

# **Tax Compliance**

## **Challenges to and Measures by the National Tax Agency (NTA), Japan**

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# Topics Covered

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1. Challenges to the NTA
2. Measures by the NTA to Ensure Taxpayer Compliance
3. Recent Measures
  - (1) Improving Taxpayer Compliance through Enhancing Corporate Governance
  - (2) Foreign Asset Reporting System to Improve Compliance of High Net Worth Individuals
  - (3) Exchange of Information with Tax Treaty Partners (Common Reporting Standards of AEOI)

# 1. Challenges to the NTA

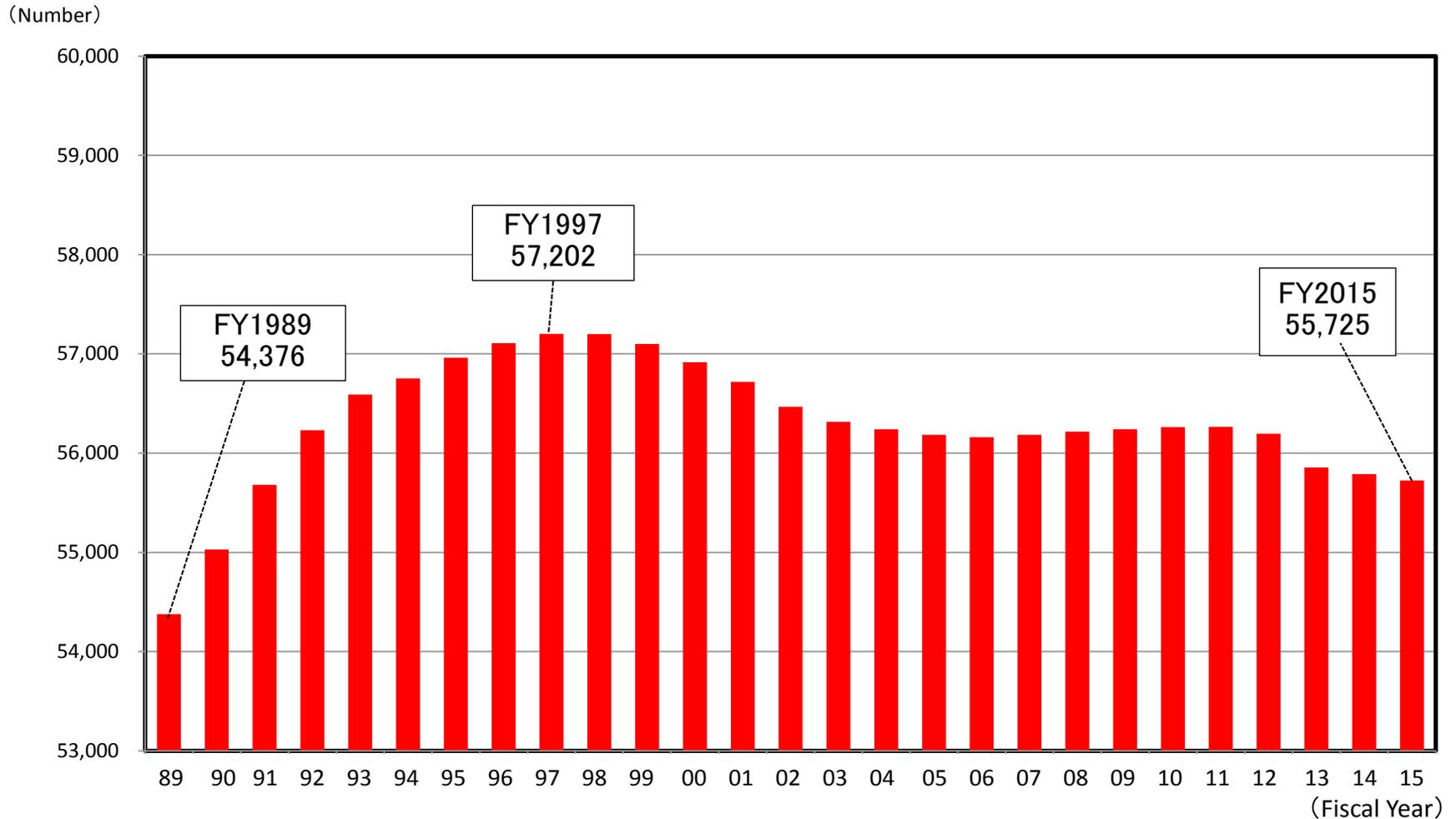
# Challenges to the NTA

Precise capture of income and assets is getting more and more difficult.

