Aoyama Sogo Accounting Firm Innovation Speed Quality

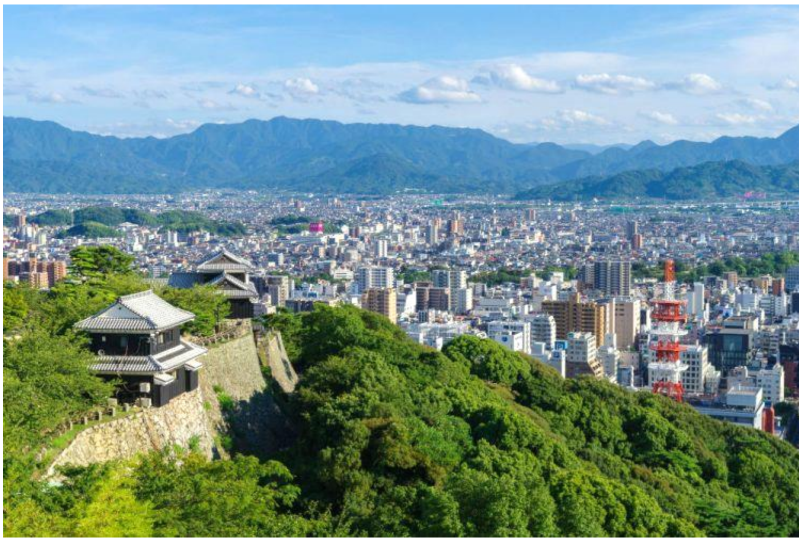
NewsLetter

Aoyama Sogo Accounting Firm

Vol.24 7/31/2023

Chairman's Column

Satellite offices - Looking outside the city for talent



The streak of extremely hot days continues. I hope you are staying cool. It's mid-July and today's daytime high in Tokyo is an unheard of 37.38°C. Please take care of yourself with plenty of hydration and stay cool. With Covid settling down, economic activities are picking up, but a clear challenge is the labor shortage.

We hear of city restaurants and hotels that already have Mondays/Tuesdays off but cannot sell rooms at full occupancy because of a shortage of housekeeping staff. Declining birthrate and aging population is expected to shrink the labor force even further.

Under this situation and with remote work becoming common, the idea of employing workers outside of the city is gaining attention. For many companies, reassessing recruiting practices has become crucial to stay in business. Aoyama Sogo Accounting Firm has also sought talent in rural areas. Domestically, we began with our Fukuoka office and are now expanding with satellite offices in Kobe and Wakayama to seek talent. The purpose of these rural offices is not for business development, but to perform the work acquired in Tokyo.

Our firm has continued with remote work even after peak Covid. Besides recruiting work-from-home staff, we have learned that having a satellite office near our employees' homes provides a sense of comfort for them. For example, it's easier to recruit remote workers for our Fukuoka office by having a Fukuoka satellite office.

Just the other day, I had the opportunity to talk to an employee that works for Matsuyama City's (Ehime prefecture) local economic affairs department. He says the trend is noticeable with IT firms, particularly for early-stage firms that are having difficulty in recruiting talent in the city. Instead, they are hiring them in rural areas one at a time. Furthermore, Matsuyama City has seen a growth in coworking spaces which serves the needs of modern-day workers who don't have a set workplace. Early adopters are already implementing such practices.

Without getting to know the locale, setting up a satellite office may seem difficult, but we will continue to recruit talent, nonetheless. Additionally, having communication and training protocols in place will keep remote workers from feeling less alienated. Having in-person client meetings and making visits to headquarters would also be effective measures for employee engagement.

