

National Tax Agency, Japan

Mutual Agreement Procedures Report 2018

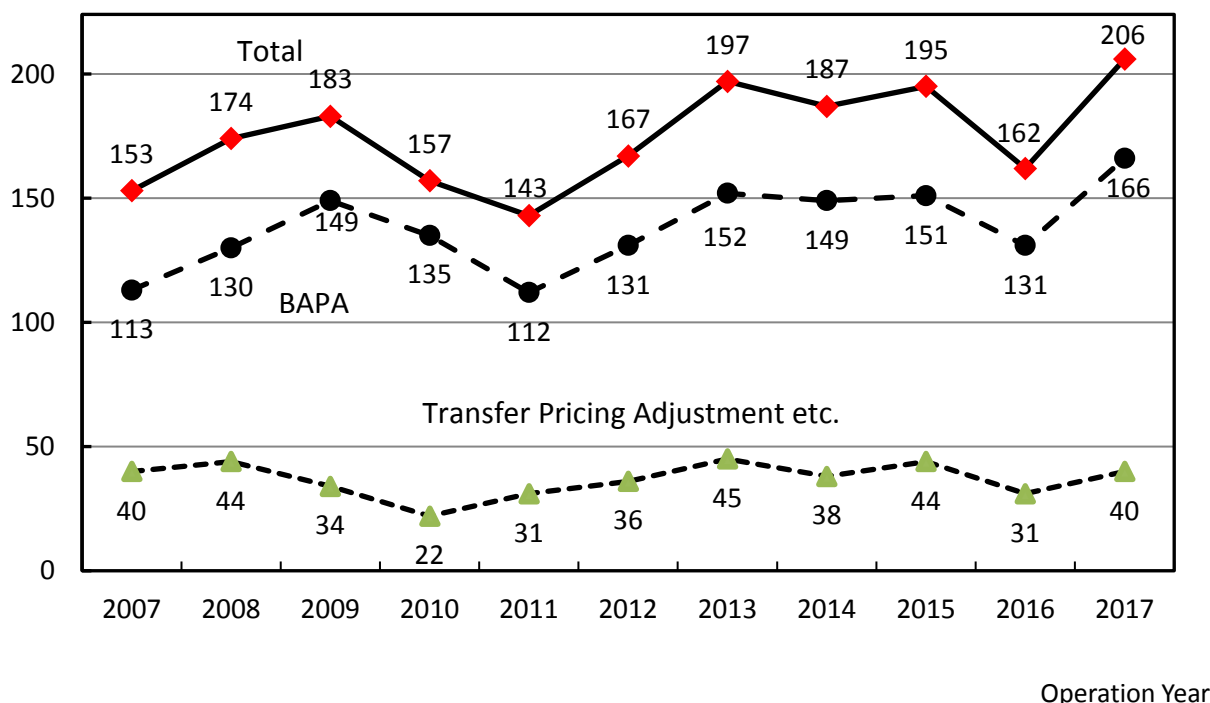
When international double taxation arises from transfer pricing adjustments or others, the National Tax Agency (“NTA”) enters into Mutual Agreement Procedures (“MAP”) with relevant foreign tax authorities under the provisions of applicable tax treaties to resolve such double taxation upon request from taxpayers. Also, the NTA enters into a Bilateral Advance Pricing Arrangement (“BAPA”) in order to ensure the predictability of taxpayers and promote the proper and smooth administration of the transfer pricing taxation.

1. MAP requests received

- During the 2017 operation year (from July 2017 to June 2018), the NTA received 206 MAP requests (BAPA 81%, Transfer pricing adjustment etc. 19%).
- The number of MAP requests received increased significantly from the 2016 operation year, marking a record high.

Chart 1: MAP requests received

Number of requests received



- (Notes)
- 1 The operation year runs from 1 July to 30 June in the following year.
 - 2 The number of MAP requests consists of both cases where the NTA received such requests from taxpayers and cases where the NTA received such requests through foreign tax authorities.
 - 3 Transfer pricing adjustment etc. includes cases related to permanent establishments (PEs) and withholding taxes.