- More complicated transactions with:
  - wide-spread use of e-commerce
  - increase in cross-border transactions
- Taxpayer's incompliant behaviors including:
  - use of tax avoidance schemes
  - transfer of assets overseas for the purpose of evading tax

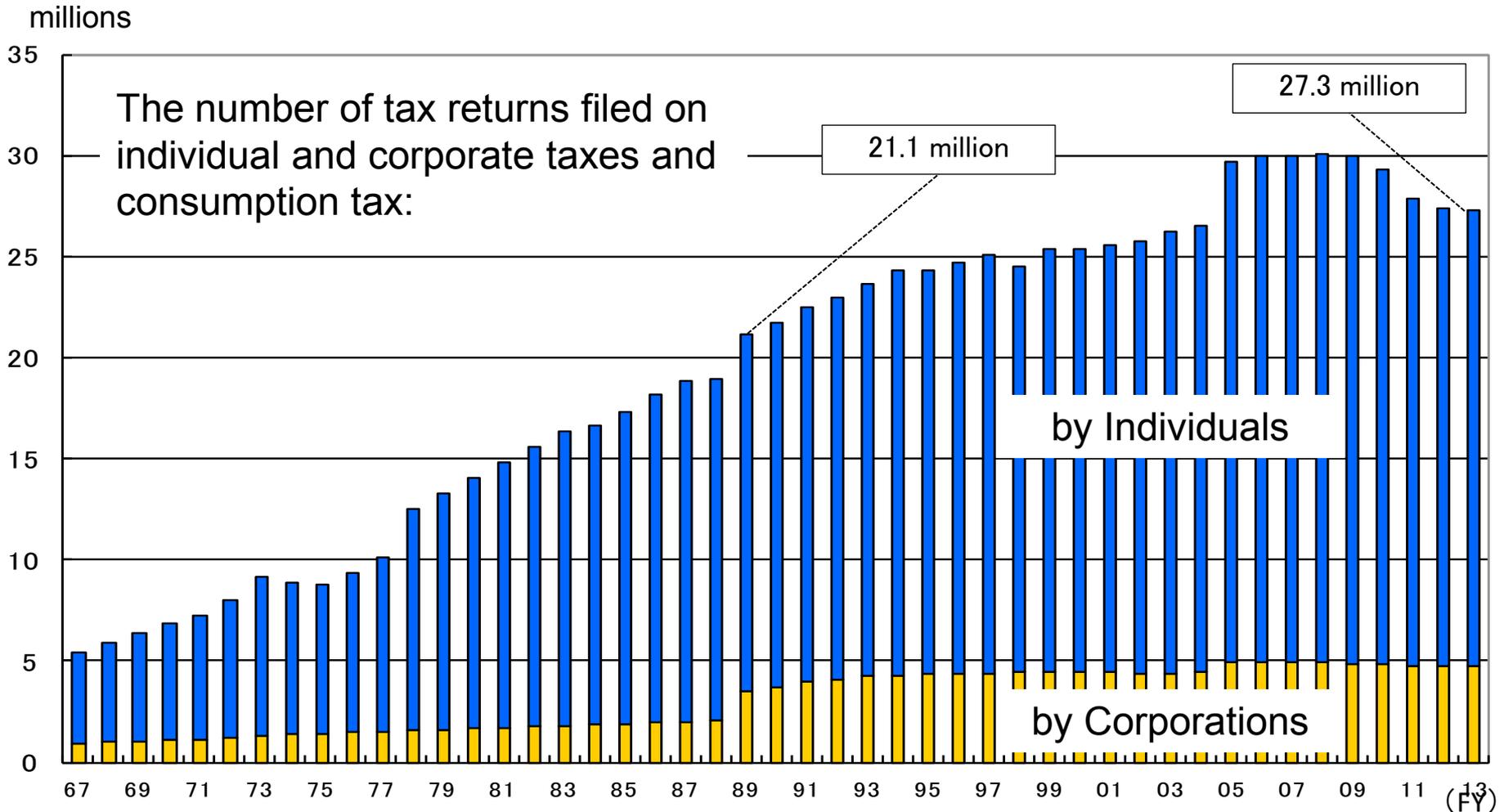
# Challenges to the NTA

The number of staff of the NTA is on a decreasing trend after its peak in FY1997.



