Aoyama Sogo Accounting Firm Innovation Speed Quality

NewsLetter

Aoyama Sogo Accounting Firm

Vol.08 2/28/2022

Chairman's Column

"Company seal problems" that deter remote work

This three-day weekend was hectic in Tokyo with news of significant snowfall.

Those in snowy regions would scoff at how Tokyo residents are alarmed at such news. However, because Tokyo's transportation system can suddenly come to a halt, it is commendable that train cancellations are planned ahead of time to prevent accidents.

Our firm has also been forced to respond to the fifth declaration of Covid prevention measures by limiting workers in the office (our goal was 30%). In both the covid situation and snowfall, it is crucial for workers to have a solid remote work environment.

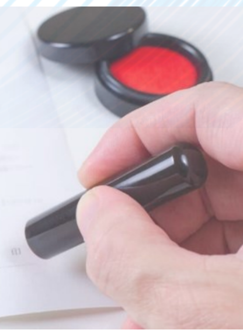
Among the challenges specific to Japan is the problem of company seals.

Our firm manages nearly 1,500 SPCs and because we periodically use SH-GK and TMK stock companies, and incorporate entities on behalf of clients, we are still obliged to be physically present in the office to seal documents.

In digitally progressive nations like Estonia, companies can be established via the internet in one day, a huge difference compared to Japan's process. On the Japanese government's Digital Agency website, there is a page on "Digital transformation of government" which notes that a schedule and relevant KPI will be disclosed.

This is news to us, and we hope these efforts come to fruition as fast as possible.

(Kazuhiro Matsuzawa, Chairman)



Renewable Energy

Will the Nation's first "Solar panel tax" be enacted?

The "Mimasaka business-use solar panel tax" by-law was passed at Mimasaka city's (Okayama prefecture) December meeting. According to the city, the panel tax is outlined as follows:

Tax name/type	Business-use solar panel tax (non-statutory purpose tax)
Applicable businesses	Businesses that install and generate electricity from solar power facilities within the city
Calculated on	Total square meter of panels at solar power facilities
Tax filer	Those that install/operate solar power generation facilities within the city
Tax rate	50 yen per square meter
Taxable period	5 years

The tax will be used to fund policies to create a safe and secure environmental protection plan for disaster response, living conditions, and the natural environment.

The city's reasoning is that solar power generation businesses require the installation of solar panels across wide areas. Obviously the wider the area, the more electricity is generated, which puts strain on the developed land. Residents may notice changes in their living conditions such as new risk resulting from natural disasters, damages from wildlife, and the deterioration of land after operators end their electricity sales.

The JPEA (Japan Photovoltaic Energy Association) has responded by strongly opposing the implementation of the non-statutory purpose tax. They argue that the new tax would result in double taxation for solar power generation businesses that already pay corporate, enterprise, and property tax. Other opposing reasons include the deterrence of fair competition for a renewable energy category that is trying to be independently sustainable, and changes in loan repayment plans that affect the predictability of businesses.

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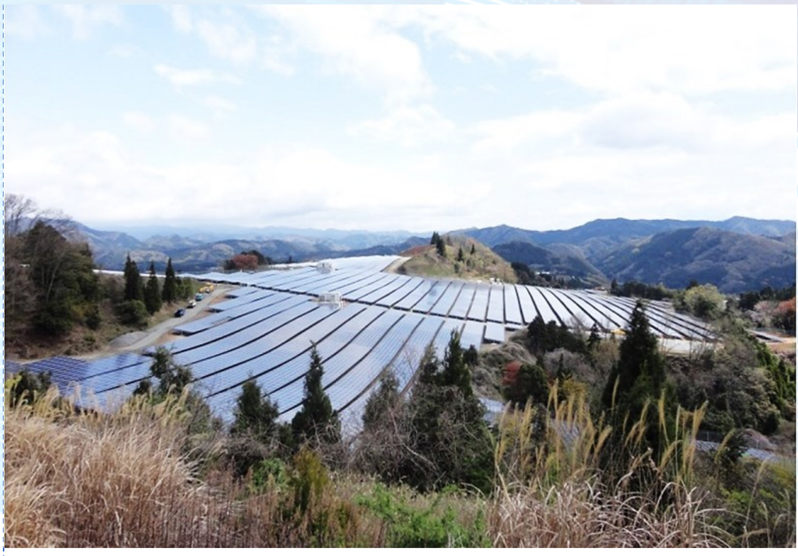
Additionally, estimated calculations reveal that a tax of 50 yen per square meter can result in approximately 2% of revenue from electricity sales.

I believe the investment impact that 2% of electricity revenue has on solar power generation businesses and investors is tremendous. If this tax is in fact accepted at the national level, it is possible that other cities and towns may follow suit. That would put unnecessary strain on solar power generation and would contradict the government policy of carbon neutrality by 2050.

