

## 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, such as making brief contact via in writing or by telephone, and balances its allocation of limited human resources.

#### ■ The number of field examinations

(thousand cases)

Operation year Tax category	2019	2020	2021
Self-assessment income tax	60	24	31
Corporation tax	76	25	41
Consumption tax	105	36	57
Inheritance tax	11	5	6

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

(billion yen)

Operation year Tax category	2019	2020	2021
Self-assessment income tax	99.2	53.3	80.4
Corporation tax	164.4	120.7	143.8
Consumption tax	100.4	86.2	111.0
Inheritance tax	68.1	48.2	56.0

### ～ Strengthening the measures for data utilization ～

The NTA is trying to develop a prediction model to extract potentially high-risk taxpayers by extracting, processing, and analyzing necessary information from various data, as well as grasping the consistency, correlation, and tendencies, etc. between the data. Looking forward, we will endeavor to improve the efficiency of taxation operations and sophisticate them, through combining thus-formulated prediction model and the various materials and information held by the organizations of the NTA.

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

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

As consumption tax is the largest amount of national tax revenue and attracts the strong attention of the public, proper tax administration is especially necessary.

In particular, as there are cases where fraudulent consumption tax refund was claimed through the filing of false returns, we work to prevent fraudulent refund by instituting sufficient examinations of the facts.

Also, the NTA is working increasingly closer with customs authorities to strictly address the evasion of consumption tax by those who wrongfully traded consumption tax-free goods abusing the system of tax-free shops.

#### ◎ Cases of examinations of consumption tax

- The NTA uncovered a case in which fictitious purchases were registered pretending that an expensive fixed asset was purchased.
- The NTA found that the person had purchased a large volume of consumption tax-free goods in certain tax-free shops, but that the person had not exported the goods thus purchased enjoying wrongful benefits from the exemption of consumption taxes.

## ～ 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 about them by effectively using the information obtained from the records of outward remittances, etc. as well as the information obtained as per the information exchange system based on the tax treaties, etc. with competent foreign authorities (<https://www.nta.go.jp/taxes/shiraberu/kokusai/eoi/index.htm> [in Japanese]) and as per the Common Reporting Standard (CRS) (<https://www.nta.go.jp/taxes/shiraberu/kokusai/crs/index.htm> [in Japanese]).

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.

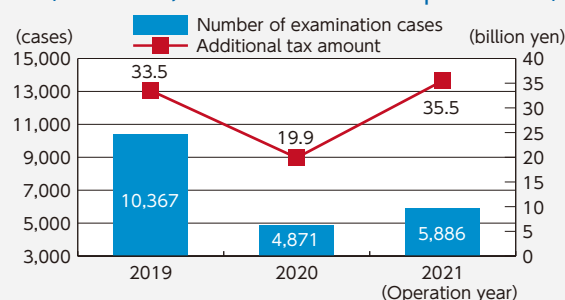
### ◎ Cases in which the NTA identified overseas assets not reported for Japanese tax purposes or international tax avoidance

- The NTA used the exchange of information based on the tax treaties, etc. 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.
- Triggered by CRS information, we uncovered a fact that the taxpayer had not included an overseas deposit account and an overseas real estate property in the tax return filing for inheritance tax.

## ～ Identify non-filers by utilizing information ～

Since no tax return filing will cause a strong sense of unfairness to voluntary compliant taxpayers, the NTA precisely identifies non-filers by utilizing relevant material information and actively conducts examinations.

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



### ◎ Cases of examinations of non-filers

- For a taxpayer who had earned large profits from video streaming, we grasped a fact that the taxpayer had hid the profits and had not covered them in tax filing.
- In the case of a taxpayer who had earned a large amount of money from “guarantee-paid drinking,” we grasped a fact that the taxpayer had not submitted tax returns of income tax for them despite the requirement to do so.
- We uncovered a fact that the subject heir had withdrawn certain cash from the deceased’s bank account before the death of the deceased and had stored large amount of cash at home, but that tax return filing for the cash had not been done despite that filing for inheritance tax had been required.

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

As for the response to the economic activities in new areas such as sharing economy, we strive to create an environment that enables adequate filing: for instance, calling on the users (taxpayers) via the industrial organizations, intermediate companies, etc., for proper filing.

In addition, we endeavor to gather relevant information and enhance the analysis, for precisely grasping the taxpayers that might bear certain problems in taxation, to ensure provision of administrative guidance to them or to conduct tax examinations.

For more details of such efforts, please refer to the “Precise Action Taken Towards New Fields of Economic Activities including the Sharing Economy” ([https://www.nta.go.jp/information/release/kokuzeicho/2019/sharingueconomy\\_taio/index.htm](https://www.nta.go.jp/information/release/kokuzeicho/2019/sharingueconomy_taio/index.htm) [in Japanese]) uploaded on the NTA website.

<sup>1</sup> New fields of economic activities including the sharing economy<sup>1</sup> is used as a collective term for sharing business and service, transactions of cryptoassets (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 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
- Initiatives 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 efforts for the enhancement of corporate governance.

We are striving to maintain and improve the filing level, through increasing the number of corporations that can be expected to do adequate filing voluntarily, by encouraging large companies to enhance the quality of tax matter-related corporate governance.

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.

For more details, please refer to the "Endeavors to enhance tax matter-related corporate governance (for corporations handled by the Large Enterprise Division)" (<https://www.nta.go.jp/taxes/tetsuzuki/shinsei/shinkoku/hojin/sanko/cg.htm> [in Japanese]) on the NTA website.

● 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 a 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 in the "Information concerning <Self-inspection of tax returns and self-audit of tax matters> (for corporations handled by the Large Enterprise Division)." (<https://www.nta.go.jp/taxes/tetsuzuki/shinsei/shinkoku/hojin/sanko/tk.htm> [in Japanese]) of the NTA website.

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.

● Establishment of consultation counter concerning transfer pricing taxation on a trial basis.

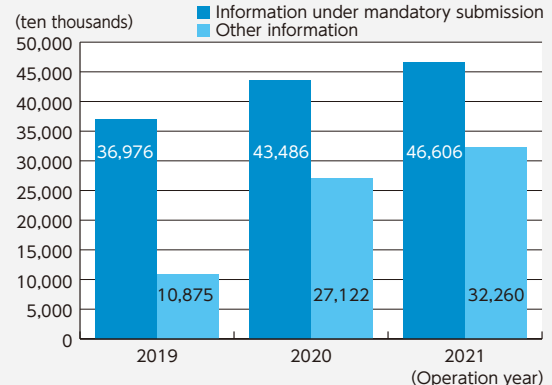
For the purpose of maintaining and improving tax compliance concerning the transfer pricing taxation for large enterprises, we established a "consultation counter concerning the transfer pricing taxation" at each Regional Taxation Bureau on a trial basis. Each counter provides information on general questions regarding the transfer pricing taxation; it also briefs on the thoughts of the tax authority and attention points in relation to application of the transfer pricing taxation, concerning specific consultation on each foreign-related transaction etc. that are subject to the requirement of the transfer pricing documentation.

