Aoyama Sogo Accounting Firm Innovation Speed Quality

NewsLetter

Aoyama Sogo Accounting Firm
Vol.15 9/30/2022

Chairman's Column

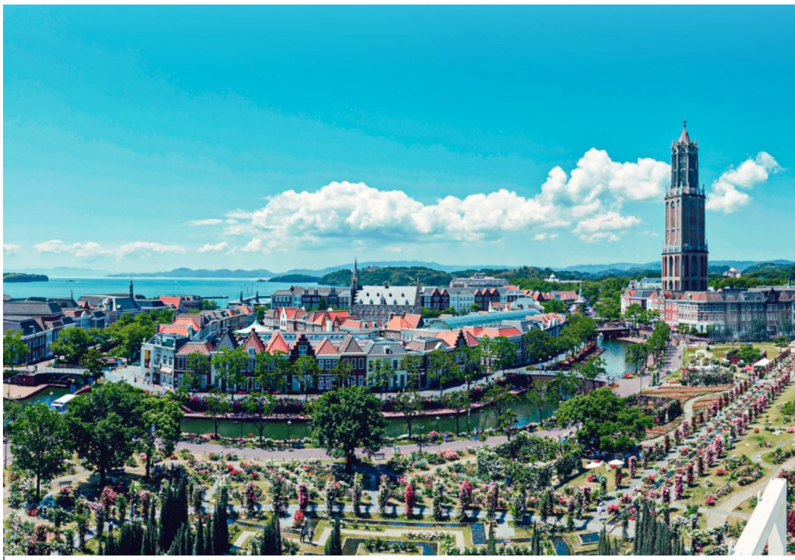
Why are companies reducing capital?

I was surprised at the recent report that HIS which owns the majority shares of Nagasaki Huis Ten Bosch will sell the theme park to a Hong Kong real estate fund. HIS will also reduce their capital from 24.7 billion yen to 100 million yen.

It seems that many companies are recently undergoing capital reduction. According to Tokyo Shoko Research, for the period ending March 31, 2021, a total of 3,321 companies reduced capital, an increase of 873 companies (35.6% increase) compared to the previous year.

Publicly listed companies are no exception. Rotating sushi chain Kappa Create and smartphone game developer Gree also reduced capital to 100 million yen. You may think this is unusual, but this change is reasonable under regulation, and neither an illegal act nor tax evasion.

The advantage is that a company with capital of 100 million yen or under is treated as a small or medium-sized enterprise under tax law. Enterprise tax (local tax) has a size-based portion, typically a fixed payable amount. This will become exempt at the reduced capital amount. For Tokyo, any amount exceeding 100 million yen will be taxed at the capital basis rate of 0.525%. For HIS, reducing their prior capital amount of 24.7 billion yen would result in tax savings of 130 million yen. Their industry was particularly hit hard by Covid, so the financial impact is significant even for large corporations.



Huis Ten Bosch in Nagasaki prefecture

For non-listed companies, the capital amount signifies company size and bigger is generally favorable for employees that may apply for mortgages or credit cards. But with substantial uncertainty looming for many companies, it seems that such benefits are not a priority at the moment.

As of this day of writing this, the dollar is trading at over 143 yen and procurement costs for goods are rising across the board. It is said that companies are reducing capital because of their decrease in profitability. For SMEs in particular, it seems that capital reduction is a necessary decision to cut fixed costs in this time of future uncertainty.

(Kazuhiro Matsuzawa, Chairman)

Renewable Energy

Annual Energy Report for fiscal year 2021 (Energy White Paper 2022)

In June 2022, the Ministry of Energy released the Energy White Paper 2022 which is an annual report of the basic act on energy policy. The report is comprised of three parts. The 2022 report includes Part 1 “Current Energy Situation and Key Measures”, Part 2 “Energy Trends”, and Part 3 “Measures Taken in FY2021 concerning Energy Supply and Demand”.

The white paper discusses the progress of the Fukushima reconstruction, challenges and responses toward achieving carbon neutrality, and impact of Covid and the Russian/Ukrainian conflict on energy supply and prices.

