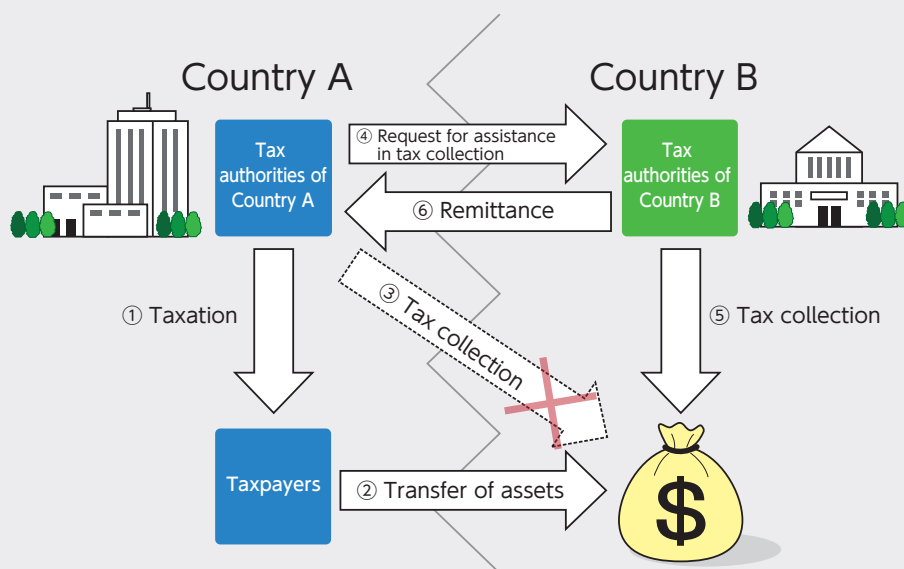
The NTA is actively participating in these activities and discussions.

b. 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 Matters¹.

■ Framework of mutual assistance in tax collection



■ Web-TAX-TV "Chase overseas assets! Efforts for International Collection"



The NTA's Internet program, "Web-TAX-TV," distributes a drama movie about revenue officers' work. In the movie, they conduct tax collection using the mutual assistance in tax collection system based on tax treaties for a malicious tax delinquency case where a delinquent taxpayer transfers assets to overseas and tries to avoid tax payment. We would like you to have a look at it.

The NTA website "Web-TAX-TV"

<https://www.nta.go.jp/publication/webtaxtv/index.html> (in Japanese)

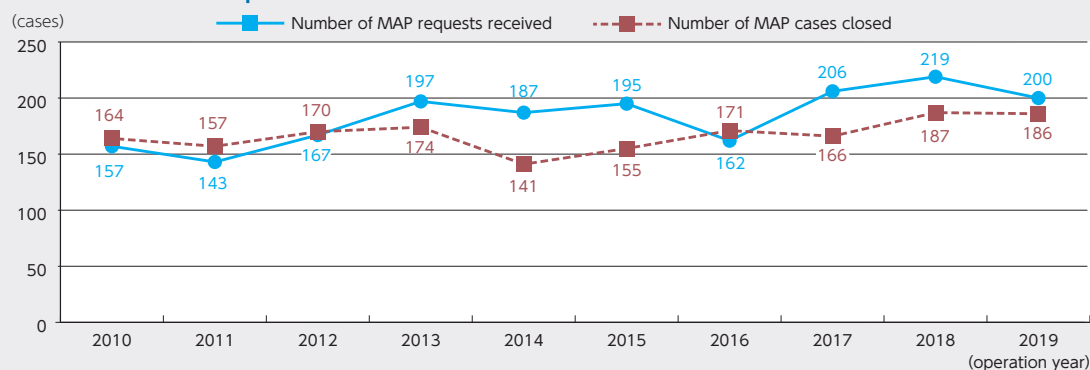
¹ It is a multilateral convention on mutual assistance for the exchange of tax-related information, tax collection and service of documents and has become effective by 130 jurisdictions including Japan (as of June 1, 2021).

c. 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)¹ 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)² in view of the predictability for taxpayers and the proper and smooth administration of the transfer pricing taxation³.

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 for swift and smooth MAP negotiations⁴. 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.

■ Number of MAP requests received and MAP cases closed



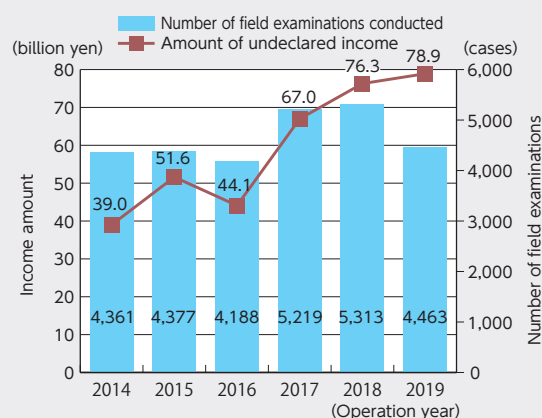
※ "Number of MAP requests received" consists of such requests from taxpayers and from foreign tax authorities.