### (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 through the information inquiry procedures and 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 guidance as well as tax examinations.

■ Number of information items collected



### (4) Criminal investigation

~ Pursuing criminal responsibility of malicious tax evaders ~

Tax criminal investigation aims to pursue criminal responsibility of malicious tax evaders and to contribute both to realizing proper and fair taxation and to maintaining the self-filling system by taxpayers through the effect of “punishing one serves as a warning to all.”

~ Proactive engagement with cases of high social impacts ~

In FY2022, in view of the purpose of the tax criminal investigation, the NTA focused on and actively engaged with the cases of high social impacts, such as consumption tax cases, non-filing cases, international cases, and cases concerning other social trends.

As a result, in relation to consumption tax, the NTA accused criminals in many cases of illicit tax refunds including a case where; a corporation, that ran a sales outlet of export items, recorded fictitious taxable purchases and fictitious tax-free export sales, disguising as if it had purchased cosmetic products in Japan and sold them to foreign tourists; multiple corporations recorded fictitious taxable purchases of gemstones. In addition, the NTA also accused criminals in the following cases as well: a large-scale international case where fraudulent acts were conducted with a foreign corporation; a case where guidance for fraudulent refund of income taxes was provided to many salary earners using SNS, etc.

■ PR leaflet of the NTA  
Criminal Investigations



The NTA proactively engages in PR on taxation and tax collection, through lectures and tax education.

#### ◎ An example of accusation to the prosecutor in FY2022

The NTA made an accusation of a case with a large-scale international fraudulent scheme in which a foreign corporation is used.

The NTA made an accusation of a case where multiple taxpayers evaded corporation or income tax in collusion with one specific supporter for their fraud through the following means: recording fictitious payments of commissions to a foreign corporation whose representative in Japan is the supporter; disguising a domestic transaction of crypto assets as a transaction with a foreign corporation etc. Each of the taxpayers as well as the supporter of the fraud were accused.



## ■ 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
FY2021	116	103	75	10,212 (6,074)	99 (81)
FY2022	145	139	103	12,760 (10,019)	92 (97)

※ Figures of tax evasion include additional taxes.

## ■ Rulings in the first trials 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
FY2021	117 (5)	117 (5)	100.0	5 (3)	64	15.7	15
FY2022	61 (2)	61 (2)	100.0	3 (1)	47	13.6	12

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

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

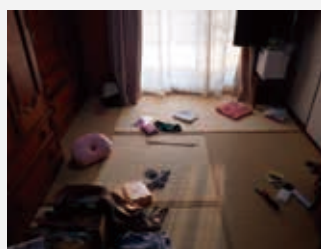
## ◎ Examples in FY2022 resulted in conviction

## Prison sentence given to a repeat offender of tax evasion due to non-filing a tax return on FX transaction income

Prison sentence (1 year and 4 months) was given to a repeat offender of tax evasion in a case, where the offender had hidden the income from FX transactions in other person's name, and evaded payment of income taxes past legal due dates idly without filing tax returns.

## An example of hidden properties found during criminal investigations

Cash was found in bags placed under a room floor.



## ■ Web-TAX-TV: We never miss tax evasions! Missions of national tax investigators



In the program of "Web-TAX-TV" (Internet program released by the NTA), work of national tax investigators, eager to smoke out tax evaders daily, is introduced in the form of a TV drama.

Please watch it for your reference.



【The video is here】

## 2 Ensuring tax payment

### (1) Establishment of voluntary tax payment

~ Approximately 76.2 trillion yen of taxes paid within the fiscal year (98.8% paid within the fiscal year) ~

Self-assessed national tax becomes revenue when paid into the national treasury. In FY2021, about 77.1 trillion yen of taxes (amount determined for collection) were self-assessed in Tax Offices. Of this, about 76.2 trillion yen of taxes (collected amount) were paid into the national treasury within the fiscal year, for a 98.8% collection ratio.

~ Measures to prevent delinquencies ~

To prevent delinquencies, the NTA is proactively conducting publicity on payment deadlines and saving funds for tax payment with the cooperation of relevant private organizations and the Certified Public Tax Accountants' Associations, while providing a diverse means of payment means such as tax payment by account transfer and direct payment.

To ensure payments in a planned manner, the NTA has introduced various payment options, such as transfer tax payments and advance payment utilizing direct payment, while promoting active adoption of these options.

A written notice on payment due date is sent in advance to taxpayers who have paid after due date previously. In case payment due date has passed, we encourage payment before the payment demand letter is sent.

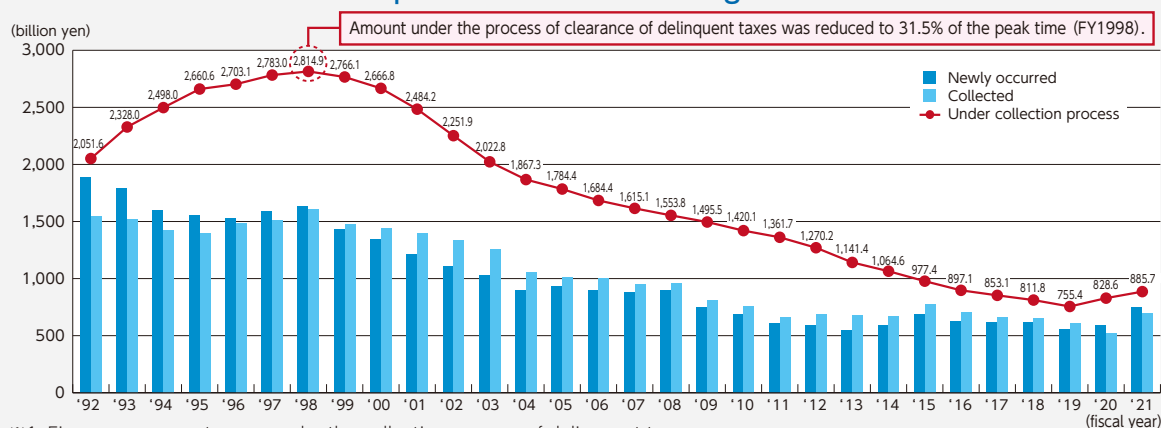
※ Delinquency signifies that the national tax was not paid by due date and a payment demand letter was sent.

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

~ Amount under the process of clearance of delinquent taxes reduced to 31.5% of the peak time ~

At the end of FY2021, the total amount of delinquent taxes was 885.7 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 900 billion 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, we encourage a voluntary payment and confirm the taxpayer's intention to pay while we will determine the resolution policy after fully understanding 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, we will consider applying measures to ease conditions of the tax payment, such as grace of tax payment or asset conversion, after listening carefully 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 repeated defaults of payment commitments are made, 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 tax<sup>1</sup>. This crime of evading disposition for collecting delinquent tax is referred to the prosecutor.