In terms of finance and tax and accounting, the topics covered include global decarbonization, increasing ESG investments, and demand for more disclosures related to climate change. In Japan, listed companies on the Tokyo Stock Exchange’s Prime Market are being asked to provide disclosures based on TCFD and other global frameworks. On a global scale, the ISSB (International Sustainability Standards Board) was established in November 2021 by the IFRS Foundation, with the possibility of developing international standards for ESG disclosures by the end of 2022.

With regards to our firm, 20% of our clients are in solar, biomass, wind, and other renewable energy that requires SPC administration. We know firsthand that ESG investments are growing in Japan. Not only are TCFD related disclosures picking up among publicly listed companies but any developments with the ISSB may trigger sustainability disclosure requirements for non-listed companies as well. There may certainly be an affect on funds as well, so we are keeping a close ear on any developments.

The white paper also states the tax incentive extension of “Special measure for property tax on renewable energy facilities” until March 31, 2024. The extension also applies to the “Reduced property tax for biomass generation facilities” until March 31, 2024.

At ASA Group, we provide consulting for sustainability disclosures and support application for tax incentives for renewable energy facilities. Please reach out to us to discuss ways we can help.

(Kenichi Shimizu, Executive Manager)

Aoyama Sogo Accounting Firm Innovation Speed Quality

NewsLetter

Vol.15 9/30/2022

Aoyama Sogo Accounting Firm

Real Estate STO

Growing STO market in Japan

Recently in the world of real estate, use of the STO (security token offering) as a fund-raising option seems to be gaining popularity. Last month, Kenedix raised a Japanese record of 7 billion yen for its real estate STO, which is large even by global standards.

The U.S. is the most active STO market with numerous ST issuance platform companies. Switzerland and England are among the European nations that have STO exchanges as well. Japan currently is growing their market with new regulations and companies adopting this new method.

The first real estate STO in Japan is said to be the "Fund for renovating old residence to hotel in Hayama" (15 million yen raised). At that time, a TK method under the Act on Specified Joint Real Estate Ventures was used, however no bankruptcy remoteness was secured. Additionally, the ST transfer was not sufficient in securing the right from protection from third party claims. Consequently, the structure limited raising large capital and was akin to crowdfunding.

In 2020, the "electronic record transfer right" was included in the financial instruments exchange law which would include STs. Additionally, those issuing an STO will comply with the rules prescribed by the Japan Security Token Offering Association so that investors would be protected. Most recently, to protect the right against third party claims in the ST transfer, a Japanese Depositary Receipt (beneficiary certificate for entrusted securities) is being used more often.

Generally, an STO has the following characteristics:

① Tradeable 24hrs
② Same day settlement is possible
③ Highly secure transaction based on blockchain
④ Simplified procedures
⑤ Low transaction cost
⑥ Low small-lot cost
⑦ Fund-raising from global investors is possible.

Currently, there are no markets in Japan to trade STs. However, SBI Holdings and Sumitomo Mitsui Financial Group are among those jointly investing in "Osaka Digital Exchange Co." which will operate a proprietary trading system where secondary trading is planned to begin. With news like this, the STO market is expected to grow in Japan.

(Shigeru Hirai, Client Relations Group)

ODX
Osaka Digital Exchange Co.,Ltd.
SBI Holdings SMFG SUMITOMO MITSUI FINANCIAL GROUP

NewsLetter

Aoyama Sogo Accounting Firm
Vol.15 9/30/2022

New trends

Reskilling – Building a digital workforce from the inside

The term "reskilling" has been the buzz recently in various media outlets. "Recurrent learning" draws parallels to reskilling, however there are a few clear differences. "Reskilling" typically involves companies that encourage employees to learn a new work skill while "recurrent learning" can mean changing companies to proactively acquire a new skill through "Work → Learn → Work". Until recently in Japan, more emphasis was placed on learning English and obtaining industry specific licenses, so why are more companies focusing now on "reskilling" employees?

One reason is that it's become difficult to secure new talent from the outside. Particularly now that digital transformation is unavoidable for companies, the competition is fierce for digitally native experienced hires. For companies that plan a new line of business that includes digital transformation, but lacking the talent that possess such skills, they may not be able to build their business at all.