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2. MAP requests resolved

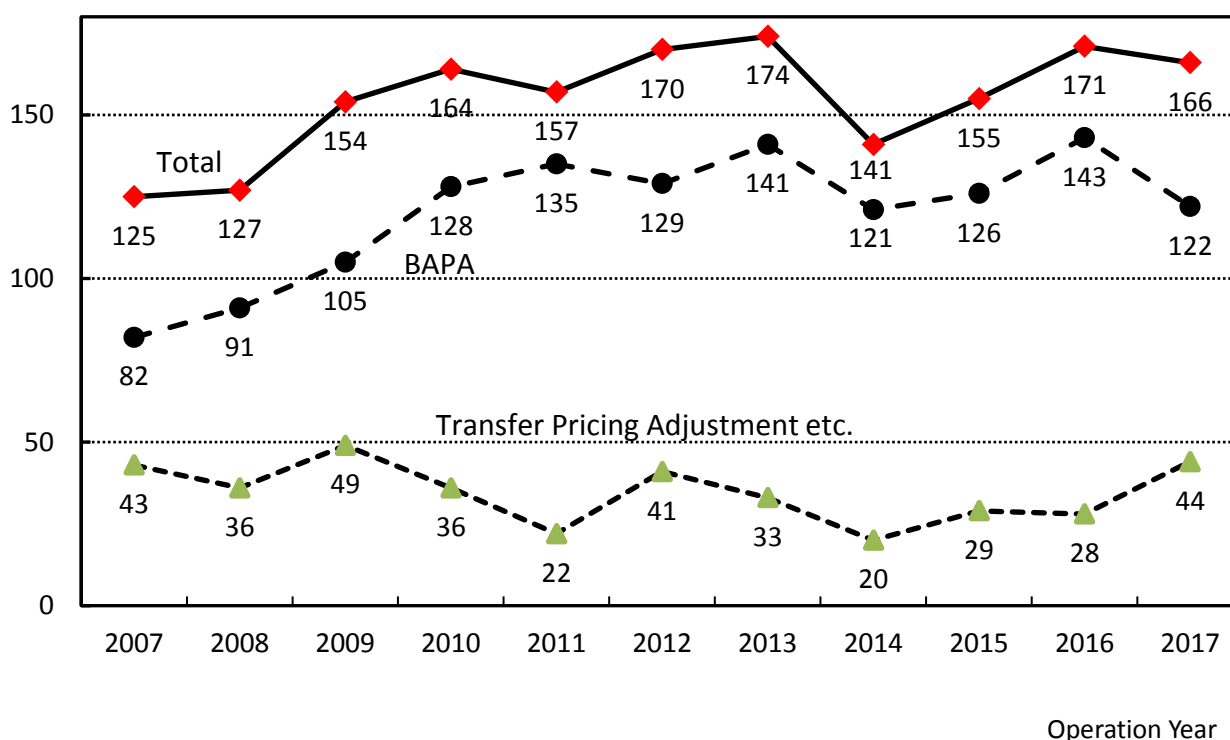
2.1 The number of MAP requests resolved

- The number of MAP requests resolved during the 2017 operation year amounted to 166 (BAPA 73%, Transfer pricing adjustment etc. 27%), which was decreased to 97% of the 2016 operation year.

(Note) Please see Attachment 1 for the details of type of MAP requests.

Chart 2: MAP requests resolved

Number of requests resolved



2.2 Average processing time on a MAP case

- The average processing time on a MAP request resolved in the 2017 operation year was 29.9months (29.1months in the 2016 operation year).
- The average processing time on a BAPA case resolved was 30.7 months (28.9months in the 2016 operation year).
- The average processing time on a transfer pricing adjustment etc. case resolved was 27.7months (30.2months in the 2016 operation year).