#### ◎ Case examples of accusation filed to the prosecutor in FY2022

- The NTA accused the case in which estate was hidden by the entity through having the funds paid by customers be transferred to deposit account of an employee of the delinquent company.
- The NTA accused the case in which estate was hidden by the entity through a disguise where a business had been started by its common-law spouse and having the trade name of the business (a fictitious name) issue invoices for the trade receivables of the delinquent company to its transaction partners and receive the proceeds thereof.

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

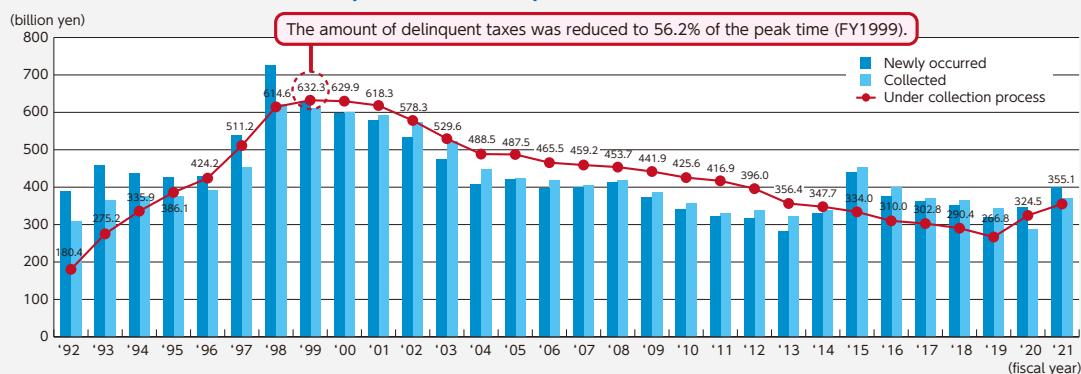
For delinquency processing of difficult-to-handle cases including complicated transactions and disguise of transfer of asset, the NTA secures sufficient resources necessary to solve the case and takes organizational actions such as disposition for delinquent tax by management over a wide geographic area,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

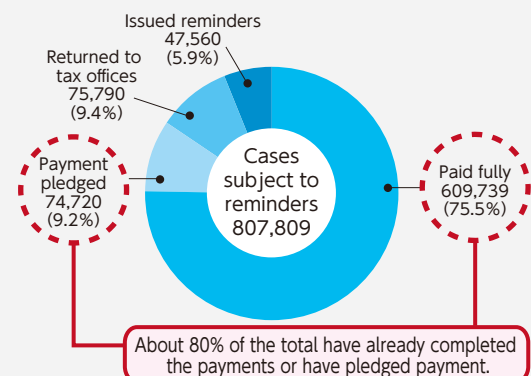
### (3) The Office of Tax Collections Call Center

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

The Office of Tax Collections Call Center is broadly in charge of new delinquency cases. This office makes system-assisted phone calls as reminders for payment, to ensure effective and efficient collection of delinquent taxes.

Over the year from July 2021 to end of June 30, 2022, The NTA sent demand letters to about 810,000 people, as part of the efforts, of which about 610,000 people (75.5%) have already fully paid and about 70,000 people (9.2%) have pledged payment.

#### Collection of delinquent taxes by the Office of Tax Collections Call Center



### (4) Public auctions

#### ~ Sold about 1,740 items through public auctions ~

Regarding the properties seized as a means of disposition for collecting delinquent tax, the NTA sells them through a bid or in a public auction and the proceeds are appropriated as the collection of delinquent taxes.

During a year between July 2021 and June 2022, 204 public auctions in total were conducted nationwide. As a result, about 1,740 items (real estate properties, cars, jewelry items, etc.) were sold and the total amount of the proceeds was about 4.3 billion yen.

Regarding the list of items to be put subject to a public auction by the Regional Taxation Bureaus throughout Japan and each auction schedule, you can confirm the details in the section of "Public auction notices" (<https://www.koubai.nta.go.jp/> [in Japanese]) on the NTA website.

#### Examples of properties that were sold through public auction between July 2021 and June 2022





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

### ～ Prompt process realized by advanced use of systems ～

Tax Offices use systems so that the management operation for the national tax claims and liabilities, that arise from tax return filings and refund filings in huge volume, can be processed accurately and efficiently.

There are about 43.03 million tax payment cases each year. To efficiently process this amount of payments, the NTA is using optical character recognition (OCR)<sup>1</sup> for processing tax payment slips at the Bank of Japan, and adopted online tax payment, direct payment, and others in addition to transfer tax payment for income tax and sole proprietors' consumption tax. The NTA is also pursuing efficient and speedy refunds by adopting online transfer procedures.

## 3 Response to fraudulent refund of consumption tax

### (1) Background

#### ～ To protect the trust in the consumption tax system ～

Among the national tax categories, consumption tax is the largest tax category in the amount of revenues.

Many taxpayers are filing tax returns and paying taxes correctly. On the other hand, there arise fraudulent cases to receive refund of consumption taxes one after another, through abusing the consumption tax system in that false contents are filed for fictitious transactions. Such fraudulent refund cases of consumption tax may severely damage the trust by taxpayers in the consumption tax system, so we are responding to them as one of the priority issues.

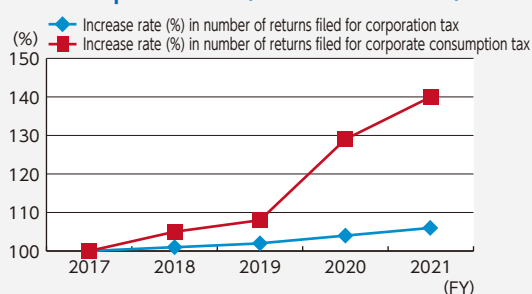
### (2) Status quo of fraudulent refund of consumption tax

#### ① Transition in number of tax returns

##### ～ Number of returns for refunds of consumption tax shows an increasing trend ～

Number of returns for refunds of consumption tax filed by corporations keeps showing a large increase trend, much larger in the increase pace vs. that for corporation tax.