If the company lacks digital talent, they may use an external consultant, but fees are typically high and deliverables may end up being useless in their business. However, companies no longer have time to agonize over their inability to recruit or retain talent inhouse or have it done by an external consultant. That is where "reskilling" becomes key.

To keep up with a changing business environment, companies that lack new talent no longer have the luxury of waiting for their employees to pick up skills on their own. They seem to be investing more in employee education. In Japan, companies that are expanding their DX-related businesses like NEC and Fujitsu seem to be leading the way for reskilling.

Funds and real estate businesses that we are a part of, may also be feeling the pressure with the possibility of new entrants who may change the game entirely. For companies in many industries, this "reskilling" may be a crucial part of surviving a rapidly changing new age.

(Jun Yoshioka, COO, ASA Advisory)

Aoyama Sogo Accounting Firm Innovation Speed Quality

NewsLetter

Aoyama Sogo Accounting Firm

Vol.15 9/30/2022

Japan Tax Update

Transition period for Tax-exempt businesses to register as Qualified Invoice Issuer

With the 2021 tax reform, tax-exempt businesses now have more flexibility on when they can register as a Qualified Invoice Issuer.

Initially the regulation stated that for subsequent periods after the tax period of October 1, 2023, a “Notification to elect taxpayer status” needed to be submitted at latest in the prior year to issuance of qualified invoices.

Under the reform, tax-exempt businesses may choose to register as Qualified Invoice Issuer on any day in a tax period from October 1, 2023, to September 30, 2029.

(Harutomo Yamasaki, Tax Consulting Group)

(Source: Translated from National Tax Agency website)

Before reform

(1) If the registration date falls in the tax period of October 1, 2023 (if the transition period measure is used)

Example) For a company with a fiscal year end of December 31, and registers October 1, 2023.

※ In this case, a "notification to elect for taxpayer status" is unnecessary.
After the registration date, all taxpayers will be required to file a consumption tax return.

Period of December	Period of December 2023		Period of December
	Deadline for registration application (March 31, 2023)(※1) Registration date (October 1, 2023)	Filing required after registration date	
Tax - Exempt business	Tax - Exempt business	Qualified Invoice Issuer (Taxpayer status)	Qualified Invoice Issuer (Taxpayer status)

(※1) If submission is difficult by March 31, 2023, then by September 30, 2023.

(2) If the registration date falls on a subsquent period after the tax period of October 1, 2023.

(Example) For a company with FYE December 31 and registers on or after January 1, 2024 after becoming a taxpayer

※ In this case, a "notification to elect taxpayer status" is submitted and the registration application is required by one month prior to the first day as a taxpayer.

Period of December	Period of December 2023	Period of December
	Deadline for registration application (November 30, 2023)	Registration date
Tax - Exempt business	Tax - Exempt business	Qualified Invoice Issuer (Taxpayer status)

Aoyama Sogo Accounting Firm Innovation Speed Quality

NewsLetter

Aoyama Sogo Accounting Firm

Vol.15 9/30/2022

Japan Tax Update

(continued from previous page)

After Reform
Registration procedures for tax-exempt businesses

> If registered during the period from October 1, 2023 to September 30, 2029, the business may automatically become a taxpayer (transition period measuere)

○ To register, a registration appliation is sent.
※ In this case, a "notification to elect taxpayer status" is unnecessary.

(Example) If a sole proprietor or company with FYE December 31 is registered from October 1, 2023.

Period of December	Period of December 2023		Period of December
	Deadline for registration application (March 31, 2023)	Registration date (October 1, 2023) After	
Tax - Exempt business	Tax - Exempt business	Qualified Invoice Issuer (Taxpayer status)	Qualified Invoice Issuer (Taxpayer status)

Please note the following:
○ If you become a Qualified Invoice Issuer
→ Barring a cancellation of registration, a tax return filing is necesssary even with less than 10 million yen in the base period,

→ If the counterparty (taxpayer) requests a qualified invoice, the party must oblige.

○ If the transition period measure is used, the business will remain in taxpayer status until the end of the 2nd tax period from the day of registration (excludes registration day that lands in the tax period of October 1, 2023).
Even if registration is made invalid by submitting a "notifcation to cancel registration as a qualified invoice issuer", regardless of taxable sales, a consumption tax filing will be required.