

NewsLetter



Aoyama
Sogo
Accounting Firm

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Chairman's Column

The declining number of Certified Public Tax Accountant candidates

A while ago, it was speculated that tax accountants were one of the occupations that would be replaced by AI. Although certified public accountants and tax accountants perform highly specialized work within the field of finance, accounting, and bookkeeping, there is still a large portion of work which is routine and likely to be replaced by machines.

That reason may or may not be related but the applicants for public tax accountant certification have declined over the years since its peak in 2005. (See Chart below) In the past 10 years, the number of candidates younger than age 35 that have passed the tax accountant exam have declined by 60%. I feel that fewer young people are entering the field.

Based on my personal observation, if I were to be asked if the industry is sustainable with the current workforce, my answer would be "No". As you are familiar, tax is linked closely to the nation's policies and elections, ultimately affecting citizens' lives. Recent issues like the consumption tax increase and treatment of Covid relief payments are just some of the systematic changes that are difficult to understand without the guidance of a professional.

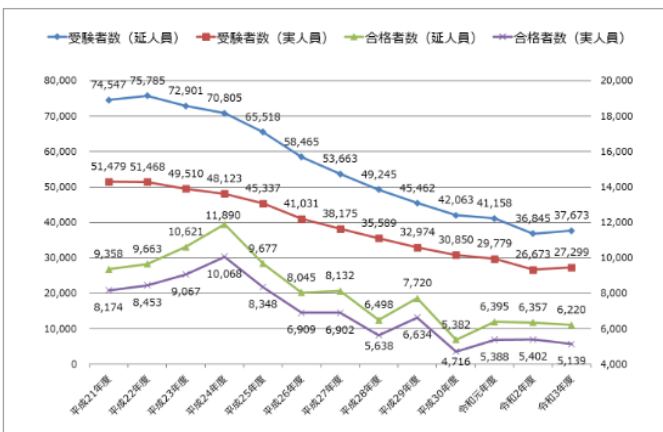


Recently, cross-border business is getting more complex as more Japanese companies expand overseas as well as our specialty of foreign clients entering the Japanese market. We are receiving substantially more inquiries from companies with new business models and for transactions that are not easily categorizable under current statutory interpretations.

Although securing tax accountant candidates is difficult, I doubt that this labor supply shortage is unique to our industry. We definitely need to make our profession more popular so that the industry doesn't slowly collapse. However, recruiting interested candidates is proving difficult as the pool of candidates is small to begin with.

(Kazuhiro Matsuzawa, Chairman)

【令和3年度（第71回）税理士試験の受験者数・合格者数と推移】



2021 (71st) Yearly comparison of total applications and successful applicants

Red = Applications (actual)

Purple = Successful applicants (actual)

Sources

- Takashi Sakamoto (2020) ["Which workers will AI replace? \(2\)"](#)
- Recruit Work Institute "2020 Nation-wide survey of occupations. Thinking about Japan's workstyles" Vol. 3.
- Chart: Directory of Accounting Firms (Online publication of accounting firm and tax accountant news)

NewsLetter



PE Funds

A rise in Private Equity Funds

As mentioned in Vol. 10 of our newsletter, PE fund activity has increased dramatically. Since 2016, the PE fund market has significantly grown both in terms of deal volume and investment amount.

While many investments stalled during Covid, the market continues to expand, and 2022 is on track to set records for deal volume and investment amount. PE fund types include venture capital, buy-outs, and fund-of-funds. Additionally, LPS is often used for PE funds involving real estate and renewable energy structures as well. A wide range of investment methods are being utilized more than ever before.

Companies are fortifying or newly establishing PE fund divisions, adding new players to a growing market. Our firm is receiving more requests for services as well. The number of inquiries received in 2021 were 3.5 times more than in 2020. This year's figures are double that of 2020, as of May.

ASA Group's main services are as follows. (Details [here](#))

- One-stop PE Fund services including vehicle setup and ongoing administration (accounting, tax, seal management, cash management, etc.)
- One-stop SPC administration of LBO structures used for PE funds
- Valuation of investment target
- Tax and accounting support of investment target
- GP administration support

We are also flexible to other client requests.

We hope our firm continues to contribute to the growth of the PE fund market. Please feel free to send us your inquiries.

※ In September 2021, Aoyama Sogo Accounting Firm became a supporting member of the Japan Private Equity Association (<https://jpea.group>).

(Toshihiko Hatta, Executive Manager)





Japan Real Estate

RE100 for the Real Estate Industry



The term “RE100” is often heard these days.

So, what exactly is **RE100**? — It stands for 100% renewable electricity with the goal for companies to procure 100% of their consumed electricity from renewable sources. Participation in this international project is becoming one vital criteria in making ESG investment decisions.

This project initially evolved from research of the Rockefeller Brothers Fund, and officially began in 2014 under the international NGO “Climate Group” which has headquarters in the U.K. Currently, Apple, General Motors, Goldman Sachs, Google, Meta, Microsoft, and UBS are among the largely U.S. and European companies that constitute 372 members.

In the Japanese real estate market, “onsite PPA (power purchase agreement)” is becoming a popular method to achieve RE100. The electricity producers are provided with space within the consumer’s facilities, and setup, operate, and provide repairs and maintenance. The consumer will then purchase electricity generated there.

Onsite PPAs have the following merits including:

- ① Fixed electricity charge based on a long-term contract
- ② Exemption from renewable energy tax
- ③ No investments are needed by the consumer since the electricity producer is the owner of the facilities
- ④ At the end of the contract term, ownership rights to the facility will be transferred free of cost. The consumer will no longer have to pay the electricity producer.