■ Increase rate in number of returns filed for corporation tax and corporate consumption tax (FY2017=100%)



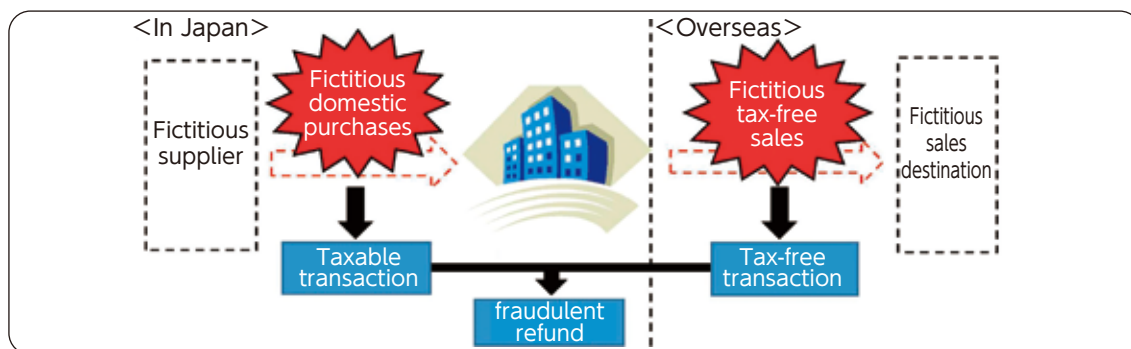
#### ② Representative methods of fraudulent refund of consumption tax

##### ～ There are various fraud methods ～

##### a. Cases where fictitious domestic purchases and fictitious export sales are recorded

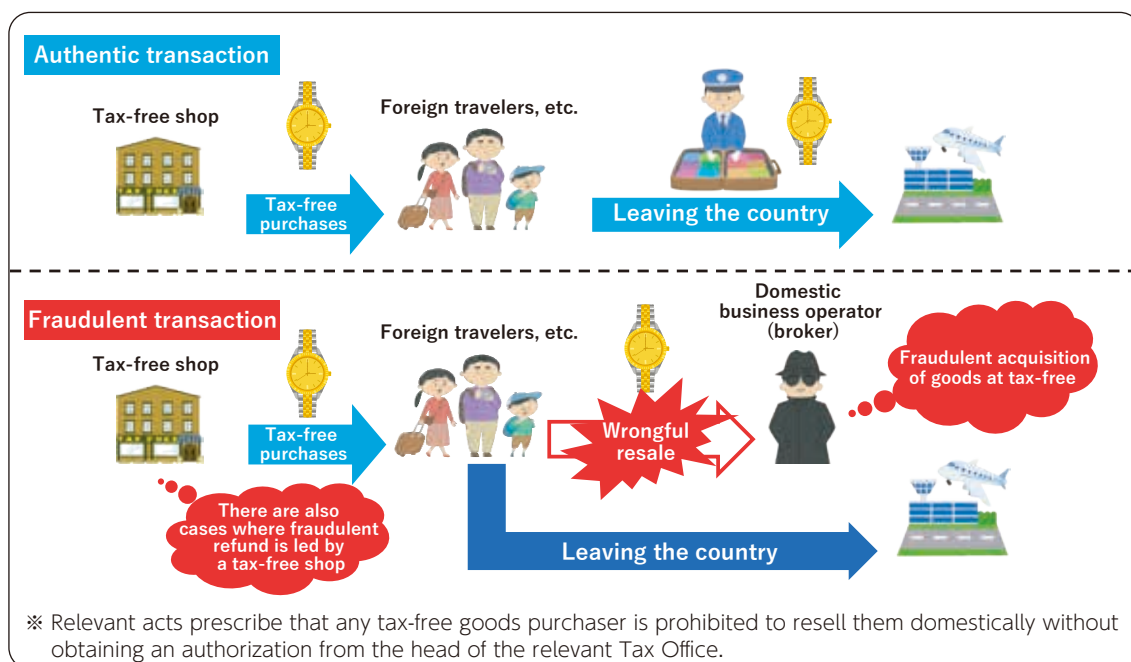
When a business operator trades goods in Japan, consumption taxes are imposed on them (taxable transactions); whereas when goods are sold to overseas buyers (exported), consumption taxes are waived (tax-free transactions). A business operator deducts the amount of consumption taxes on purchases from that on sales when filing a final return; if the calculation result is a negative amount, the amount can be refunded. From time to time, we capture cases where abusing this system, refund is fraudulently applied through a disguise of purchasing goods in Japan and exporting them overseas.

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



## b. Cases where goods purchased at tax-free shops were resold in Japan

Tax-free shops may sell goods waiving consumption taxes to certain foreign travelers, etc. (eligible tax-free goods purchasers) by applying certain procedures, just like the cases of goods exports (export merchandise shop system). To apply the system correctly, the foreign travelers, etc. must bring the goods purchased at tax-free prices outside the country. However, in recent years, from time to time, following malicious cases have been captured: fraudulent profits-earning cases where massive tax-free goods are purchased for a large amount, and they are resold domestically instead of being brought outside the country, under the instruction of a domestic business operator (broker), etc.; similar-structure cases but under the lead by a tax-free shop, etc.



## (3) Our initiatives against fraudulent refund of consumption tax

### ～ Never miss fraudulent filing returns for refund ～

To curb fraudulent refund of consumption tax, it is important not to miss any suspicious application and not to leave any malicious taxpayer intact.

To enable proper responses to any case of abusing the consumption tax system, for each of the stages from tax declaration to administrative guidance and investigations to collection, we are striving to take the following measures in collaboration with relevant departments throughout the organization:

- ① implement stricter assessment for refund returns;
- ② proactively conduct examinations with an eye on malicious methods etc. (case analysis, data usage, etc.);
- ③ enhance the organizational structure (install a dedicated dept, expand existing dept, etc.);
- ④ pursue prevention measures through PR activities, etc.

### ① Enhancing the assessment for refund returns

Refund returns for consumption tax include not only fraudulent refund, as specified above, but also those resulting from erroneous application of relevant acts. Therefore, when a confirmation step is necessary referencing various information, we endeavor to confirm the causes of each refund return or the tax amount for return through asking for submission of needed documents or conducting onsite examinations, while suspending the payment of refund for a while. As a result, we will ensure a proper remedy if there was an error in refund amount. On the contrary, if judged that there is no error in the application contents, we will make a refund promptly.

### ② Enhancing the onsite examinations

Methods of fraudulent refund have always evolved over time. We firstly secure necessary human resources, for gathering various documents (information contained in digitalized purchase records<sup>1</sup>, etc.) and analyzing them, and clearly view the target scope, to ensure the implementation of strict examinations. As a result, we conducted about 4,300 onsite examinations targeting the corporations that had applied for refunds of consumption tax, in the period between July 2021 and June 2022; and we secured additional tax collection of about 37.2 billion yen.

