

# National Tax Agency Report

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## 2006



# To Our Nation's Taxpayers



Since its establishment, the National Tax Agency (NTA) has administered the nation's taxation system with the aim of achieving its mission of helping taxpayers to properly and smoothly fulfill their tax responsibility. With the reform of Japan's central government in 2001, we established and publicized implementation standards and other regulations concerning the operations under our authority. In addition, we set performance targets for our organization and then conducted performance evaluations against those targets and released the results to the public.

Based on the fundamental awareness that the NTA has been entrusted with tax

administration by the people of Japan, the reform was designed to:

- (1) fulfill the NTA's responsibility to clearly explain its mission, performance targets, and policy measures to the people of Japan;***
- (2) provide an efficient and high-quality tax administration tailored to the needs of the times by objectively evaluating all NTA operations; and***
- (3) streamline work flow, raise the morale of tax officials, and revitalize the NTA organization.***

The environment surrounding our tax administration is markedly changing, as seen in the low-birthrate and aging society, economic globalization and so on. Against this background, the number of self-assessment taxpayers is significantly increasing, and cases of taxation and collection are becoming increasingly complicated and difficult. In order for the NTA to discharge adequately their mission in the future, it is important to properly continue tax administration by allocating limited resources effectively and efficiently. From this viewpoint, we consider it necessary to improve the convenience of taxpayers and ensure a full workload for examination and collection by improving the efficiency of the internal operation of Tax Offices to the extent possible.

From the viewpoint of supporting the return filing and tax payment of taxpayers upon improving the convenience of taxpayers, the NTA is striving to enhance taxpayer services by utilizing information technology (IT), such as by providing tax information through the NTA website, and the introduction or improvement of the e-Tax system for online tax return filing and tax payment, as well as the Filing



Assistance on the NTA Website. Concerning e-Tax, based on the “New IT Reform Strategy”, decided by the IT Strategic Headquarters of the government, the NTA publicized the procedures related to national tax as part of the “Action Plan for Promoting the Utilization of Online Procedures.” The NTA will actively proceed with various measures in order to promote the further use of e-Tax to achieve the goal incorporated in the said Action Plan.

Because it was anticipated that the number of self-assessment taxpayers would increase significantly during the filing period for 2005 final tax return, due to revision of the consumption tax law, the NTA enforced various measures, emphasizing publicity, consultation and guidance, so that taxpayers who became newly taxable enterprises for consumption tax could properly file tax returns and pay taxes. Thanks to such measures, a great part of taxable enterprises filed tax returns, and the filing period for 2005 tax return ended almost successfully.

With the globalization of world markets in recent years, the double taxation risk is increasing, but whereas, the number of tax evasion or avoidance cases is also increasing by taking advantage of complicated cross-border transactions. Accordingly, it is increasingly necessary to deal appropriately with these international taxation problems. However, there is a limit to how the tax authorities of one country can singly deal with such problems. Therefore, the NTA is addressing such problems in cooperation with foreign tax authorities by actively exchanging information, taking every opportunity available including international conferences. In addition, the NTA is actively providing technical cooperation such as dispatching experts to and receiving trainees from developing countries, chiefly the People’s Republic of China and Southeast Asian countries.

National Tax Agency Report 2006 was compiled for the purpose of explaining the NTA’s measures to taxpayers in an easy-to-understand format, and it focuses on the following:

- (1) the NTA’s future policy for tax administration, and*
- (2) areas for improvement in the current administration.*

The NTA’s mission is to help taxpayers to voluntarily and properly fulfill their tax responsibility under the self-assessment system. I hope that this National Tax Agency Report 2006 deepens taxpayers’ understanding of their taxes.

June 2006



**Yukitoshi Kimura**  
*Commissioner*  
*National Tax Agency*

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# I Mission of the National Tax Agency

## Helping Taxpayers to Voluntarily Fulfill Their Tax Responsibilities Properly and Smoothly

Public services are indispensable to support the lifestyle the Japanese people enjoy today, and the national and local governments conduct a variety of public administration activities to provide those services. Taxes provide the revenue to cover the expenses incurred in those activities. The Constitution of Japan stipulates that tax payment is an obligation of the people of Japan, and the NTA is given the authority to collect taxes so that these public services can be provided smoothly.

The mission of the NTA is to help taxpayers to voluntarily fulfill their tax responsibilities properly and smoothly. In order to fulfill its mission as mandated by the people, the NTA has tried to properly and fairly impose and collect internal tax through tax education, public relations and other activities (taxpayer services) to help taxpayers understand and fulfill their tax responsibilities, and through activities (for promotion of proper and fair tax administration to maintain and improve taxpayers' compliance<sup>\*1</sup> with tax laws) to implement accurate instructions and examinations regarding taxpayers alleged to have failed to properly fulfill their tax responsibilities. The latter activities are designed to prevent good taxpayers from feeling unfairness regarding taxation. The NTA has also tried to guarantee the sound development of the liquor industry and the proper management of CPTAs' services. The ultimate aim of all these efforts is to develop taxpayers' understanding of our tax administration and to gain their trust.

To this end, the NTA is making efforts to perform its duties giving the staff the "Mission of the National Tax Agency" <sup>\*2</sup> that summarizes plainly the mission mentioned above and has furthermore made it public.



National Tax Agency

<sup>\*1</sup> "Compliance" means that taxpayers fulfill voluntarily and properly their tax responsibilities provided for in the laws with a high-level of awareness of such responsibilities.

<sup>\*2</sup> The "Mission of the National Tax Agency" means the document that mentions the "Directive on Standard and Rules for Implementation of the National Tax Agency's Duties" including the code of conduct for the duties to be performed by the staff (See page 6).

## Mission of the National Tax Agency

**Mission: Helping Taxpayers to Voluntarily Fulfill Their Tax Responsibilities Properly and Smoothly**

### Assignment

- In order to fulfill the mission mentioned above, the NTA discharges the duties provided for in Article 19 of the Ministry of Finance Establishment Law, paying attention to transparency and efficiency.

#### 1. Realize the proper and fair assessment and collection of national taxes

##### (1) Improve the tax payment environment

- (i) Publicize the interpretation of laws and procedures regarding tax return filing and tax payment to taxpayers in an easy-to-understand, accurate manner.
- (ii) Respond promptly and accurately to taxpayers' inquiries and consultations.
- (iii) Endeavor to secure the wide-ranging cooperation and participation of relevant government agencies and various layers of people in order to gain a wide scope of understanding and cooperation regarding the roles of taxes and the tax administration.

##### (2) Promote proper and fair tax administration:

- (i) In order to realize proper and fair taxation:
  - a. Apply the relevant laws and ordinances properly.
  - b. Endeavor to realize proper tax return filing, and correct errors reliably by implementing accurate tax examinations and guidance for taxpayers whose tax returns are identified as improper.
  - c. Endeavor to help taxpayers pay their tax by the due date, and collect delinquent tax reliably by implementing procedure for tax delinquency against taxpayers failing to pay tax by the due date.
- (ii) Respond properly and promptly to taxpayers' requests for reinvestigation to address infringements of taxpayers' legitimate rights and interests.

#### 2. Sound development of the liquor industry

- (i) Endeavor to ensure the stability of the liquor industry's business infrastructure, the research and development of brewing technologies, and the quality and safety of liquors.
- (ii) Endeavor to ensure the effective utilization of resources regarding liquors.

#### 3. Proper management of CPTAs' service

Endeavor to guarantee the proper management of CPTAs' service so that having a mission; they can play a key role in the proper and smooth operation of the self-assessment system.

### Code of Conduct

- Fulfill the duties mentioned above in compliance with the code of conduct mentioned below.
  - (1) **The code of conduct upon performing duties**
    - (i) Endeavor to ensure the transparency of the tax administration so that taxpayers can be aware of the interpretation of laws and regulations and administrative procedures concerning self-assessment and tax payment.
    - (ii) Endeavor to improve the convenience of taxpayers in the case of self-assessment and tax payment.
    - (iii) Endeavor to reform the operating management to improve the tax administration efficiency.
    - (iv) Endeavor to collect positively and make the most of the data and information to appropriately conduct examination and implement procedures against tax delinquency.
    - (v) Deal strictly with taxpayers who are engaged in unscrupulous tax evasion and tax delinquency.
  - (2) **The code of conduct for officials**
    - (i) Respond faithfully with taxpayers.
    - (ii) Maintain the confidentiality of the information obtained in the course of conducting duties and maintain official discipline in a spirit of strict fairness.
    - (iii) Endeavor to learn expert knowledge that is needed to perform the duties.

### Challenges

- To deal appropriately and flexibly with changes in the economic and social structure caused by highly-networked information and internationalization. Furthermore, in order to meet the needs of taxpayers, to review incessantly and strive to improve the organization and management of the tax administration.

## NTA Budget and Personnel

The fiscal 2005 NTA budget was ¥715.7 billion, the majority of which was spent on personnel expenses. In recent years, the KSK System (Kokuzei Sogo Kanri [Comprehensive Tax Administration] System) and other IT-related expenses have come to comprise an increasing amount of the budget, and we are focusing on raising the efficiency of operations and improving taxpayer services.

NTA personnel numbered around 52,000 from the 1970s through the first half of the 1980s. With the introduction of the consumption tax in 1989, personnel figures increased and peaked in 1997. As of the end of fiscal 2005, the NTA staff numbered 56,185.

	1975	1997	2005	(Reference) 2005/1975
Budget (¥ Billion)	236.0	654.8	715.7	303.3%
Number of personnel	52,440	57,202	56,185	107.1%
(1) Number of Income Tax Returns Filed (Thousand cases)	7,327	20,023	23,181	316.4%
(2) Number of Corporations (Thousand cases)	1,482	2,793	2,949	199.0%
(3) Number of Establishments Subject to Commodity Tax (Thousand cases)	117	—	—	—
(4) Number of Enterprises Subject to Consumption Tax (Thousand cases)	—	2,521	3,869	—
(1)+(2)+(3)+(4) (Thousand cases)	8,926	25,337	29,999	336.1%

Notes: 1. The number of corporations is the figure as of the end of June 2005.

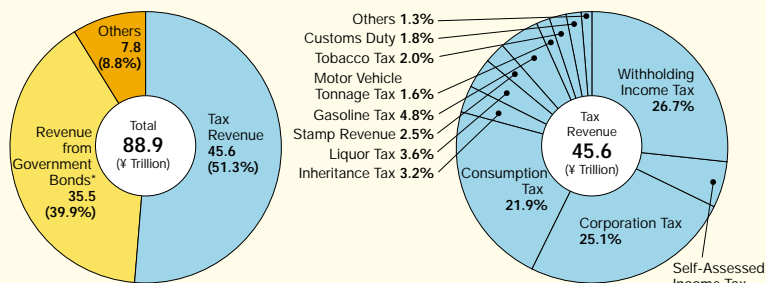
2. The figures for item (4) are the number of Notifications of Taxable Enterprise Status.

3. The figures under "(Reference)" are the fiscal 2005 percentages, based on a value of 100 for fiscal 1975 figures.

## National Revenue and Taxes

### ● National Revenue

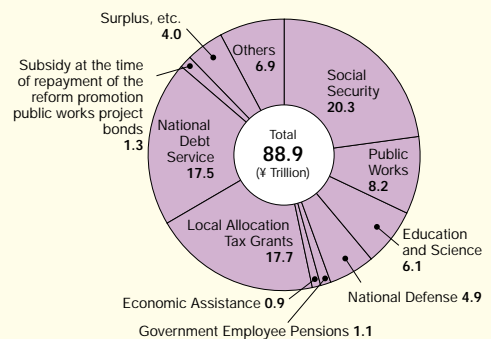
Fiscal 2004 General Account Revenue  
(settled account)



Note: "Revenue from government bonds" is revenue from construction bonds, which are issued to cover public works expenditure, and special deficit-financing bonds, which are issued to cover shortfalls in revenue. All revenue from government bond issues constitutes a debt that must be paid back in the future.

### ● National Expenditure

Fiscal 2004 General Account Expenditure  
(settled account)



National revenue (general account revenue) in fiscal 2004 was ¥88,897.5 billion. Of this revenue, ¥45,589.0 billion were from tax.

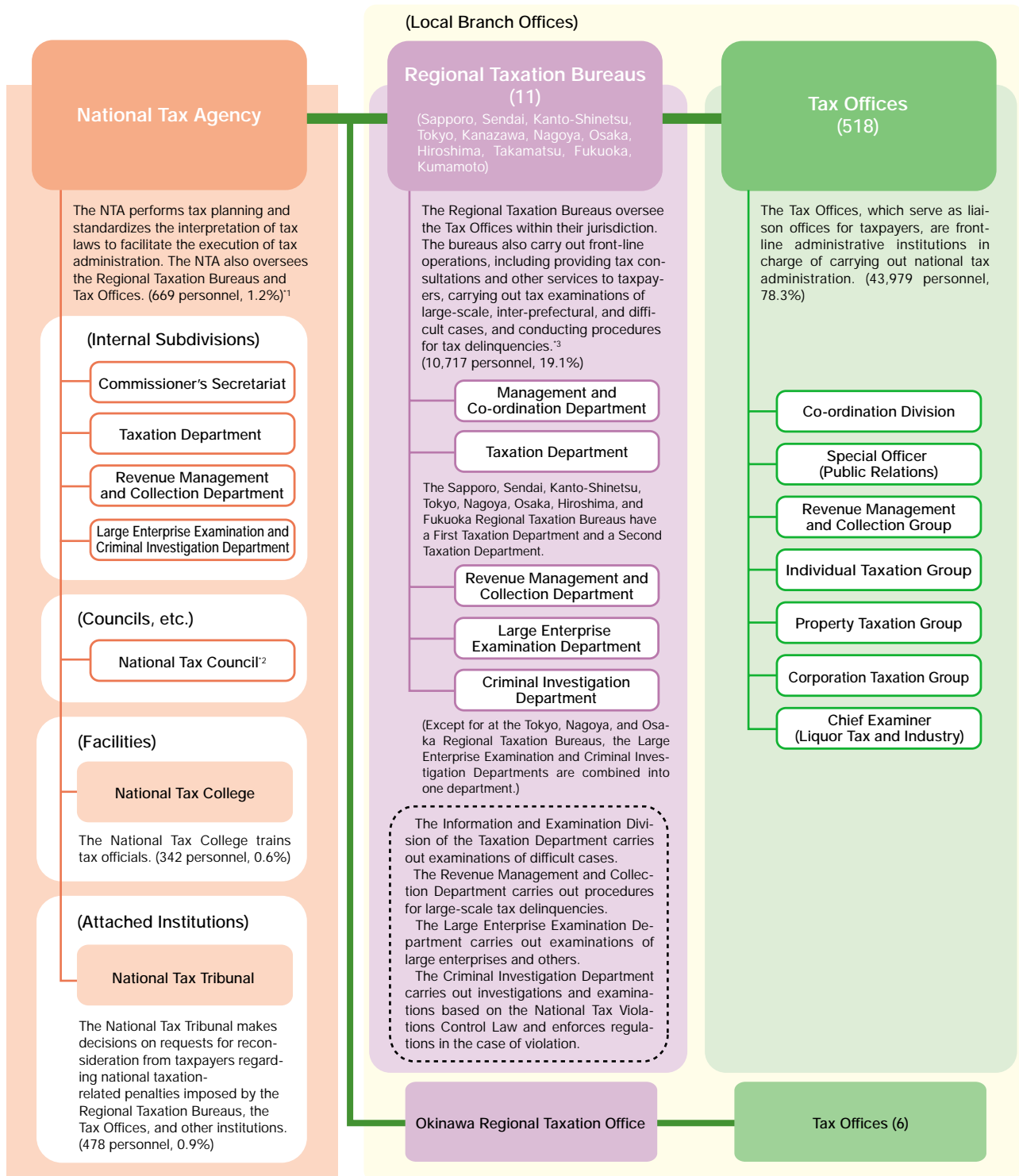
Deducting tax and stamp revenue from the customs and the Japan Post, revenue from national taxes alone amounted to ¥40,313.6 billion. This means that the NTA collects about 88 percent of government revenue through taxation.

Income tax, corporation tax, and consumption tax account for about 80 percent of tax revenue.



# Structure of the National Tax Agency

The NTA is responsible for the nationwide administration of tax and oversees the 12 Regional Taxation Bureaus and 524 Tax Offices.



<sup>1</sup> The number of persons for each department shows the prescribed number of persons for fiscal 2005, and the percentage shows its proportion to the prescribed number of the NTA as a whole.

<sup>2</sup> The National Tax Council performs the following: (1) studies and deliberations at the request of the NTA Commissioner in cases where the Director-General of the National Tax Tribunal gives a decision that interprets the law in a different way from the directives issued by the NTA Commissioner, (2) enforcement of CPTA examinations and deliberations on disciplinary actions against CPTAs, and (3) deliberations on the establishment of labeling standards for liquor and other issues.

<sup>3</sup> If taxes are not paid by the due date, they are deemed delinquent. To collect delinquent national taxes, taxpayer assets may be seized and converted into cash through public sales or collection of claims, and the cash proceeds collected as taxes. This series of procedures is referred to as "procedures for tax delinquencies."

# Major Undertakings

The NTA is tackling various tasks in order to deal with changes in the economic and social structure, caused by the rapid development of internationalization and highly-networked information, and the increasing number of filers, accompanied by a reduction in the tax exemption sales threshold for enterprises subject to consumption tax or a review of taxation on the pension system.

In fiscal 2005, the NTA in particular enforced various measures for dealing with internationalization, promoting online tax return filing and tax payment using IT and undertaking enforcement of the revised consumption tax law.

## 1 Addressing Internationalization

### (1) Addressing International Tax Avoidance

International tax avoidance of reducing tax liability by cleverly taking advantage of differences between national tax systems and the tax conventions is developing into a major international issue. Furthermore, it is becoming increasingly necessary to properly deal with the international double taxation issue.

In order to deal with such issues, the NTA is addressing the development of common taxation rules concerning international transactions in cooperation with the tax authorities of foreign countries. At present, the Japanese government has tax conventions with 45 foreign countries, with information exchange provision incorporated in 44 tax conventions among them. Such information exchange is becoming ever-more important in recent years. The Japanese government, too, is positively undertaking the promotion of information exchange.

Specifically, from the viewpoint of the tax system, in fiscal 2003, the Japanese government created the authority to make inquiry and inspection in order to deal with the requests of other parties regarding the tax convention, even where there is no domestic tax interest. Furthermore, in fiscal 2006, the NTA established information collection procedures in order to deal with information requests for the purpose of investigating tax crime. These actions have enabled our country to deal more smoothly with requests to provide information by other countries to the tax convention, and an environment has been formulated to facilitate positive cooperation from other countries involved in the tax convention.

From the viewpoint of administration, the NTA also set up an information exchange team in the International Operations Division in July 2005, and is cooperating closely with other countries in the tax convention to speedily deal with matters.

Taking action on the policy mentioned above, the NTA is trying to grasp the actual state of international transactions taking every opportunity available. Where



A scene of delivering a lecture at the International Seminar on Taxation (ISTAX)

it is recognized that there are problems for taxation purposes, the NTA will make a close examination and cope with such problems in strict fairness.

### (2) Technical Cooperation to Developing Countries

Improving the tax system and tax administration in developing countries will contribute to the economic development of these countries through strengthening the fiscal basis. If the tax authorities of developing countries and our country have a common understanding on tax rules, it is expected that international taxation problems will be prevented from occurring, and that the Mutual Agreement Procedure will rapidly progress. To this end, the NTA is positively providing technical cooperation to developing countries. In recent years, in addition to the International Seminar on Taxation (ISTAX) that has been held since 1968, the NTA provides training individually to neighboring Asian countries and has been closely cooperating with them, taking full account of the actual state of affairs and tasks of these countries (for further information, see page 29).

## 2 Promotion of Online Tax Return Filing and Tax Payment Using IT

**In order to help reduce taxpayers' tax return filing and tax payment burdens, the NTA has been trying to take advantage of IT systems, including the e-Tax system for online tax return filing and tax payment and the "Filing Assistance on the NTA Website".**

### (1) e-Tax

e-Tax is the system by means of which taxpayers can take procedures on the Internet concerning national taxes such as the return filing of income tax, corporation tax, etc., tax payment of all tax items and various applications and reports. This system was improved to enable taxpayers to take online procedures for notification of start using e-Tax in January 2006.

In future, the NTA will widely perform publicity and communication activities to diffuse and extend the further utilization of e-Tax, and try to increase the convenience of users by improving function and operation from a user perspective (for further information, see page 17).

### (2) Filing Assistance on the NTA Website

The Filing Assistance on the NTA Website is the system by means of which taxpayer can prepare tax returns and compile financial statements on the NTA website. During the filing period for 2005 final return, the NTA, in response to opinions and requests put forward by taxpayers, improved the system to enable tax-

payers to submit the final returns printed out by a monochrome, as well as color printer to the Tax Office. Furthermore, the NTA installed equipment so that taxpayers who have no personal computer at their own house can use one at the Tax Office (for further information, see page 18).