Major real estate industry companies like Tokyo Tatemono, Mitsubishi Estate, Tokyo Land Corporation, and Hulic are using onsite PPAs.

When electricity demand is large, “offsite PPA” is also an option. which sets up an electricity generation facility off the consumer’s property and subsequently sends electricity through a power grid to the consumer site. “Self-generated and delivered” which uses the facilities of an electricity company is another option.

The advantages of onsite PPAs are particularly felt under recent price hikes in fossil fuel, and ultimately higher electricity charges. Additionally, the goal of RE100 is another incentive that is getting more companies to consider implementation.

(Shigeru Hirai, Client Relations Group)

NewsLetter



Startups In Japan

Foodtech — Alternative meat and Comprehensive nutrition foods

Almost every day now, we hear of existing businesses that harness new technology to provide services. In finance, it's "Fintech" and in real estate it's "PropTech". In recent years, "Foodtech" businesses are gaining attention.

Amidst the backdrop of SDGs and the need to reduce food loss, a shift from mass production and mass consumption to more sustainable models are being demanded. As a result, many domestic and global foodtech startups are being born. Among them is NASDAQ-listed "Beyond Meat", which develops alternative meat produced from plant-based protein found in soybeans and peas. Fast food giant McDonalds is jointly developing an alternative meat burger.

Also in the U.S., food-tech company "Impossible Foods" provides alternative meat to Burger King and Walmart and is considered a unicorn with over 2 billion dollars in venture capital raised. In Japan as well, various foodtech companies are developing and producing cultured meats and circular foods like crickets.

Among these Japanese foodtech startups, I would like to talk about **Base Food, Inc.** which states its mission as "Innovating staple foods, Making health easy". The company develops and sells comprehensive nutrition food products. Recently, you may have seen "BASE Bread" and "BASE Cookies" at convenience stores like Family Mart. As the name suggests, they are just that, bread and cookies. Allured by their slogan of comprehensive nutrition, I tried the BASE Bread and found it to be quite good. There are plenty of flavors including plain, chocolate, maple, and cinnamon that keep consumers coming back for more.



The founder is an ex-DeNA employee that wondered whether we could become healthy by just eating staple foods and first began developing pasta. In February 2017, the company's first comprehensive nutrition meal, "BASE Pasta" began selling to consumers, followed by other products like BASE Bread.

Since the company began, fund-raising rounds include 1 million JPY received in October 2016 as support purchases through crowdfunding platform Makuake before their official launch of BASE Pasta. Subsequent funding includes October 2017 VC of 100 million JPY and May 2019 VC and individual investor funds of 400 million JPY.

In February of this year, the company raised 2 billion JPY of which 1 billion JPY was through private placement to THE FUND which is a 20 billion JPY closed fund consisting of Mizuho Capital, Mizuho Bank, and Signifiant Inc. that assists startups. The remaining 1 billion JPY came through loan agreements with MUFG Bank, Shoko Chukin Bank, Resona Bank, and Sumitomo Mitsui Banking Corporation. THE FUND takes a hands-on approach in assisting later stage startups and may eventually take Base Food public.

With future developments expected from the company, it will be interesting to see how the company evolves.

(Jun Yoshioka, COO, ASA Advisory)

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Japan Tax Update

Corporate and Consumption tax treatment under the Revenue Recognition principle

Effective since April 1, 2021, companies requiring statutory audit are subject to the "Accounting standard for revenue recognition".

After the inclusion of a performance obligation requirement in recognizing revenue under accounting standards, the corporate tax law has issued corresponding reforms and guidance on treatment. However, depending on the transaction, the revenue recognized under accounting standards and corporate tax calculation may be equal, however compensation recognized in the transfer of the taxable asset may differ under consumption tax.

The example below illustrates a construction contract that consists of a construction receivable due in over one year and has a "significant financial component". (※1)

※1 When an accounts receivable has a significant financial component and compensation to be recognized varies depending on payment period, the portion that corresponds to the variable compensation will be deemed to have an interest adjustment quality and thus recognized as a "significant financial component". For consumption tax purposes, the compensation at the time of transfer of the taxable asset will be subject to tax and thus no "significant financial component" is recognized.

(Satoshi Gondaira, Certified Public Tax Accountant)

Example) Based on contract terms, the construction company will be paid 10,000 JPY two years after completion/transfer of the constructed property. The assumption is that if paid at the time of transfer, 8,977 JPY will be compensation recorded (assuming 5% interest rate adjustment for compensation). Compensation amount excludes tax and subject to 10% consumption tax.

① Treatment for construction company at the time of completion/transfer

Accounting		Corporate Tax	Consumption tax	
Accounts receivable *1	9,977 / Sales 8,977	Same as Accounting	Compensation paid on taxable sales	10,000
	/ Consumption tax payable 1,000		Consumption tax on taxable sales	1,000
*1 $11,000 \div (1 + 1.05)^2 = 9,977$				

② Treatment for construction company one year later

Accounting		Corporate tax	Consumption tax	
Accounts receivable *2	499 / Interest received 499	Same as Accounting	None	
*2 $9,977 \times 0.05 = 499$				

③ Treatment for construction company when receiving payment

Accounting		Corporate tax	Consumption tax	
Accounts receivable	524 / Interest received 524	Same as Accounting	None	
Cash	11,000 / Accounts receivable 11,000			
*3 $11,000 - (9,977 + 499) = 524$				