I feel that another important aspect is that employment conditions stay the same regardless of office location. Salaries are set to those in Tokyo. In the future, companies certainly want to avoid bankruptcy or lost growth opportunities caused by labor shortages. They must act with urgency now. By reassessing the workplace through the lens of sustainability, companies may not only secure sufficient talent but may also reap unintended benefits.

by Kazuhiro Matsuzawa, Chairman

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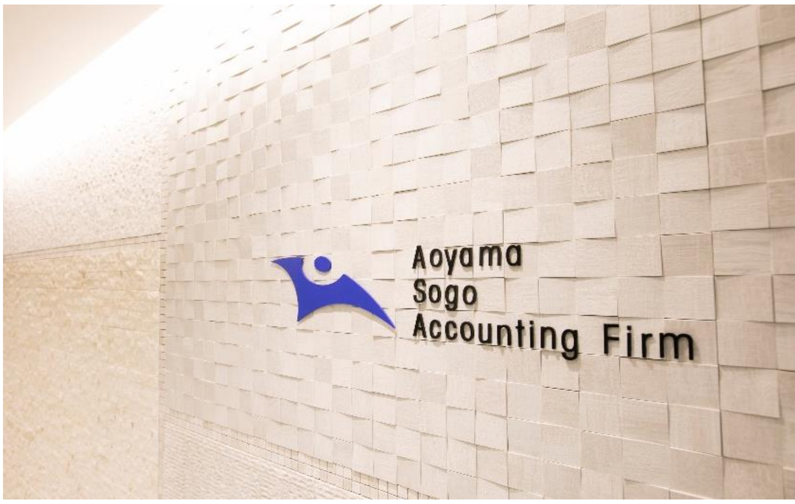
Online Banking

The shift in Account Management Services



Next month our firm will mark its 25th anniversary. With the cooperation of our clients, we are grateful to be providing fund administration for numerous clients. Such SPC services include bank account management and fund settlement services (referred as "account management services). This time, we will outline the changes in account management practices over time.

It's said that online banking for corporate clients (referred as "online banking") started in the early 2000s. When I entered the company 15 years ago, most of the fund transfer documents were hand-written. Looking back, there was a lot of risk since in-charge personnel have unique ways they write. Currently, various measures are in place and the need to handwrite forms of financial institutions are virtually gone and such risks have been reduced significantly.

In addition, online banking has become common. Roughly 40% of fund transfers in 2016 were executed by going to the bank teller. In 2022, that number is below 20%. That change can likely be explained by the spread of online banking and the following reasons.

① Online banking has expanded to include various tax payments like corporate tax and local tax

② Some financial institutions began offering online banking free of charge

③ Changes caused by Covid

For ①, Pay-easy has also expanded online capabilities. If municipality and utility payments become more common, online banking should become even more prevalent. Renewable energy projects may further increase the use of online banking.
For ②, free services are particularly beneficial for funds with a strict budget. It's become common for bankruptcy remote SPCs to use them.
For ③, digitalization has accelerated.

These efficiencies can certainly be attributed to the banks, but just as much on the cooperation of our clients.

As noted in Vol.22 of our newsletter, with an increasing use of the digital invoices, online banking should become the norm. By 2030, we may look back and say, "that time we used bank books."

In our 24 years of business, we have used various methods for transferring funds and have a firm understanding of these processes. Please reach out to us if you have any inquiries about our account management services.

by Toshihiko Hatta, Corporate Officer

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Japan Real Estate

A New Era for Green Buildings

In recent years, the wave of ESG has made green buildings more common. Initially, the push for green buildings was driven by real estate investors like institutional investors and investment funds. Developers are more incentivized through government subsidies and loosening of regulation around floor area ratio, which has added to the rapid growth of green buildings.