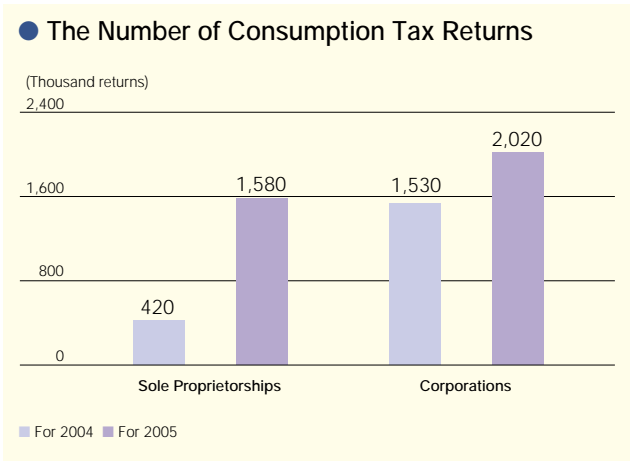
## 3 Undertaking for Enforcement of the Revised Consumption Tax Law

Because it was anticipated that the number of taxpayers becoming newly taxable enterprises for consumption tax would increase significantly during the filing period for 2005 final tax return, accompanied by enforcement of the revised consumption tax law, the NTA regards measures for dealing with the increasing number of taxpayers as one of its top priorities, and has multilaterally implemented various measures, such as publicity, consultation and guidance, to smoothly establish the system.

Specifically, the NTA gave notice of the content of the revised consumption tax law to taxpayers who become newly taxable enterprises immediately after revision, promoted publicity activities utilizing various media and held various briefings so that they can correctly perform bookkeeping and keep the relevant documents. Furthermore, in fiscal 2005, the NTA enforced various measures to facilitate the proper implementation of filing and tax payment, such as holding final return briefings, saving funds to use for tax payment and encouraging tax payments to be made by transfer account.

These efforts of the NTA resulted in more than 96%

of the 1.22 million taxpayers expected to become new taxable enterprises filing final consumption tax returns, meaning the filing period for 2005 final tax return ended almost successfully. The total number of consumption tax returns for the 2005 calendar year by sole proprietorships was around 1.58 million and that of corporations, around 2.02 million<sup>\*1</sup>. Compared with the figures for 2004, the former increased around 1.16 million and the latter, around 0.49 million.



<sup>\*1</sup> The number of returns by corporations was counted as those having settled accounts during the period from March to the following February (The number of returns for 2005 is the preliminary figure, as of May 30, 2006).

# II Self-Assessment System

## “Taxpayer Services” and “Promotion of Proper and Fair Tax Administration”: the Two Cornerstones of the Self-Assessment System

Japan employs the self-assessment system for its national taxes. Under this system, the taxpayer determines and pays tax based on the income and other information he or she submits to the Tax Office. For local taxes, however, the official assessment system is generally used. Under that system, the tax amount is determined by the municipality in which the taxpayer resides.

Concerning national taxes, the official assessment system was also adopted before World War II, and the tax authorities assessed the amount of taxable income and gave notice of the tax amount to taxpayers. In 1947, however, in order to democratize the tax system, the self-assessment system was adopted for three taxes - income tax, corporation tax and inheritance tax - and was subsequently adopted for almost all national taxes.

For the self-assessment system to function properly, two things are necessary: First, taxpayers must have a high level of awareness regarding tax payment and voluntarily and properly fulfill their tax responsibilities prescribed by law (tax compliance). To help taxpayers to correctly file and pay their taxes by themselves, the NTA endeavors to improve taxpayer services, including tax education, tax counseling, enhancing convenience for filing, public relations activities about the significance of tax, and information on tax law and procedures.

Secondly, proper follow-up and examinations are necessary to check tax returns and guide taxpayers on how to file their returns correctly. In addition, if the national tax is paid later than the due date, it is necessary to attempt tax collection without fail by demanding voluntary payment or by implementing procedures against tax delinquency. To this end, the NTA provides proper guidance on or makes an examination against taxpayers for whom any correction is needed, and performs procedures against tax delinquency in strict fairness after taking into account the individual circumstances of the taxpayer. In this manner, the NTA is making efforts to promote fair and proper tax administration so as to realize fair and proper taxation.



A scene of taxpayers filing final returns at a joint service site with local government



# 1 Public Relations, Tax Consultations, and Information Provision

To have taxpayers voluntarily and properly pay their taxes, it is vitally important that the NTA takes advantage of every opportunity to enhance taxpayers' understanding of their tax responsibilities. It is also important that we provide information on tax and respond to questions on tax.

Therefore, the NTA allows taxpayers to obtain information that they want at any time. It also makes wording of tax information easy for taxpayers to understand from their viewpoint. The NTA reflects taxpayers' opinions in its information services. It aims at and implements unified PR operations.

We employ a variety of PR media ranging from pamphlets which are available at Tax Offices and municipalities offices to taxpayer briefings, television, radio, and newspaper to provide information on the significance and role of tax and the structure of the tax system.

Particularly, in addition to explanation on the activities being performed by the NTA, the NTA is making efforts to provide information helpful to taxpayers such as how to take procedures for filing returns and paying taxes or examples of questions and answers by setting up the NTA website.

## NTA Website (Top Page) (Japanese only)



(As of May 2006)

● Chief matters appearing on the NTA website (Japanese only)

**[About the National Tax Agency]**  
 • Introduction on the National Tax Agency

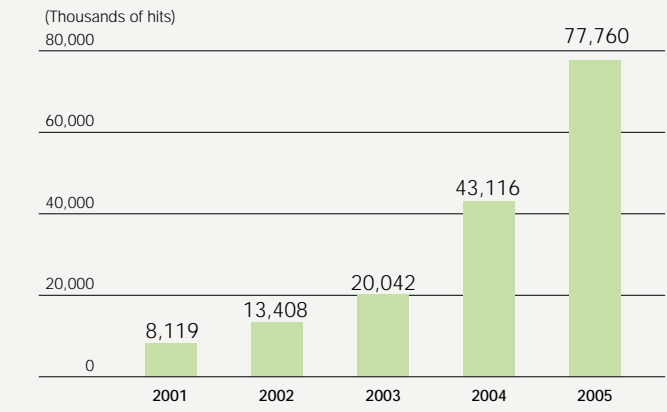
**[Report on Activities and Press Release]**  
 • Press Release  
 • Statistical Information  
 • Evaluation of Performance of the National Tax Agency

**[Information for Filing and Other Procedures]**  
 • Information on Final Return  
 • A Guide to Tax Treatment Procedures  
 • Procedures for Tax Payment and Certificate of Tax Payment  
 • e-Tax

**[Study on Tax]**  
 • Tax Answer System  
 • Examples of Questions and Answers  
 • Directives concerning Interpretation of Laws and Regulations

**[Other Information]**  
 • Announcement concerning Returns / Consultations  
 • What's New and Mail Magazine Distribution Service

### ● NTA Website Access Trends



## (1) Tax Education

Today's children will lead and support Japan in future years. To deepen their understanding of the significance and role of taxes and tax payment, the NTA encourages educators to incorporate tax education in their school classes.

To promote tax education, the NTA established the Council for Promotion of Tax Education, which is composed of representatives of national and local governments and educational organizations. The NTA also holds classes on tax and publishes and distributes sup-

plementary textbooks for tax education. For schools that wish to tour a Tax Office or to try a hands-on experience of tax, we have set up permanent facilities exclusively for tax education at some Tax Offices. For example, "Tax Space Ueno" at the Tokyo-Ueno Tax Office gives students an opportunity to develop the skills to identify tax issues themselves, to learn and think about those issues, and to independently judge and resolve them. If the classes on tax are not being held, anyone can tour the "Tax Space Ueno".

## (2) Briefings for Taxpayer

The NTA holds briefings for taxpayers to inform them about tax system reforms and deepen their understanding of tax administration.

Specifically, so that taxpayers can obtain the information necessary to undertake tax treatment procedures at the time they need it, Tax Offices hold occasional various briefings to provide tax information such as briefings for preparing financial statements for taxpayers filing final returns or blue returns, year-end adjustment briefings for withholding agents, briefings for

explaining the revised tax laws, briefings for corporations that have been newly incorporated and so on.

### ● Number of Briefings and Participants

(first half of the 2005 fiscal year)

	Briefings	Of Which, Briefings on the Revised Consumption Tax Law
Number of Briefings	21,647	6,184
Number of Participants (thousand persons)	1,172	149

## (3) Browsing the Road Rating Map on the Internet

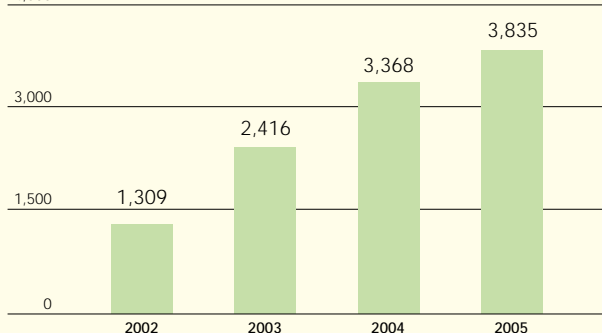
Article 22 of the Inheritance Tax Law provides that assets acquired under inheritance or for other reasons shall be valued at a fair market value. It is not always easy for taxpayers to find the market price on their own upon filing tax returns. Accordingly, from the viewpoint of meeting the convenience of taxpayers upon self-assessment and ensuring fairness of taxation, the Regional Taxation Bureaus and the Okinawa Regional Taxation Office have opened to the public the road rating map and evaluation coefficient table that are used as the basis for the evaluation of land around August each year.

The road rating maps and evaluation coefficient tables throughout the country appear on the NTA website so that taxpayers can browse them on the Internet at any time at their own house or office (Japanese only).

The browsing service of these road rating maps, etc. on the Internet was commenced in October 2001, and the number of accesses has subsequently been increasing year by year.

### ● Internet Access of Road Rating Map, etc.

(Thousands of hits)



#### (4) Tax Consultations at Tax Counsel Offices

In order to answer and accommodate taxpayers' questions and inquiries, the NTA has placed Tax Counselors and staff with vast experience in all aspects of tax at Tax Counsel Offices throughout the nation to provide telephone and in-person tax consultations. Consultations in English are provided at the Tax Counsel Offices of the Tokyo, Nagoya, and Osaka Regional Taxation Bureaus.

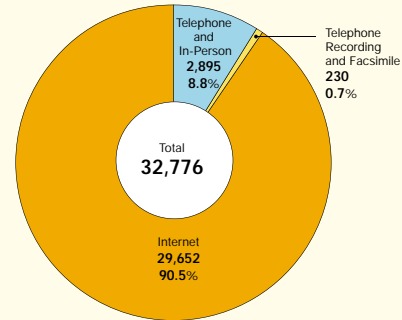
The NTA provides the information through "Tax Answer System (Frequently-Asked Questions)" on the internet or by voice telephone and facsimile. The instructions, the telephone number table of voice telephones and facsimiles and the code table in which the information access codes are listed are available at the counter of the nearest Tax Office or municipal office.

Furthermore, concerning tax consultations by telephone with which the Tax Counsel Offices and Tax Offices are dealing individually at present, the NTA

plans to improve the convenience of taxpayers such as shortening waiting time until receiving an answer by the centralized management system at the Telephone Consulting Center.

#### ● Tax Consultations at Tax Counsel Offices in Fiscal 2005

(Thousand cases, %)



#### (5) Responses to Taxpayer Advance Inquiries

The NTA provides information on the general interpretation and application of tax laws by publicizing directives concerning the interpretation of laws and regulations or consultations at Tax Counsel Offices.

Furthermore, if it is unknown how the tax laws apply to transactions actually conducted by taxpayers, Tax Offices, etc. respond to advance inquiries. Among such inquiries, if a taxpayer requests an answer in writing,

the Tax Office concerned answers in writing if the prescribed requirements are met, such as how a transaction is applied when the tax law is not clarified by the existing directives concerning interpretation of laws, and publicizes the contents of inquiries and answers, to improve predictability for other taxpayers.

The number of inquiries to which taxpayers requested an answer in writing was 113 in fiscal 2005.

## Responding to the Authorized NPO Corporation System

As the birthrate declines with the population aging and society becoming more diversified, private non-profit services of nonprofit organizations have grown more important. In order to support NPO services by allowing NPOs to accept external funds for their operations more easily, a special tax measure was created under the fiscal 2001 tax system reforms to deduct donations made to NPOs that are authorized by the National Tax Agency Commissioner as meeting certain conditions. Such NPOs are referred to as "authorized NPOs."

The conditions for authorization were relaxed under the fiscal 2002, 2003 and 2005 tax reforms. As greater consideration was given to the environment surrounding NPOs, the conditions were further relaxed under the fiscal 2006 tax reforms.

In a bid to secure the proper and smooth enforcement of the special tax measure, the NTA has distributed guidebooks and leaflets about application procedures and conditions for authorization and put a list of authorized NPOs on its website. The agency has also set up counters at Regional Taxation Bureaus throughout the nation and the Okinawa Regional Taxation Office for consultations about applications.

## 2 Making the Filing of Returns More Convenient

The number of taxpayers who filed a final income tax return for 2005 reached 23.18 million, meaning one in every six Japanese citizens filed such a return. More than 10 million filed a return for refund, accounting for more than half of all final returns submitted.

To respond to the increase and diversification of the number of income tax filers and to increase the satisfaction of taxpayers, the NTA attempts to reduce the costs related to filing tax return as much as possible and to provide even higher quality services than before.

### (1) Promoting Self Completion of Tax Returns

Under the self-assessment system, it is crucial that taxpayers understand the tax framework and pay their taxes. At tax consultations, NTA officials encourage taxpayers to complete their own forms. To further encourage taxpayers to fill out their own forms, we completely revised the tax form starting with the 2001 final return form and simplified the items to be entered.

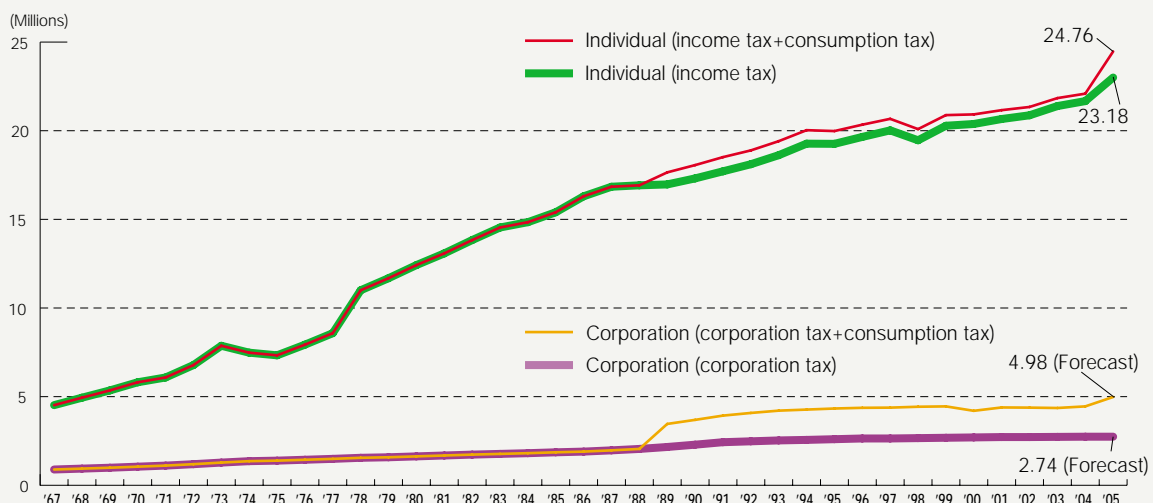
It is anticipated that the number of final returns will further increase in the future. To deal with these cir-

cumstances, the NTA plans to positively perform various measures whereby taxpayers can easily complete their own returns, for example, e-Tax and Filing Assistance on the NTA Website, to enable many taxpayers to voluntarily and properly file their returns. The NTA is striving to vastly enhance the satisfaction of taxpayers requiring consultation on self-assessment, and considers it important to process work related to tax returns efficiently using a limited number of staff.

## Rising Number of Final Tax Returns Filed

Accompanied by the tax reform in fiscal 2003, the tax exemption sales threshold for enterprises subject to consumption tax was lowered and the taxation on pension was reviewed. Due to these revisions, during the filing period for 2005 final tax return, the number of income tax returns increased to 107.0% and that of consumption tax of sole proprietorships increased to 378.6% compared to the previous year.

### ● Changes in the number of returns filed by individuals and corporations





## (2) Weekend Tax Consultations

“Tax consultations on weekdays only are insufficient. The consultations should be made available on weekends.” In response to such requests by taxpayers, the NTA has offered tax return consultation and reception services on two Sundays in February since the filing period for 2003 final tax return.

During the filing period for 2005 final tax return, joint service sites with local government and wide-area service centers, as well as some Tax Offices, held consultations and accepted returns on two Sundays in February after the NTA reviewed this service, taking into account the performance of the previous year, and

considering the efficient holding of consultations, regional differences and so on.

A questionnaire survey on the two Sundays’ services indicated that many taxpayers including salaried persons used the services to consult with tax officials on medical expense and housing loan deductions and those users welcomed and gave high ratings to the weekend services.

The NTA would like to fully review the information gathered about the weekend consultations held during the filing period for 2005 final tax return and announce futures plans before the filing period for 2006 final tax return.

## Filing return for refund and request for correction

A taxpayer who does not have to file a final tax return may file a return for refund and receive the refund if a withheld tax amount or an estimated tax prepayment exceeds a tax amount based on real annual income\*<sup>1</sup>.

If a taxpayer finds that a filed tax return includes an excessive tax amount or a short tax refund due to erroneous overestimation of the tax amount, the taxpayer may request a correction to the tax return\*<sup>2</sup>.

The NTA properly applies the relevant laws and properly and promptly processes filing returns for refunds and requests for corrections to tax returns.

## If a taxpayer encounters a disaster or the like

- (1) If a taxpayer cannot file a tax return or pay tax by the deadline for a disaster or a similar reason, the taxpayer may file an application with a competent District Director of the Tax Office. Upon approval by the District Director of the Tax Office, the deadline may be extended for up to two months from the end of the reason.
- (2) If an earthquake, fire, windstorm, flood or any other natural disaster damages a taxpayer’s housing or household goods, the taxpayer may choose (a) the deduction for casualty losses under the Income Tax Law or (b) the tax reduction or exemption as provided in the “Law Relating to Tax Reduction and Postponement of Collection for Disaster Victims,” whichever is favorable, to get relieved of all or part of income tax.
- (3) If a disaster or the like damages a taxpayer’s assets considerably or makes it difficult for a taxpayer to pay their tax in a lump sum immediately, such taxpayers may file an application with a District Director of the Tax Office, and by obtaining permission, receive a postponement of the tax payment deadline and may be given a tax moratorium for a certain period of time.

## Cooperation with local tax authorities

Some local taxes are levied on the same taxpayers and have the same tax framework as national taxes. To simplify filing procedures, therefore, the national and local tax authorities cooperate closely in terms of system structure and administration.

For example, in terms of the system structure, taxpayers who have filed income tax returns are not required to submit returns for sole proprietorship tax or individual inhabitant tax, both of which are local taxes. Moreover, taxpayers can file their consumption tax and local consumption tax returns through a single procedure. In terms of administration, many municipalities offer consultations on income tax, and services related to national tax. In addition, the national tax and local tax authorities together hold briefings on tax return filing and conduct tax PR. Cooperation in the area of administration is conducted based on consultations between the national tax authorities and the various local authorities, including prefectural and municipal officials.

\*1 Additional refunds may be made if certain conditions are met.

\*2 Taxpayers may request correction by submitting a written request for correction, specifying the details of the error, to the Tax Office.

## 3 Utilization of IT such as e-Tax

To ensure the self-assessment system operates smoothly, the NTA is trying to reduce taxpayers' burden by promoting tax return filing and tax payment in which IT is utilized, such as the e-Tax system for online tax return filing and tax payment, and "Filing Assistance on the NTA Website."

Furthermore, in order to simplify and improve the efficiency of the tax administration or conduct close examination and perform collections for tax delinquency smoothly, in addition to the utilization of IT, the NTA will attempt to optimize operations and systems related to national tax by promoting operational reforms responding to IT development or the outsourcing of work.

### (1) Improvement in Convenience of Taxpayers by Utilization of IT

#### (i) e-Tax

e-Tax is a system by means of which taxpayers can, through the Internet, take procedures for applications and filings, such as the return filing of income tax and corporation tax, application for the approval of blue returns, and notice of changes in the place for tax procedures that were previously made in writing. Furthermore, tax payment has been made at the counter of Tax Offices or financial institutions, but in the case of e-Tax, it has become possible to do so by utilizing an ATM connected with Pay-easy<sup>\*1</sup>, Internet Banking and similar.