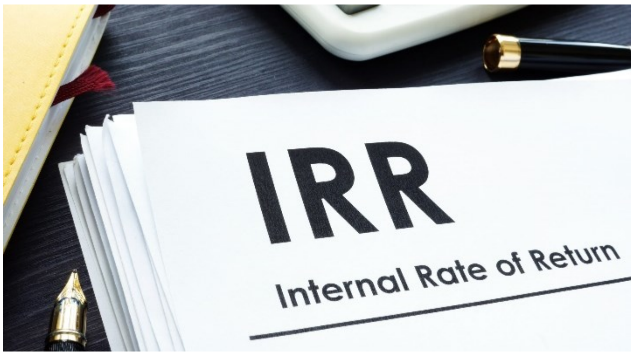
There will certainly be interest in the coming months on whether this non-statutory purpose tax is accepted by the Ministry of Internal Affairs and Communications.

(Hirokazu Ando, ASA Reporting Professional K.K.)



Japan Real Estate

Understanding IRR



During my previous employment at a foreign-based real estate firm, a private fund manager said, "We won't acquire the property because the IRR is below our investment criteria." I asked him how their fund defines IRR. He replied with "we don't have a specific definition."

After viewing their cashflow calculation, I noticed that rent was entered monthly, while the excel IRR formula was applied to the total annual amount. A simplified version is shown below:

Yr. 0	1	2	3	4	5	IRR
-100	40	40	40	40	140	40.0%

However, realistically, cashflow is generated more frequently and simplifying it looks like the chart below (for example purpose, in semi-yearly increments, not monthly)

Yr. 0	0.5	1	1.5	2	2.5	3	3.5	4	4.5	5	IRR
-100	20	20	20	20	20	20	20	20	20	120	44.0%

Of course, a higher IRR is calculated if the periods are made shorter and total reinvestment is larger.

Additionally, because IRR calculation is premised on "reinvesting generated cashflow at IRR," it is often difficult to reinvest cashflow from high yield properties at the same rate. In that case, the modified IRR may be more appropriate for capturing variable rates of reinvestment (example below)

Yr. 0	1	2	3	4	5	MIRR
-100	40	40	40	40	140	31.8%

（Rate of reinvestment＝20%）

Both the XIRR and MIRR Excel formulas enable varying IRR calculations (For XIRR, IRR is calculated based on occurrence date of cashflows).

While I did have this conversation with the fund manager, he went on to revise the cashflow calculation and purchase the property. I'm making assumptions here, but he may have just lowered the terminal cap rate and increased the exit price after all.

(Shigeru Hirai, Client Relations Group)

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Global News

Why Digital Land?

There's not a day that goes by now without hearing the words, crypto, NFT, or metaverse. You can probably add "digital land" to that growing vocabulary of blockchain-based worlds now.

Record sales of digital land were completed in November and December of last year, according to the Wallstreet Journal. Republic Realm is one of those active players acquiring and developing digital land across numerous virtual worlds. Last year the company set a record in paying $4.3 million (490 million yen) for land in the Sandbox, one of the major platforms for digital land.

So why are investors and companies purchasing land in the metaverse?

There's certainly an element of first-mover advantage at play when it comes to securing the most valuable land in the most popular platforms like Sandbox, Decentral and, and Crypto voxels. No one wants to miss out on a gold rush and those willing to take on risk are being rewarded astronomical returns in very short time on the secondary market.

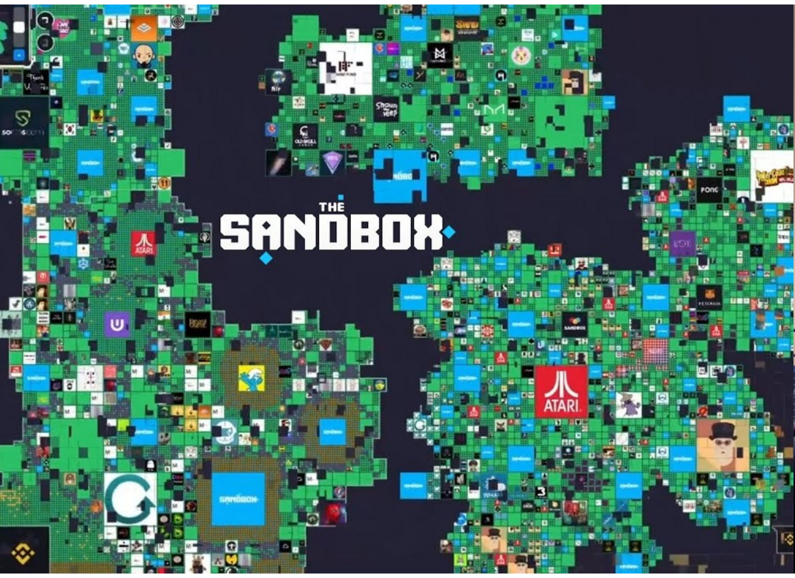
What does one do in the metaverse besides play online games?

