Aoyama Sogo Accounting Firm Innovation Speed Quality

NewsLetter

Aoyama Sogo Accounting Firm

Vol.07 12/27/2021

Chairman's Column

Bullish Alternatives Market

There's been big news in the PE market.
It was announced that one of the few unicorns in Japan, Paidy will be acquired by Paypal (U.S.) for 300 billion yen.
Unicorns are privately held startups with a valuation over one billion dollars (roughly 125 billion JPY). Paidy will become part of Paypal Holdings at significantly higher than expected purchase price.

In other news, related to our industry, accounting software Yayoi will be acquired by investment firm KKR, from the previous owner of Orix at 240 billion yen. In 2014, Orix had purchased Yayoi for 80 billion yen, tripling its valuation in 7 years.
Aside from company efforts to increase value, Covid-19 likely contributed to this trend. Two years have gone by since Covid-19 was first discovered, and during this time, stock markets have risen globally, and Tokyo apartment complex values rose by 15%.

Funds available for investments are plentiful, yet because bank deposits and bonds continue to have extremely low interest rates, there is demand for higher yields. Besides traditional stocks and bonds, our specialty area of alternative assets like real estate, monetary assets, renewable energy, and PE are gaining tremendous momentum. We hope to continue to support your fund setup from the very beginning.
This ASA News Letter will be the final volume for the year. We truly thank you for your readership and look forward to providing insightful information next year.
Have a great holiday season!

(Kazuhiro Matsuzawa, Representative Director and Chairman)

Renewable Energy Information

Upcoming policy for disposal cost reserve for solar power plants

Starting July 2022, as a general policy, all solar power plants must reserve disposal costs of their facilities to an external agency similar to a withholding.

The reason for requiring disposal costs to be reserved for solar power plants is because there are few barriers to entry to the solar power business, which allows various operators to enter and subsequently change. As such, there was concern that solar panels and other equipment consisting of hazardous chemicals (lead, selenium, etc.) may be abandoned or illegally disposed after operations terminate. Additionally, less than 20% of operators were reserving disposal costs on their own, and the policy is meant to ensure that adequate funds will be available upon actual disposal.

The basic idea is similar to a withholding in that every month, the disposal cost will be deducted from purchase price and will be submitted by the buyer to the external agency to be accumulated. For solar power plants over 10kW, all operating solar panels, including those placed on store and factory rooftops will be subject to this policy. The reserve will begin 10 years before the end of the electricity sales period (procurement period), so for a FIT period of 20 years, the reserve is required to begin in year 11. The reserved amounts can be claimed by providing documents that prove expected disposal costs.

Since SPCs are also subject to this policy, stakeholders should consider the effect on cash flow starting 10 years before the procurement period ends. Similarly, accounting considerations will need to be made, since the disposal of solar panels will take place when likely no electricity sales occur, which may result in a net loss if not appropriately considered ahead of time.

As a side note, to better prepare for natural disasters, fire and earthquake insurance are being bought for new and existing projects.
In the future, if more solar power generators enter the space and insurance premiums are set according to risk, stable operations may possibly benefit from reduced premiums.

In recent years, our client base of renewable energy clients has increased. We will certainly cover any new developments once Japan's Agency for Natural Resources and Energy solidifies its policy.

(Executive Manager, Kenichi Shimizu)

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Real Estate Market Information

Japanese S-REIT's Inbound Investments

In November, Japan's largest homebuilder, Daiwa House Industry had its logistics S-REIT "Daiwa House Logistic Trust" listed on the Singapore Stock Exchange.

Currently, the S-REIT market size (about 9 trillion yen) is second in Asia only to J-REIT, but Singapore's small land size limits domestic investments. Previously, Singaporean S-REITs have invested in Asia's largest real estate market (Japan), but a Japanese S-REIT investing in Japan has never been seen before.
Compared to benefits of a J-REIT, the S-REIT is advantageous in being able to fully distribute depreciation expense, making investments in large rental and small market properties possible. Furthermore, besides investments in Japan, East-Asia and other countries become possible investment destinations as well.

Structure-wise, the S-REIT will use a TMK and GK-TK "double SPC" structure to minimize withholding tax. In fact, many of our globally investing clients who have Asian headquarters in Singapore use the same structure.

According to the press release, Daiwa House Industry will develop properties and aim for synergy with DHLT.
However, S-REITs are similar to J-REITs in that they are considered externally managed funds (property development, management, and ownership are with a separate entity) and a conflict of interest arises between management co./sponsor and REIT/investor concerning sales price and other matters.

The one difference from a J-REIT is that by combining a business trust as the entity for property development and the S-REIT for ownership, a sort of "stapled security" is created to internalize management and reduce conflict of interest. With this, the fund is able to develop property on its own.

While both S-REIT and J-REIT were established based on Australia's LPT (listed property trust) and considered as "sister markets", it is certainly possible that Japanese REITs may emerge in other markets where structures and regulations are similar but have their own nuances.