Taxpayers can take procedures for tax returns and tax payment at their own houses or offices without visiting the counter of a Tax Office or financial institution by utilizing e-Tax. Furthermore, if using financial accounting software compatible with e-Tax, taxpayers can electronically perform a series of work, ranging from accounting for or preparing data, such as tax returns, to their submission, thus facilitating labor-saving and paperless operation.

In January 2006, the NTA improved the system so that taxpayers could take procedures for notification of start using e-Tax online and eliminate the need for the identifying documents requested for attachment when submitting a written notification of start using e-Tax.

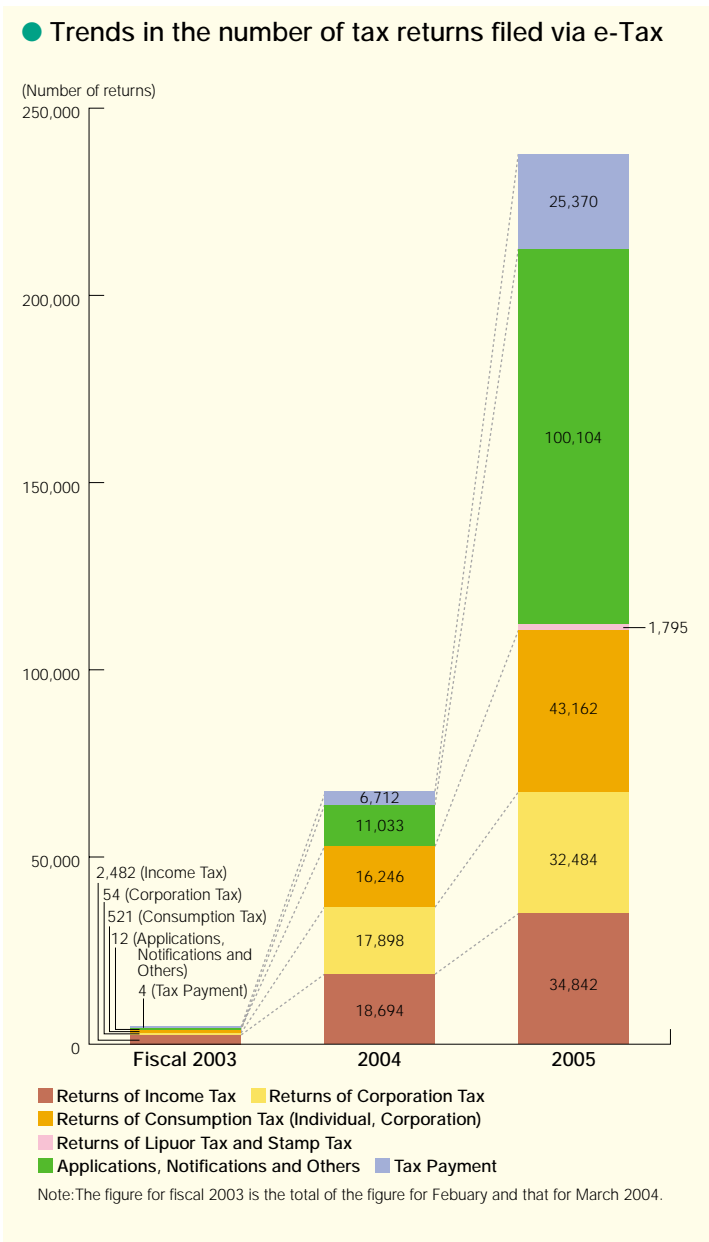
Furthermore, during the filing period for final tax return, in which e-Tax is intensively utilized, the NTA extended the hours of online operation to 23:00 (21:00 normally) and configured the system to accept returns at weekends, too.

Various opinions and requests have been put forward by many taxpayers through questionnaires and others concerning the utilization of e-Tax up to now. In order to improve the convenience of users in the future, based on the procedures related to the national tax prescribed in the "Action Plan for Promoting the Utilization of the Online Procedure" (made public in March 2006)<sup>\*2</sup>, the NTA will attempt to improve the function and operation of the system with plans to make attachments prepared by a third party online, to distribute e-Tax software online, to provide incentives such as the early payment of refunds, to accept tax returns 24 hours a day for a filing period for final tax return, to make some digital signatures unnecessary, and so on.

Furthermore the NTA will attempt development to make the system available to more taxpayers, accompanied by the wide diffusion of public key infrastructure, such as the Public Certification Service for Individuals (for further information about the utilization of e-Tax, see page 52).

<sup>\*1</sup> "Pay-easy" means the settlement service by which taxpayers can pay public utility charges, etc. that have been paid at the counters of financial institutions and convenience stores by ATM of financial institutions or Internet Banking.

<sup>\*2</sup> "Action Plan for Promoting Utilization of Online Procedure" is the action plan made public that prescribes the procedures subject to utilization of online procedure, that is, those under which applications of more than 100,000 are made annually in accordance with the "Policy of Administrative Reform in the Future" (decided at a Cabinet meeting held on December 24, 2004) and "IT Policy Package 2005" (decided by the IT Strategy Headquarters on February 24, 2005).



Leaflet for publicity of e-Tax



**Original Character "Mr. e-Ta"**

In order to establish the image of e-Tax, irrespective of generation or sex, the NTA has adopted "Mr. e-Ta" as an original character that is simple and friendly and that can convey the easiness and convenience of e-Tax. "Mr. e-Ta" is named after e-Tax, and the design is conceived by borrowing motifs from "e" of e-Tax and the monitor screen of a personal computer.

**(ii) Filing Assistance on the NTA Website**

The Filing Assistance on the NTA Website allows taxpayers to complete their tax returns by entering the necessary information in accordance with the procedure displayed on the screen of a personal computer. The amount of taxable income and tax are automatically computed and the taxpayer can print out the tax return to submit it as his or her final tax returns.

The tax return forms prepared can be sent by mail. Furthermore, the taxpayer may relay data such as the tax return output to e-Tax to file it electronically.

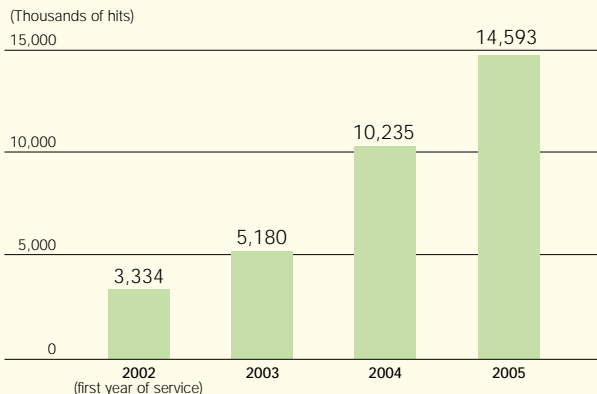
Since the Filing Assistance service was introduced on the NTA website in the filing period for 2002 final

tax return, the number of accesses has been increasing year by year, and reached around 14.59 million in the filing period for 2005 final tax return.

It is considered that this system contributes to the promotion of preparing tax returns at the taxpayer's own house and a much greater diffusion of e-Tax.

The NTA continues to improve the services of the Filing Assistance on the NTA Website based on the requests of users so that it is becoming easier to use, and NTA would like to improve it to become a system that is available to many more taxpayers.

● Internet Access to the Filing Assistance on the NTA Website  
(Trends from 2002 to 2005)



A Screen of the "Filing Assistance on the NTA Website"

(iii) Touch-Screen Computers

For taxpayers who are not able to use e-Tax or the assistance on the NTA Website, touch-screen computers for preparing tax returns have been installed at Tax Offices making it possible for them to complete a tax

return simply by touching a computer panel in accordance with the instructions that appear on the screen, like a bank ATM.

(2) Review of Operations and Systems related to the National Tax Administration

In order to improve the convenience of taxpayers and the simplification, efficiency, reliability and transparency of the government administration, the "Program for the Creation of Next-Generation Electronic Government" was decided in July 2003. The purpose of this plan is to attempt to optimize both operations and systems by reviewing each system and related operation in efforts to improve the efficiency of operations by promoting a far greater IT utilization.

Based on the review mentioned above, the NTA established the following five basic policies. (i) To attempt simplification and improvement in operational efficiency for appropriate performance, (ii) To attempt improvement in the convenience of taxpayers by utilization of IT, (iii) To attempt sophistication of the system related to examinations and collections of tax delinquency through the utilization of IT, (iv) To ensure stability and reliability of the system and information security, (v) To attempt reduction of expenses related to the system and to ensure the transparency of

procurement. In line with the basic policies mentioned above, the NTA developed and announced the "Optimization Plan of Operations and Systems related to National Tax Administration" in March 2006. Specifically, the NTA will promote unifying back-office operation, simplification and centralization of management, outsourcing of operations, improvements in the functions and operations of e-Tax, integration of services provided at the counter for taxpayers (one-stop service), promotion of a phased transition to open system, and so on.

By executing the policies mentioned above, the NTA will simplify the management of tax administration and improve the efficiency of operations, and in order to discharge appropriately the duties of the NTA of realizing proper and fair assessment and collection, will attempt further enhancement of examinations and collections of tax delinquency and attempt improvement in the compliance of taxpayers.



## 4 Promotion of Proper and Fair Tax Administration

To ensure proper and fair taxation, the NTA provides guidance regarding tax returns and payment and implements rigorous examinations from various angles on taxpayers who attempt to evade their tax obligations.

In selecting taxpayers for examination, we analyze their income tax and corporation tax returns entered into the KSK System from the viewpoint of their industry type, business category, and business scale.

### (1) Guidance

The NTA checks whether the information reported in a tax return is complete and correct using information gathered from various sources. If unreported or errors in reported information have been found, the Tax Office requests the taxpayer by telephone or in writing to submit an amended return. If the taxpayer refuses to

comply, then correction\*<sup>1</sup> or determination\*<sup>2</sup> by official assessment will be made under the authority of the District Director of the Tax Office.

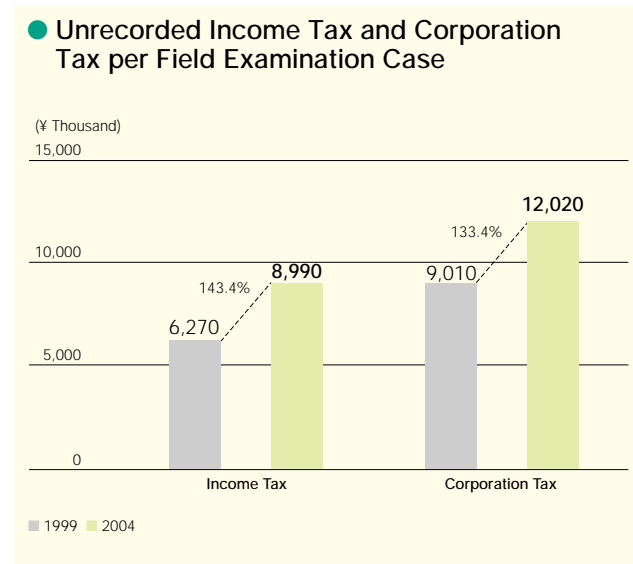
The Individual Taxation Group handles about 550,000 cases a year (in fiscal 2004) of this kind of brief guidance with taxpayers.

### (2) Strict Treatment of Unscrupulous Taxpayers

To facilitate the smooth operation of the self-assessment system, the NTA has been granted the authority to conduct tax examinations. Such examinations aim to check the content of tax returns based on the taxpayer's books and to correct any mistakes found. We give higher priority to the examination of unscrupulous taxpayers and make sure we invest sufficient number of days on such cases.

The unrecorded income discovered through field examination averaged ¥8,990 thousand per case for income tax and ¥12,020 thousand for corporation tax in fiscal 2004. Comparing this to 1999 figures, it is clear that the amount of unrecorded income per examination case is on the rise.

In light of this situation, the NTA believes that it is essential to ensure a sufficient number of examinations for proper and fair taxation. By singling out and conducting examination on taxpayers who are believed to be filing improper returns, and thereby constantly keeping such unscrupulous taxpayers under our watchful gaze, we believe that conscientious taxpayers' willingness to pay tax could be enhanced leading to better taxpayer service overall.



\*1 If the tax and other figures declared in the tax return are too high or too low, a correction is issued by the tax authority in charge of the case.

\*2 If a taxpayer who must submit a tax return fails to file by the deadline, a determination confirming the amount of tax is issued by the tax authority in charge of the case.

## Tax Examinations

In order to ensure proper and fair taxation, the NTA endeavors to conduct smooth tax examinations through various efforts to properly deal with taxpayers and strictly manage taxpayer information.

### (1) Advance Notice of Tax Examination

In principle, taxpayers are notified in advance of the date for the tax examination by phone so that we can confirm the taxpayer's availability. In cases where we must confirm the actual state of the business itself, however, no advance notice is given. Advance notice is given in approximately 80 percent of income tax examinations and about 90 percent of corporation tax examinations.

### (2) How to conduct Tax Examinations

When a tax official visits the residence or office of a taxpayer to conduct a tax examination, the official presents a photo identification card that clearly show his or her name and identity as a tax official. An examination proceeds quickly and smoothly if the taxpayer cooperates by presenting books and other documents that track daily transactions to the tax official in charge and responds accurately to questions regarding the tax return and books.

To minimize the burden on the taxpayer, we make every attempt to conduct the examination as speedily as possible. In principle, tax examinations are conducted in the presence of the taxpayer. The taxpayer may also have his or her CPTA designated as tax proxy attend the examination.

### (3) Actions to be taken after completion of Tax Examinations

When an error is found in the tax return, the Tax Office explains to the taxpayer the error and the amount of tax that should be paid, and recommends that the taxpayer amend and refile his or her filing return after the due date. If a return is amended, no request for reinvestigation or reconsideration may be allowed (see Pages 35). In addition to the tax amount due, a delinquent tax may be imposed. Furthermore, additional tax for understatement, for failure to file a return, or aggravated additional tax may be imposed. When recommending a taxpayer to amend his or her return, the Tax Office provides written explanations.

If the taxpayer does not cooperate with the Tax Office's request for an amended return, etc., the District Director of the Tax Office makes a correction, etc., and sends a Notice of Correction or Notice of Determination by official assessment to the taxpayer.

When no error is found in the tax return, the Tax Office performs the following:

- a. If there is no need for submission of an amended return, but guidance is needed regarding future tax returns or record keeping, or maintenance and storage of books and documents, the Tax Office provides the taxpayer with an explanation. The Tax Office also clearly communicates that the tax examination is closed.
- b. If no error is found in the return and no guidance is needed, the Tax Office sends a written notification of tax examination findings to the taxpayer.

## Strict Information Control

Revenue, sales, expenses, and other information involving taxpayers' privacy are necessary for tax calculation. Information about taxpayers' trading partners may sometimes be required for tax examinations. If taxpayers' privacy and information are leaked easily, taxpayers cannot be expected to cooperate with the NTA. This may negatively affect smooth tax examinations.

Tax officials who have leaked confidential information they obtained through tax examinations are subject to a criminal penalty (up to two years in prison or up to ¥300,000 in fine) under tax law that is heavier than the penalty (up to one year in prison or up to ¥30,000 in fine) under the National Public Service Law. The NTA conducts regular training of tax officials to thoroughly inform them of such penalty provisions. When interviewing taxpayers, tax officials give considerations to their privacy and refrain from interviewing them at their shopfronts or at the front door of their homes.

As the "Act for Protection Computer-Processed Personal Data Held by Administrative Organs" took effect on April 1, 2005, the NTA has further enhanced its strict control of taxpayer information that it holds.

## Treatment of Penalties and Exemption from Delinquent Tax

To encourage taxpayers to file tax returns and pay taxes properly, delinquent tax may be imposed if tax returns are not filed or taxes are not paid by the due date. There are also cases where either a penalty for understatement, a penalty for failure to file, or an additional tax for fraud case is imposed.

### ● Delinquent Tax

Up to two months from the day after the due date	<b>Annual rate of 4.1%</b> (in 2006) * The annual rate may change due to financial and other conditions.
After two months from the day after the due date	<b>Annual rate of 14.6%</b>

### ● Additional Tax

Whether the Tax Return was Filed by the Due Date	Regular Case	Case of Fraud, etc.
Return is filed by due date, but tax amount is understated	<b>For understatement (10% or 15%)</b>	<b>35%</b>
Return is not filed by the due date	<b>For failure to file (15%)*</b>	<b>40%</b>

\*Revised rates applicable to cases for which legal filing deadlines will come into effect after January 1, 2007 are 15% or 20%.

Where errors are not attributable to the taxpayer and a legitimate reason is found, then additional tax for understatement, additional tax for failure to file, or aggravated additional tax may not be imposed.

In cases where certain requirements are met, for example, a taxpayer may have been given a tax payment grace period after a disaster, or may have failed to file a return or pay a tax due to an erroneous guidance given by NTA officials, the taxpayer may be exempted from all or part of a delinquent tax corresponding to the grace period.

The NTA has set up the rules for the cases where no penalty is imposed and has published the rules on its website (Japanese only).

### (3) Information

The NTA collects about 158 million new pieces of information a year and we manage this information together with tax return data in an integrated fashion today inside the KSK System and use it for guidance and tax examinations.

The geographical expansion, globalization and use of IT of economic transaction in recent years present new information needs.

We determine what new kinds of information are required to examine these new forms of transactions

and then actively collect it. For example, to respond to the recent increase in transactions with overseas entities accompanying the advancement of internationalization, we actively exchange information with foreign tax authorities and use it to check returns related to overseas transactions. Information substantiating off the book or fictitious transactions and specific information relating to individual or corporate transactions are particularly helpful in examinations.

#### (4) Enterprise Groups Engaged in Wide-Area Transactions

Enterprises are attempting business expansion widely by establishing subsidiaries and branches. The way in which examinations should be made in these circumstances is one of the issues for the NTA.

In examining an enterprise group, it is important that the NTA must first gain an overall picture of the group, grasp the actual activities, and ascertain whether the group is conducting improper tax accounting by using intra-group transactions.

For overseas subsidiaries, the NTA must consider international taxation issues. The state of the local economy and the subsidiaries' ties with the community are valuable information to the NTA to fully ascertain the true situation of the subsidiaries. The consolidated taxation system was introduced in August 2002. The enterprise groups that file consolidated tax returns are

one form of the actual enterprise groups, and the need to ascertain intra-group transactions and the importance of local information remains basically the same.

In examining enterprise groups and consolidated groups engaged in wide-area transactions, the NTA implements coordinated examinations on a nation wide scale where parent companies and those subsidiaries that require close attention are examined by maintaining close communication and coordination among the national network of Regional Taxation Bureaus and Tax Offices.

Businesses are rapidly expanding their area of activity in recent years along with internationalization and the increasing use of IT. The NTA considers examinations of enterprise groups and consolidated groups as an important issue for the future as well.

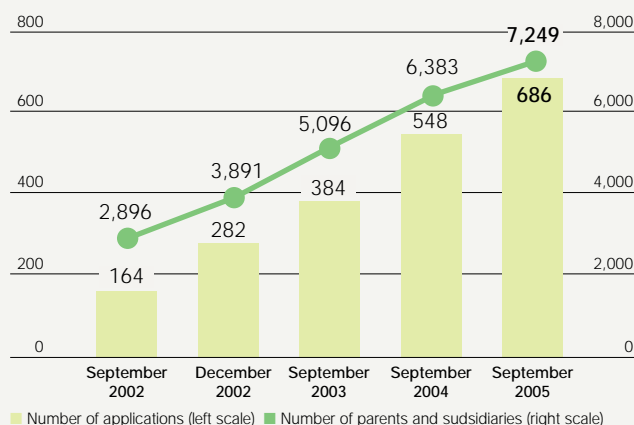
## Consolidated Taxation System

With the dramatic changes in the business environment surrounding Japanese enterprises, the Commercial Code and other laws and regulations have been adjusted to facilitate corporate reorganization and thereby to ensure that businesses remain competitive and can fully demonstrate their vitality. In the amendments made to the Corporation Tax Law as part of the fiscal 2001 tax reforms, necessary adjustments were also made, including the revision related to corporate spin-offs and mergers. Moreover, a consolidated taxation system was introduced as part of the fiscal 2002 tax reforms in response to the situation today where corporations are expanding their operations as enterprise groups and corporate disclosure is primarily performed via consolidated financial statements.

The consolidated taxation system was introduced in August 2002. This system views an enterprise group as a single corporation in the levying of tax. The NTA is improving the administrative framework for responding to advance inquiries, and examining applications for approval so that approval applications and consolidated tax returns are submitted properly. When examining consolidated enterprise groups, a competent Tax Office for parent companies and ones for subsidiaries try to maintain close communication and cooperation to conduct integrated examinations.

In fiscal 2004, examinations covered 87 enterprise groups.