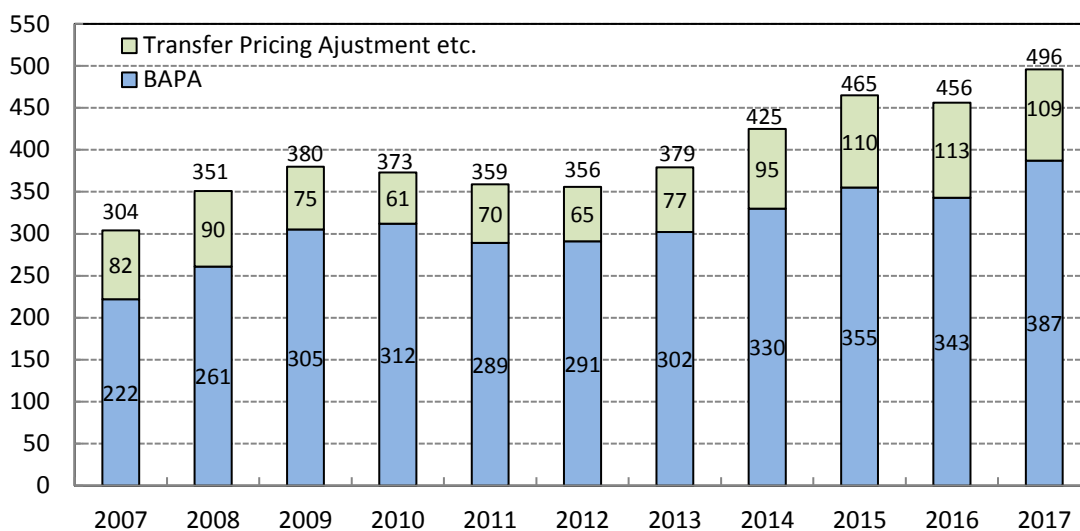
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3. Year-End Inventories

3.1 The number of Year-End Inventories

- The number of MAP requests received increased significantly from the 2016 operation year, marking a record high. As a result, the number of year-end inventories in the 2017 operation year also increased.

(Note) Please see Attachment 1 for the details of type of MAP requests.



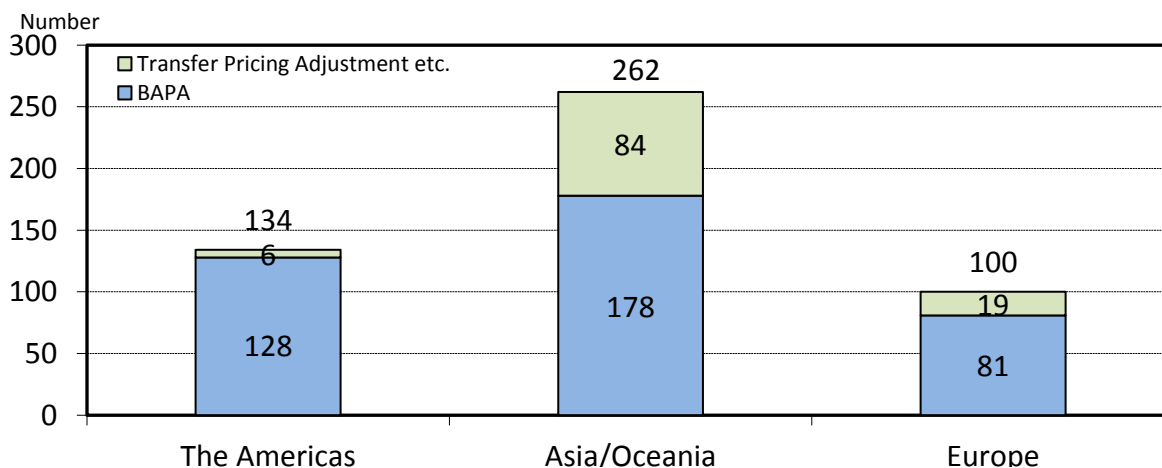
Operation Year

3.2 Region-by-region inventories

- In the 2017 operation year, the number of requests with Asia/Oceania accounted for the largest part of the total year-end inventories.
- The treaty partner with which the NTA has year-end inventories most is the United States (25%), followed by China (16%), India (12%), Korea (11%) and the United Kingdom (6%).

(Note) Please see Attachment 2 for a list of treaty partners with which the NTA has MAP inventories as of June 30, 2018.

Chart 4: Year-End Inventories by region



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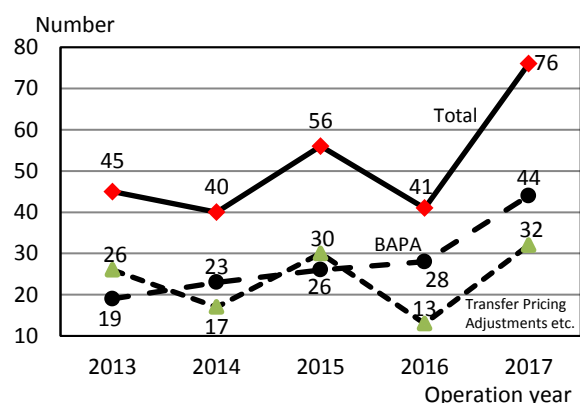
4. MAP requests with non-OECD economies