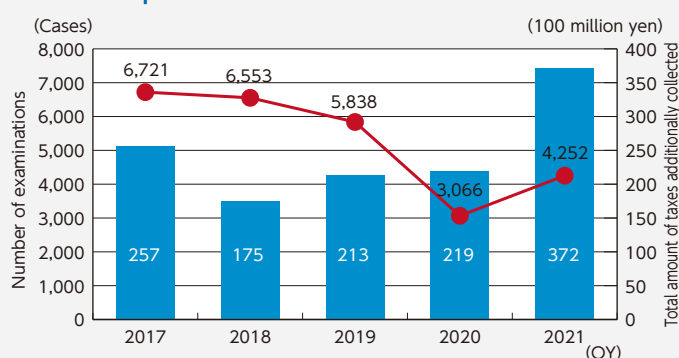
In addition, during the same period, we conducted 30 onsite examinations targeting foreign travelers, etc. who had abused the export merchandise shop system; the efforts resulted in additional tax collection of about 1.2 billion yen in total.

Also, regarding particularly malicious criminals of fraudulent refund, the NTA conduct criminal investigations against them and accuse them to the prosecutor for severely pursuing their criminal responsibilities. During the period between April 2022 and March 2023, the NTA accused criminals in 16 fraud request cases for refund (amount received as refund or to be received as refund totaled 1,347 million yen), for example there was:

- a case where a corporation, that runs an export merchandise shop, recorded fictitious taxable purchases and fictitious tax-free export sales, using a disguise of purchasing cosmetic products in Japan and selling them to foreign tourists: also there was a case where multiple corporations used a disguise of purchasing power stones to record fictitious taxable purchases.

It is notable that the criminal of fraudulent refund, to whom the first-trial sentence was given between April 2022 and March 2023, were all guilty. The severest penalty among them was a prison sentence of 2 years and 6 months (5 years of probation).

#### ■ Status of consumption tax examinations carried out against corporations that received refunds of consumption tax



#### ■ Fraudulent refund cases of consumption tax: The number of the accused and the total amount received fraudulently

FY	2018	2019	2020	2021	2022
Number of cases accused (cases)	16	11	9	9	16
Amount of fraudulent refund received (million yen)	1,909	323	384	434	1,347

※1 The number of cases accused includes the cases where tax evasion was also committed.

※2 The total amount received fraudulently excludes additional taxes and includes refund cases where refund is yet to be received.

<sup>1</sup> Records on purchase slips of export merchandise shops were created on paper previously. Procedures for creating such purchase slip records were revised; the new procedures require creation of digital data for purchase slip records to be sent to the NTA. (Application of the new procedures started with the tax-free sales on April 1, 2020; and the procedures were fully digitalized effective on October 1, 2021.)

### ③ Enhancing the organizational structure

To properly respond to fraudulent refund cases of consumption tax, we are proactively implementing examinations while newly installing functions and increasing headcount dedicated to consumption tax examinations, such as Chief National Tax Examiners for Regional Taxation Bureaus and consumption tax specialists for Tax Offices, etc. Also, we are endeavoring to strengthen the examination capabilities of the whole the NTA organization through enabling collaborative consumption tax examinations between general staff of Tax Offices and the specialists with expertise and know-how (such as Chief National Tax Examiners of Regional Taxation Bureaus and consumption tax specialists of Tax Offices).

#### ■ Web-TAX-TV: Never forgive fraudulent refund!



In the program of “Web-TAX-TV” (Internet program released by the NTA), national tax examiners, who felt suspicious about the contents of one fraudulent refund of consumption tax, started an examination and it ended up with clarification of the fraud structure; the whole course is dramatized and aired in an easy-to-understand manner. Please look at it.



【The video is here】

## 4 Addressing international transactions

### (1) Background

#### ～ Increase of public interest in international tax avoidance cases ～

Year after year, the economy has been getting more globalized with an increase in overseas investment by individual investors and overseas transactions conducted by corporations. Under such circumstances, public interest has been significantly increasing on international tax avoidance cases. Those include hiding assets overseas by the affluent class and corporations that conduct overseas transactions and reducing tax burden using the differences in tax systems between jurisdictions.

In sufficient consideration of this situation, the NTA considers that achieving proper and fair taxation will lead to securing trust from taxpayers.

### (2) Actions against international tax avoidance

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

To appropriately respond to international tax avoidance by the individual investors doing overseas investments and the companies doing overseas transactions, the NTA is proactively conducting examinations, etc., while promoting the following: (1) enhancement of information resources (strengthening of information collection and utilization); (2) enhancement of human resources for examination (improvement and expansion of the execution system); and (3) strengthening of global networks (including collaboration 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 ～

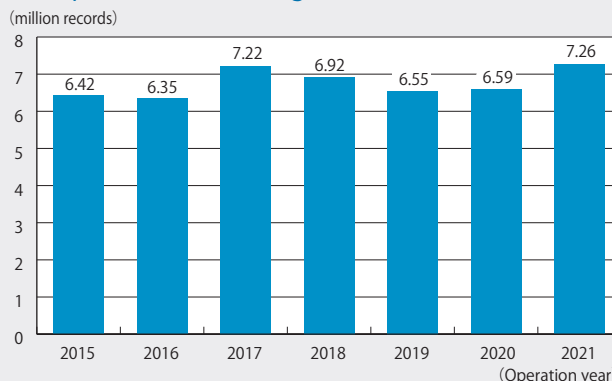
The NTA adopts the following systems to precisely detect overseas transactions and assets within and outside of Japan, while comprehensively analyzing collected or given information and others to deal with cases of international tax avoidance adequately, for the purpose of detecting the income flows from cross-border economic activities and realizing appropriate and fair taxation.



### a. Records of remittances and receipts related to foreign countries

Records of remittances and receipts related to foreign countries are reports 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.

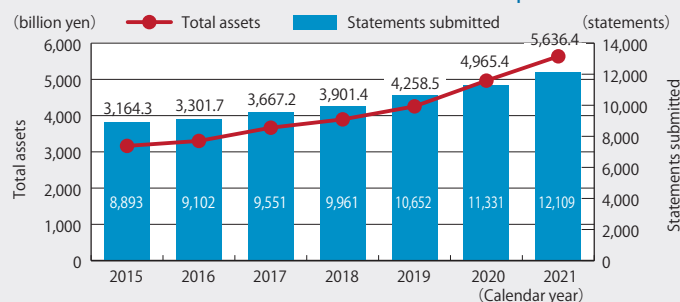
#### ■ The number of Records of remittances and receipts related to foreign countries submitted



### 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 types and values of the foreign assets, etc. by June 30 (it was “by March 15” for the statements for 2022 or earlier) of the following year to Tax Office.

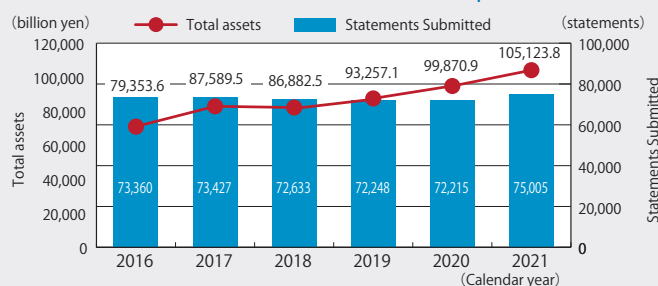
#### ■ The number of foreign asset statements submitted and total amount of assets reported



### c. Statements of assets and liabilities

(1) 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, or (2) those who hold assets totaling 1 billion yen or more (this was added to the target scope starting with the statements for 2023) are to submit a statement describing the types and values of the assets, the amount of debt, etc. by June 30 (it was “by March 15” for the statements for 2022 or earlier) of the following year to Tax Office.