#### ● Applications for Approval on Consolidated Taxation (Cumulative total of applications)



#### ● Consolidated Taxation Returns (For fiscal 2004)

Consolidated Returns	Number of Returns	331
	Percentage of Returns Declaring a Surplus (%)	25.1
	Reported Income (¥ Billion)	284.8
Reference	Non-Consolidated Income (¥ Billion)	1,350.1



## (5) Electronic Commerce Transactions

As means of communication have become more sophisticated and communications costs have declined, use of the Internet has increased dramatically, and transactions via virtual shopping malls on the Internet are spreading.

To collect information about the state of these kinds of electronic commerce transactions and to ascertain the parties involved in the transaction, the NTA has set up a Professional Team for E-Commerce Taxation

(PROTECT) at each Regional Taxation Bureau. This team collects information in both specialized and cross-sectional ways from e-commerce service providers and others, conducts tax examinations based on the information collected, and develops and accumulates examination methods. It also provides officials of each Regional Taxation Bureau and Tax Office with information collected and various examination methods.

## (6) Tax Criminal Investigations

To impose correct taxation on taxpayers who intentionally evade tax using illegal means and also to pursue criminal responsibility for such anti-social behavior, the NTA may conduct examinations on the basis of compulsory authority, using methods similar to those used in criminal investigations. Such examinations will be conducted apart from the general tax examinations, when evidence of evasion cannot be obtained only by ordinary audit. Based on the findings, the NTA may bring an accusation and request the prosecutors for public prosecution against the tax evader. This is known as the tax criminal investigation system, and it pursues the criminal responsibility of large-scale and malicious tax evaders. Taking advantage of the fact that punishing one serves as a warning to others, this system plays an important role as the ultimate means for protecting the self-assessment system.

As transactions become more cross regional, international, and IT oriented, tax evasion methods have grown more complex and diverse in recent years. By enhancing and strengthening our information and con-

ducting efficient examinations, the NTA endeavors to actively pursue criminal charges and prosecute large-scale, malicious tax evaders.

In fiscal 2005, the NTA commenced 217 criminal investigative examination cases and referred 150 cases to the public prosecutor. Total tax evaded was about ¥27.4 billion, with an evaded tax sum of ¥153 million per case.

Notable tax evasion methods were intentional concealment of sales and recording of costs at unreasonably high figures.

Furthermore, examples of tax evasion related to overseas transactions, tax evasion involved in consumption tax and tax evasion by failure to file are discovered.

In 2005, 156 cases were resolved at the court of first instance, and in all of the cases, a guilty ruling was handed down. The average fine was about ¥25 million per case, and the average prison sentence was 15.9 months. There were 7 cases with no suspended sentence. Prison sentences without probation have been handed down every year since 1980.

### ● Tax Criminal Investigations

Fiscal Year	Number of Cases Conducted	Number of Cases Closed	Number of Cases Prosecuted	Total Tax Evasion (Number in parentheses is total tax evasion in prosecuted cases) (¥ Million)	Tax Evasion per Case (Number in parentheses is tax evasion per prosecuted case) (¥ Million)
2004	210	213	152	28,224 (24,680)	133 (162)
2005	217	214	150	27,416 (22,960)	128 (153)

Note: Tax evasion figures include penalties.

### ● Judgments Handed Down in Tax Criminal Investigation Cases

Calendar Year	(1) Number of Judgments	(2) Number of Convictions	(2)/(1) Percentage of Cases Convicted	Convictions with Prison Sentences without Probation	(3) Amount of Tax Evaded per Case (¥ Million)	(4) Average Prison Sentence per Person (Months)	(5) Average Fine per Case (¥ Million)
2004	171	171	100.0%	11	111	15.2	27
2005	156	156	100.0%	7	100	15.9	25

Notes: 1. The number of convictions with prison sentences without probation and (3)-(5) figures exclude those combined with non-tax crimes.

2. The "Amount of Tax Evaded per Case" is the amount of tax evaded through fraud and other illegal activities.

## 5 Payment of Taxes

### (1) Fostering a Cooperative Attitude Regarding Self Initiated Tax Payment

National taxes for which returns were filed are treated as tax revenue only when they are actually paid to the national treasury. In fiscal 2003, the tax amount of national taxes filed to Tax Offices (the amount determined for collection) was around ¥44,760 billion, while the amount of tax paid within the said fiscal year was around ¥44,330 billion. Accordingly, the rate of receiving tax was 99.0%. (This rate of receiving tax reached 99.5% by the end of fiscal 2004, due to the execution of collection of tax delinquency.)

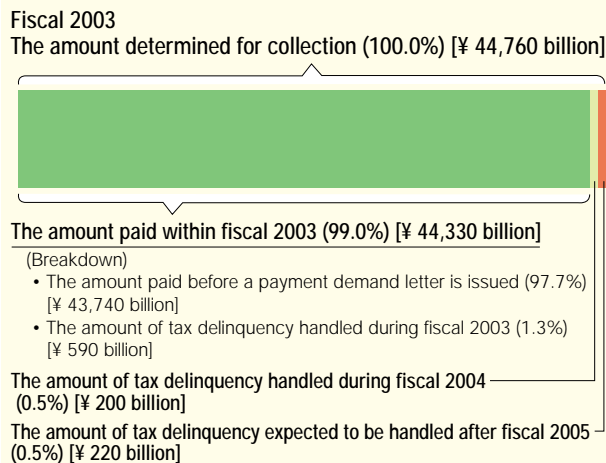
For national taxes, taxpayers file a tax return themselves and pay the tax by the filing due date using a tax payment slip on which they write in the tax amount themselves. For this reason, the NTA endeavors through PR to make sure that taxpayers do not let the tax payment deadline pass by accident. For sole proprietors that declare and pay tax on an ongoing basis, we suggest tax payment by transfer account from their deposit accounts. Moreover, we are committed to further improving taxpayer services. From 2004, taxpayers can perform tax payment procedures at their homes or offices with e-Tax.

### (2) Measures to Address Tax Delinquency

Tax delinquency means that national taxes are not paid within the due date and a payment demand letter has been issued. The amount tax delinquency was around ¥1,867.3 billion as of the end of fiscal 2004. Allowing delinquent tax to go unpaid results in unfairness between delinquent taxpayers and the vast majority of taxpayers who pay their national taxes by the deadline. In the end, this undermines the principles of the self-assessment system, namely, self declaration and payment. For this reason, the NTA endeavors to strictly deal with tax delinquency while taking into consideration the unique situation of each taxpayer.

In the case that amount of the national tax is not paid within the due date and is demanded by issuing a payment demand letter and furthermore, in the case that no tax payment is made even after the tax payment is demanded in writing or by telephone as the need arises, the NTA may seize property of the delinquent taxpayer. For taxpayers who are having temporary difficulty with their tax payment because of natural disaster, sickness, or the suspension or closedown of business operations due to economic circumstances, however, the NTA

#### ● Status of Tax Delinquency of the National Taxes Being Handled

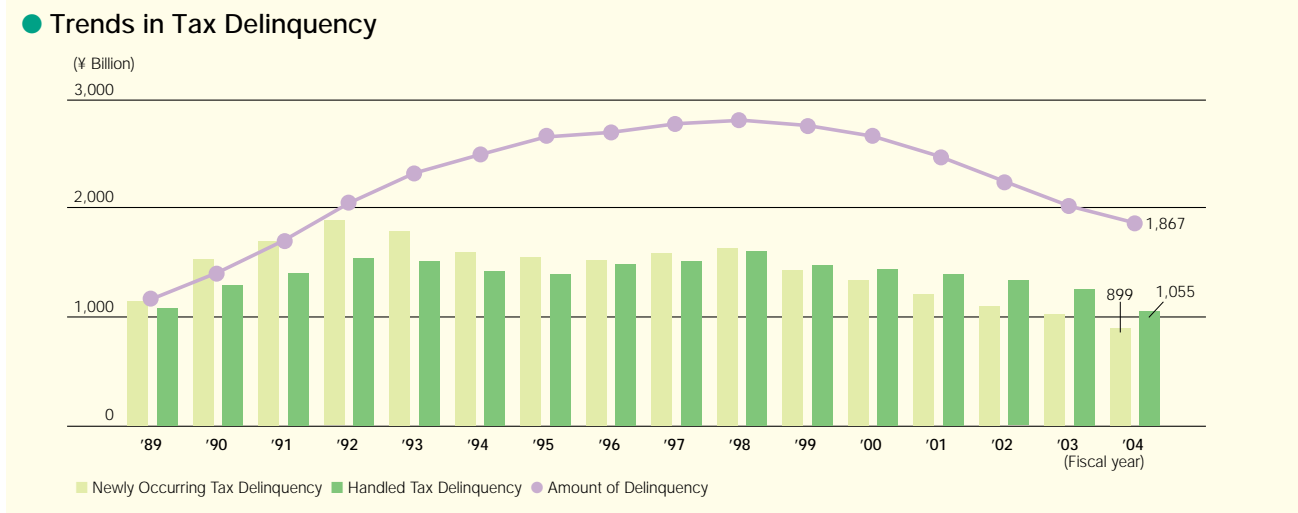


Furthermore, the NTA is making efforts to prevent tax delinquency such as giving written previous notice requesting tax payment within the due date to taxpayers who paid tax after the due date in the previous year or giving notice by telephone before sending a payment demand letter to taxpayers who failed to pay tax within the due date by mistake.

deals with such cases in line with the actual state of affairs of the taxpayer such as allowing installments for tax payment, as a measure to lighten the burden of tax payment.

The NTA has designated the clampdown on tax delinquency as a top-priority issue since 1999. The entire NTA is working to prevent tax delinquency and to place priority on the collection of delinquent consumption tax which is a type of deposit received and the resolution of large-scale and unscrupulous tax delinquency. The NTA also utilizes the Tax Payment Call Center to handle delinquency cases. The agency is thus endeavoring to efficiently resolve tax delinquency. As a result, the amount of tax delinquency as of the end of each fiscal year has declined for six consecutive years since fiscal 1999.

Moreover, the NTA requests law enforcement authorities to charge particularly unscrupulous taxpayers who conceal or dispose of assets with the intent to evade the procedure for collection of delinquent tax, based on the penal provisions for evading delinquency disposition stated in Article 187 of the National Tax Collection Law.



### (3) Tax Payment Call Centers

At Tax Payment Call Centers, tax officials make demand notifications to delinquent taxpayers by telephone while referring to taxpayer information that appears on a computer screen. The calls are placed automatically by a state-of-the-art computer system that simultaneously displays the data for the delinquent taxpayer called. Out of 288,000 cases subject to demand notification in fiscal 2004, 178,000 cases (around 62%) were concluded. Office of Tax Payment Call Center is contributing to improvement in the efficiency of handling tax delinquency.



Office of Tax Payment Call Center

### (4) Efficient Management of Tax Claims and Liabilities

The NTA manages national tax claims and liabilities by processing tax returns, some of which require tax payment and others that require tax refund. In 1966, we initiated efforts to introduce a computer system to properly and efficiently manage these claims and liabilities. In 2001, the KSK System was introduced at Tax Offices nationwide, and tax claims and liabilities are managed via this integrated system.

Every year, about 40 million tax payments are made, mainly of income tax. To date, the majority of them have been paid at financial institutions. To efficiently process such a large number of payments, the NTA has streamlined administrative operations by introducing payment by account transfer through the exchange of magnetic tape for self-assessed income tax— so-called tax payment by transfer account.\*<sup>1</sup> We have also

streamlined operations through cooperation with financial institutions and the Bank of Japan, including OCR processing\*<sup>2</sup> of tax payment slips by the Bank of Japan. Transfer procedures to pay refunds used to be performed through written documents from Tax Offices, but the NTA developed paperless procedures for refund transfers by magnetic tape in 2001 and intends to adopt online transfer procedures from around the fall of 2006. In these ways, we endeavor to achieve efficient and speedy processing of payments.

The management of national tax claims and liabilities is the cornerstone of taxation and tax collection. We will continue to strive to improve services by conducting procedures speedily and accurately through the advanced application of the system and delivering refunds to taxpayers as quickly as possible.

\*<sup>1</sup> Tax payment by transfer account is the method of tax payment whereby the Tax Office sends a tax payment slip to a financial institution designated in advance by the taxpayer and debits the amount of tax payment from his or her bank account. If it is necessary to send tax payment slips to financial institutions in large quantities, in order to perform the work of account transfer efficiently, the Tax Office sends a magnetic tape containing data for an account transfer to the financial institution, which processes the data brought, and after recording them on the magnetic tape, returns it to the Tax Office.

\*<sup>2</sup> OCR (Optical Character Reader) processing converts characters printed on tax payment slips into electronic data, thereby enabling paperless operations.

## 6 Roles of CPTAs

**Certified Public Tax Accountants (CPTAs) have a public mission as tax experts to strive to promote taxpayer trust in line with the principle of the self-assessment system and realize tax compliance as provided in tax law, based on their independent and fair standpoint (Article 1, CPTA Law).**

**In this respect, CPTAs' services - (1) tax proxy, (2) preparation of tax documents, and (3) tax counseling - must not be provided by other people than CPTAs, even free of charge (Article 52, CPTA Law) to be provided only by CPTAs.**

**For the proper and smooth operation of the self-assessment system amid a substantial increase in the number of tax return filers, CPTAs are required and expected to play an important role in the proper performance of tax obligations by taxpayers.**

**To this end, the NTA is making efforts to make CPTAs understand the tax laws correctly and to ensure proper management of operations through consultation with tax accountants' associations and the Japan Federation of CPTAs' Associations. The NTA deeply respects CPTAs who are fulfilling a public mission, while it is considering dealing strictly with those who are in violation of the CPTA Law.**

### (1) Promoting Attachment of Return Working Paper to Tax Returns

The CPTA Law was revised in May 2001 (effective from April 1, 2002) to expand the system for hearing the opinions of CPTAs and introduce a new system (Article 33-2, CPTA Law) was introduced in which return working paper created by CPTA would be attached to tax returns. The new system allows CPTAs to attach to tax returns documents regarding calculation, audit, or counseling services that they provided for the preparation of the tax returns. If the Tax Office intends to conduct a tax examination on a taxpayer who has filed a tax return along with such documents, the

CPTA possessing the certificate evidencing the authority of tax proxy must be given the opportunity to give his or her opinions on the items written in the attached documents before the taxpayer is notified about the tax examination.

The NTA respects and endeavors to promote the new system because the system contributes to the preparation and submission of accurate tax returns, the establishment of a reliable system for CPTAs, and the facilitation of tax administration.

### (2) Proper Guidance and Supervision for CPTAs

In order to ensure the reliability of people in the CPTA system, the NTA is providing guidance and supervision for CPTAs. In order to smoothly provide guidance and supervision, the NTA has set up a consultative meeting between the NTA and CPTAs' associations, etc. The NTA takes advantage of every opportunity available

including such as meetings to excite attention, and is making efforts to prevent the misconduct of CPTAs. Furthermore, the NTA is making efforts to collect information on cases of misconduct, appropriately conducts investigation under the CPTA Law and deals strictly with CPTAs who are in breach of the CPTA Law.

## Japan Federation of CPTAs' Associations

The Japan Federation of CPTAs' Associations is an organization that is required by the CPTA Law to be established to undertake guidance, liaison, and supervision services for CPTAs' associations and their members and perform the registration of CPTAs in order to contribute to CPTAs' compliance with their obligations and improvement of their services in view of their mission and duties. The federation consists of 15 tax accountants' associations covering about 69,000 CPTAs and about 1,000 CPTA firms.

Each association of CPTAs provides a wide range of services including (1) training to contribute to the advancement of members' qualifications and the improvement and development of their operations, (2) social contribution by dispatching lecturers to tax education classes at elementary, junior and senior high schools, and (3) free-of-charge counseling services for small-scale taxpayers and the like.

For details, see the federation's website at <http://www.nichizeiren.or.jp> (Japanese only).

## 7 Cooperation with Relevant Private Organizations

The NTA is making efforts not only to provide information on taxes directly to taxpayers but also to convey information on taxes to taxpayers gaining cooperation from relevant private organizations such as blue return taxpayers' associations and corporations associations. These relevant private organizations are playing a great role in realizing proper self-assessment system and in disseminating knowledge about taxes as a faithful association of taxpayers.

These relevant private organizations are attempting to enhance coordination and cooperation between organizations regarding the revised consumption tax, diffusing e-Tax and promoting the joint holding of various events for the "Think about Tax" week campaign.

### Blue return taxpayers' associations

Blue return taxpayers' associations are organizations formed chiefly by sole proprietorships filing blue returns, aiming at spreading the blue return system and promoting the submission of proper returns through honest bookkeeping. At present, there are around 4,100 associations throughout the country, and the number of members of the associations is around 1.07 million. Each blue return taxpayers' association performs wide-ranging activities, such as guidance on bookkeeping, holding seminars, spreading the blue return to persons other than the members of association, and so on. For further information, please inquire at your nearest local blue return taxpayers' association.

### Corporations associations

Corporations associations are organizations formed aiming at improving bookkeeping practices and deepening and spreading the knowledge of tax. At present, there are 483 associations nationwide as incorporated companies, and membership stands at about 1.12 million corporations. Each corporations association performs wide-ranging activities, such as holding lectures and seminars on taxes or contributing to the sound development of business management and society. For further information, please access the website of the National General Federation of Corporations Associations (<http://www.zenkokuhojinkai.or.jp> -- Japanese only).

### Indirect tax associations

Indirect tax associations are organizations formed aiming at contributing to the dissemination of knowledge about indirect taxes and realization of fair taxation and proper administration through the self-assessment system. At present, there are 560 associations nationwide, and membership stands at about 102,000 persons. Indirect tax associations make proposals to the government on ways to enhance the indirect tax system and its enforcement, and are spreading knowledge about consumption tax and preventing tax delinquency. For further information, please access the website of the National Federation of Indirect Tax Associations (<http://www.kanzeikai.jp> -- Japanese only).

### Tax payment associations

Tax payment associations are organizations formed under the jurisdiction of the Tax Offices of the Osaka Regional Taxation Bureau aiming at disseminating knowledge about taxes, promoting proper tax filing and payment and enhancing compliance. At present, there are 83 tax payment associations under the control of the Federation of Tax Payment Associations, and membership stands at about 290,000, bringing individuals and corporations together. Each tax payment association is performing activities similar to those of both the blue return taxpayers' associations and corporations associations such as publicity activities for spreading knowledge about taxes and holding various briefings. For further information, please access the website of the Tax Payment Associations (<http://www.nouzeikyokai.or.jp> -- Japanese only).

### Savings-for-tax associations

Savings-for-tax associations are organizations formed by taxpayers aiming at continuing to complete payment of tax within the due date through saving for tax payment. The saving-for-tax associations are established under the Saving-for-Tax Association Law and at present, there are 78,000 associations. The saving-for-tax associations are promoting the utilization of tax payment by transfer account and completion of tax payment within the due date, and are performing wide-ranging activities such as holding seminars on the tax law and soliciting "Compositions on Tax" from junior high school students. For further information, please access the website of the National Federation of Saving-for-Tax Associations (<http://www.zennoren.jp> -- Japanese only).



# III Tax Administration in the Era of Globalization

**The NTA promotes tax administration including cooperation with foreign tax authorities to meet the era of globalization.**

As multinational enterprises and the like conduct various cross-border economic activities with growing economic and social globalization, one country's taxation system and tax administration can have a great impact on other nations' taxation systems and enforcement. The environment surrounding tax administration has thus changed dramatically. The elimination of international tax avoidance and double taxation risks emerging from such environmental change has become a major issue for tax authorities in all nations. In this respect, bilateral and multilateral talks on tax issues have increased for the development of common rules on international transactions and for the cooperation and sharing of experiences between tax authorities.

Under this situation, the NTA actively respond to the globalization of tax administration enhancing mutual trust and cooperation with other countries.

Furthermore, in order to tackle the problems of international tax evasion, the NTA has enhanced and strengthened the organizations by various actions such as setting up specialized units dealing with international taxation problems.

## 1 Developing Common Tax Rules

Today the number of international transactions is increasing and transaction formats are diversifying with IT and other developments. Taxation rules, however, sometimes differ from one country to another. For example, if tax administration fails to eliminate the double taxation risk, it may block the flow of transactions and in turn make it difficult to maintain the tax compliance of taxpayers engaged in global transactions.

Accordingly, the NTA is actively participating in discussion over tax problems related to cross-border transactions and setting common taxation rules in collaboration with foreign tax authorities.

### ● Developing Common Tax Rules

#### (1) Review of the Model Tax Convention

In order to promote international investment and to prevent double taxation, the OECD (Organization for Economic Cooperation and Development) Committee on Fiscal Affairs (CFA), which has established the Model Tax Convention as the basis for tax conventions with the release of its Interpretations and develops the rules on emerging international taxation issues, has reviewed them periodically in keeping with the development of the global economy.