4.1 The number of MAP requests

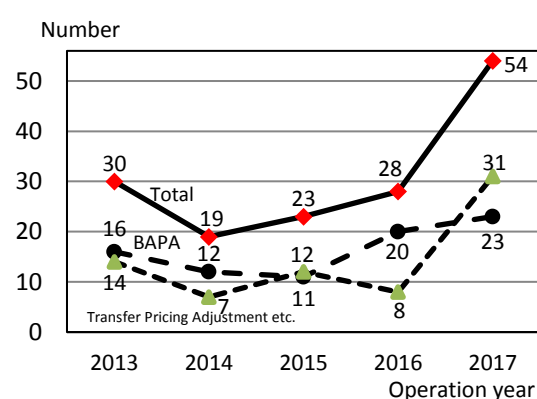
- In the 2017 operation year, as for the number of the MAP requests with non-OECD economies, 76 were received and 54 were resolved.
- The number of year-end inventories with non-OECD economies was 200, accounting for 40% of the total year-end inventories.

Chart 5:

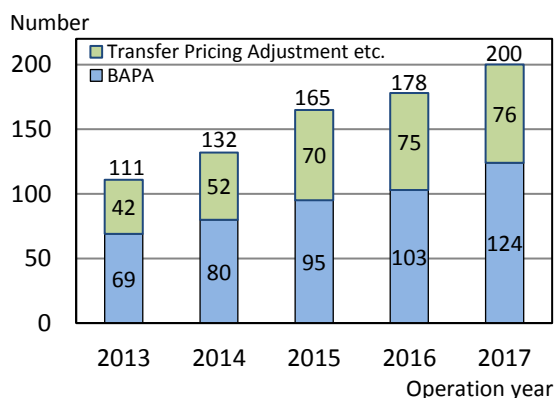
MAP requests received with non-OECD economies



MAP requests resolved with non-OECD economies



Year-end inventories with non-OECD economies



4.2 Average processing time on a MAP case with non-OECD economies

- The average processing time on a MAP request resolved with non-OECD economies in the 2017 operation year was 40.1 months (36.9 months in the 2016 operation year).
- The average processing time on a BAPA case resolved with non-OECD economies was 52.0 months (37.3 months in the 2016 operation year).
- The average processing time on transfer pricing adjustment etc. resolved was 31.1 months (35.9 months in the 2016 operation year).

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(Attachment 1)

The number of MAP requests in the last three years

Operation Year		BAPA	Transfer Pricing Adjustment	Others	Total
2015	Requests Received	151	36	8	195
	Requests Resolved	126	23	6	155
	Year-End Inventories	355	97	13	465
2016	Requests Received	131	25	6	162
	Requests Resolved	143	28	0	171
	Year-End Inventories	343	94	19	456
2017	Requests Received	166	37	3	206
	Requests Resolved	122	37	7	166
	Year-End Inventories	387	94	15	496

- (Notes)
- 1 The operation year runs from 1 July to 30 June in the following year.
 - 2 The number of MAP requests received consists of both cases where the NTA received such requests from taxpayers and cases where the NTA received such requests through foreign tax authorities.
 - 3 MAP requests related to compensating adjustments and amendments to previously agreed APAs are included in the years when the MAP requests on those issues were made.
 - 4 The number of MAP requests resolved includes requests withdrawn by taxpayers as well as requests settled with treaty partners.
 - 5 "Others" includes cases related to permanent establishments (PEs) and withholding taxes.

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(Attachment 2)

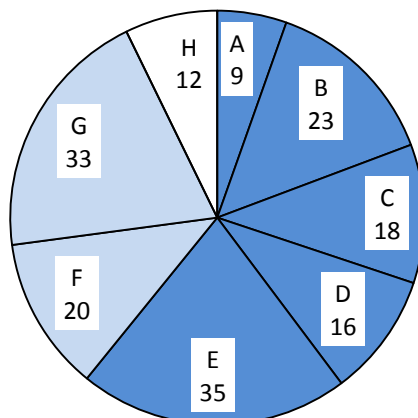
Treaty Partners with which the NTA has MAP inventories (as of June 30, 2018)

