Aoyama Sogo Accounting Firm Innovation Speed Quality

NewsLetter

Aoyama Sogo Accounting Firm

Vol.02 7/30/2021

Chairman's Column

Our Sustainability Policy

Aoyama Sogo Accounting Firm (ASA) recently renewed its website. Taking this opportunity, we belatedly added a "sustainability policy." This policy was prepared based on the concept of ESG.

The Covid-19 calamity provides a good opportunity for us to think again about business continuity. Since ASA is focused on managing investment projects in alternative asset classes, it would be a disaster if we could not contact, for some reason, the parties concerned to inform them of unexpected changes in circumstances around an ongoing project or to remit money.

In order to avoid such an unfavorable situation, we have been focusing on seamlessly providing our service to clients by keeping the best possible proportion between working from home and working in the office and confirming the progress of work. What should we do if somebody else in Team ASA tested positive for Covid-19? -- I think that it is essential to respond to the worst possible case keeping in mind that nobody is exceptional.

Although what a company with about 200 people can do may be limited, I myself should study and learn SDGs and ESG first of all, and then ask clients what their basic policies are and understand those policies in order to support their progress as much as possible.

(Kazuhiro Matsuzawa, Representative Director and Chairman)

Renewable Energy Information

Estimates for Power Generation Cost by Source in 2030

On July 13, the Ministry of Economy, Trade and Industry (METI) announced, based on a certain formula, estimated costs per kWh in 2020 and 2030 incurred if a new power plant is built on a vacant land and operated there.

According to the estimates, the expected lowest costs per kWh in 2030 are in the range from 8 yen to less than 12 yen for solar power (for business use), and in other major sources, 11.5 yen or higher for nuclear power, from 13.5 yen to less than 22.5 yen for coal-fired power and from 10.5 yen to less than 14.5 yen. The estimates for 2030 obtained by MITI through a similar calculation in 2015 were in the range from 12.5 yen to less than 16 yen for solar power and from 10.5 to less than 11 yen for nuclear power. Given that the cost of nuclear power had been expected to be lowest at that time, the recent numbers showed a reversal in solar power and nuclear power.

The main factors for price fluctuations of solar power and nuclear power include the cost reduction of panels and non-panel equipment/facilities for the former and the cost increase due to additional safety measures for the latter. For solar power, a further reduction remains possible since the generation cost in Japan is higher than the international average.

The results of the estimates for generation cost by power source are considered one of the inputs to determine issues in energy policy measures toward 2030 such as which sources Japan should pay greater attention to based on the characteristics of each source.

Meanwhile, METI says that the results will be different if it adopts different factors for the estimates such as those for fuel costs and others, operating year length and capacity factors of facilities, and the volume of solar power introduced.

Under the feed-in Tariff (FIT) scheme introduced in July 2012, the purchase price of renewable energy per kWh (for business) was initially determined to be 40 yen and continued to decline every year to 36 yen, 32 yen, and 11 yen in the current 2021. About four years ago, I heard from a client that "we can generate profits if we can sell at 36 yen/kWh, but it's a little bit difficult at 32 yen/kWh. If lower than that, it's quite difficult." From this comment, the current 11 yen/kWh must be extremely difficult. But on the other hand, considering that the number of renewable energy projects has not declined (but rather increased) despite such difficult purchase prices, it is likely that a structure which allows power generators to be profitable due to cost reduction in panels and other equipment/facilities, etc., is being continuously developed. If the generation cost for solar power is controlled to be lower than that for nuclear power as shown by the above estimates, the usage of nuclear power is expected to be promoted further in policy measures in combination with carbon-neutral activities. Like others, we used to engage in projects using the FIT scheme, but recently see an increase in the number of non-FIT projects while electricity-sales prices and types of agreements are changing. I think that it is necessary to keep an eye on future trends in the relationship between costs and profitability since securing profits is likely to become a matter of greater concern.

