



Chairman's Column

Setting sail for the New Year in Fukuoka City

This is the first newsletter of 2023. We hope that everyone is having a great start to the year. Besides our office in Toranomon Tokyo, we have one in Fukuoka as well. During our visit around New Years Day, our executives went to the local Kushida shrine to offer our prayers.

The Fukuoka office is in Tenjin where a large-scale office is being built near the Nishitetsu Department as part of Tenjin Big Bang.

Fukuoka City is known as the gateway to the Kyushu region. Although Chinese tourists have not yet returned in full, there are more Korean visitors who can be heard speaking Hangul in the downtown areas and hotels. Additionally, I've heard that Kumamoto City, known to have the highest growth in land price is bustling with energy with the planned 1 trillion-yen development of the TSMC factory. There may be a ripple effect into Fukuoka as well.

Our firm is keeping a pulse on the condition of the real estate market as well. In April, the governor of the Bank of Japan will change to economist Ueda. It is said that the successor to Governor Kuroda will likely uphold the unprecedented easing of the monetary policy and likely no major market changes will occur.



First of Tenjin's (Fukuoka) Big Bang Project – Ship's Garden

At the beginning of the year, it was widely said that a recession is upon us. However, such concerns seem to be fading at the moment, and the current outlook seems less pessimistic.

On the contrary, U.S. and China friction continues with the national security issue of the balloon, economic friction, and decoupling. Although unlikely, there remains concern over the state of Taiwan, since the unexpected Ukrainian-Russian war has happened. Its unnerving that such geopolitical risks seem to be heightening.

As for ASA in 2023, we will push forward with DX to meet the hopes of our clients and to stay committed to our principles of ISQ (Innovation, speed, quality). Please stay tuned.

by Kazuhiro Matsuzawa, Chairman



Financial Assets

Overseas investment restrictions on Limited Partnerships

With private equity and venture capital showing momentum in recent years, one of the primary vehicles used in these investments is the limited partnership.

Made effective in 1998, the LPS is regulated under the SME Limited Partnership Act for Investment (renamed the Limited Partnership Act for Investment in 2004. “LPS Act” for short) and related law. Under law, more than 50% of total investment must be made in Japan. For this reason, when a fund wants to invest overseas, it must invest more in Japan than the overseas investment, or must use an entirely different vehicle (e.g. Cayman LP).

To ease restrictions and promote overseas investments, the Act on Strengthening Industrial Competitiveness was reformed in part in August 2021. The special provision allows overseas investments in excess of the general rule by meeting certain conditions and with special approval by the Minister of Economy, Trade, and Industry. The following are the conditions.

- ① Fund-related condition
- ② Open innovation condition
- ③ Hands-on condition
- ④ Investment purpose condition



However, the reality is that the special provision proves difficult to use since there are numerous requirements, including initial approval at fund inception, followed by confirmation for each individual investment made, and reporting upon investment completion. Viewing the website of METI, there is only one company listed.

There has been news of the government potentially removing such restrictions for overseas investments. With restrictions easing, it should heighten interest for outward investments. This may affect vehicle selection and investor type and possibly bring in a new wave of investments.

by Kota Toba, Executive Manager



Japan Real Estate

A snowy day's memory



Recently, there's been significant snowfall in various regions of Japan. When I see snow, it reminds me of the scene from a business trip I took to Hokkaido 16 years ago.

At the time, I had just changed jobs from a financial institution to a global real estate firm. Suddenly, without knowing what to expect, my New Zealand colleague said, "Come with me to Hokkaido tomorrow for a client meeting."

After being swayed in the bus ride from New Chitose Airport, we arrived at a desolate ski resort where we were greeted by Mr. R, an Australian lawyer decked out in ski wear. After a few words of greeting, he hopped on a snowmobile and said, "Let's go!". John had quickly changed into ski wear himself, leaving just me in a suit, while he quickly rode off with Mr. R.

Determined not to be left behind, I got on a snowmobile for the first time in my life and followed them full throttle in a suit no less (I'm sure it looked ridiculous). Like a snapshot, I have a vivid memory being out on that offseason golf course, streetlamps poking out and illuminating the powder snow several meters high.

Riding in my suit and gripping the handles, my bare hands were nearly about to fall off from the cold. I would have had frost bite if not for Mr. R lending me his gloves (I thank Mr. R for this).

After viewing most of the property, we went back to the office where Mr. R's wife joined us for a meeting. It was then that I learned of the following details:

- ① They had purchased the distressed ski resort from a big Japanese corporation at a big discount.
- ② They wanted to develop it into an internationally-known destination ski resort like Whistler, Canada.
- ③ They needed significant financing.

We were basically called upon for reason ③.

In the plane ride back, John said, "The wife is actually the chairman of (blank) airline." It made sense since earlier she said, "We'll take advantage of the difference in seasons to bring in skiers from the southern hemisphere."

After several years, the property was let go to an Asian investor who saw the potential in the land. The property was sold at several times its purchase price. I haven't gone back since but have heard that the property is on its way to becoming a luxury ski resort like they had once so enthusiastically talked about. It really makes me reminisce about that time.

by Shigeru Hirai, Client Relations Group



New Trends

Small-lot products based on Specified Joint Real Estate Ventures Act

The number of operators registered under the Specified Joint Real Estate Ventures Act (specified joint RE Act) is rising every year. The Ministry of Land, Infrastructure, Transport and Tourism reported as of January 31, 2023, that there were 234 specified joint RE businesses.

Due to reasons such as transfer tax, our institutional investor base often securitizes property and acquires the trust beneficiary interests by using GK-TK and TMK structures. Cases where the institutional investor acquires physical property based on the specified joint RE Act is limited to situations where compliance issues prohibit the use of trust beneficiary interests.