Europe	Asia/Oceania	The Americas	Total
(OECD countries)			
Belgium Czech Republic Denmark Finland France Germany Ireland Italy Luxembourg Netherlands Switzerland United Kingdom	Australia Korea	Canada Mexico United States	17 partners
(Non-OECD economies)			
	China Hong Kong India Indonesia Malaysia Singapore Taiwan Thailand Vietnam		9 partners
12 partners	11 partners	3 partners	26 partners

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Types of MAP cases in the 2017 operation year (Attachment 3)

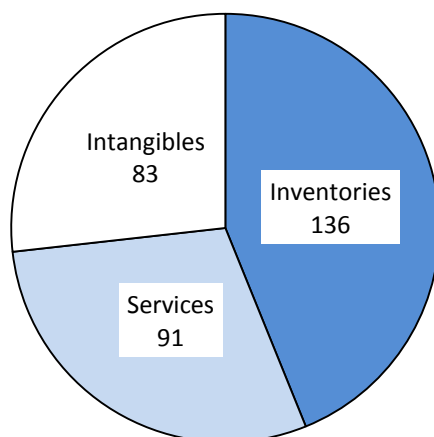
Industry



Manufacturing	101	(61%)
Wholesale/Retail	53	(32%)
Others	12	(7%)
Total	166	(100.0%)

- A: Manufacturing (consumer electric equipment, instruments, and bulbs)
- B: Manufacturing (transport equipment and instruments)
- C: Manufacturing (industrial electric equipments and instruments)
- D: Manufacturing (machineries and equipments)
- E: Manufacturing (others)
- F: Trading (import/export)
- G: Other wholesale/retail
- H: Others

Type of transaction

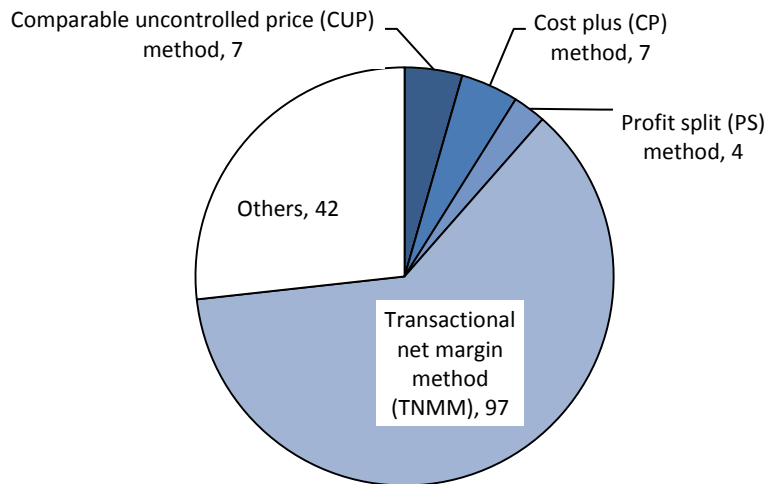


(Notes)

1. Total number of MAP requests resolved does not correspond to the sum of the numbers in the chart above, as some cases are counted for each type of transaction when multiple types were covered.
2. In the case of MAP requests related to compensation adjustments and amendments to previously agreed APAs, it is counted as the same transaction in the original APA agreement.

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Transfer pricing method



(Notes)

1. Total number of MAP requests resolved does not correspond to the sum of the numbers in the chart above, as some cases are counted for each transfer pricing method when multiple methods were applied.
2. In the case of MAP related to compensating adjustments and amendments to previously agreed APAs, it is counted as the same transfer pricing method applied in the original APA agreement.

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(Reference)

Terminologies

Mutual Agreement Procedures (MAP) are a formalized set of procedures between tax authorities of treaty partners which are provided in tax treaties. The NTA enters into MAP when taxpayers consider that international double taxation arise or will arise from transfer pricing adjustments or others, or when taxpayers request bilateral APA.

(Note 1)

63 tax treaties that Japan has concluded (which covers 74 countries/regions as of the end of June 2018) contain the provisions on the Mutual Agreement Procedures.

(Note 2)

An Advance Pricing Arrangement (APA) is an arrangement whereby, based on an application from a taxpayer, the tax administration confirms in advance a set of criteria such as methods, comparables and adjustments thereto, and critical assumptions as to future events for the determination of the transfer pricing for transactions between the taxpayer and its foreign-related entity/entities over a fixed period of time. The tax administration will refrain from adjusting the transfer pricing set by the taxpayer if taxpayers files its tax returns in accordance with the confirmed APA conditions for the years covered by the APA.