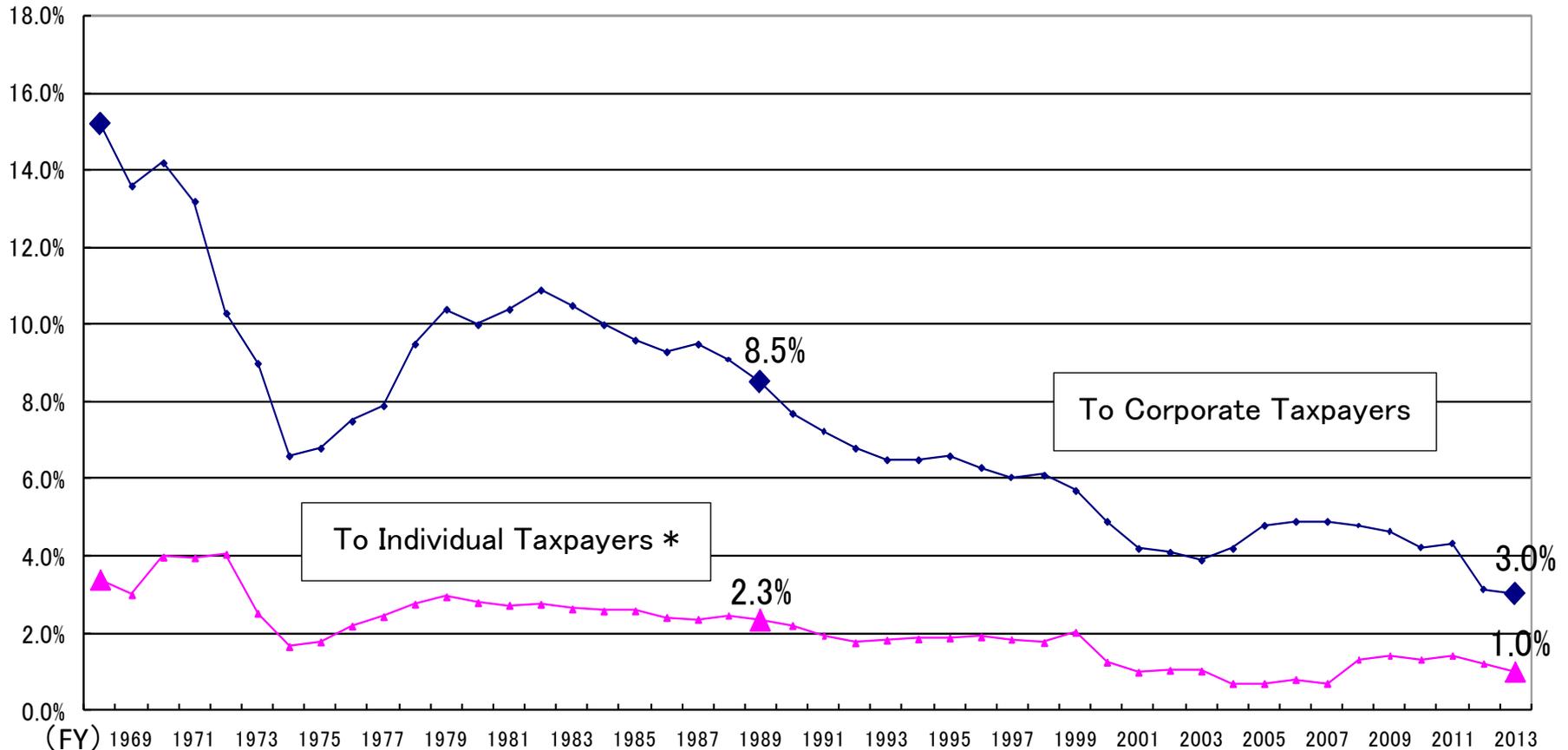
# Challenges to the NTA

The number of tax returns filed is on an increasing trend.



# Challenges to the NTA

Ratio of field audits to taxpayers is on a decreasing trend since 1980s.



\* Individual taxpayers include only those who filed tax returns with tax amount payable.

## 2. Measures by the NTA to Ensure Taxpayer Compliance

# Measures to Ensure Taxpayer Compliance

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Some of traditional approaches include:

- Tax reforms
- More focus on incompliant taxpayers
- Public Relations and Education
- Enhancing capacity of tax officials
- Collaboration with stakeholders including private associations (eg. Tax Accountants Association)

# Measures to Ensure Taxpayer Compliance

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More recent approaches taken by Japan include:

- Tax reforms including BEPS action plan measures
- Enhancing corporate governance to secure tax compliance
- Improving compliance of High Net Worth Individuals by use of Foreign Assets Reporting (FAR) System
- International cooperation with other tax authorities by using the tool of Exchange of Information and assistance in collection

## 3. Recent Measures

(1) Improving Taxpayer Compliance through  
Enhancing Corporate Governance

# Enhancing Corporate Governance

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The NTA has been implementing a program to enhance corporate governance to ensure tax compliance for more than three years.