Meanwhile, the market for individual investors of small-lot products is quite different. There are numerous small-lot products involving specified joint RE structures, debt crowdfunding, and the security token getting attention in recent years. Of these, small-lot products issued under the specified joint RE Act make up a significant portion. It's not unusual in debt crowdfunding that a specified joint RE product offering of several hundred million yen be completed in a matter of minutes.

For small-lot specified joint RE products for individuals, there is ① Nini Kumiai (voluntary partnership) and ② Tokumei Kumiai (silent partnership) with the following characteristics.

① Nini Kumiai

Capital is paid towards the Nini Kumiai. Multiple individual investors acquire ownership according to their contribution amount. The partnership is managed by the specified joint RE operator and individual investors receive profit according to their ownership share. The individual investor is deemed to have shared ownership in the property and thus the income is



treated as real estate income. In addition, under inheritance tax law, the ownership is treated as real estate as well, so the structure is used for gift tax and inheritance tax planning as well.

② Tokumei Kumiai

It is rare to see a Type 3 business under the specified joint RE Act use a Tokumei Kumiai to set up a specified joint RE small-lot product. Currently, in most cases of crowd-funded small-lot specified joint RE products, the Type 1 operator receives TK investments from individual investors onto his own balance sheet in acquiring/managing the property. The individual investor receives profit distribution according to their percentage of total TK investment, and subject to 20.42% as income tax withholding. For income tax filing, the income is treated as miscellaneous income. The majority of products have an investment period between 6 to 18 months and thus regarded as a pure investment product.

When considering an investment, it is important to understand the characteristics of Nini Kumiai and Tokumei Kumiai. Additionally, since the investment will be in individual properties, it's not just important to look at yields, but to evaluate the actual property as well as the expertise of the specified joint RE operator (Knowing their strength in area and property type) accordingly.

by Jun Yoshioka, ASA Advisory



Japan Tax Update

Comparing the Group Tax Relief System and Consolidated Group Tax System

For fiscal years that begin on April 1, 2022 and after, the consolidated group tax system will be replaced by the group tax relief system. For a consolidated entity that reports under consolidated group tax, no notifications are necessary to report under the group tax relief system for fiscal years that begin after April 1, 2022. The transition to the group tax relief system will mean that both the parent and subsidiary will be required to e-file corporate tax. While some burden will be lifted since group firm amendments will no longer affect other group firm tax calculations. The following summarizes the major changes from the consolidated group tax system.

by Satoshi Gondaira, Corporate Advisory and Global Tax Advisory Group

	Consolidated group tax system	Group tax relief system
① Filing/paying entity	<ul style="list-style-type: none"> Consolidated parent company files on behalf of the consolidated group (e-filing requirement) Consolidated parent company pays and settles the amount with each group entity 	<ul style="list-style-type: none"> Group tax parent and group tax subsidiary file separately (e-filing requirement) Group tax parent and group tax subsidiary pay tax separately
② Fiscal year for tax	<ul style="list-style-type: none"> All entities report with parent entity's fiscal year 	<ul style="list-style-type: none"> All entities report with parent entity's fiscal year
③ Fair value at start/registration	<ul style="list-style-type: none"> The parent entity is not reported at fair value. The subsidiary (excluding specified consolidated subsidiaries) is reported at fair value. ※ includes subsidiary that is fully controlled by consolidated parent entity from at least 5 years ago, and subsidiary that is fully controlled by a group entity that has been fully controlled by a consolidated parent entity continuously for at least 5 years. 	<ul style="list-style-type: none"> If the reorganization tax system conditions are not met for either parent or subsidiary, the fair value is used.
④ NOL carryforward treatment at start/registration	<ul style="list-style-type: none"> The parent entity's pre-consolidation NOL can be used as unspecified consolidation NOL for the group. Excluding specified consolidated subsidiaries, the NOL of subsidiaries will be unavailable for use. 	<ul style="list-style-type: none"> For parent and subsidiaries, the same conditions under the reorganization tax system and use limitations apply, and NOL that does not satisfy such conditions will be unavailable. However, for parent entity NOL carried forward from consolidated group tax is regarded as non-specified NOL and available for the group.
⑤ Adjustment on cost of investment	<ul style="list-style-type: none"> Adjustment made 	<ul style="list-style-type: none"> Adjustment made <p>The cost of investment is equal to the withdrawn entity's net assets (changed from consolidated group tax system) However, under the 2022 tax reform, a special measure allows any purchase premium to be included in the cost.</p>
⑥ Withdrawal	<ul style="list-style-type: none"> If withdrawn, re-registration is accepted after 5 years The withdrawn entity's assets are removed at their book value. 	<ul style="list-style-type: none"> If withdrawn, re-registration is accepted after 5 years If the withdrawn entity is not expected to continue their primary business, the gain/loss from fair value adjustment of the asset is recorded.
⑦ Determination of small and medium-sized entity	<ul style="list-style-type: none"> Determined by capital amount of consolidated parent entity 	<ul style="list-style-type: none"> If no entities within the tax relief group qualify as small and medium-size entities, it is determined that all entities within the group are not small and medium-sized entities.
⑧ Tax rate	<ul style="list-style-type: none"> Applicable rate is the one used for the parent Reduced rate for SMEs is available only up to taxable income 8 million JPY for the group 	<ul style="list-style-type: none"> Effective tax rates are separate for each entity Reduced rate for SMEs is available only up to taxable income 8 million JPY for the group (prorated according to percentage of total taxable income of income-producing entities)
⑨ Amendments	<p>For amendments made on a group entity, the taxable income and corporate tax calculation of other group entities will be adjusted accordingly.</p>	<p>In general, for amendments made on a group entity, the taxable income and corporate tax calculation of other group entities will not be adjusted (any effects are blocked).</p>