(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



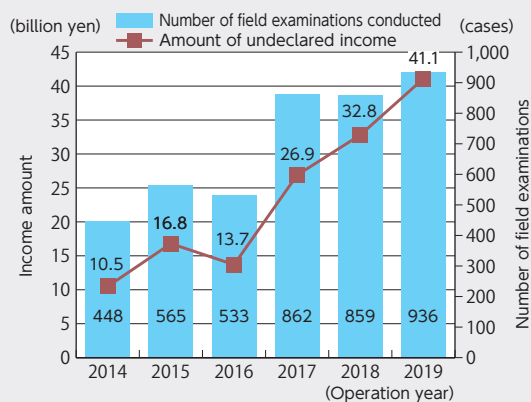
1 "Mutual Agreement Procedure (MAP)" is a formalized set of procedure between tax authorities of treaty partners which are provided in tax treaties. The NTA enters into MAP upon the taxpayers request where taxpayers consider that international double taxation arise or will arise from transfer pricing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

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

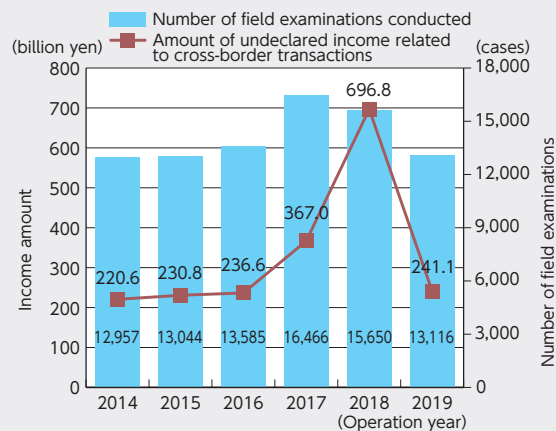
3 An adjustment of an enterprise's the income based on the transaction price between third parties (referred to as "arm's length price") when such enterprise engages in a transaction with a related enterprise abroad, and the income of such enterprise is diminished due to the fact that the transaction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

4 The number of persons in charge of MAP was 33 in the 2010 operation year, but it has increased to 46 as of the 2020 operation year. During the 2019 operation year, the NTA conducted 31 times of MAP meeting for 97 days in total.

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 Official Development Assistance (ODA), 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.

In FY2020, since it was difficult to invite trainees from foreign countries and to dispatch lecturers to overseas due to the Covid-19 pandemic, we had to postpone some trainings, however, we made efforts to hold as many trainings as possible, using a web conference system, etc.



Practicum at the NTA

Overview of technical cooperation

1. Dispatch of officials to developing countries

Based on the requests received from developing countries' tax authorities, the NTA dispatches its officials for trainings held in those countries. In FY2020, we gave lectures to the tax authorities of Indonesia and Lao PDR using web conference systems.

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 Japan International Cooperation Agency (JICA). In FY2020, they stayed in Indonesia, Lao PDR, Myanmar and Vietnam.

2. Trainings conducted in Japan

(1) International Seminar on Taxation (ISTAX)

This is the seminar for tax officials from several developing countries, and gives lectures on Japan's tax system and tax administration. It has two courses: "General" for mid-career officials, and "Advanced" for upper management-level officials, but in FY2020, these courses were postponed due to Covid-19.

(2) Country-Focused Training Courses

The courses target tax officials from a certain developing country, and give lectures based on its requests. In FY2020, 15 tax officials from Afghanistan participated in the course, using a web conference system.

(3) International Taxation for Asian Countries

This course targets tax officials from Asian developing countries and gives lectures on "international taxation." In FY2020, it was postponed due to Covid-19.

(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 FY2020, nine students in total, enrolling in graduate schools of Keio University, Yokohama National University and National Graduate Institute of Policy Studies, participated in this course.

■ Status of trainings conducted in Japan

(number of countries, people)

		2016	2017	2018	2019	2020
International Seminar on Taxation (ISTAX) (General)	Countries	15	15	14	16	—
	Participants	15	15	14	16	—
International Seminar on Taxation (ISTAX) (Advanced)	Countries	8	9	9	11	—
	Participants	10	9	9	11	—
Country-Focused Training Courses in Tax Administration	Countries	4	4	6	3	1
	Participants	96	79	86	32	15
International Taxation for Asian Countries	Countries	7	6	5	7	—
	Participants	11	12	7	7	—
Practicum at the NTA	Countries	9	11	11	12	7
	Participants	15	15	17	15	9

~ Efforts against taxation and financial crimes in Asia Pacific region ~

In recent years, international tax and financial crimes have been a big concern in every country, and the international cooperation is vital to combat these crimes. To promote the international cooperation, the OECD has played a central role to hold the “OECD International Academy for Tax and Financial Crime Investigation” for tax crime investigators from various regions. In various regions in the world, the Academy has provided the programs on investigation techniques on tax crimes, money laundering, and international cooperation, etc.

In collaboration with the OECD, the NTA held the first program for the “OECD Asia-Pacific Academy for Tax and Financial Crime Investigation” in May 2019 at Wako Campus of the National Tax College which was mainly targeted to countries in the Asia-Pacific, and held six programs in total including those held online as of the end of FY2020. The NTA will continue to contribute to enhancing investigation techniques of officials from Asia-Pacific countries and promoting international collaboration by regularly holding programs of the Academy.

(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.

a. OECD Forum on Tax Administration (FTA)

The FTA is the forum for Commissioners from 37 OECD and 16 non-OECD jurisdictions to share each authority's knowledge and experience in a wide range of fields in tax administrations. In December 2020, the 13th Plenary Meeting took place virtually, where the authorities discussed actions taken against the Covid-19 pandemic, for the digitalization of tax administration, etc.

b. 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. The annual forum for 2020 was postponed due to the impact of Covid-19 pandemic.