#### (2) Setting taxation rules applicable to branches of foreign corporations

Opinions on attributing profits to the branches of foreign corporations (permanent establishment; PE) are diverse among tax authorities, and there exists the potential risk of double taxation or taxation loopholes. The OECD CFA works to establish a consensus view over the extent to which the OECD Transfer Pricing Guidelines, which are applicable to transactions between associated enterprises that are legally separate enterprises, can by analogy be applied to internal dealings between head offices and permanent establishments (PEs), as if they were separate enterprises for tax purposes.

#### (3) Improving the process for resolving international tax disputes

As global trade and investment increase, the possibility of cross-border tax disputes necessarily increases as well. Left unresolved, these disputes can result in double taxation and corresponding impediment to the free flow of goods and services in a global economy. Accordingly, in order to improve the process for resolving international

tax disputes under tax conventions, the OECD CFA examines ways of improving the effectiveness of the Mutual Agreement Procedure and the supplementary dispute resolution mechanisms. In March 2006, representatives from the private sector and the tax authorities assembled in one hall and held a consultation in Tokyo.

#### (4) Elimination of harmful tax competition

To attract foreign capital, some countries implement excessive tax reductions (tax incentives) on their financial and services industries. Comparatively heavy taxation on labor, assets, and consumption in other nations' results. This has a negative influence on the fiscal base of the other nations and also gives rise to distortions in corporate investment behavior. The OECD CFA endeavors to rectify this problem by issuing a list of countries and jurisdictions that offer extreme tax reductions.

#### (5) Sharing information and experience with the foreign tax authorities concerning tax administration

In order to resolve administrative issues by sharing information and experience concerning taxpayer services and tax compliance, the OECD CFA works on various issues, such as the promotion of electronic services, including electronic filing and electronic tax payment, the measurement and evaluation of compliance, and the use of IT in taxpayer audit functions. In addition, the NTA works on effective strategies/measures together with the foreign tax authorities under a bilateral or multilateral regulatory framework.

## Discussions on Development of Common Taxation Rules and Tax Enforcement Problems - Participation in International Meetings between Tax Authorities

In order to promote cooperation and share experience among tax authorities regarding common issues, such as international taxation problems, bilateral and multilateral conferences are held with the tax authorities of foreign countries with which Japan has close economic relations, as mentioned below. After holding its 27th meeting in October 2005 as its last meeting, the Pacific Associations of Tax Administration (PATA) was disbanded and was integrated into a new forum which, after extending the scope of countries, was agreed to be organized as a new Commissioner-level meeting of ten tax administrations.

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

The SGATAR was established in 1971, aiming to promote international cooperation among tax authorities in the Asia-Pacific region and the exchange of views and opinions concerning tax issues common to each state. At present, SGATAR is composed of 13 members.

In accordance with the proposals of Japan, the common form of members' basic information concerning the tax administration of each member was set down, targeting the sharing of basic information among members' countries and the broad provision of information to non-member countries. In November 2005, the 35th meeting was held in Singapore.

### (2) Japan-People's Republic of China Tax Administrators' Meeting and Japan-Korea Tax Administrators' Meeting

The NTA Commissioner promotes mutual understanding on each tax administration and enhances mutual cooperation by holding bilateral meetings respectively with the Commissioner of tax authority of the People's Republic of China and with the same of the Republic of Korea, and exchanges information on their respective matters of concern related to tax administration. Speaking about recent meetings, in May 2006, the Japan-Korea Commissioners' Meeting was held in Seoul.

### (3) OECD Committee on Fiscal Affairs (CFA)

The OECD CFA contributes to setting standards in the international tax world: the OECD Model Tax Convention and the OECD's 1995 Transfer Pricing Guidelines, and provides a forum for exchanging views on tax policy and administrative issues. The OECD CFA work is conducted by groups of experts drawn from member countries, and the NTA has positively participated in those activities. Furthermore, the OECD CFA established the Forum on Tax Administration where tax administrators share information and experience and identify effective strategies/measures over various areas of tax administration.

## 2 Addressing Procedures under Tax Conventions

Where an enterprise is conducting cross-border transactions, double taxation would be likely to arise, due to the difference in taxation between countries. In order to prevent such double taxation, tax conventions are concluded between many countries. The NTA is making the best use of the Mutual Agreement Procedure based on such tax conventions to address smoothly the taxation problems including prevention of international double taxation. Furthermore, from the viewpoint of preventing tax evasion involved in cross-border transactions, the NTA positively utilizes tax conventions to engage in activities such as information exchange with the tax authorities of the contracting countries.

### (1) Preventing International Double Taxation —Implementation of Mutual Consultations Based on Tax Conventions

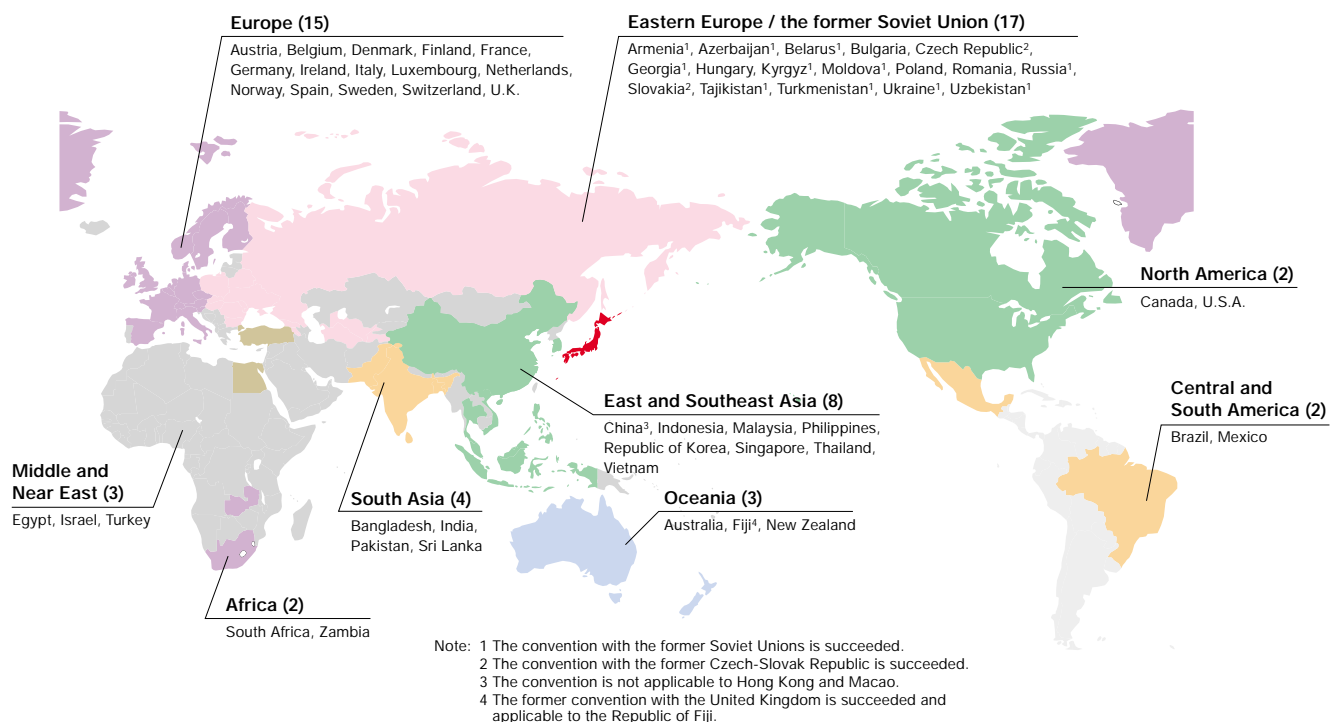
In the case where the interpretation about to which country the income earned from cross-border transactions should be attributed varies from country to country, the double taxation risk on an enterprise through the transfer pricing taxation would rise. Such double taxation is resolved through Mutual Agreement Procedures between the tax authorities based on tax conventions.

Regarding transfer pricing taxation, in order to ensure predictability by taxpayers and execute the transfer pricing taxation\* properly and smoothly, the NTA introduced the Advance Pricing Arrangement whereby the NTA receives an enterprise's request regarding the methodology of calculating the arm's

length prices and gives its confirmation. Recently, the number of cases involved in the bilateral advance pricing arrangement (BAPA) accompanied by the Mutual Agreement Procedure, has been increasing. The number of countries having arranged BAPA is also increasing, and the cases of arranging BAPA with countries with little experience in BAPA are increasing. In particular, the number of cases with countries in the Asian region, including the People's Republic of China, is expected to increase.

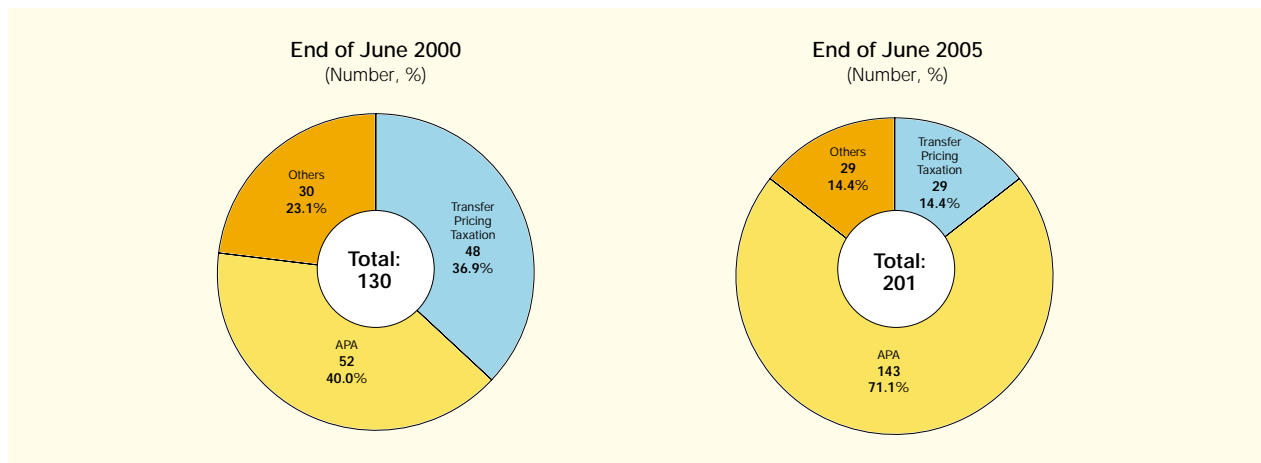
To properly and quickly resolve cases for such consultations, the NTA endeavors to further deepen cooperative relations with foreign tax authorities and improve the efficiency of such consultations.

#### ● Japan's Tax Convention Network (45 conventions applied in 56 countries, as of May 2006)



\* If an enterprise sets prices for transaction (transfer pricing) with the overseas affiliated company at an amount different from the normal price, it becomes possible to transfer profits from the parent company to the affiliated company, and vice versa. The transfer pricing taxation means the system of imposing a tax after resetting the transfer price to the normal price for transaction (this is called "the arm's length price") to prevent income from being transferred overseas through such transactions with the overseas affiliated company.

## Number of Mutual Agreement Procedure Cases by Type



### (2) Exchange of Information Based on Tax Conventions

As the double taxation risk in international transactions heightens, taxation loopholes where income is not taxed in any country arise through tax avoidance schemes that abuse tax convention privileges. To prevent this kind of international tax avoidance and to secure their taxation rights, countries are strengthening their measures regarding international taxation. As economic activities grow more global, it is crucial that information outside the country can be gathered to ensure appropriate taxation. Accordingly, each country's tax authority is pouring their energies into exchanging the information necessary under tax conventions.

In order to cooperate willingly in such international information exchange, in fiscal 2003, the NTA was newly given the authority to make inquiry and inspection and subsequently, in fiscal 2006, the procedure for collecting information was set down for the purpose of

dealing with requests for information exchange relating to criminal investigations of other contracting countries. Furthermore, in July 2005, a team specialized in information exchange was newly organized in the International Operations Division of the NTA. So the framework of dealing quickly with requests from other contracting countries and positively requesting the cooperation of other contracting countries from the NTA is being improved accordingly. As regards the promotion of information exchange, it is important that the tax authorities of the contracting countries cooperate. From this viewpoint, in addition to participating in meetings involving the persons in charge of information exchange under the control of the OECD Committee on Fiscal Affairs (CFA), the NTA will positively become involved in technical cooperation to the developing countries.

## 3 Addressing International Tax Avoidance

Concerning tax evasion and tax avoidance by taking advantage of cross-border transactions, the NTA is carrying out proper taxation after properly grasping the facts through examinations. To this end, the NTA has enhanced the examination framework, such as increasing the number of Senior Examiners (International Taxation), setting up a project team and so forth, and is endeavoring to collect information helpful to taxation through every opportunity available, such as making the best use of information exchange under the tax convention and grasping the flow of funds to foreign countries. Furthermore, the NTA is dealing properly with the transfer pricing issues involved in the prices for transaction with related companies located overseas, based on information collected by examinations.

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## (1) International Tax Avoidance Schemes

As cross-border business activities expand, international tax avoidance of reducing tax liability by cleverly taking advantage of differences between national tax systems and the tax conventions is developing into a major international issue. Finance specialists, legal counsels and Certified Public Tax Accountants become involved in international tax avoidance, and various entities such as sleeping partnership (Tokumei Kumiai) contracts, partnerships<sup>\*1</sup>, LLC<sup>\*2</sup> and similar or complicated schemes making free use of new financial technology are used for international tax avoidance.

From the viewpoint of realizing proper and fair taxation, the NTA is endeavoring to grasp the actual state of such tax avoidance schemes through every opportunity available. If it is recognized that there are problems for taxation purposes, the NTA conducts close examinations and is dealing strictly with tax evaders so that no amount of tax avoided by the tax avoidance scheme is finally borne by conscientious taxpayers.

To this end, the NTA has increased the number of Senior Examiners (International Taxation) and has

endeavored to enhance and strengthen the examination framework, such as setting up the International Examination Division in key Regional Taxation Bureaus. In recent years, the international taxation problems have begun to extend from large enterprises to small and medium-sized enterprises and wealthy individuals. In order to deal with such circumstances, the NTA established the “Project Team to Deal with Internationalization” in the Taxation Department of the key Regional Taxation Bureaus and is endeavoring to grasp or elucidate such tax avoidance schemes and collect information on financial assets held overseas by tax evaders.

The National Tax College provides training courses on international tax law, tax conventions, derivatives<sup>\*3</sup> and foreign languages over a long period.

The NTA has requested the departments and bureaus in charge of the tax system to reform the relevant system in order to cope with tax avoidance schemes that cannot be properly handled under current tax laws.

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## (2) Transfer Pricing Issues

With the globalization of corporate activities, transfer pricing issues have become important in the field of international taxation. For example, if a Japanese parent company sets a low price when it exports products to its overseas subsidiary, income is transferred overseas. The transfer pricing tax system has been developed to address such issues.

Transfer pricing examinations generally require a large volume of documents and considerable time to calculate the appropriate price. If we consider the costs required to resolve double taxation that arises from transfer pricing taxation, this issue has a tremendous influence on corporations.

In recent developments regarding transfer pricing

issues, Japanese companies have increasingly transferred their production bases overseas and provided their overseas manufacturing subsidiaries with such intangible assets as production technology and know-how, as well as management guidance, operations management, and other services. This means that Japanese parent must receive fair prices for intangible assets provided to overseas manufacturing subsidiaries.

As the importance of transactions regarding intangible assets and rendering of service is rising, the NTA clarifies<sup>\*4</sup> how these transactions should be handled for the purpose of the transfer pricing taxation and endeavors to accumulate know-how for smooth tax enforcement of the transfer pricing taxation.

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<sup>\*1</sup> A partnership is an organization of two or more persons who carry on a business as co-owners for profit. Partnerships are widely used to set up joint ventures mainly in the U.S. There are generally two types of partnerships: (1) general partnerships, which consist of two or more general partners with unlimited liability, and (2) limited partnerships, which consist of one or more general partners who manage the business and have unlimited liability and one or more limited partners who do not participate in management and have limited liability.

<sup>\*2</sup> A limited liability company (LLC) is a business entity organized based on the limited liability company law in the U.S. state where the company is located. LLCs consist exclusively of members who have limited liability.

<sup>\*3</sup> Derivatives are new financial products based on bond, stock, exchange, and interest rate transactions. Futures, options, and swaps are types of derivatives.

<sup>\*4</sup> In order to clarify how the intangible asset transactions and the agreement on sharing expenses should be handled, the NTA revised the administrative guidelines for operation concerning transfer pricing in March 2006.



## 4 Technical Cooperation to Developing Countries

The NTA is positively engaging in activities involving technical cooperation to developing countries. Recently, in addition to the International Seminar on Taxation (ISTAX), the NTA carries out nation-by-nation training programs under the projects of the Japan International Cooperation Agency (JICA). Particularly, in the fields of improvement in compliance, enhancement of taxpayer services, the development of human resources, dealing with

international taxation and so forth, the NTA is actively conducting activities such as dispatching experts to ASEAN countries and others, and inviting tax officials from foreign tax authorities to Japan to provide training. Furthermore, the NTA is positively cooperating in technical cooperation such as seminars, which are provided or held by the OECD, the Asian Development Bank (ADB) and so forth.

### Outline of Technical Cooperation

#### 1 Dispatching Experts

##### (1) Dispatching Experts for Long-Term Stationing

To introduce the NTA's operations and experiences and implement intellectual support, including the provision of advices on the improvement of tax administration in developing countries, NTA officials are dispatched as long-term experts of the Japan International Cooperation Agency (JICA) for stationing at the tax authorities of developing countries. Such experts have been dispatched to Indonesia since 1996, to Malaysia since 2002, and to the Philippines and Vietnam since 2005.

##### (2) Dispatching Experts for Short-Term Stationing

At the request of tax authorities in developing countries, the NTA dispatches officials for short-term stationing to lead the improvement of tax administration and the like. In the current fiscal year, the NTA dispatched such experts to Vietnam, China, Cambodia, Malaysia, Laos, etc.

#### 2 Implementing Training Programs in Japan

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

As part of JICA group training programs subject to Official Development Assistance (ODA), the NTA implements International Seminar on Taxation (ISTAX) for tax officials from Asia, Africa, Latin America, the Middle East, Oceania and Eastern Europe. The seminar include the general course (established in 1968, training period: lasting around two and half months) and the senior course (established in 1974, training period: lasting around one month) to cover lectures, discussions, study tours, etc.

The ISTAX aims at transferring the expertise and know-how regarding Japan's tax system and tax administration to developing countries for the improvement of their tax systems and tax administration and nurturing people's understanding of Japan's tax administration in these countries so as to promote mutual friendship.

##### (2) Short-Term Seminar for Foreign Tax Officials (Tax Administration Seminar)

In response to the request of foreign tax authorities, the NTA, in cooperation with JICA and other agencies, implements short-term seminars (training period: lasting around one or two weeks) to introduce Japan's tax administration and tax system to tax officials from Vietnam, Mongolia, the Philippines, Indonesia, Malaysia, etc., held on a nation-by-nation basis.

##### (3) NTA Practical Training Course

The NTA implements practical training courses at the National Tax College mainly for tax officials from developing countries who are enrolled in master's courses at graduate schools of Keio University, Yokohama National University, the National Graduate Institute for Policy Studies, and Hitotsubashi University, under World Bank and other scholarships. These training courses have been open since April 1996 to help these officials learn knowledge and skills regarding public finances, taxes, tax administration and the like and to contribute to the improvement of tax administration in their countries.

# IV Remedy for Infringement of Taxpayer Rights

## Requests for Reinvestigation, Requests for Reconsideration, and Litigation: Japan's Systems to Address Infringement of Taxpayer Rights and Interests

When a taxpayer disagrees with the Tax Office about a correction made during a tax examination and wants to appeal, there is an appellate system that allows for an administrative review before instituting litigation directly with the court. This review system provides simple procedures to promptly remedy infringement of taxpayer rights and interests and is composed of requests for reinvestigation and requests for reconsideration.

If the taxpayer is still dissatisfied after receiving the outcome of the request for reinvestigation, he or she can submit a request for reconsideration to the Director-General of the National Tax Tribunal, a specialized institute which is independent from the District Director of the Tax Office.

In addition, if a taxpayer wishes to appeal the disposal of his or her case after a decision has been given by the Director-General of the National Tax Tribunal, the taxpayer may appeal to the court to seek remedies, as in other general administrative cases.

### (1) Requests for Reinvestigation

Requests for reinvestigation represent the first stage of administrative dispute procedures regarding dispositions concerning national tax. To appeal a correction/determination or seizure made by the District Director of the Tax Office or other official, a taxpayer lodges a request for reinvestigation with the District Director of the Tax Office or other official to request the ruling be revoked or changed.