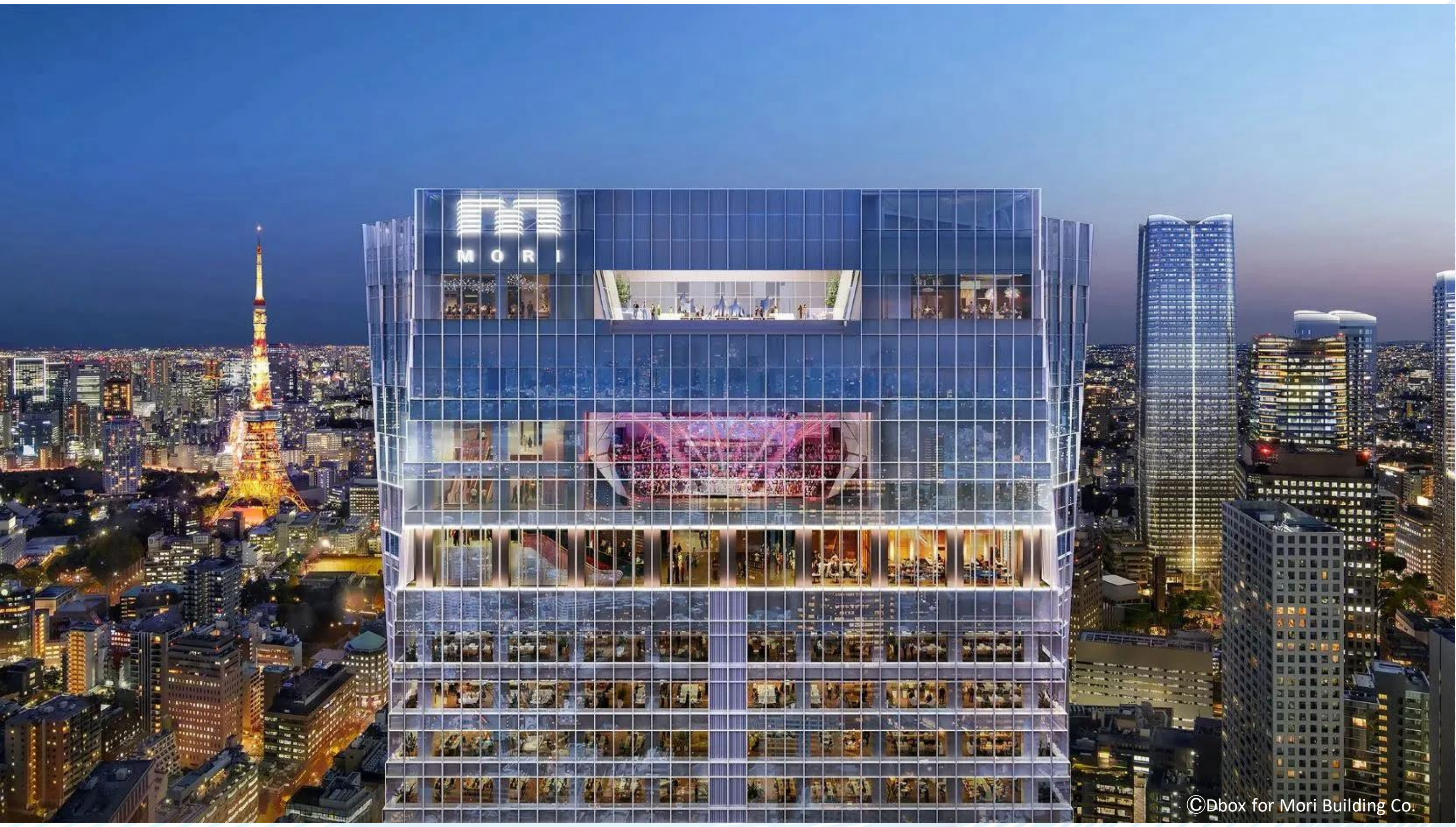
The incentives for green building development include ①reduction of environmental load ②improvement of user health and wellbeing ③ contribution to sustainable builds ④ improvement in brand value ⑤energy and water efficient designs for lower water and energy expenses. Besides ⑤, the benefits were largely qualitative in nature, but most recently the fundamental value-adds in the form of “green premium” for rents and occupancy rates are reported to be occurring.

According to CBRE’s report “2023 Japan Office Building Green Certification Trends” (June 2023), green buildings make up 44% of total office space across the 13 major cities nationwide. For Yokohama and Tokyo, over 50% are green buildings.

Furthermore, the analysis model used in the report which adjusts for location, size, and age of property reveals that green building rents were 5.6〜6.4% higher than those that were not. Occupancy rates were also 0.9〜3.3 points higher than non-green buildings.