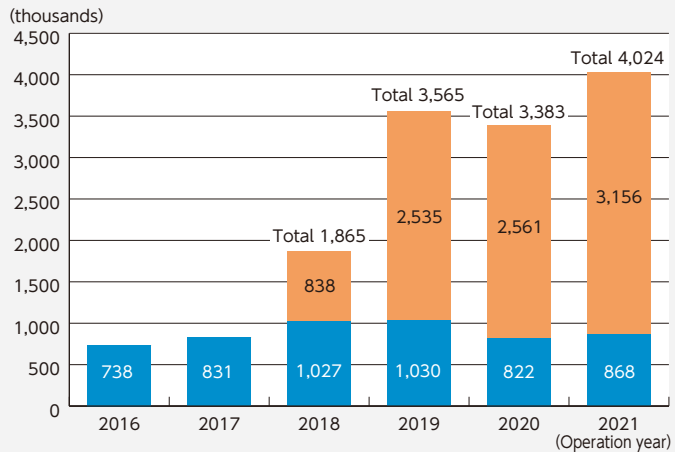
#### ■ The number of statements of assets and liabilities submitted and total amount of assets reported



#### 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 tax collection from other jurisdictions through implementing information exchange with foreign tax authorities under bilateral tax treaties and the Convention on Mutual Administrative Assistance in Tax Matters, etc. (as of May 2023, Japan has 84 tax treaties, etc.<sup>1</sup> in force, which cover 153 jurisdictions).

■ Trend in number of information exchange



※ Number of information exchange represents the total of provisions and receipts in each operation year.  
 Orange color portion: Number of information exchange cases on financial account information of non residents by CRS and on CbC report.  
 Blue color portion: Number of information exchange on request, spontaneous and automatic (for statutory records).

#### 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, the OECD formulated the Common Reporting Standard (CRS) which is the international standard for regularly exchanging financial account information of non-residents (name, address, account balance, etc.) with the tax authorities of other jurisdictions.

Japan also exchanges relevant information with other foreign tax authorities based on this framework. 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 2020~June 2021		July 2021~June 2022		July 2020~June 2021		July 2021~June 2022	
	Number of jurisdictions	Number of accounts	Number of jurisdictions	Number of accounts	Number of jurisdictions	Number of accounts	Number of jurisdictions	Number of accounts
Asia and Pacific	16	1,473,200	17	1,644,896	12	529,864	12	536,650
North America and Central & South America	19	117,291	20	216,480	13	43,354	16	40,744
EU and NIS Countries	40	313,587	43	325,978	39	73,074	42	67,976
Middle East and Africa	12	2,818	14	313,310	6	4,266	7	6,424
Total	87	1,906,896	94	2,500,664	70	650,558	77	651,794

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

### ◎ Effective use cases of the CRS information

- Based on CRS information, the NTA detected the fact of failure in including officer compensation received from a foreign corporation as well as dividend income earned from asset management using the said officer compensation as the base fund in the tax return of the subject taxpayer.
- Based on CRS information, the NTA detected the existence of an overseas deposit account in the name of the ancestor as well as the fact of failure in including the balance of the deposit account and overseas real estate properties newly found in our examination in the tax return of the subject taxpayer.
- Based on CRS information, the NTA detected the fact that a significant amount of balance remained in a deposit account located overseas under the name of the corporate representative 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.

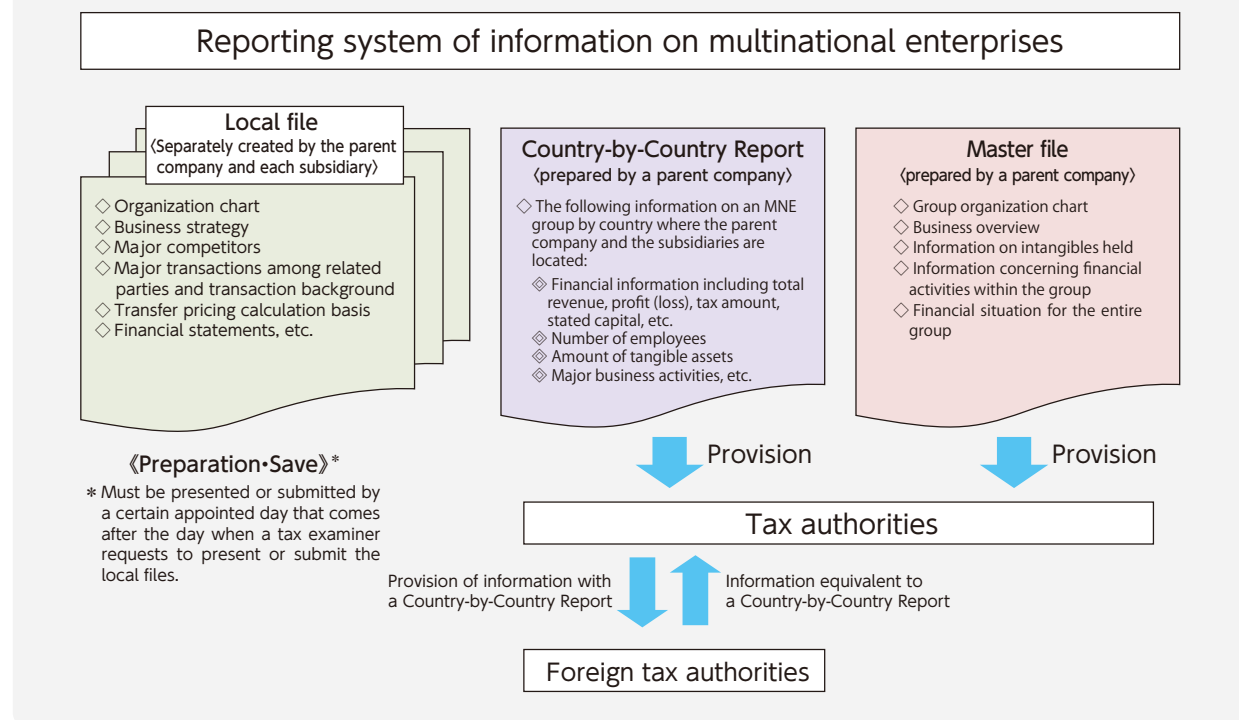
## f. Reporting system of information on multinational enterprises

For the purpose of understanding the global activities and the actual situation of tax payment by multinational enterprises (MNEs), certain corporations are obligated to provide (or prepare and save) the following information to the relevant Tax Office: (1) Country-by-Country Report [CbCR], (2) Master File, and (3) Local File<sup>1</sup>.