In recent years, requesting reinvestigation has become complicated due to the geographical expansion and globalization of economic transactions and the number of cases in which it is difficult to grasp the facts or interpret and apply the laws and regulations, is increasing. To respond to this situation, the NTA has established Rulings and Legal Affairs Division in each

Regional Taxation Bureau and assigned a Special Officer (Legal Affairs) to them and is developing tax officials that are familiar with such reviewing in addition to having the ability to examine and collect by providing various forms of training. Like this, the NTA is endeavoring to build up an organization which is capable of dealing properly and quickly with requests for reinvestigation from taxpayers.

The NTA is endeavoring to process properly administrative works involved in such request for reinvestigation and to execute uniformly the tax administration under the correct interpretation of the tax laws throughout the country so that proper and fair taxation and collection are realized for taxpayers at the stage of examination or collection.

### (2) Requests for Reconsideration

Taxpayers who wish to appeal the decision of the District Director of the Tax Office in relation to their request for reinvestigation can lodge a request for reconsideration with the Director-General of the National Tax Tribunal.

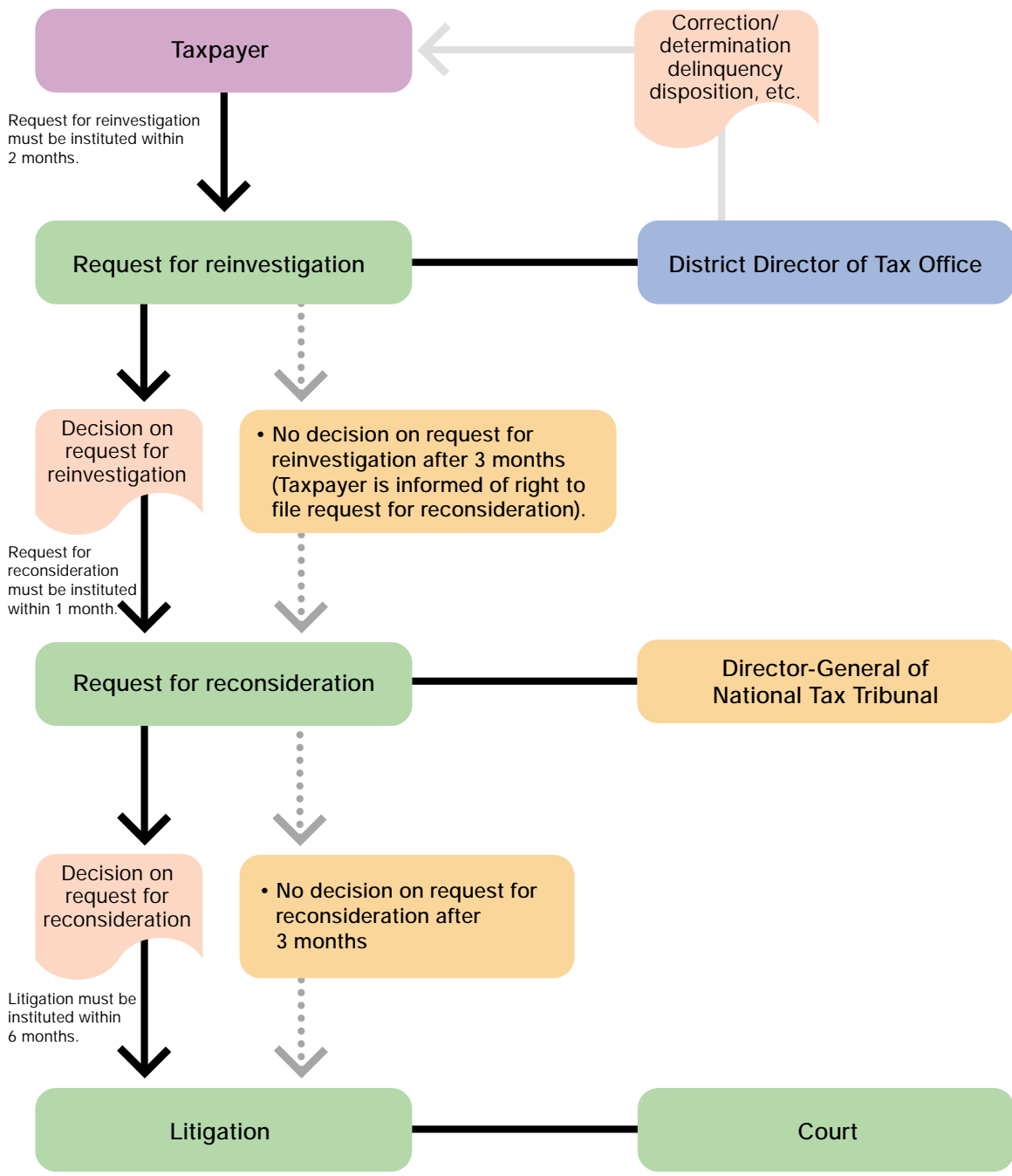
The National Tax Tribunal is an impartial body, independent from Regional Taxation Bureaus and Tax Offices, and provides relief to infringement of taxpayer rights and interests. Appeals judges, associate appeals judges, and tax tribunal examiners with specialized knowledge and vast experience examine and review the case from a neutral standpoint.

For the posts of the Director-General of the National Tax Tribunal as well as the Chief Appeals Judges of Tokyo and Osaka Regional Tax Tribunal, former justices and former public prosecutors have been appointed.

The National Tax Tribunal promptly clarifies the points at issue in a case by drafting a chart outlining the positions of each party after fully ascertaining their perspectives by contacting the party requesting reconsideration and the Tax Office. The Tribunal endeavors to quickly and speedily remedy any infringement of the rights and interests of the taxpayer by listening fully to the views and positions of each party and conducting its own examination when necessary.

Decisions by the Director-General of the National Tax Tribunal would not be more disadvantageous to the taxpayer than the dispositions made by the District Director of the Tax Office. Moreover, the District Director of the Tax Office cannot institute litigation even if he or she disagrees with the ruling, because the ruling by the Director-General of the National Tax Tribunal represents the final decision of the NTA.

# Relationship between the Appellate System and Litigation



Remedy for Infringement of Taxpayer Rights

### (3) Litigation

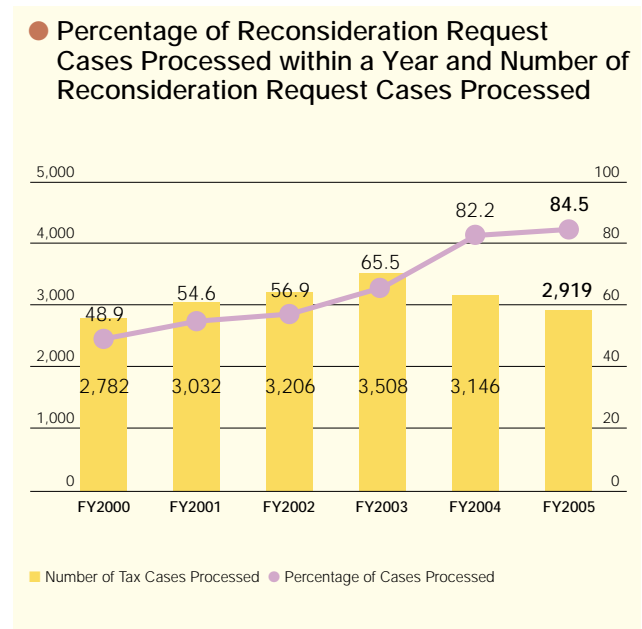
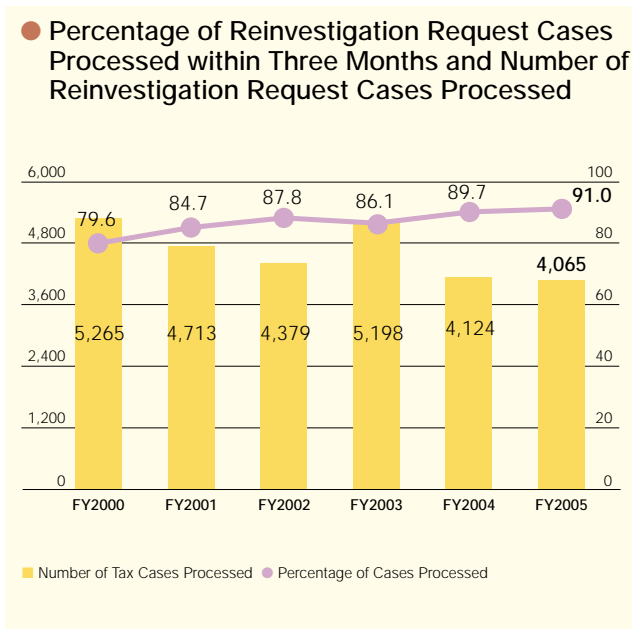
If a taxpayer wishes to appeal the decision by the Director-General of the National Tax Tribunal, he or she is entitled to appeal to the court to seek remedy.

### (4) Case Trends

The NTA endeavors to process every request for reinvestigation within three months. In recent years, around 80% of these requests were processed in this way. The number of requests for reinvestigation regarding taxation totaled 4,065 in fiscal 2005. In some 14.9% of the request cases, taxpayers' claims were totally or partially endorsed due to new findings. The National Tax Tribunal endeavors to make a decision on every request for reconsideration within one year. The number of requests for reconsideration regarding taxation totaled 2,919 in fiscal 2005. In about 15.9% of the

request cases, taxpayers' claims were totally or partially endorsed. As for litigation regarding taxation, 319 litigation cases were instituted in fiscal 2005. 469 litigation cases were processed. In some 10.2% of the litigation cases processed, taxpayers' claims were totally or partially endorsed.

To gain taxpayer understanding regarding the system for remedy of infringement of taxpayer rights, the NTA and the National Tax Tribunal provide information in Japanese on case decisions via the website.



## Response to Complaints from Taxpayers

Not only requests for appellate of an administrative disposition but also complaints, requests, criticisms or consultation over problems, covering all aspects of tax administration, such as the attitude of the tax official who responded to taxpayers or the method of examination, may be forwarded to the NTA. The NTA endeavors to respond promptly and properly by taking the viewpoint of taxpayers because we believe that responding forthrightly to taxpayer grievances is crucial to earn their understanding and trust. Moreover, in July 2001, the position of Taxpayer Support Officers was created, and the position's duties include explaining procedures for remedies of infringement in cases where the taxpayer's rights or interests have been affected.

# V Administration of the Liquor Industry

## Ensuring the Sound Development of the Liquor Industry

Liquor tax has been a major source of government revenue alongside land tax since the Meiji Restoration of 1868. Liquor tax even surpassed land tax revenue at one point to become the primary source of national tax revenue. But subsequently income tax, corporation tax, and other direct taxes have come to make up a greater proportion of total revenue. In fiscal 2004, liquor tax amounted to ¥1.659 trillion and accounted for 3.6 percent of total tax revenue. Liquor tax is a stable form of tax revenue because it is not easily affected by fluctuations in the economy. For this reason, liquor tax continues to play an important role in Japan's tax system today.

The liquor industry is composed of 2,841 manufacturers and 163,658 distributors (as of the end of fiscal 2004), more than 95 percent of which are small or medium-sized enterprises.

Accompanied by a shrinking population, the public's growing interest in health maintenance and food safety, changes in lifestyles and progressive deregulation, there are significant changes in the environment surrounding the liquor industry.

In order to deal with such socio-economic change, the NTA has positively exchanged opinions with the liquor industry, restaurants, and consumers. Considering these, the NTA is taking various measures for the sound development of the liquor industry and from a broad perspective, covering the liquor industry as a whole.

### (1) Measures for Improving the Managerial Makeup of the Liquor Industry

In order to improve the managerial makeup of the liquor industry, it is necessary for all bodies concerned with the whole liquor industry, ranging from liquor manufacturers through to liquor distributors and liquor retailers, including restaurants, consumers, and government to work together, based on the viewpoint of consumers, in ensuring production of liquor with quality and safety, appropriate quality control in the distribution stage, and the supply of products with proper information.

In this respect, the NTA actively listens to the opinion of consumers, provides information to the liquor industry and conducts label, quality and safety checks on liquors in the retail stage.

In order to support the activities of the liquor industry to provide proper product information and to establish regional brands of "Sake", in October 2005, the

NTA added provisions aiming to protect the Geographical Indications (GIs) for Sake to the "Labeling Criteria concerning Geographical Indications," which had previously been applicable only to wines and distilled liquor. In December 2005 the NTA designated "Hakusan" as the first place of origin of Sake GIs.

Furthermore, as overseas demand for Japanese liquors has increased, due to growing interest in Japanese food, the NTA indirectly supports the expansion of Japanese liquor exports by providing information regarding export procedures and other relevant information to the liquor business.

In addition to the above, the NTA has programs that allow liquor businesses to identify their own management problems and provide information on business success cases.

### (2) Support to Improvement in Management

In order to revitalize the management of small and medium-sized liquor enterprises, the NTA is conducting measures to support liquor retailers, such as the execution of management improvement plans, holding workshops or individual consultation meetings, creating a low interest financing system for equipment funds, setting up a website for consultations, designat-

ing model businesses and so forth. Furthermore, the NTA is providing various supports for liquor manufacturers to draw up management reform plans and for liquor wholesalers to reinforce their management basis under the Law on Support for Business Innovation of New Business Activity of Small and Medium-sized Enterprises.



### (3) Ensuring a Fair Trade Environment

For the sound development of the liquor industry, it is important to ensure a fair trade environment. To this end, the NTA is promoting public relations activities under the “NTA Guidelines for the Sound Development of the Liquor Industry through Fair Competition (the Guidelines)” in which the fair rules on trading of liquors are shown by the NTA<sup>\*1</sup>, and is giving guidance to enterprises which are recognized as not trading in compliance with the fair rules shown in the Guidelines as a result of the trading fact finding survey.

Under such circumstances, the liquor industry is also voluntarily promoting fair trading, such as reasonable pricing by the cost plus method, or establishing objective criteria related to the trading terms.

The NTA will make the liquor industry fully aware of the Guidelines, will conduct more closely the trading fact finding survey, and will endeavor to ensure a fair trade environment in cooperation with the Fair Trade Commission of Japan (JFTC).

### (4) Cooperation with the National Research Institute of Brewing (NRIB)

Office of Analysis and Brewing Technology at each Regional Taxation Bureau conducts technical guidance for liquor manufacturers and safety checks on liquors. In addressing brewing technologies for improving liquor quality, and ensuring safety of liquors, research

and development of analytical methods and other highly technical problems that the NTA alone cannot address, the NTA exchanges information and cooperates with the NRIB<sup>\*2</sup> for the sound development of the liquor industry.

## National Research Institute of Brewing

The National Research Institute of Brewing (NRIB) was established at Takinogawa, Tokyo in 1904, as a national research organization of technology for alcoholic beverages within the Ministry of Finance. The NTA brewing research institute was transformed into an independent administrative agency in April 2001. Furthermore, in April 2006, the NRIB became an independent administrative agency, in which the staff are treated as non-governmental employees, based on the perspective of promoting cooperation with the public sectors and universities such as personnel exchange. As Japan's only comprehensive research institute regarding liquors, the institute undertakes advanced analyses and examinations for proper and fair taxation on liquors, research and surveys on liquors, training programs for small and medium-sized liquor manufacturers, seminars for consumers, etc. For details, see the NRIB website at <http://www.nrib.go.jp>.

### (5) Responding to Social Demands

In order to meet social demands, such as preventing underage drinking, in 2003, the NTA attempted to ensure thorough compliance with the obligations, which was introduced by revision of the “Law concerning Liquor Business Associations and Measures for Securing Revenue from the Liquor Tax” in 2003, to appoint a liquor sales manager, to attend sales management training, and to present at venues displaying liquor beverages. Furthermore, in order to review whether the liquor sales management system is properly established, in September 2005, the NTA added “Matters concerning Liquor Sales Management” to the content that should be stated in applications for liquor

sales licenses. In addition, the NTA revised labeling standards at venues displaying liquor to labeling that is much more persuasive and effective and that can limit access to liquor by underage people. This led to a reform of the label stating “Underage Drinking is prohibited by Law” to one stating “Where unable to confirm that the purchasers are more than 20 years old, the liquor retailers shall not sell liquor to them” in September 2005 to prevent minors from gaining access to liquor.

In accordance with the resolution of the general meeting of the World Health Organization<sup>\*3</sup> held in May 2005, the NTA is considering, with the relevant

\*1 The Guidelines prescribe fair rules on “reasonable pricing,” “fairly handling trading partners,” “setting the terms of fair trade,” “transparent and reasonable rebate,” and so on.

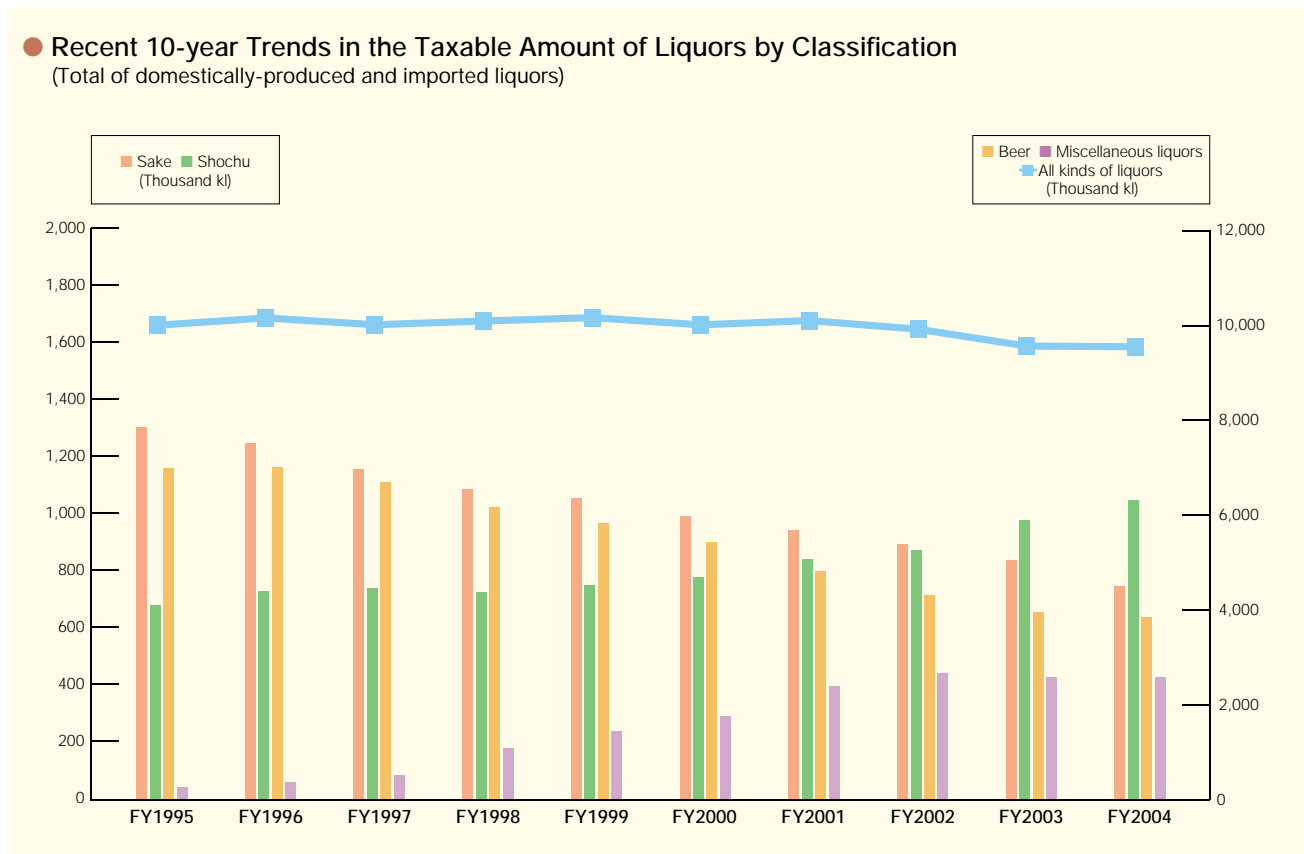
\*2 The NRIB is Japan's only independent administrative institution engaged in activities regarding liquors. It conducts research on liquors, liquor quality evaluation, provision of liquor information, liquor seminars, etc.

\*3 This World Health Assembly is the supreme decision-making body for the World Health Organization (WHO).

government offices and the liquor industry, measures for reducing the impact imposed on the health of people or society caused by the harmful use of alcohol.

The efforts not only of the liquor industry but also of families, schools, communities, and the government are

crucial to successfully address this issue. The NTA is cooperating and coordinating its efforts with the related government ministries and agencies, members of the liquor industry, and others.



## (6) Partial Review of Liquor Licenses

A licensing system is adopted in the liquor industry to ensure the proper collection of liquor tax and smooth transfer of the tax burden to consumers. Recently, the NTA partially reviewed the license requirements to improve consumer convenience.

