

NewsLetter



Aoyama
Sogo
Accounting Firm

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Chairman's Column

Approach to green-energy projects

Fortunately, we, Aoyama Sogo Accounting Firm, are receiving inquiries about possible project set-ups from many clients despite the Covid-19 calamity. Based on our policy, in which all the data other than those related to personnel should be disclosed to employees as much as possible, the number of newly received projects and the outline of the projects are announced in a morning assembly, so that groups other than the principals involved in a project can support them.

As of the end of August, 2021, as expected, we received mostly green-energy related projects, particularly mega-solar projects. Projects received using the Feed-in Tariffs (FIT) scheme introduced in 2012 include quite a lot of secondary market transactions.

It is said that green energy investments will shift from those based on the FIT scheme, to be completed during its applicable period of 20 years, to those with a view toward the Feed-in Premium (FIP) scheme to be implemented in 2022. Different from the FIT, the FIP is a system in which subsidies linked to the market price are provided.

We have been engaged in many green energy projects and, as a result, have developed more staff with rich experience. Please feel free to contact us. We quickly gather relevant information also on the FIP and are happy to receive inquiries.

(Kazuhiro Matsuzawa, Representative Director and Chairman)



Renewable Energy Information

Rough estimate of FY2022 budget request announced by the Ministry of the Environment

The Ministry of the Environment announced a rough estimate of the fiscal year 2022 budget request in August 2021. The ministry intends to intensively work to achieve an ambitious 2030 target with implementation of various measures such as a reduction of greenhouse gas emissions by 46% in response to the need of the times, an expansion of the market for circular economy-related businesses to more than 80 trillion yen, securing 30% of land and sea as protected areas ("30 by 30"), and an increase of the export value of decarbonization infrastructure to one trillion yen. Here in this note, I will introduce the matters which seem to be particularly related to renewable energy and look into the contents of some of them.

■ Subsidies for regions shifting to decarbonization and promoting renewable energy -- Request amount: 20 billion yen
Comprehensively support, over multiple years, regional public bodies, etc., actively working on decarbonization

- ① Support regions leading decarbonization
- ② Support regions working on priority measures

■ Projects for converting renewable energy to a main source of power and resilience enhancement in regions utilizing Power Purchase Agreements (PPAs), etc. -- Requested amount: 16.45 billion yen

■ Demonstration projects for optimization of environmental conservation methods to promote the introduction of offshore wind power generation -- Requested amount: 460 million yen

Since it is necessary to promote rationalization and optimization of environmental impact assessments conducted based on the Environmental Impact Assessment Act in order to introduce a large amount of offshore wind power toward the realization of a carbon-free society, the followings will be carried out.

- ① Survey of offshore environment information and provision of it
- ② Demonstration projects for adaptive management of offshore wind power generation

■ Projects for studying measures geothermal power utilization harmonizing with regions, etc. - Requested amount: 300 million yen

■ Projects for promoting sustainable finance -- Requested amount: 300 million yen

■ Projects for promoting regional decarbonization businesses using floating offshore wind power generation -- Request amount: 350 million yen

Study information required to support the early prevalence of floating offshore wind power generation, various surveys necessary for the regions aiming for local production for local consumption of energy by floating offshore wind power generation, and prospects for regional business feasibility and carbon dioxide reduction effects before carrying out the following in order to promote decarbonization businesses.

- ① Surveys and studies to realize the early spread of floating offshore wind power generation
- ② Verification of business feasibility in regions aiming for local production for local consumption of energy, etc.

■ Projects for further utilization of hydrogen derived from renewable energy, etc., to build a carbon-free society -- Requested amount: 7.7 billion yen

■ Projects for developing regional decarbonization business models using tidal power generation -- Requested amount: 650 million yen
Tidal power generation enables stable power supply throughout the year since it uses tidal force. Since, in Japan, there are appropriate tidal areas for tidal power generation in coastal waters such as straits and the Seto inland sea, the creation of business models for commercialization of tidal power generation systems will be targeted after realizing the reduction of power generation costs through improving the efficiency of tidal power generators, developing remote island business models in which tidal energy is combined with other types of renewable energy, and studying the economics of establishing a "tidal firm" with multiple number of tidal current generators installed. (Hirokazu Ando, Executive Manager)

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Real Estate Market Information

Post-Olympic market

I interviewed the following persons engaging the real estate market.

Mr. T: Representative of an independent real estate advisory company

Mr. K: Investment manager of a Japanese real estate company

— Before the Corona-virus pandemic, there was concern about the so-called "2020 problem," in which real estate prices would fall after a peak to mark when the Olympic and Paralympic Games Tokyo 2020 would be held.