(Shigeru Hirai, Client Relations Group)

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Global Real Estate News

The Global Landscape of Biomass Energy

The use of biomass as a renewable energy source varies greatly by country. Some of the largest biomass power stations are in the U.K. (Drax), Finland (Alholmens Kraft), and many European nations. Biomass comes in the form of plant and animal waste and wood product. The latter is particularly of note as the global trade market for wood chips and pellets is significant.

U.K. is the biggest importer by volume of wood pellets, and Drax Group operates the largest power station in the country. The Group also said it will double its pellet production by 2030. On the other hand, for the U.S., although biomass as a whole only accounts for less than 5% of the country's power consumption, the nation is one of the biggest producers and exporters of wood pellets.

So is biomass a legitimate renewable energy source? EU is reconsidering sustainability standards for biomass power plants. For European nations, biomass makes up a large portion of renewable energy and a balancing act between supplying energy and meeting carbon emission targets is necessary moving forward.

The transition from coal to biomass is particularly urgent for companies like Drax Group after the U.K. government announced an earlier target year for complete removal of coal by 2024. The group's removal from the S&P Global Clean Energy Index is further evidence that companies are being held to higher sustainability standards than ever, not just in appearance but in substance as well.

Energy insiders acknowledge that although viewed as cleaner than coal, biomass power generation still emits substantial carbon dioxide and view the energy source as transitional.

It's not to say however that there are still investments being made in biomass power stations for countries like Japan (Renova Inc. (7 stations total after completion)). Japan is looking to increase its biomass power generation capacity as part of its renewable energy mix, by converting existing coal power stations to biomass and forming supply partnerships such as with U.S. biomass supply giant, Enviva.

As nations scramble to shift to cleaner fuel sources, it will be interesting to see where biomass will play a factor in the coming years.

(Yuichi Totani, Client Relations Group)

Tax-related Topic for This Month

Bank charges incurred by the seller under the Qualified Invoice Method

The qualified invoice method for consumption tax is planned to begin October 2023. One implication worth mentioning is the bank charge incurred by the seller. Under the civil code, bank charges (fees associated with payments) are to be paid by the buyer, and similarly under procedures of financial institutions, the buyer who requests the fund transfer must bear the expense. However, it is common in actual business practice to remit funds after deducting the bank charge; substantially placing the expense burden on the seller. In this case, under tax and accounting rules, the bank charge is recorded as an expense on the seller side.

Under the upcoming invoice method, there will be additional steps necessary to recognize the expense on the seller side in calculating consumption tax. Under the current method of classifying items for reduced tax rate, transactions less than 30,000 JPY do not require invoices to be retained to be recognized as a deductible purchase. However, when the invoice method takes effect, the general rule will require qualified invoices to be retained.

Broadly speaking, there are two possible ways to properly comply. One way is to treat the bank charge initially as paid by the buyer, and to later send qualified invoices from the bank and reimbursable expense sheet to the seller (for it to properly account for the expense as its own). The second way is for the seller to bill the buyer with a qualified invoice showing a sales price discount for the amount of the bank charge.

In either case, a few extra steps are necessary, and thus advisable for both parties to agree upon a procedure in advance.

(Masafumi Kuwabara, Tax Consulting Group)

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Annual Seminar 2021

＊Limited time – Video on-demand＊

You can view our annual seminar held on November 18, 2021 from the link below.

"Post-Covid investment strategies of prominent global real estate funds"

URL：https://youtu.be/YkRNUnRrDX8
Duration: About 1 hour
Available for viewing: December 27, 2021(Mon) ~ January 21, 2022 (Mon) 6pm

※High-speed and stable internet connection is recommended for optimal viewing.

Caution: This video is a copyright of Aoyama Sogo Accounting Firm. Regardless of payment involved or not, please do not duplicate, have a screening, publicly transmit, relay, transfer, distribute, lease, change, or adapt the video, images, documents, or audio of this video production.

This Month's Notice

ASA Advisory K.K. officially begins services on November 1, 2021

Incorporated in June 2021, ASA Advisory K.K. ("ASA Advisory") has officially begun services on November 1, 2021.
Its two main service lines are ① Advisory for fund setup and ② Support of asset manager and fund GP services. The first service of advisory of fund setup consists of advisory for structuring, various due diligence, cash flow preparation support, and arrangement of stakeholders. We will provide such wide-ranging services to not only our existing clients but to new clients looking to setup a fund for the first time.

The second service of AM and fund GP support includes operational support usually performed by asset managers and fund GPs. Our support services include closing support, ongoing instruction/approval support, and correspondence with lenders which will alleviate our clients with continual human resource insufficiencies and fill temporary gaps in operations during life events.

ASA Advisory will begin our services with these two main lines, however in meeting our client's distinct needs, we certainly hope to expand our services. Please ask about ways we can help you.

(ASA Advisory Director/COO Jun Yoshioka)

Thank you for viewing our newsletter as always.
Please feel free to send us your comments and questions to:
✉newsletter@aoyama.ac

We will see you next year!

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