(Hirokazu Ando, Executive Manager)

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Real Estate Market Information

German Open-ended Fund

The other day, it was reported that a major German open-ended fund had invested in Japan for the first time in quite a while.
To begin with, several open-ended funds -- most of them German -- were actively investing in Japan until ten years ago, but withdrew from the country all at once shortly after the Great East Japan Earthquake. They were a group of investors who invested in offices and commercial real estate for the long term with abundant funds and attracted much attention accordingly...
At that time, I was in charge of cross-border investments at a real estate company affiliated with a financial institution and got to know a major German open-ended fund at "MIPIM," the international real estate trade fair held in Cannes. My family got along with the person in charge of the fund and his family who were stationed in Tokyo.

When the Great East Japan Earthquake struck, I immediately contacted the person in charge but he said that the fund had already decided to withdraw from Japan and he and his family would leave Japan soon. In Germany, which had experienced radioactive contamination as a result of the Chernobyl accident, the Fukushima nuclear accident seems to have been taken quite seriously.
It is often said that the real estate cycle in Tokyo is ten years long, and seeing that the German fund came back to Japan exactly 10 years later, I chuckled to myself, confirming that, no doubt, they are "Germans who are so strict about time."

（Sigeru Hirai, Client Relations Group)

Global Real Estate News

U.S. Life Science Sector's Rapid Rise

The global pandemic has temporarily stalled or ended business in many U.S. industries, but one sector that has blossomed is Life Sciences. A report by real estate firm Jones Lang LaSalle discusses the rapidly growing sector that includes pharmaceuticals, therapeutics, and immunology. Even before the pandemic, U.S. leasing vacancies of life science buildings decreased from 9.8% to 7.3% during 2015 to 2020.
More than ever before, venture capitalists and institutional investors are infusing capital in the field as AI and computer science propel R&D at an unprecedented speed. As firms receive this influx of money, they need lab and office space fairly quickly, contributing to higher occupancy and new construction of life science facilities.
In 2020, alternative investment manager Blackstone invested $16 billion in Life Sciences, their largest private equity investment area for the year. According to the report, the exciting news is that a whole economy is built around such facilities. Lab workers typically are well paid and stay long at their firm, meaning stable rental income can be projected for property owners. In addition, a whole range of support jobs are created including facility maintenance and other blue collar jobs. This leads to demand for a diverse range of property types including affordable housing, restaurants, and public transportation.
In the U.S., as established innovation districts like Kendall Square in Cambridge, MA illustrate, two key factors are critical to building and sustaining such life science ecosystems. One is the sustained investments by VCs and institutional investors to construct new facilities and housing, and carry firms through clinical trials. Another is the presence of universities and research resources available to firms in proximity. One can say that both factors are symbiotic in nature, and both vital to allow the birth of startups and further growth of the sector.

（Yuichi Totani, Client Relations Group)

Tax-related Topic for This Month

Regarding the Revision of the Start of Application of the Ratio Equivalent to Taxable Sales Ratio

In the 2021 tax reform, the provision for the application of the ratio equivalent to the taxable sales ratio was revised in favor of taxpayers.

If a taxpayer calculates the creditable tax amount on his/her purchase based on the itemized method, he/she is supposed to calculate expenses incurred both in taxable sales and non-taxable sales according to the "taxable sales ratio."
But if the proportion of taxable sales and non-taxable sales in a certain business year significantly varies from those in usual periods reflecting land transfers that happened to be made in the said business year, the credible amount for taxable purchases will be greatly reduced since non-taxable sales become large if left as is. Since this is extremely disadvantageous to the taxpayer, he/she is allowed to calculate the credible amount using the "ratio equivalent to the taxable sales ratio" instead of the "taxable sales ratio".
However, when a taxpayer transferred land near the end of a certain business year, he/she sometimes could not use the "ratio equivalent to the taxable sales ratio" since approval from the district tax office director was required by the last day of the taxable period in which he/she wanted to use the ratio.
To deal with such a case, if the taxpayer submits an application for approval for the use of the "ratio equivalent to the taxable sales ratio" by the last day of the taxable period, he/she is allowed to use it on the condition that he/she receives approval from the district tax office director by the day when one month has passed after the last day of the taxable period in which the land transfers were made.
This revised provision will be applied from the tax period ending on April 1, 2021.

(Harutomo Yamasaki, Tax Consulting Group)