The ultimate parent entity of any MNE group over a certain size is obligated to provide CbCR to the tax authority of its resident jurisdiction in Japan. In year 2021, the NTA received information on 2,246 groups from the tax authorities of 53 jurisdictions and provided information on 901 groups to the tax authorities of 60 jurisdictions.

The NTA is effectively using such information in the process of assessing the transfer pricing risk and tax avoidance risk among MNEs.

### ■ 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 CbCR 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 international tax avoidance, the NTA ensures that a dedicated section be established within the Regional Taxation Bureaus and the Tax Offices.

In addition, particularly regarding the taxpayers who are recognized to hold of assets a large amount among the affluent class people, the NTA sets a project team targeting priority affluent taxpayers in each Regional Taxation Bureau across the country, which collects and analyzes various kind of information by managing the target taxpayers together with the related people and the related companies.

## ③ Reinforcement of global networks (cooperation with foreign tax 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. The NTA has been striving to enhance cooperation with foreign tax authorities.

## a. Participation in global frameworks

### (a) Development and implementation of international agreements

The BEPS Project was initiated by the OECD to address tax avoidance by MNEs exploiting gaps and mismatches in tax rules. Working together with the G20 members that are non-OECD countries, the final report was publicized in October 2015.

It provides 15 Actions that equip governments with the domestic and international instruments needed to review the overall international tax rules, address international tax avoidance by MNEs and increase the transparency of each jurisdiction's tax system and MNEs' business activities. The NTA has been proactively engaged in implementing those Actions appropriately. For detailed information on each Action, 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 OECD and other international efforts

The Actions in the final BEPS report need to be implemented not only in the OECD member countries but also in many other countries and regions including emerging and developing countries. Thus, "Inclusive Framework on BEPS" has been established. As of May 2023, 142 jurisdictions including Japan are participating in this framework, and the member jurisdictions are conducting mutual assessment about the implementation status of the recommended actions and discussing possible revisions of the recommendations. In addition, as one of the latest subjects, the members are discussing the Two-Pillar solution to Address the Tax Challenges Arising from the Digitalization of the Economy (that is, establishing a taxing right for market jurisdictions under Pillar One and the global minimum tax under Pillar Two), and model rules and administrative guidance for introducing global minimum tax in each country were agreed and publicized. In Japan, Income Inclusion Rule of the global minimum tax was legislated in the FY2023 tax reform.

Regarding exchange of information under tax treaties etc., the legal framework and the implementation in each jurisdiction are mutually assessed at the "Global Forum on Transparency and Exchange of information for Tax Purposes" in which 168 jurisdictions participated as of May 2023.

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

The NTA is actively participating in these activities and discussions.

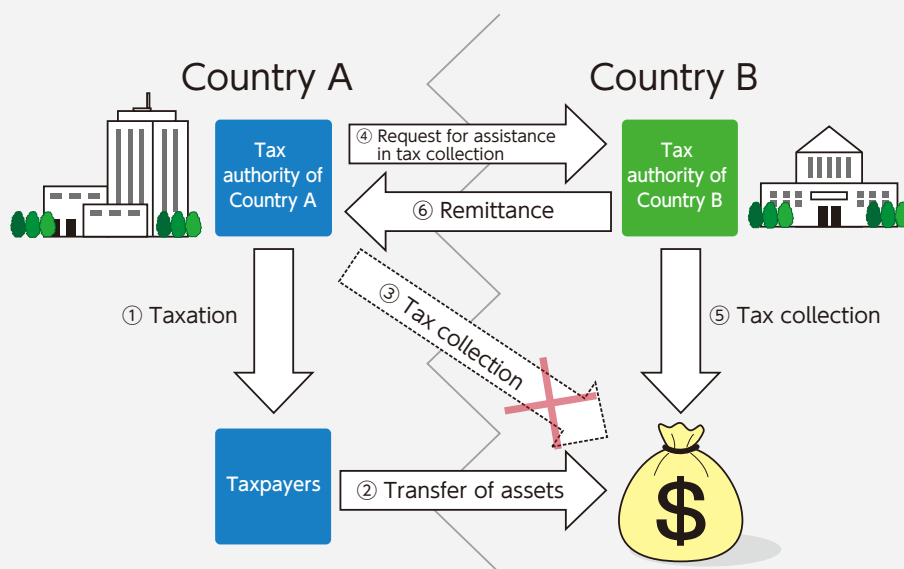


## b. Utilization of a mutual tax collection assistance system

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 Matters<sup>1</sup>.

### ■ 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," (<https://www.nta.go.jp/publication/webtaxtv/work.html> [in Japanese]) is a drama movie about revenue officers' work. In the movie, they conduct tax collection using the mutual assistance system for tax collection based on tax treaties for a malicious tax delinquency case where a delinquent taxpayer transfers assets to overseas and tries to avoid tax payment. Please look at it.



【Refer to a video here.】

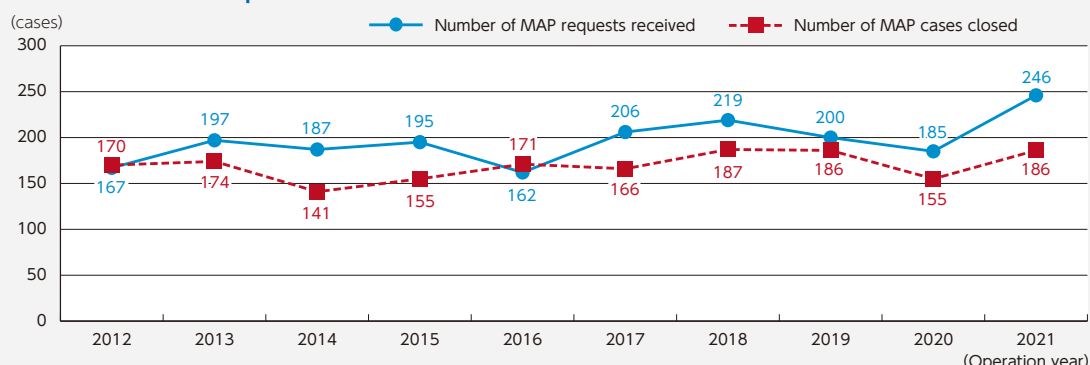
<sup>1</sup> It is a multilateral convention on mutual assistance for the exchange of tax-related information, tax collection and service of documents and has become effective in 141 jurisdictions including Japan (as of June 1, 2023).

### 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)<sup>1</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>2</sup> in view of the predictability for taxpayers and the proper and smooth administration of the transfer pricing taxation<sup>3</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 for swift and smooth MAP negotiations<sup>4</sup>.

