Aoyama Sogo Accounting Firm Innovation Speed Quality

NewsLetter

Aoyama Sogo Accounting Firm

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Chairman's Column

Data-driven management – The future of our firm

We often hear the term data-driven management. It means making managerial decisions based not on one's intuition or experience but rather by gathering and analyzing data to run an organization.

After years of managing a company, intuition and experience are important, but recently we feel that it's vital to communicate to staff on why certain work is done and where the future is headed. As an accounting firm, our clients also have similar expectations. To put it simply, information is key.

Since we primarily provide SPC administration, we have begun creating a structure for delivering quantitative information to our clients, which may include market conditions and trends for assets under management.

For real estate firms, AUM (assets under management) may be one KPI, but as an administrator, our firm has AUA (Assets Under Administration). Since we have many private clients, our AUA data can be gathered and analyzed, so that a map of sorts for the private real estate market can be made. Most recently, data on property types as well as geographic spread has become available. Year-over-year comparisons can yield broader market tendencies as well. For example, our most recent statistic shows that during Covid, residential deals actually grew by 4%, led by foreign investors.

Meanwhile, the share of hotels was expected to drop sharply due to travel restrictions but remained stable at just a 1% decrease. It shows that even during Covid, most hotels were not sold in a fire sale. Other data shows that residential locations were 60% concentrated in Tokyo alone.

Moving forward, we will be adding data chronologically and provide more trend analysis. Although we won't be able to answer questions on individual deals, we do think that broader trends can be noticed and possibly having a database for case studies of past problems may be useful.

We will continue to make updates to build an effective system. For our clients, we can provide more details on an individual basis.

by Kazuhiro Matsuzawa, Chairman

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Financial Assets

Financial News – Turmoil of U.S. Banks

As seen in the news, on March 10, 2023, the U.S.'s Silicon Valley Bank (SVB) declared bankruptcy. Perhaps not as widely known, the bank was the 16th largest in the U.S. with total assets of 209 billion dollars. In Japan, a financial institution equivalent in size would be Fukuoka Financial Group. Quite significant news when put into perspective.

SVB was actively making loans to startups and venture capital and growing their cash balance rapidly. All seemed well. But then, as interest rates began to rise in 2022 and startups found trouble fund-raising amidst rising capital costs, they began closing their bank accounts and withdrawing their money. In response, SVB sold investment assets with unrealized losses on March 8 that resulted in massive losses. On March 9, even with new capital injection announced, account closures were accelerating, and stock price plummeted 60%. On March 10, the stock continued to fall, and the company was deemed insolvent and became bankrupt. It only took three days until bankruptcy.

Initially, the deposit insurance amount was 250,000 dollars per account. And while the world focuses on future news and impact it might have on other financial institutions, on March 12, 2023, Signature Bank, the 29th largest U.S. bank with 110 billion dollars in total assets has gone bankrupt as well. The reasons for failure seem similar to that of SVB.

Amidst the turmoil, the U.S. Treasury, Federal Reserve, and the Federal Deposit Insurance Corp. announced that it will insure the entirety of account balances, to stave off any domino effect.

As we pay close attention to future developments, we are praying that another Lehman Brothers fallout doesn't reoccur.

by Toshihiko Hatta, Executive Manager

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Japan Real Estate

Investing in Forests

Picture source: Nuveen

In recent years, as ESG investments have gained momentum, so have timberland investments. Though not a major market in Japan, the category has been invested in by Europe and the Americas. Since the 1980s, particularly in the U.S., pension funds and insurance companies have begun investing through private funds and later by REITs, resulting in a substantial sized sector. Holdings of timberland by investment funds have grown rapidly from 2000 ($20 billion) to 2013 ($100 billion). Of the major global impact investments, the category trails just energy and financial.

Generally speaking, timberland investments have the following upside: ① Higher returns than traditional assets like equity and debt ② Low correlation with traditional assets (allowing portfolio diversification) ③ High correlation with inflation rate (effective as an inflation hedge).

The source of returns are primarily from steady revenues from the sale of timber, and capital gains corresponding to the rise in timber markets. As the world's population grows and emerging nations require more timber to sustain their development, the market is expected to continue to grow.

1 Investments that not only provide economic returns but provide societal returns by making positive impacts on issues like poverty, environment, and climate change.

The benefits of timberland investments for society include timber production, ecosystem management, flood prevention, and of particular note from an ESG perspective is the absorption and storage of greenhouse gases.

For investors, benefits include high and steady returns, capital gains, portfolio diversification, inflation hedge, and issuance of timberland (carbon) credits[2].
In addition, for forestry operators, the benefits include not having to own assets, longer time frame for management, and operational efficiency gains resulting from investor requests.

With timberland investing having a wide array of benefits, why hasn't it gained popularity in Japan?

Some of the reasons are ① The forestry cycle in Japan is much longer than the investment time horizon (making it difficult to generate cash flow) ② Many timberland sites are small, making it difficult to improve efficiency ③ Asset valuation methods and government subsidies don't incentivize appreciation of asset value.

After the bubble burst in Japan, the real estate industry was ridden with bad debt, but private funds and REITs ushered in new capital which resulted in market-dictated and efficient transactions. For the subsidy-dependent forestry industry, new capital inflows may similarly kickstart market activity and efficiency.

Activity surrounding timberland investments is picking up as well, with the government-led initiative for "Promotion of lumber usage in cities", feed-in tariffs for wood in biomass power generation, and the establishment of the public-private fund, JICN (Japan Green Investment Corp. for Carbon Neutrality). It is worth keeping a close eye on this developing market.

by Shigeru Hirai, Client Relations Group

2 The protection and management of forests result in the absorption of GHG, which result in the issuance and trading of credits. For example, a timberland investment fund may delay logging, issue carbon credits, and sell them to a company needing them. Thereby improving returns.