This is significant news since much of the real estate industry’s ESG focus centered around societal benefits and risks. With the focus shifting to the industry’s primary objective of profitability, it may be a signal that industry players can no longer ignore ESG themes.

by Shigeru Hirai, Client Relations Group



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Global Real Estate

The wide-reaching effects of Remote work on the Economy

One scroll through U.S. commercial real estate news will yield numerous articles about the continued weakening of the U.S. office market. A substantial portion of office workers continue to work from home, and the negative effects aren't just on offices. Nearby retail shops and restaurants that rely on office workers for business are getting hit hard as well.

The situation seems to be getting more dire as the country continues to face high inflation and high interest rates. Layoffs are also becoming more broad-based across sectors, which adds further pressure on office owners, as many companies reduce their office space.

As a result, office REIT shares are trading at their lowest level in years and shows no signs of improving. New tenants are leasing less space than in previous years and subleased spaces are appearing more frequently on the market, which tends to bring rents further down.

As reported in the Wallstreet Journal, in previous downturns, some building owners held their properties and extended their mortgages, waiting for the economy to turnaround. This time the mood seems different. Heavyweights like Blackstone recently sold an office complex in Santa Ana, California for $82 million, a 36% decrease from its original purchase price in 2014. Another prominent building is 350 California in San Francisco which may be sold for $60 million or 80% below the previous valuation.

Such downward trends in office property value seem to be exacerbated as buyers of such properties may subsequently rent them out at much cheaper than their existing neighbors' offices.

But where there's downturn, some companies see opportunity to acquire property at a discount. One such company is Jose Cuervo Tequila which is in talks to purchase a Chicago building for $100 million or 38% less than its 2017 price.

On the contrary, suburban retail and entertainment is experiencing a boon as the work-from-home crowd decides to shop and dine near their home.

Perhaps this paradigm shift of where and how people work has forever changed the need for expansive floor plans in major business districts. Time will tell.

by Yuichi Totani, Client Relations Group

Sara Cultural Centre (Photo: Jonas Westling)

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Japan Tax Update

[Court ruling] Holding period requirement for dividend in-kind in company splits

Because interpretation of articles of tax law or tax treaty often differ, past court determinations are important in deciding on practical treatment. Below we explain a change in tax treatment disclosed on the National Tax Agency's website in the month following a February 16 decision by the Tokyo High Court.

According to the Singapore-Japan Tax Treaty (an example of an OECD model tax treaty), a holding period requirement must be met to qualify for the reduced tax rate on the taxable dividend in the withholding country. The company receiving dividends must hold 25% or more of the voting rights of the dividend-paying company at least 6 months prior to the prescribed date.

The case in this court ruling involved the plaintiff with headquarters in Luxembourg which received distributions (dividend in kind) of about 14 billion yen from 2 Japanese subsidiaries at the time of their company (non-tax-qualified company split). At the time, 20.42% was withheld, however the plaintiff requested a refund based on the application of a 5% maximum tax rate under Article 10-2(a) of the Luxembourg-Japan Tax Treaty (the tax treaty). It became a point of contention when the defendant (the country of Japan) did not oblige to the company's refund request based on the holding period requirement under Article 10-2(b) of the tax treaty and that the maximum tax rate of 15% is applicable.

Regarding the prescribed date, which is the end of the holding period, the treaty states it as "end date of the fiscal year where profit distribution occurs" or "date at which the receiving party of the dividend payment is determined." Regarding this case where the dividend in kind from the non-tax-qualified corporate split does not have a deemed fiscal year, the country of Japan used the latter definition to support their assertion that the prescribed date is "the day previous to the corporate split."

Both first and second courts ruled that the prescribed date is the "fiscal year-end in which the company split took place." The country of Japan did not appeal and consequently publicly disclosed their change in treatment as mentioned at the top. In addition, the change in tax treatment can be retroactively applied (refund requests can be made within 5 years from the day of tax payment).

by Yasuhiro Ando, Client Relations Group