■ Number of MAP requests received and MAP cases closed



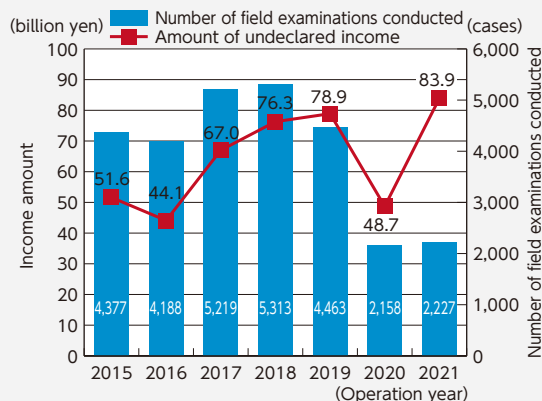
※ "Number of MAP requests received" consists of such requests from taxpayers and from foreign tax authorities.

### (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



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

- In the information obtained as assisted by the information exchange provision on the tax treaty, etc., the NTA grasped that the entity had not included interest income received from overseas financial institutions, etc. in tax declaration and the entity should have been applied the CFC taxation system regarding the overseas corporation it holds.
- By confirming the actual status of the foreign subsidiary located in country/region where the corporate tax burden is light from the local registry information, etc., the NTA grasped the fact that the CFC taxation system should have been applied.

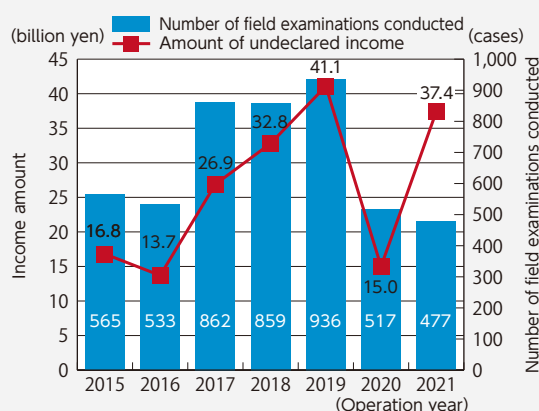
1 "Mutual Agreement Procedure (MAP)" is a formalized set of procedure between tax authorities of treaty partners which are provided in tax treaties. The NTA enters into MAP upon the taxpayers request where taxpayers consider that international double taxation arise or will arise from transfer pricing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

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

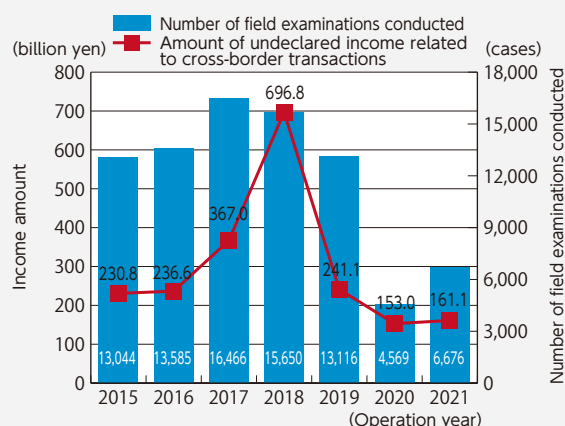
3 An adjustment of an enterprise's income based on the transaction price between third parties (referred to as "arm's length price") when such enterprise engages in a transaction with a related enterprise abroad, and the income of such enterprise is diminished due to the fact that the transaction price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

4 During operation year 2021, we had 53 MAP meetings totaling 155 days.

### 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



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

As company activities become increasingly globalized, more transactions are becoming subject to the transfer pricing taxation, and the details of the transactions are becoming more complex. To increase predictability for taxpayers, the NTA has announced its administration policy on the operations and its application requirements, by updating directive on the interpretation of laws and administrative guidelines relating to the transfer pricing taxation. In case of the Advance Pricing Arrangement (APA), the NTA has been providing an environment where taxpayers can smoothly apply for this APA, such as engaging in consultations prior to accepting requests for APA.

## 5 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 understanding Japan's tax administration. In FY2021, since it was difficult to invite trainees from foreign countries and to dispatch lecturers to overseas due to the Covid-19 pandemic just like in the previous fiscal year, we made efforts to hold as many trainings as possible, using online systems, 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 FY2022, we gave lectures through dispatching our officials to the tax authorities of Indonesia, the Philippines, and Vietnam.

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 FY2022, they worked in Lao PDR, the Philippines, 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.

#### (2) Country-Focused Training Courses

The courses target tax officials from a certain developing country, and give lectures based on its requests.

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

This course targets tax officials from Asian developing countries and gives lectures on "international taxation."

#### (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 FY2022, six students in total, enrolling in graduate schools of National Graduate Institute of Policy Studies, Hitotsubashi University, and Meiji University, participated in this course.

### ■ Status of trainings conducted in Japan

(number of countries, people)

		2018	2019	2020	2021	2022
International Seminar on Taxation (ISTAX) (General)	Countries	14	16	—	14	3
	Participants	14	16	—	14	3
International Seminar on Taxation (ISTAX) (Advanced)	Countries	9	11	—	10	5
	Participants	9	11	—	10	5
Country-Focused Training Courses	Countries	6	3	1	2	4
	Participants	86	32	15	136	355
International Taxation for Asian Countries	Countries	5	7	—	6	4
	Participants	7	7	—	11	6
Practicum at the NTA	Countries	11	12	7	8	5
	Participants	17	15	9	9	6

※ Includes the number of online courses from FY2020 onward.



## (2) Other technical assistance

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

OECD Asia-Pacific Academy for Tax and Financial Crime Investigation, which the NTA holds in collaboration with OECD, is the training program regarding investigation techniques on tax crimes, money laundering, and international cooperation, etc.

Since the first program at Wako Campus of the National Tax College in May 2019, we held 11 programs in total including those held online as of the end of FY2022.

## (3) Cooperation among countries for tackling the challenges in tax administrations

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. The OECD Forum on Tax Administration (FTA)

The FTA is a forum for Commissioners from 38 OECD and 14 non-OECD countries (as of May 2023) to share their knowledges and experiences in a wide range of fields in tax administration. The 15th Plenary Meeting was held in Sydney (Australia) in September 2022, where the commissioners exchanged their opinions on the issues in implementation of the new international taxation agreement, the continuous efforts toward digitalization of the tax administrations.

### b. Study Group on Asia-Pacific Tax Administration and Research (SGATAR)

SGATAR is comprised of tax authorities of 18 countries and regions in Asia-Pacific. This is a forum for discussions on cooperation and sharing of knowledge in the region.

In October 2022, the 51st SGATAR meeting was held in Kuala Lumpur, Malaysia, with the discussion about efforts to address new challenges in tax administration with focus on human resources and organizational structure, and improvement of voluntary compliance, etc.