

Japan Tax & Legal Inbound Newsletter

Overview of the Smart Customs Initiative 2020

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In June 2020, Japan Customs announced the Smart Customs Initiative 2020, its medium to long-term vision for the Japan Customs administration, with the purpose of transforming Japan into the world's leading customs administration. In order to achieve this goal, Japan Customs will utilize cutting edge technology and create a more efficient and effective workforce.

Background

The initiative was designed taking into account the following changes and areas of growth that are expected to occur in the medium to long-term:

1. The increase in the flow of goods as a result of the development and implementation of new technology, the conclusion of new economic partnership agreements (EPAs) and free trade agreements (FTAs), and the use of larger maritime vessels in a more sophisticated marine transportation network;
2. Changes in the flow of people as a result of an increase in the number of inbound and outbound tourists;
3. Changes in cash flows as a result of growth in crypto assets and the popularity of cashless payments;
4. Changes in workforce demographics (e.g., the decreasing size of the workforce and the increasing age of workers), and changes in government policies to offset the impact of such changes (e.g., work style reform);
5. More recently, disaster prevention measures and relief (e.g., COVID-19 related measures);
6. An increase in the use of technology in international trade, such as artificial intelligence (AI), fifth generation (5G) services, and blockchain technology; and
7. Changes in international security as a result of the increased threat of international terrorism, the smuggling of goods into and out of North Korea, and the growth in international criminal activity and the sophisticated ways in which the activities are carried out.

The four key points of the initiative

The Initiative consists of four key points—solution, multiple access, resilience, and technology and talent (“SMART”)—that focus on specific measures and policies.

Solution

The goal is to implement efficient and effective customs procedures by providing trade-related companies and passengers with solutions that simplify and streamline their compliance obligations. In order to achieve this, the following measures will be enacted:

- Implementation of electronic declarations for personal effects and unaccompanied articles via the use of mobile phones;
- Introduction of the concept of electronic money for the payment of taxes;
- Introduction of service desks that can assist with inquiries on FTAs/EPAs; and
- Improvements to the Japan Customs' homepage.

Multiple access

Multiple access is meant to enhance cooperation with domestic and foreign authorities/companies, and promote the reinforcement of border protection while concurrently maintaining efficient customs procedures. In order to achieve this, the following measures will be enacted:

- Reinforcement of the collection of information and utilization of advanced information with respect to cargo and passengers;
- Examination of the use of web crawling technology, which automatically collects information from the internet; and
- Use of web conferencing tools to enhance effective communication with related domestic and foreign authorities.

Resilience

Another goal is to increase resilience to, and reduce the impact of, demographic changes and disasters, while simultaneously maintaining effective and efficient customs procedures and operations. In order to achieve this, the following measures will be enacted:

- Creation of a flexible and agile work environment that enables business continuity during a disaster or crisis;
- Exploration of the use of cutting edge technology like drones and satellites for coastline patrol; and
- Creation of a flexible work environment for employees, including supporting people working from home.

Technology and talent

Finally, cutting-edge technology, including AI, will be adopted to make customs operations more advanced and efficient. Additionally, staff training will be conducted to upskill employees, and current customs operations will be reviewed to improve the overall work environment. In order to achieve this, the following measures will be enacted:

- Strengthening of the inspection capabilities of customs officers by increasing the use of technology such as AI, big data, blockchain, the “internet of things” (IoT), and drones;
- Automation and digitization of more services;
- Upskilling of customs officers so that they can operate new technology effectively; and Improvement in customs examinations and post-clearance audits with the use of AI analysis.
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Deloitte's View

The Smart Customs Initiative 2020 is part of the reform of Japan Customs, which is in response to the drastic changes expected to take place within the trade industry in the coming decades. On the whole, the initiative has been well received by the trade community, as it is seen by many as a step toward automation and digitization that has been long overdue. For example, COVID-19 has reduced the amount of face-to-face interaction, so it is timely that Japan Customs is enabling documentation and payments to be processed electronically.

For importers and exporters in Japan, it will be critical to adapt to the changes quickly and incorporate the new measures into their operating systems to ensure that there is no detrimental impact to their daily international transactions and that they can benefit from the new measures. For example, the upskilling of staff and the increased use of technology likely will mean more focus by Japan Customs on ensuring that importers and exporters are compliant with customs rules and regulations.

Additionally, the implementation of AI and cutting-edge technology will not only improve the compliance process for taxpayers, but it will also enable the customs authority to collect and store large amounts of data in a timely manner. It is possible that this new capability will lead to more rigorous post-clearance audits. Further, audits and investigations may also be more targeted as a result of the strengthening of relationships and the increase in the exchange of information between Japan Customs and its foreign counterparts and local authorities, which may enable customs authorities to become aware of potential risks at an earlier stage.

The initiative measures are expected to transform the way in which Japan Customs operates in two ways: (i) by improving the overall user experience for importers and exporters in Japan through digitization and automation, and (ii) by strictly focusing on high-risk transactions. The main by-product of automation and digitization is efficiency, which is generally welcomed by taxpayers. However, taxpayers also should be aware that, with increased efficiency in data management programs, there is the possibility that weaknesses in internal procedures and processes may become apparent to the authorities. As a result, taxpayers should prepare now for the changes to come so that they do not find themselves on the wrong end of the new measures.

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Deloitte Tohatsu Tax & Legal Inbound Client Services Team

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| Jun Sawada, Inbound Client Services Leader | |
|---|---------------------------|
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| Immigration | Yoshito Kijima, Partner |
| Payroll and Social Benefits Processing | John Dorff, Partner |
| Family Consulting | Michael Tabart, Partner |
| email to japan_taxlegal_inbound@tohatsu.co.jp | |

Issued by

Deloitte Tohatsu Tax Co.

Marunouchi-Nijubashi Building, 3-2-3 Marunouchi, Chiyoda-ku, Tokyo 100-8362, Japan

Tel: +81 3 6213 3800

email: tax.cs@tohatsu.co.jp

Corporate Info: www.deloitte.com/jp/en/tax

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