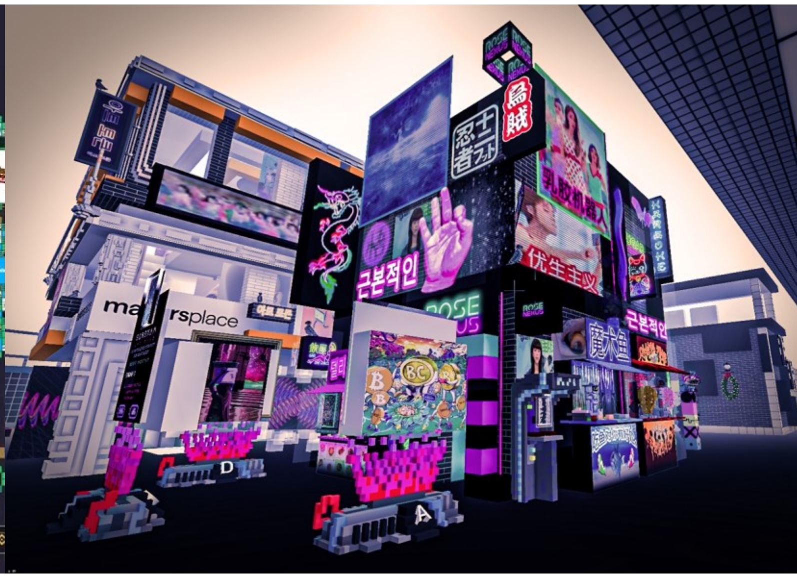
Investors are building out homes, event spaces, and retail shops and placing tenants in them (just like in the real world). Will they be sustainable business models? Only time will tell but the most popular platforms certainly have a growing user base and perhaps higher chance of acquiring customers other than gamers.

Case in point, world-renown U.S. musician Snoop Dogg is building a Sandbox metaverse of his own. The perks of becoming a paid member include exclusive NFT releases and ticket to a future metaverse concert. Perhaps signaling further momentum, last December, an investor purchased land in Snoop Dogg's metaverse for $450,000 (51.7 million yen).

It's still anyone's guess as to how big each platform grows and whether it will enter the mainstream. We will certainly keep a pulse on this emerging new economy.

(Yuichi Totani, Client Relations Group)





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Japan Tax Update

The Future of Stamp Duties

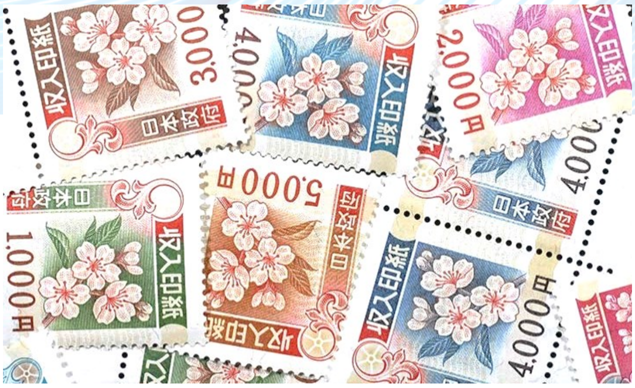
As you may already know, stamp duties are required for transactions involving contracts and receipts in Japan. However, there are views that the regulation is unfair specifically for the increased volume of untaxed electronic transactions and for contracts signed overseas which receive similar treatment.

Regarding the issues above, the Ministry of Economy, Trade, and Industry submitted a request to reconsider the system of stamp duties altogether within the framework of the 2022 tax reform. The three main issues considered were 1) unfair treatment 2) increase in credit card transactions that have not been captured accurately for its economic substance and 3) being significant costs for companies.

The 2022 tax reform outline announced on December 10 did not include the reform for the issues above, however the Japanese government seems to have finally begun to reconsider its system of stamp duties. Whether stamp duties are eliminated altogether or expanded is still uncertain and we will keep an eye out for developments.

However, the reality is that stamp duties amount to about 1 trillion yen of tax revenue (about 2.5% of total Japan tax revenue). Because the nation is struggling with its financial administration, if the stamp duty were to be eliminated, the government would have to replace the lost revenue through other means. Certainly not an easy task. The stamp duty was first introduced in Meiji era year 6 (1873) by emulating Europe's system, and an elimination would end its roughly 150-year history.

(Harutomo Yamasaki, Tax Consulting Group)



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