### (i) The manufacturing license for single distillate Shochu

In recent years, demand for Shochu (Japanese distilled liquors) has increased overall. Consequently, the liquor manufacturer's desire for a new manufacturing license, especially for single distillate Shochu manufactured using local specialties such as rice, barley, sweet potato and buckwheat as the main raw materials, is increasing. Complying with such requests, in January 2006 the NTA began the issuance of licenses providing the prescribed requirements were met.

### (ii) The liquor retail license

The liquor retail license was classified into three categories - the general liquor retail license, the large-scale liquor retail license and the wide-ranging special liquor retail license. In March 2006, in line with the "Three-year Program for Promoting Regulatory Reform and Privatization" (decided by the Cabinet in March 2004), the NTA integrated them into the general liquor retailer license to simplify or rationalize the liquor sales licenses.

# Current Situation and Forecasts of the Liquor Industry

## Change in Social and Economic Situation in Japan

### Changes in Social Situation

- Age of shrinking population
- Growing interest in health and safety
- Changes in diet
- Changes in lifestyles

### Changes in Economic Situation

- Progress in deregulation
- Deflation and slack wage growth
- Globalization

## Current Situation

### Manufacturers

- Problems with securing quality levels
  - An increase in low-cost, low-priced liquors
- Structural and business management problems
  - Weak and hard-to-manage business structure
  - Excessive supply
  - Excessive competition

### Wholesalers

- Declining profit margins (changes in profit structures)
- Declining functionality

### Retailers

- Growth of organized retailers
- Decline of general liquor shops
- Participation of inexperienced retailers

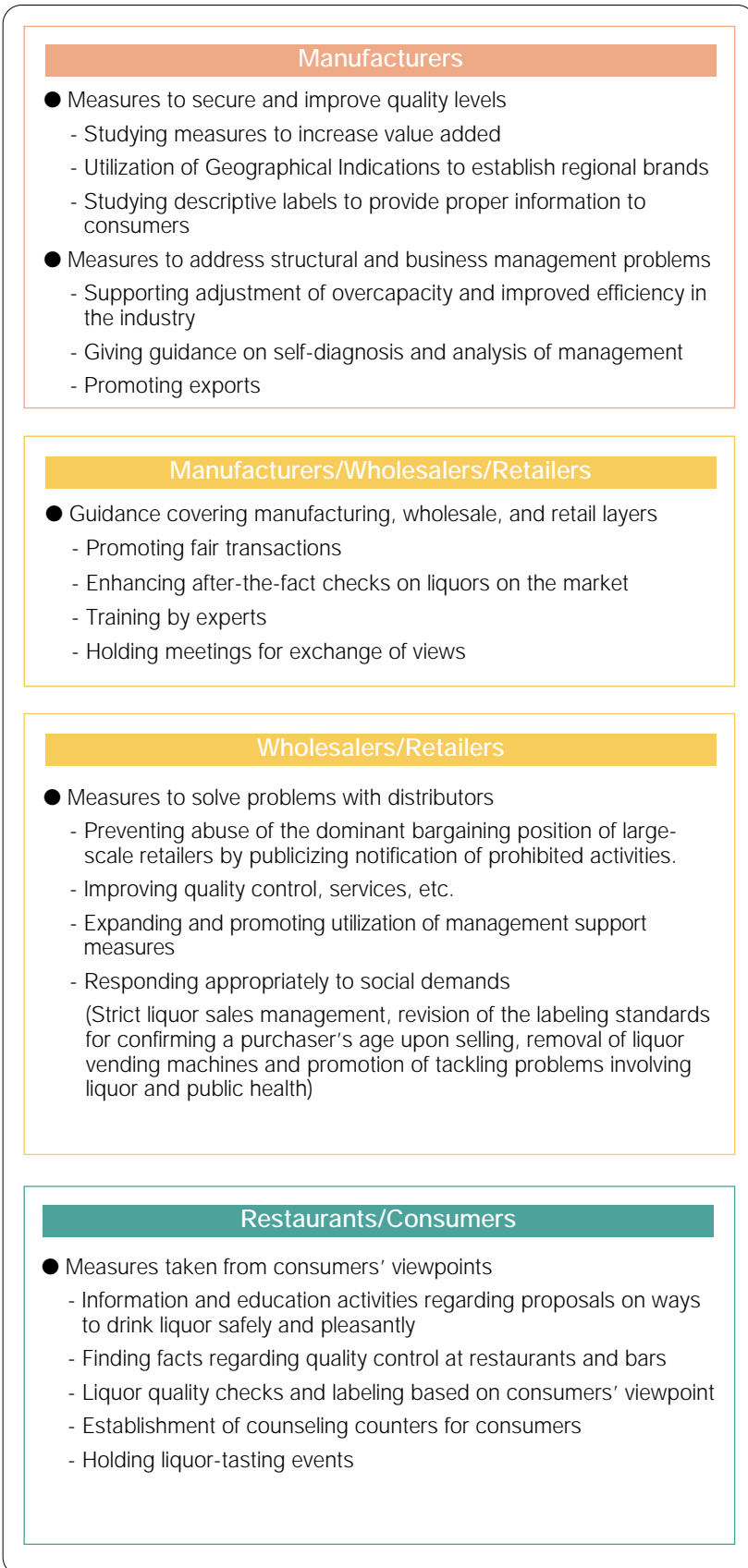
### Restaurants

- Inappropriate management of liquor
- Lack of product information

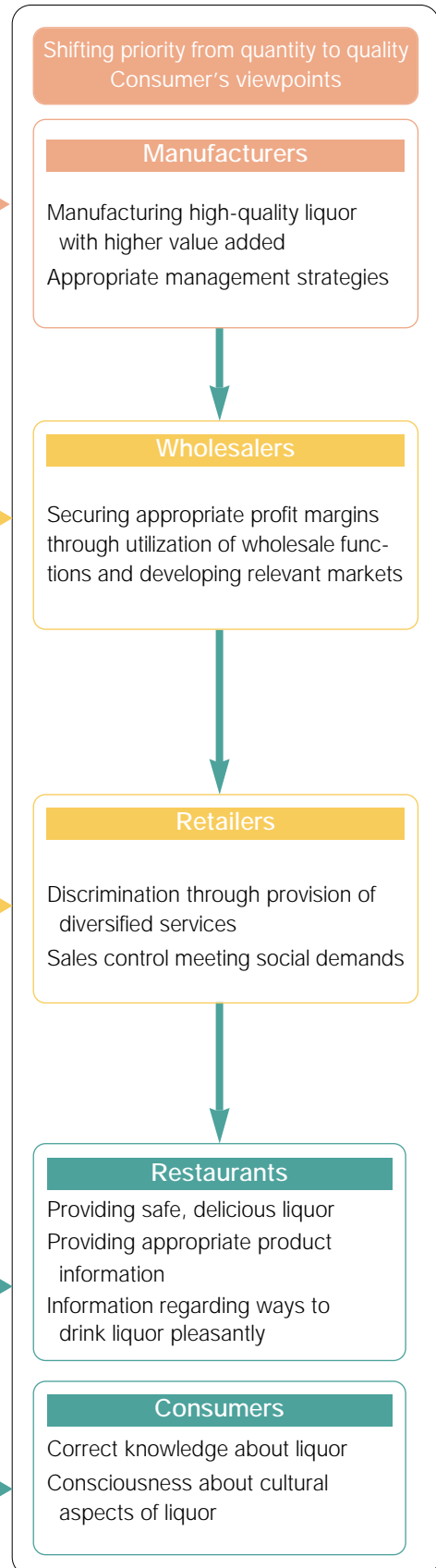
### Consumers

- Doubts about quality and prices

## Efforts by Government and Industry



## Vision



# VI Future Challenges

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## Changes in Environment Surrounding Tax Administration

At present, our nation is facing an unprecedented situation of declining birthrate and aging of the population. The saving rate is significantly declining and the working-age population is anticipated to reduce. The so-called “days of a continuously growing economy” are over. In such circumstance, the people’s desire for administrative and fiscal structural reform is getting stronger. In order to deal with such structural change in society, the tax system is being reviewed. Furthermore, the shapes of enterprises and family lifestyles are undergoing marked transformation, due to the diversification of employment and family structures. The rapid progress of IT and expansion of cross-border activities of individuals and enterprises, along with the economic development of Asian countries and economic globalization are seen in economic activities. In addition, accounting standards penetrate internationally and mutually.

The environment surrounding the tax administration is markedly changing by the socio-economic movement as mentioned above. Due to tax system reform, such as a reduction in the tax exemption sales threshold for enterprises for consumption tax and a review of pension taxation, the number of final returns has significantly increased. Accordingly, the administrative work of Tax Offices involving the processing of such returns has also been increasing. Furthermore, tax avoidance methods are becoming increasingly shrewd, based on the progress of IT and globalization of the economic society, meaning cases of tax examinations and collection are becoming ever more complicated and difficult than before. As mentioned above, the environment surrounding the tax administration is becoming more and more difficult in both quantitative and qualitative terms.

## NTA’s Responses to Such Changes in Environment

In order to continuously fulfill the mandate of the people under these difficult circumstances, the NTA should implement priority-oriented tax administration while allocating the limited resources effectively and efficiently. We believe that we should make such efforts in order to secure sufficient tax examination and collection, maintain and improve taxpayers’ compliance with law and give considerations to taxpayer services.

To this end, in line with the purport of the self-assessment system whereby after taxpayers calculate the amount of tax themselves, they make a voluntary declaration and voluntary payment, it is necessary to restructure the system of providing taxpayer services. After restructuring, the NTA reviews the computer systems and relevant operations regarding back-office operations of Tax Offices, attempts to outsource administrative work which can be handled by persons other than officials of Tax Offices and are planning to positively promote the rationalization of and improvement in efficiency of administrative work. Furthermore, concerning the administrative work involved in tax examination and collection also, and from the perspective of maintaining and improving taxpayer compliance, the NTA is planning to refine the system by making positive use of IT to review operations involved in tax examination and collection and to attempt further enhancement of the tax administration.

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## Concrete Measures

### (1) Improving Tax Payment Environment

The NTA is endeavoring to improve taxpayer services so that taxpayers themselves are able to file the correct returns and make tax payment.

More specifically, the NTA is endeavoring to provide tax information required by taxpayers by enhancing the content of the information provided on the NTA website. Furthermore, the NTA is endeavoring to diversify the means of tax return filing and tax payment by

making the best use of IT such as the e-Tax and the “Filing Assistance on the NTA Website.” Furthermore, at present, the NTA is planning to improve the convenience of taxpayers such as shortening the waiting time until getting an answer by handling intensively telephone consultation with which the Tax Counsel Offices and Tax Offices have dealt individually, at the Telephone Consultation Center.

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### (2) Overhauling Back-office Operations inside Tax Offices

While giving full consideration to the fact that the NTA’s operations have a direct bearing on the rights and obligations of taxpayers, the NTA is improving the efficiency of back office operations inside Tax Offices by reforming duties through the growing use of IT.

Specifically speaking, the NTA is planning to improve the efficiency of administrative work by handling the majority of back office operations at one

department in a unified manner, which is presently handled respectively by two or more departments within a Tax Office (bureau-level integration of back office operations). Furthermore, the NTA is promoting centralization of operations which are handled in each Tax Office and the outsourcing of administrative work which can be handled by persons other than officials of Tax Offices.

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### (3) Overhauling Tax Examination and Collection

Under circumstances whereby internationalization and highly-networked information are progressing in the economic society, in order to ensure proper and fair taxation, the NTA is responding to advanced areas, such as international tax avoidance schemes and electronic commerce, by developing a system to deal with enterprise groups engaged in such wide-area transactions, and is also overhauling tax examination and collection duties throughout its organization. Furthermore, the NTA is planning to refine the system so as to be able to make flexible use of the various kinds of infor-

mation on taxpayers.

In view of CPTAs’ public mission to support the self-assessment system, the NTA also endeavors to facilitate the system for CPTAs to attach working papers to tax returns under the CPTA Law. At the same time, the NTA is improving responses to taxpayer inquiries and the utilization of advance pricing arrangements regarding transfer pricing in order to increase the predictability of tax matters for taxpayers’ economic activities.

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### (4) Improving NTA Officials’ Work Environment

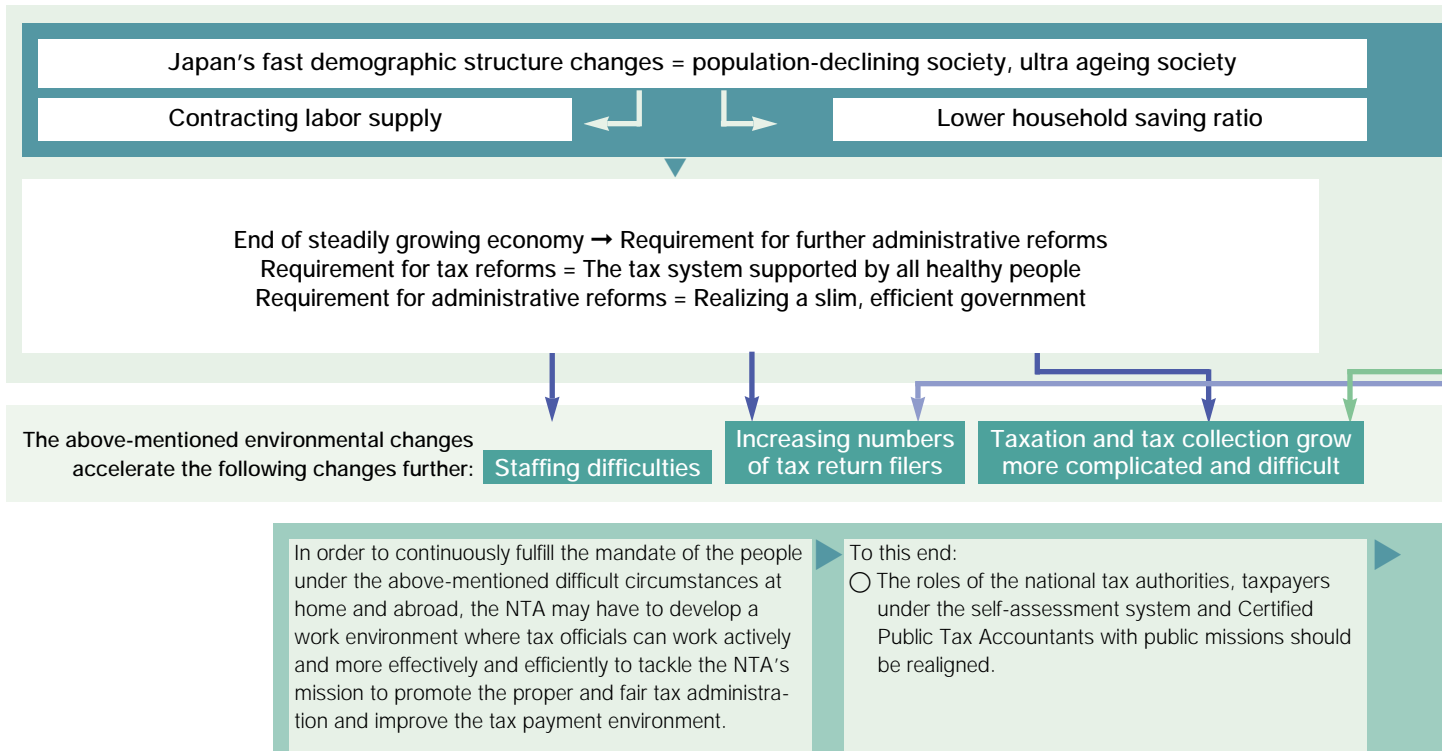
The NTA is developing a work environment where its officials are encouraged to perform their duties with enthusiasm.

Particularly, in view of the fact that the number of female officials of the NTA is increasing year by year, based on the basic philosophy of the “Act for the Promotion of Measures to Support the Fostering of the

Next Generation,” as established in July 2003, the NTA has devised an “Action Plan” to develop a work environment to promote a balance between childcare and work, under which the NTA started activity on April 1, 2005. Furthermore, the NTA is planning to review the training system in tune with changes in the environment.

To promote the aforementioned measures, the NTA is endeavoring to attain the optimum allocation of the limited staff resources, budget distribution based on quantitative results and the placement of the right people in the right jobs.

# Changes in Environment Surrounding Tax Administration



## Improving The Tax Payment Environment

○ Basic stance  
 Taxpayer services should be rebuilt in line with the rising number of tax return filers and with the objectives of the self-assessment system.

- (1) Promoting utilization of IT for information services  
 Expansion of the NTA website and the Tax Answer System, utilization of mail magazines
- (2) Promoting diversification of tax return filing means through utilization of IT  
 Extending utilization of e-Tax and expansion of the Filing Assistance on the NTA Website
- (3) Measures for filing period for final tax return
  - ① Implementation of tax consulting services on Sundays (two Sundays) (services on government holidays)
  - ② Further promotion of tax consulting services encouraging taxpayers to prepare their tax returns on their own
- (4) Improving efficiency of the tax consultation system  
 Putting together general tax consultations to the Telephone Consultation Center.

## Overhauling Back-office Operations (including general services)

○ Basic stance  
 With consideration given to ensuring appropriate operations, the tax authorities should promote operational reforms responding to IT development and outsourcing of work that can be done by non-tax officials.

- (1) Increasing the efficiency of back-office operations  
 Studying the amendment to the laws and regulations and system changes, which are necessary to promote the improved efficiency of back-office operations by bureau-level integration, and conducting trials involving centralizing a large volume of operations, which has to be dealt with in the meantime.
- (2) Increasing the efficiency of general services  
 Promoting IT utilization for, centralization of, and outsourcing of accounting, health and welfare, and remuneration-related work

To promote the measures above, the NTA endeavors to attain **the optimum distribution of the limited staff resources,**  
 For the whole of the government, the NTA will move forward with a phased approach for the **"Optimization Plan of**

# and NTA's Responses to Such Changes

Economic development of countries in Asia, globalization of accounting standards

Japanese-style employment practices are being shaken and working styles are diversifying  
Family structures are diversified  
Etc.

Progress in globalization  
→ Increasing inward and outward direct investment  
People's increasing cross-border movements  
Sophistication of international tax avoidance schemes

Changes in the work environment for national tax officials  
(Number of women and child-raising officials are increasing and young officials' attitudes are changing)

○ Regarding measures that should be implemented by the tax authorities, the NTA, Regional Taxation Bureau (Bureaus) and Tax Office (Offices) should rebuild their respective functions

○ The tax authorities should promote operational reforms responding to IT development and outsourcing of work that can be done by others than tax officials

## Overhauling Tax Examination and Collection Duties

○ Basic stance  
To maintain and improve taxpayers' compliance with law, the tax authorities should overhaul tax examination and collection systems to implement tax examination and collection more effectively and efficiently

- (1) Improving tax examination and collection duties  
Considering overhauling tax examination and collection systems based on sharing of roles between Regional Taxation Bureaus and Tax Offices
- (2) Roles of CPTAs with public missions  
Promoting the new system for CPTAs to attach working papers to tax returns
- (3) Addressing advanced areas
  - ① Expanding international taxation including fighting against international tax avoidance schemes  
Responding to advanced information regarding corporate activities
  - ② Securing taxpayers' predictability
    - Improving responses to taxpayer inquires
    - Utilizing advance price arrangements regarding the transfer pricing taxation
  - ③ Responding to the consolidated taxation system

## Developing a Work Environment for National Tax Officials

○ Basic stance  
The tax authorities should develop a work environment where tax officials can come to work with enthusiasm and hope.

- (1) Endeavoring to realize a gender-equal society
  - ① Promoting a personnel policy to make the most of female officials' abilities and aptitudes
  - ② Promoting the NTA action plan to achieve a balance between childcare and work
- (2) Improving guidance and fosterage measures for young officials
- (3) Reforming training systems in response to changes in the environment surrounding the tax administration
- (4) Improving the work environment
- (5) Enhancing research functions at the National Tax College

budget distribution based on quantitative results, and the placement of the right people in the right jobs.

Operations and Systems Related to National Tax Administration" (issued on March 28, 2006)

by fiscal 2010.

# VII Statistics

**Tax Revenue and Budget** page 47

**Taxation and Status of Tax Return Filing** page 48

**Tax Examinations** page 49

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**Remedy for Infringement of Taxpayer Rights** page 50

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**International Taxation** page 51

**Taxpayer Satisfaction** page 51

Note: For each table, the period of the statistics is shown in the title, above the table, or in the notes. A fiscal year is the one-year period from April 1 through March 31 of the following year. A business year is a one-year period starting July 1 of the given year and ending on June 30 of the following year. A calendar year is the one-year period from January 1 through December 31.

