



The Ninth IMF-Japan High-Level Tax Conference for Asian Countries

Japanese perspectives on tax challenges in the digital age

Shinichi Nakabayashi
Director of Administration
Asian Development Bank Institute

Tokyo, April 10-11, 2018



Outline

1. BEPS, MLI, and Domestic Measures in Japan Relating to The Digital Economy
2. National Tax Administration (NTA) in The Digital Age
3. Crypto-Currencies and Tax in Japan
4. ADBI Promote Regional Cooperation

Part 1

BEPS, MLI, and Domestic Measures in Japan Relating to the Digital Economy

Committed to implementing Base Erosion and Profit Shifting Package

1. Participated actively in discussions on base erosion and profit shifting (BEPS) at OECD/G20
2. Implemented BEPS steadily through tax reforms
3. Signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (MLI) in August 2017.
4. Implemented BEPS Action 1 relating to the collection of VAT on cross-border transactions, Action 3 Designing Effective Controlled Foreign Company Rules, and Action 13 Transfer Pricing Documentation and Country-by-Country Reporting

The Collection of VAT on Cross-Border Transactions

1. B to B: The jurisdiction where customers reside levies VAT through the reverse-charge, that is, resident enterprises that buy business services from non-resident enterprises pay VAT.
2. B to C: the jurisdiction where customers reside taxes VAT. Non-resident providers of goods and services above certain threshold are required to register with the tax authorities. Non-resident providers file tax returns.

A Reporting System of Information on Multinational Enterprises (MNEs)

1. Objective: Understand global activities and the actual situation of tax payments by MNEs
2. MNEs prepare and store the Local file about detailed information of its global activities and transfer pricing calculation.
3. The parent company prepares Country-by-Country Report and Master file and provide them to tax authorities.
4. Exchange of information on Country-by-Country Report with foreign tax authorities

Part 2

National Tax Administration (NTA) in The Digital Age

Background of Future Vision of Tax Administration

1. 5 changes in environments and challenges

- Progress of ICT/AI
- Introduction of “My Number” individual identification number system
- Globalization of economic transactions
- Decrease in the number of staff and increase in tax returns
- Ever more complex and difficult cases of tax examination and collection

2. Facing these challenges, it is crucial to make clear a long-term vision in terms of transparency of tax administration and proceed steadily towards it to ensure the trust of taxpayers.

Future Vision: Two Fronts

1. Taxpayer service:

Improve convenience of taxpayers through using ICT and “Mina portal”, a portal site that was created with the introduction of My Number.

2. Use of ICT/AI in tax administration:

Optimize the administrative processes of taxation and collection.

Taxpayer Service

1. Customized information distribution

Timely distribution of tax information matching needs of individual taxpayers through Mina Portal:

- Sending tax return forms to those who sold real estates
- Notification of tax reduction and exemption systems applicable at the time of a natural disaster

2. Automation of tax consultation

- Consultation using emails and chats
- Analysis of consultation and automatic presentation of the best answer by using AI

Taxpayer Service (Continued)

3. Promoting digitalization of tax returns (e-filing) and payments (e-payment)

- Digitally posting information on final tax returns and year-end adjustments on Mina Portal
- One-stop services by digitalizing documents to be submitted to national and local tax authorities electronically
- Promoting electronic tax return filings (e-filing) and tax payments (e-payment)

Collaboration with stakeholders

1. Cooperation with national and local private tax organizations

- E.g., “blue return” associations, corporate associations, indirect tax associations

Note: A blue return system offers beneficial treatment for the purpose of personal income tax for individual business owners who maintain a certain standard of bookkeeping and file adequate tax returns based on bookkeeping.

2. Certified public tax accountant (CPTA) system (around 70,000 CPTAs + national and local CPTA associations)

3. Close communication with prefectural and municipal tax authorities

Effective Use of ICT/AI in Tax Administration

- 1. Automatic checking of tax returns**
- 2. Off-site correction of non-serious errors**
- 3. Examination/collection utilizing AI**

Automatic checking of tax returns

1. Prompt recognition of unrecorded income by automatically checking the contents of tax returns with information on property owned by taxpayers

Note: Wealthy taxpayers have to submit a statement describing the type, quantity and value of the assets and debt.

1. Automatic assessment of real estate prices based on automatically collected information on real estate transaction cases

What factors influence the outcomes of ICT projects?

- Proper planning and prioritization for ICT investments
- Standardization of work processes for project implementation
- Instituting strong governance structures
- Applying staged implementation phases based on the likelihood of potential benefits
- (Source) OECD(2017), *Revenue Statistics in Asian Countries*

Off-site Correction of Non-Serious Errors

1. Automatic notification of errors to be corrected to taxpayers
2. Strengthening the function of the Call Center by using AI
 - Automatic preparation for answers
 - Automatic analysis of their performance afterwards
 - Automatic preparation for effective call lists

Note: A call list shows taxpayers to be contacted by telephone

Examination/Collection Utilizing AI

1. Necessity determination of accurate examination and presentation of the most suitable way to contact taxpayers and items to be examined
2. Determination of tax payment ability, selection of delinquency examination to be prioritized
3. Prompt recognition of seized assets by automatically matching information on delinquent taxpayers with domestic and overseas property information

Part 3

Crypto-currencies and Tax in Japan

Pros and Cons of Crypto-Currencies

Pros: Crypto-assets have the potential to improve the efficiency and inclusiveness of the financial system. (G20 Finance Ministers & Central Bank Governors Communique, 19-20 March 2018, Buenos Aires)

Cons: Crypto-assets raise issues with respect to consumer and investor protection, market integrity, tax evasion, money laundering and terrorist financing.

Note: G20 calls crypto-currency as crypto-asset, because they lack the basic functions of currencies and are used as vehicles for speculation.

Anti-Money Laundering, Investor Protection, and Tax Implications

- Japanese Financial Services Agency has passed a law to require a crypto-currency exchanges to notify a suspicious trading to authorities.
- While the law also stipulates user protection, a recent incident of major stealing of crypto-currencies by a hacker has prompted FSA to inspect registered and pre-registered exchanges.
- In Japan, income derived from trading of crypto-currencies is taxed as other income, which will be taxed at the marginal income tax rate.
- Its anonymity may exacerbate international tax evasion.

Part 4

ADBI Promote Regional Cooperation in Taxation

Asian Development Bank Institute (ADBI) and ADB Promote Cooperation

- ADBI works with ADB, OECD, IMF, and World Bank to promote international cooperation on taxation.
- Digitalization and globalization make international cooperation on taxation more crucial.
- Fair taxation on MNEs such as internet giants is a political must, when Japanese NTA tackles international tax avoidance and evasion by affluent individuals and corporations.
- Japan will continue to participate in discussions on taxation in the digital economy at OECD/G20.

ADB/ADB Promote Tax Cooperation

- Japan funded ADB's technical assistance activities in taxation for Asian developing economies.
- ADBI organized workshops for international taxation with ADB to promote knowledge sharing.
- Since 2016, ADB is implementing another program- *Strengthening Tax policy and Administration Capacity to Mobilize Domestic Resources*.
- ADBI hosted a workshop on domestic resource mobilization in February.
- ADBI/ADB will continue to provide developing economies in Asia and the Pacific with platforms for regional cooperation in tax.