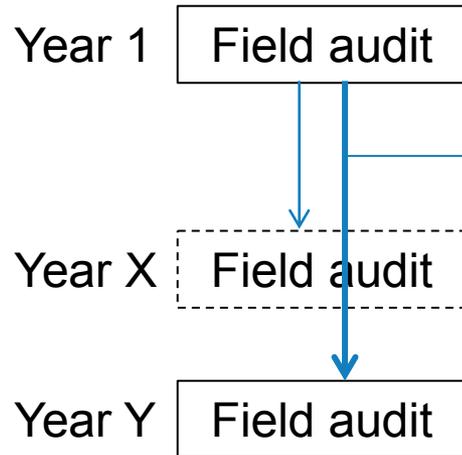
The process of the program includes:

- dialogue with corporate executives
- evaluation on corporate governance made by tax auditors during tax audits
- feedback to corporate top management

Corporations with robust governance agreeing to disclose risky transactions will be audited less frequently in the future.

# Enhancing Corporate Governance

From 2012 onward, some corporations with robust corporate governance which voluntarily disclose high risk transactions such as business restructuring or those incurring extraordinary losses are audited less frequently.



Extension of an audit interval when the above disclosure is confirmed and review of tax filing does not bring any problem.

The program aims at:

- reducing compliance burden on corporations, and
- focusing resources of tax administration on less compliant corporations

## 3. Recent Measures

(2) Foreign Asset Reporting (FAR) System to Improve Compliance of High Net Worth Individuals

# Foreign Asset Reporting System in Japan

- Recently-introduced reporting requirement for Japanese resident taxpayers
- Requirement to disclose all foreign assets, including but not limited to financial assets, when the total value exceeds 50 million yen
- Additional taxes on underreported income will be assessed depending on whether or not FAR statements are submitted.
- Penalties for non-compliance
- More than 5,500 statements reported in 2014, totaling assets value of approx. 2,500 billion yen

# Foreign Asset Reporting System in Japan

## Outline of FAR submissions in 2014

Types of Assets	Value (Billion JPY)	Share (%)
Securities	1,560	62.1
Deposits	377	15.0
Buildings	185	7.4
Land	82	3.3
Loans	69	2.8
Others	239	9.5
Total	2,514	100.0

## 3. Recent Measures

(3) Exchange of Information with Tax Treaty Partners (Common Reporting Standard (CRS) of Automatic Exchange of Information)

# Common Reporting Standard for Automatic Exchange of Information

G20 Leader's Communiqué  
Brisbane Summit, 15-16 Nov. 2014

“To prevent cross-border tax evasion, we endorse the global Common Reporting Standard for the automatic exchange of tax information (AEOI) on a reciprocal basis. We will begin to exchange information automatically with each other and with other countries by 2017 or end-2018, subject to completing necessary legislative procedures. We welcome financial centres' commitments to do the same and call on all to join us.”

# Common Reporting Standard for Automatic Exchange of Information

Common Reporting Standard		Foreign Asset Reporting System in Japan
2012	OECD launched CRS work	
2013	G20 summit supported CRS work OECD-AEOI group established	Legislation enacted
2014	OECD approval of CRS, subsequently supported by G20 Financial Ministers	First report with regard to 2013 calendar year (by March 15, 2014)
2015		Criminal penalty scheme introduced for non- submissions
2017- 18	First reports expected to be exchanged	

# Common Reporting Standard for Automatic Exchange of Information

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## Related Tax Reform in Japan (FY 2015)

- Proposal to newly introduce a reporting system to obligate financial institutions to submit non-residents account information to tax offices
- New provisions in the domestic law to implement the provisions of tax conventions
  - approved by National Diet on March 31, 2015
- Applicable to transactions entered on and after January 1, 2017
- The NTA expects to exchange collected data between other tax authorities through Tax Treaty channels in 2018.

# Common Reporting Standard for Automatic Exchange of Information

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## Outline of the new reporting system

1. Submission of a statement by taxpayers to financial institutions (FIs)
  - ✓ Name, address, date of birth, state of residence, TIN, etc.
2. Identification by FIs of resident states of taxpayers
3. Information reporting by FIs to tax offices
  - ✓ Value of the assets in relevant accounts
  - ✓ Annual income earned from the assets in the accounts
4. Penalties for non-compliance

# Common Reporting Standard for Automatic Exchange of Information

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## Implementation schedule

- The first reports by FIs will be made by April 30, 2018.
- The NTA expects to exchange reported data with other tax authorities engaged in the CRS initiative during 2018.

It is critically important that as many tax authorities as possible would join the CRS initiative to make the AEOI more effective.

Peer Review mechanism will be introduced in the OECD Global Forum.

# Common Reporting Standard and Foreign Assets Reporting System

By matching the data of CRS and those of FAR, the NTA could have better picture of foreign assets held by Japanese residents

	CRS	FAR
Enforcement	First exchange in 2018	From 2014 onward
Reporter	Financial institutions	Residents with foreign assets of more than about \$500,000
Object	Financial accounts held by non-residents	Foreign assets held by residents
Information Content	Account balance, annual interest, dividends, etc.	All foreign assets - type, quantity, value and place
Submission method	Electronic	Paper or electronic