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New Trends

Real estate STO and the 2023 Tax Reform Outline

The 2023 outline of tax reform proposals was announced at the end of last year. Related to real estate STOs, there were a few additions about cryptocurrency.

① Of the cryptocurrency held by a company at year-end that results in gain/loss from fair value measurement, if the following conditions are met, the cryptocurrency is excluded.

A) If the cryptocurrency is issued by the company and held continuously after issuance.

B) Due to either of the following, there is a continual restriction on transfer of the cryptocurrency from the time of issuance

  a. A technological measure prevents the transfer to another person.
  b. It satisfies the conditions as the trust asset of a trust.

② For company issued cryptocurrency, the issuance cost is recorded as the acquisition cost.
(For ②, same for income tax)

③ If a company sells cryptocurrency borrowed from someone other than a cryptocurrency exchange provider and if a similar type cryptocurrency is not bought back by the end of the fiscal year in which the sale took place, the transaction will be deemed a buyback and a gain/loss will be calculated and recorded.

④ Other necessary measures will be taken.

As noted above, none of the tax reform requests (below) made on September 22, 2022 by the Japan Security Token Offering Association were included in this tax reform outline.

- For ST dividends, change in classification from miscellaneous income to dividend income under special measures for taxation.
- For the income from ST sale to be subject to separate taxation instead of comprehensive taxation.
- To include it in total gain/loss from public stock and other.
- To allow 3-year carryforward of loss on sales.
- To allow receipts into specified accounts.

If the above items are not included to change the current tax system, the tax system may possibly hinder individual investors from buying otherwise attractive investment assets and ST. Although not included in this year's tax reform outline, for the real estate STO industry to thrive and progress, it is necessary to support the industry through future tax reform.

by Masanori Ikematsu, ASA Advisory

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Japan Tax Update

Reducing the burden for Invoice System implementation

In accordance with the 2023 Tax Reform Outline, there will be four "Burden reduction measures" for the Invoice System starting October 2023. As noted on the next page, in conjunction with the start of the system, the "Outline: Burden reduction measures for Invoice system", makes exemptions for small businesses that will have additional tax and administrative burden and to reduce administration for small sum transactions.

For small businesses that qualify for the 20% special measures (table ①), even those that select simplified taxation can apply the special measure without a separate application. However, businesses that have taxable sales in excess of 10 million yen in the base period or newly incorporated entities (regardless of registration as a qualified invoice issuer) that do not qualify for the small business exemption will be excluded.

Under the reduction of administrative burden (table ②), the total amount (tax included) of one transaction that is less than 10,000 yen will determine if the exemption of invoice retention requirement is available. For example, if two products are purchased simultaneously for 8,000 and 9,000 yen, the total will be 17,000 yen and the exemption for invoice retention requirement will not apply.

The exemption of the requirement to issue small sum return invoices (table③) is available for all businesses, not just small ones. Initially, there was controversy about the bank charge paid by the seller, which necessitated a return invoice. Under this measure, any seller-paid bank charge which is treated as a sales return under consumption tax law will be exempt from issuing a return invoice. In addition, if the bank charge is recorded not as a sales discount but as a service expense, it can be treated as a sales return under consumption tax law.

Furthermore, under consumption tax law, when the bank charge is treated as taxable purchase, the return invoice is unnecessary, however in principle, an invoice from a financial institution is required.

Under the registration system and simplification of procedures (table④), the deadline to submit the registration application was March 31, 2023 to be registered by the start date of the invoice system. However, if the application is received on April 1, 2023, or after, it is now unnecessary to explain why it was difficult to submit the application by March.

Although, it is possible for businesses to be registered by the start of the new system with a registration application sent by September 30, 2023, since it may take substantial time until the registration (completion) notice is received and to prepare for the new system, it is worth applying early for those that are just starting the registration process.

by Sachie Aoki, Tax Consulting Group

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Japan Tax Update

Outline: Burden reduction measures for Invoice system

Category	Description
① 20% special measure for small businesses 【Initially for only 3 years】	・For each tax period of the qualified invoice issuer during the period between October 1, 2023 to September 30, 2026, if the tax-exempt business became a qualified invoice issuer or due to submitting a notification for taxpayer election, is not eligible for small business exemption. ⇨The consumption tax payable will be 20% of the taxable basis.
② Reduction of administrative burden (Limited to certain size businesses) 【Initially for only 6 years】	・For businesses with base period taxable sales less than 100 million yen or specified period taxable sales less than 50 million yen, for taxable purchases made during the period of October 1, 2023 to September 30, 2029, if the payment for the taxable purchase is less than 10,000 yen. ⇨ The qualified invoice retention requirement is exempted. Purchase tax credits are allowable when certain details are saved in the accounting records.
③ Exemption for issuance of small sum return invoices 【permanent】	・When the sales return amount (including tax) is less than 10,000 yen. ⇨ Issuance of qualified return invoice is exempted.
④ Registration system and simplification of procedures	・When a tax-exempt business submits a registration application to become a qualified invoice issuer from the start of the tax period. ⇨ Registration deadline is 15 days prior to the first day of the tax period (prior: one month prior) ・For businesses that wish to be registered as a qualified invoice issuer on October 1, 2023, and that submit a registration application on April1, 2023 or after. ⇨ Unnecessary to provide "reason that submission by March was difficult" on the application (Prior: required)