Mr. T: The Olympic and Paralympic Games were greatly influenced by the pandemic, and I cannot deny that the games were over before I realized it. As long as global excess liquidity continues to exist, money is still likely to flow into Japan as well as other destinations, and real estate prices are expected to stay in a high range for the foreseeable future unless interest rates rise. Especially logistic facilities and residential buildings are likely to attract funds.

Meanwhile, in some of the districts in Tokyo, newly built residential buildings bought by funds are not easy to lease out due to lower demand. This kind of development may give an impact on portfolio.

— Some demand has disappeared due to a paradigm shift, but, on the other hand, a gradual market recovery is expected on the back of accumulated demand toward the containment of the pandemic.

Mr. K: The current situation is different depending on whether properties are bought and sold or rented. Since Japanese markets are stable, fund inflow from overseas players such as European pension funds is continuing, and cap rates for office buildings, rental housing and logistic facilities are falling, affected by lower interest rates among other factors. Some major companies sold their own buildings, but, by contrast, owners of small and medium-size building are able to raise funds despite the pandemic, giving an impression of their having strong buying needs.

The rental market receives numerous inquiries for logistics facilities while some residential buildings are experiencing a hard time depending on area. It is difficult to anticipate a rise in rental fees since wage have not risen, but I want to expect something good from the recent move toward rising compensation for employees in order to secure high quality personnel.



Office buildings have started to show an improving trend in terms of vacancy rates and rental fees in some areas, but I think that a move to reduce space will continue for some time. With the expected move in the fixed-rent property market and continuous supply until around 2025, it is difficult to predict at which point the market will start a full-fledged recovery, isn't it?

(Shigeru Hirai, Client Relations Group)

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Global Real Estate News

RE100: Push for Green

A look at the EPA (U.S. Environmental Protection Agency) green power partnership list reveals that the biggest Fortune 500 companies are RE100 (100% renewable energy). Among them include Microsoft, Apple, Goldman Sachs, and Citi Bank. As part of a company's sustainability strategy, claims of using electricity generated from renewable sources like solar and wind are more desirable than ever.



<https://www.epa.gov/greenpower/green-power-partnership-national-top-100>

In many cases, since companies can't procure all of their clean energy onsite for their offices and factories, many use power purchase agreements (PPA) or virtual PPAs to obtain renewable energy credits (REC). The basic idea is that the source of electricity becomes indistinguishable once it enters the power grid, so the RECs become proof of their renewable energy consumption.

As much publicized, investor-led divestments of U.S. gas and oil companies and shift to investments in alternative energy companies is adding to the push for more renewable energy. Of course, funding green energy projects, whether directly or through RECs, and shifting to RE100 is just one piece of the puzzle to sustainability.

Real life ramifications of climate change are affecting businesses, with record floods and fires disrupting supply chains and affecting an entire region's infrastructure. And investors are demanding more transparency and comparability in reports regarding climate change risk. Although very preliminary, in a recent statement by the SEC, requirements for more qualitative and quantitative disclosures look to be on the horizon.

(Yuichi Totani, Client Relations Group)



Tax-related Topic for This Month

FY 2022 tax reform

Following the full submission of requests for the next fiscal year's tax reform by ministries and agencies at the end of the August, the Ministry of Finance (MOF) has publicized a list of the requests on its website. The same requests as submitted every year such as Expansion of Profit/loss Offset Scope for Financial Instruments and the improvement of the life insurance premium deduction system stand out in the list, but "Review of withholding tax on dividends paid by wholly-owned subsidiaries" is one of the requests never made before.

Withholding on dividends, etc., has the nature of prepayment of corporate tax of a legal entity that receives dividends, and this prepayment is, as a general rule, offset through the tax filing process of the legal entity. On the other hand, corporate tax is not levied in principle on stock dividends paid by wholly-owned subsidiaries, or affiliates of which more than one third of total number of shares issued are held, due to the application of the Exclusion from Gross Profits of Dividends Received, etc. The fiscal year 2019 audit report prepared by the Board of Audit of Japan confirmed that the amount of income tax deduction for dividends received by a total 1,667 legal entities holding shares of wholly-owned subsidiaries or

affiliates amounted to over 993.4 billion yen in three years from 2017 to 2019.

If the request for the revision of withholding on dividends is accepted and the reform is made, the unreasonable mechanism in which the advance payment of un-levied corporate tax is required will be improved, and the one-time financial burden of corporate groups will be diminished as a result.

The requests submitted to the MOF are discussed by the Tax Research Committee of the ruling parties from around November every year, and the Tax Reform Proposals is released as a final revisionary plan around mid-December. However, sufficient time to fully discuss the requests may not be secured this year due to factors such as the lower house election.

Will the FY 2022 tax reform end up the postponement of the conclusion standing out?

(Yasuhiro Ando,
Tax Consulting Group)