## Tax Revenue and Budget

### Budget and Actual Amounts of Tax and Stamp Revenues for Fiscal 2004

Item		Budget	Actual
General Account		Million yen	Million yen
	Withholding income tax	11,720,000	12,184,627
	Self-assessed income tax	2,373,000	2,485,870
	Corporation tax	10,996,000	11,443,691
	Inheritance tax	1,292,000	1,446,457
	Consumption tax	9,692,000	9,974,306
	Liquor tax	1,657,000	1,659,860
	Tobacco tax	898,000	909,737
	Gasoline tax	2,129,000	2,191,036
	Liquefied petroleum gas tax	14,000	14,332
	Aviation fuel tax	90,000	88,006
	Petroleum and coal tax	477,000	480,274
	Motor vehicle tonnage tax	751,000	748,847
	Customs duty	795,000	817,659
	Tonnage due	9,000	9,036
	Others	—	251
Stamp revenue	1,148,000	1,135,024	
Subtotal	44,041,000	45,589,013	
Incom tax (transferred)	424,900	424,900	
Local road tax	303,500	310,099	
Liquefied petroleum gas tax (transferred)	14,000	14,332	
Aviation fuel tax (transferred)	16,400	16,001	
Motor vehicle tonnage tax (transferred)	375,500	374,423	
Special tonnage due	11,300	11,295	
Crude oil customs duty, etc.	38,000	44,177	
Power resources development promotion tax	359,300	372,596	
Gasoline tax	707,200	707,200	
Special tobacco tax	235,600	238,894	
Total	46,526,700	48,102,930	

Note: "Others" include the tax delinquency currently being handled of the goods and service tax, land value tax and so forth.

### NTA Budget for Fiscal 2005

Item		Budget
General Expenditures		Million yen
	IT-related Expenses	56,034
	Expenses to improve convenience for taxpayers*1	10,811
	Expenses related to internationalization measures	768
	Expenses to improve work environment*2	6,568
	Expenses related to tax reforms	3,512
	Expenses for various taxation forms and communication expenses	21,225
	General operating expenses*3	41,401
	Expenses for National Tax College	2,889
	Expenses for National Tax Tribunal	479
	Expenses for National Research Institute of Brewing	1,193
	Subtotal	144,880
	Personnel expenses	570,820
Total NTA budget	715,700	

Notes: \*1 "Expenses to improve convenience for taxpayers" include expenses related to touch-screen computers and the development of e-Tax and the Filing Assistance on the NTA Website.

\*2 "Expenses to improve work environment" include expenses to improve facilities and health care expenses.

\*3 "General operating expenses" include wages for part-time workers, travel expenses, honoraria for hired bookkeeping instructors, and PR expenses.

## Taxation and Status of Tax Return Filing

### Income Taxpayers

(2005 calendar year)

	Thousand persons
(1) Total population	127,690
(2) Workforce	63,290
(3) Number of final returns for income tax*	23,180
(4) Refund*	11,960
(5) Tax payment*	8,290
(6) Of (5), wage earners whose income tax is withheld	2,960
(7) Number of employment income earners	41,710
(8) Of (7), taxpayers for whom only year-end adjustments are made [(7)-(6)]	38,750
(9) Number of taxpayers [(5)+(8)]	47,040
(10) Percentage of workforce that pays tax [(9)/(2)]	74.3%

Note: (3), (4) and (5) are figures for the 2005 calendar year. The others are those for the 2004 calendar year.

### Withholding Agents and Withholding Income Taxation

(2004 business year)

Income Classification, etc.	Number of Withholding Agents*		Amount of Tax
	Thousands	Million yen	
Employment income (wages and salaries)	3,867	9,983,300	
Retirement income	—	314,500	
Interest income, etc.	42	872,500	
Dividend income	129	1,288,900	
Capital gains of listed stocks held in special accounts, etc.	2	106,800	
Remunerations, fees, etc.	3,105	1,162,500	
Income paid to non-residents and foreign corporations	24	262,200	
Total	—	12,990,700	

Note: Figures for withholding agents are as of the end of June 2005.

### Number of Corporations and Number of Corporation Tax Returns Filed

(2004 business year)

Number of corporations*	2,949,000
Number of tax returns filed	2,742,000
Percentage of corporations filing	89.7 %
Percentage of returns declaring a surplus	31.5 %
Amount of self-assessed income	43,173,600 million yen
Amount of self-assessed loss	23,357,600 million yen
Amount of tax	11,123,000 million yen

Note: The figure for "number of corporations" is as of the end of June 2005.

### Inheritance Tax

(2004 calendar year)

Number of deceased persons	1,028,602
Number of deceased persons subject to taxation	43,488
Number of heirs subject to taxation	131,279
Taxable amount	9,861,800 million yen
Amount of tax	1,065,100 million yen

### Gift Tax

(2004 calendar year)

Number of persons subject to taxation	403,814
Value of property acquired	2,310,100 million yen
Amount of tax	96,600 million yen

Note: The data above is under taxation system for settlement at the time of inheritance.

### Consumption Tax

(2004 fiscal year)

Number of Returns	Tax Payment		Tax Refund	
	Individual	Corporation	Individual	Corporation
	407	1,613	16	96
Total	2,020	2,020	112	112
Amount of tax	9,517,200 million yen		1,898,700 million yen	

### Liquor Tax and Liquor Production

(2004 fiscal year)

Classification	Production Volume	Amount of Tax
	Thousand kl	Million yen
Sake	524	94,950
Sake compounds	38	4,961
Shochu	1,043	226,891
Mirin (rice cooking wine)	103	2,274
Beer	3,844	844,039
Fruit wines	70	5,799
Whiskies	72	28,669
Spirits	76	7,791
Liqueurs	714	60,835
Miscellaneous liquors	2,564	305,325
Total	9,047	1,599,550



## Tax Examinations

### Examinations for Self-Assessed Income Tax

(2004 business year)

	Number of Cases	Total Unrecorded Income	Unrecorded Income per Case	Total Additional Tax Revenue Collected	Additional Tax Revenue Collected per Case
	Thousands	Million yen	Thousand yen	Million yen	Thousand yen
Field examinations					
Special, General	48	434,900	8,990	91,200	1,890
Focusing	191	351,000	1,830	17,700	90
Brief contact	541	110,300	200	7,200	10
Total	781	896,300	1,150	116,200	150

Notes: 1. "Special, General" refers to the focused examination for the malicious taxpayer.  
2. "Focusing" refers to the short term examination to grasp the unrecorded income.  
3. "Brief contact" refers to the correction of tax return errors by speaking with the taxpayer by telephone or by asking the taxpayer to visit the Tax Office.

### Examinations for Withholding Income Tax

(2004 business year)

Number of Cases Examined	Of Which, Number of Illegal Cases	Total Additional Tax Revenue Collected
Thousands	Thousands	Million yen
169	47	66,200

### Field Examinations for Corporation Tax

(2004 business year)

	Number of Cases	Total Unrecorded Income	Unrecorded Income per Case	Total Additional Tax Revenue Collected
	Thousands	Million yen	Thousand yen	Million yen
All corporations	124	1,491,400	12,020	360,100
Of which, corporations handled by the Large Enterprise Examination Department	4	786,400	178,198	184,100

## Tax Criminal Investigations

### Tax Criminal Investigations

(2005 fiscal year)

Number of Cases Conducted	Number of Cases Closed	Number of Cases Prosecuted	Total Tax Evasion	Tax Evasion per Case	Total Tax Evasion (in Prosecuted Cases)	Tax Evasion per Prosecuted Case
			Million yen	Thousand yen	Million yen	Thousand yen
217	214	150	27,400	128,114	23,000	153,069

### Large-Scale Cases

(2005 fiscal year)

Number of Cases Prosecuted	Of Which, Number of Cases Prosecuted with a Tax Evasion Amount of 300 Million Yen or More	Of Which, Number of Cases Prosecuted with a Tax Evasion Amount of 500 Million Yen or More
150	16	5

### Examinations for Consumption Tax

(2004 business year)

	Number of Cases	Number of Cases with Unrecorded Income	Total Additional Tax Revenue Collected	Additional Tax Revenue Collected per Case
	Thousands	Thousands	Million yen	Thousand yen
Individuals	30	21	14,600	490
Corporations	111	57	49,700	450

### Field Examinations for Inheritance Tax

(2004 business year)

Number of Cases	Number of Cases with Unrecorded Income	Total Amount of Unrecorded Inheritance	Unrecorded Inheritance per Case	Total Additional Tax Revenue Collected	Additional Tax Revenue Collected per Case
Thousands	Thousands	Million yen	Thousand yen	Million yen	Thousand yen
14	12	400,300	33,650	79,900	6,720

### Information Returns Collected

(2004 business year)

Name of Information under Mandatory Submission	Number of Returns Collected
	Thousands
Withholding record of employment income	19,815
Payment record of interest and others	919
Payment record of dividend, distribution of surplus and interest on guaranty capital	7,500
Withholding record of public pension, etc.	31,142
Payment record of remunerations, fees, contract payments, and prizes	8,244
Payment record of consideration for transfer of stocks, etc.	7,688
Record of remittance to foreign countries	3,569
Others	28,520
Total	107,397

### Prosecuted Cases by Tax Item

(2005 fiscal year)

Tax Item	Number of Cases	Total Tax Evasion	Tax Evasion per Case
		Million yen	Thousand yen
Income tax	47	6,200	130,974
Corporation tax	86	10,200	118,562
Inheritance tax	4	5,000	1,251,011
Withholding income tax	3	500	161,340
Consumption tax	10	1,100	112,022
Total	150	23,000	153,069

## Reduction of Tax Delinquency

### Tax Delinquency Cases of 100 Million Yen or More by Industry

(as of the end of the 2005 fiscal year)

Industry	Number of Persons		Amount of Tax	
		%	Million yen	%
Manufacturing industry	72	4.4	15,244	3.4
Distribution industry	100	6.1	44,349	9.9
Real estate and construction industry	431	26.3	106,761	23.9
Food and beverage industry	95	5.8	17,277	3.9
Financial industry	31	1.9	8,246	1.8
Other industries*1	432	26.3	114,796	25.7
Others*2	480	29.3	140,192	31.4
Total	1,641	100.0	446,865	100.0

Notes: \*1 "Other industries" includes hospitals (doctors), the service industry, and the leisure industry.

\*2 "Others" includes salaries workers and pension recipients.

### Seizure of Property

(2004 business year)

	Number of Delinquent Taxpayers	Number of Objects Seized	Appraisal Value
Movable property	347	44,752	1,296
Claims	37,650	49,044	97,165
Immovable property, etc.	8,212	30,794	211,256
Others	3,566	23,350	2,725
Total	49,775	147,940	312,442

## Remedy for Infringement of Taxpayer Rights

### Requests for Reinvestigation

Classification	Number of Illegal Cases (1)	Number of Requests for Reinvestigation	Number of New Requests for Reinvestigation (2)		Number of Cases Processed (3)	Number of Requests Approved (4)	Percentage [(4)/(1)]	Percentage [(4)/(3)]
				Percentage [(2)/(1)]				
Tax assessment	431,000	5,306	3,891	0.9	4,124	609	0.14	14.8
Tax collection	—	435	381	—	392	1	—	0.3
Total	—	5,741	4,272	—	4,516	610	—	13.5

### Requests for Reconsideration

Classification	Number of Illegal Cases (1)	Number of Requests for Reconsideration	Number of New Requests for Reconsideration (2)		Number of Cases Processed (3)	Number of Requests Approved (4)	Percentage [(4)/(1)]	Percentage [(4)/(3)]
				Percentage [(2)/(1)]				
Tax assessment	431,000	5,450	2,801	0.6	3,146	488	0.11	15.5
Tax collection	—	371	286	—	236	5	—	2.1
Total	—	5,821	3,087	—	3,382	493	—	14.6

### Requests for Litigation

Classification	Number of Illegal Cases (1)	Number of Litigation Cases	Number of the First Instance		Number of Cases Closed (3)	Number of Lost in Litigation and partial Defeat Cases (4)	Percentage [(4)/(1)]	Percentage [(4)/(3)]
			Newly Filed (2)	Percentage [(2)/(1)]				
Tax assessment	431,000	936	281	0.1	387	54	0.01	14.0
Tax collection	—	144	64	—	86	3	—	3.5
Total	—	1,086	346	—	478	57	—	11.9

Notes: 1. The figures for "Number of Illegal Cases (1)" are the following numbers for the 2004 business year:

In tax assessment cases: The total number of illegal cases for which field examinations regarding self-assessed income tax, withholding income tax, corporation tax, consumption tax, and inheritance tax are conducted.

2. The "Number of Requests for Reinvestigation" and the "Number of Requests for Reconsideration" are the figures for the 2004 fiscal year.

3. The "Number of Litigation Cases" is the total number of litigation cases for each level of trial for the 2004 fiscal year.

4. The "Total" Number of Litigation Cases includes the cases for National Tax Tribunal and Regional Tax Tribunals.

## Tax Consultations

### Number of Tax Consultation Cases Handled by Tax Counsel Offices and via Tax Answer System

(2005 fiscal year)

Number of Tax Consultations		Thousand cases
	Income tax	
Corporation tax		196
Property tax		772
Consumption tax		120
Other indirect taxes		55
Tax collection		71
Others		242
Subtotal		2,895
Tax Answer System		29,881
Total		32,776

### Number of Complaints Received at Tax Counsel Offices

(2005 fiscal year)

Income tax	620
Corporation tax	334
Property tax	88
Consumption tax	55
Other indirect taxes	9
Tax collection	54
Others	181
Total	1,341

## International Taxation

### Fraudulent Income Made through Overseas Transactions

(2004 business year)

Number of cases of fraudulent overseas income	76 cases
Amount of fraudulent income made overseas	11,800 million yen

### Enforcement of Transfer Pricing Taxation

(2004 business year)

Number of cases closed	82 cases
Amount of taxable income	216,800 million yen

### The Five Most Frequent Tax Consultation Topics

#### In-Person and Telephone Consultations

(2005 fiscal year)

Ranking	Tax Item	Topic	Thousand cases
1	Income tax	Obligation to file returns and filing procedures, etc.	257
2	Income tax	Medical expenses deduction	138
3	Income tax	Preparation of tax returns, statements of accounts, and other forms	114
4	Income tax	Special credit for loans relating to a dwelling	106
5	Income tax	Filing returns for refund	94

#### Tax Answer System

(2005 fiscal year)

Ranking	Tax Item	Topic	Thousand cases
1	Income tax	Cases in which funds are spent on medical expenses (medical expenses deduction)	761
2	Income tax	Tax rate of income tax	547
3	Income tax	Medical expenses subject to medical expenses deductions	468
4	Income tax	Exemption for spouse	398
5	Income tax	Special treatment that can be received according to the spouse's income (special exemption for spouse)	394

## Taxpayer Satisfaction

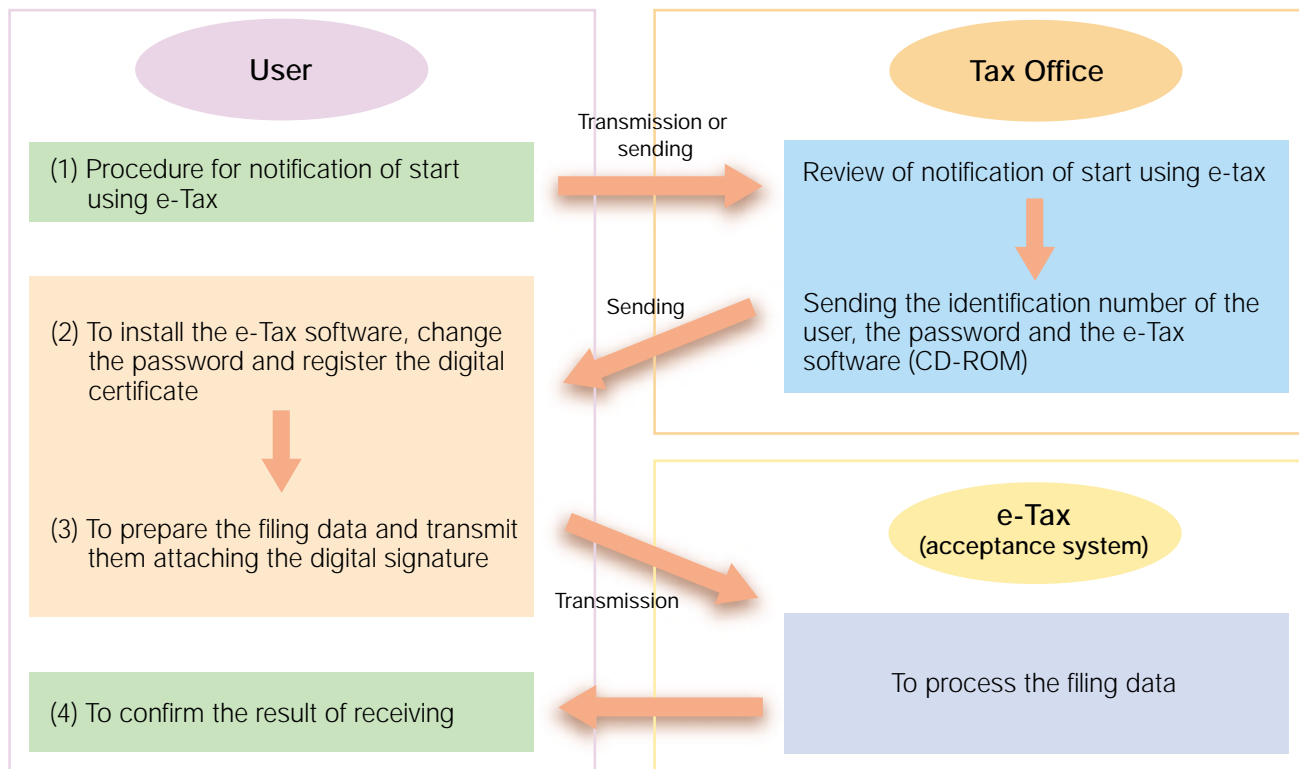
(2004 business year)

Item	High Satisfaction Rate	
	%	
Attitude of officials in providing services	79.3	
Level of convenience in using Tax Office	56.2	
Evaluation regarding PR activities	63.8	
Evaluation regarding activities to collect public opinions	79.2	
Level of satisfaction with consultations at Tax Counsel Offices	In-person	89.4
	Telephone	67.8

Note: "High Satisfaction Rate" is the percentage of taxpayers who gave high evaluations ("good" and "somewhat good" responses on a five-grade scale between "good" and "bad") to the item in a questionnaire survey.

# Reference

## Information for Taxpays Who Are Going to Use e-Tax



### (1) Please perform the procedure for notification of start using e-Tax

Upon using e-Tax, please perform the procedure for notification of the start using e-Tax in advance online from the e-Tax website (<http://www.e-tax.nta.go.jp> -- Japanese only). After this procedure has been undertaken, the identification number of the user and the e-Tax software, which are necessary to use e-Tax, will be sent.

The user may undertake this procedure even in writing.

- Upon transmitting the filing data by e-Tax, so that the NTA can confirm that the data are drawn up by the taxpayer himself/herself and not altered by anyone, the taxpayer is required to affix a digital signature in place of setting his/her hand and seal to the document. To this end, it is necessary to prepare a digital certificate in advance. Taxpayers wishing to use the digital certificate issued by the Public Certification Service for Individuals must obtain the Basic Resident Register Card and introduce an issued digital certificate on it at the municipal office.
- Most digital certificates, including those issued by the Public Certification Service for Individuals, are stored in the IC card. So, in this case, please prepare an IC card reader/writer.
- Information concerning digital certificates applicable to e-Tax and financial institutions to which electronic tax payment is available, is accessible on the NTA website.

### (2) Please install the e-Tax software, change the password and register the digital certificate.

After the procedure for notification of start using e-Tax has been undertaken, the notice of the identification number will be sent by the Tax Office. So, please prepare for the use of the e-Tax software.

- 1) Please install the e-Tax software (CD - ROM) on the personal computer.
- 2) The identification number of the user which is necessary for security purposes when using e-Tax is stated in the notice of the user's identification number. Please change the password and register the digital certificate to be used.

### (3) Please prepare the filing data and transmit them attaching the digital signature and others.

Please use the e-Tax software and prepare the filing data, and transmit them attaching the digital signature and digital certificate.

- Concerning the final returns of income tax and consumption tax or the financial statements for blue returns, taxpayers may prepare the filing data using "Filing Assistance on the NTA Website," and transmit them using e-Tax.

### (4) Please confirm the result of receiving.

Regarding the result of the review of the filing data and others as transmitted, the notice of receiving is stored in the message box set for each user. The user may confirm the content of the notice by the said message box.

For further information about e-Tax, please see page 17.

# National Tax Agency Report 2006

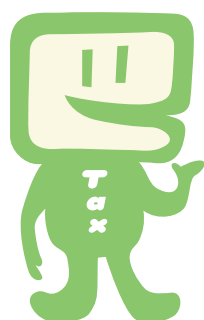
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\*The website provides the latest information on e-Tax and  
necessary procedures and the like for using e-Tax.



Your taxes help to sustain our community