Aoyama Sogo Accounting Firm Innovation Speed Quality

NewsLetter

Aoyama Sogo Accounting Firm

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Chairman's Column

Making my first U.S. trip in a while

As a member firm of the global network Prime Global, we attended this year's world summit held in Miami on November 5.

The network is more like an association than a group of member firms. There are no requirements for capital amount or business name for companies to be eligible. Those with about 50 employees or more can get registered. Since many mid-sized accounting firms are not equipped to open an overseas office, member firms can support each other in servicing clients who want to expand overseas. Even during Covid, the network has expanded its members to 310 locations across 112 countries. Asia is particularly growing with India now having 10 member firms compared to Japan's 4 firms.

Before this trip, I imagined the conference site, Miami, Florida to be where retired Americans lived comfortably in a year-round summer climate, but I found out that it also has a significant homeless population and that the area seemed rough. Florida is also a gateway to the U.S. for many Latin countries, so there is a big population of Latin immigrants as well.

As a Japanese citizen, the most eye-opening part of my stay was the exorbitant prices. A hamburger and fries can cost $30, with drinks being separate. Using a VISA card for payment, the spot exchange rate was 150 yen per dollar and converted at 160 yen. Add 7% sales tax and tips and it's easy to see how expensive it gets. Several of the accounting firms mentioned a recession, so it's understandable that eating out becomes difficult.

The PG member firms who I had a conversation with seemed to view Japan as a country with low interest rates and low growth.

The main topics among management were the challenges of hiring and employee retention. I was able to confirm that the labor shortage is a global issue as well.

I was also under the impression that the most advanced countries were using generative AI for client services and report preparation. However, it seemed most firms were not using it. Many of the management discussions were about how best to run the company ecosystem which includes outsourcing work to cover for the labor shortage. While the topics of client acquisition and non-financial disclosure (ESG related) are important, they seem to be secondary concerns at the moment.

by Kazuhiro Matsuzawa, Chairman

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ASA News

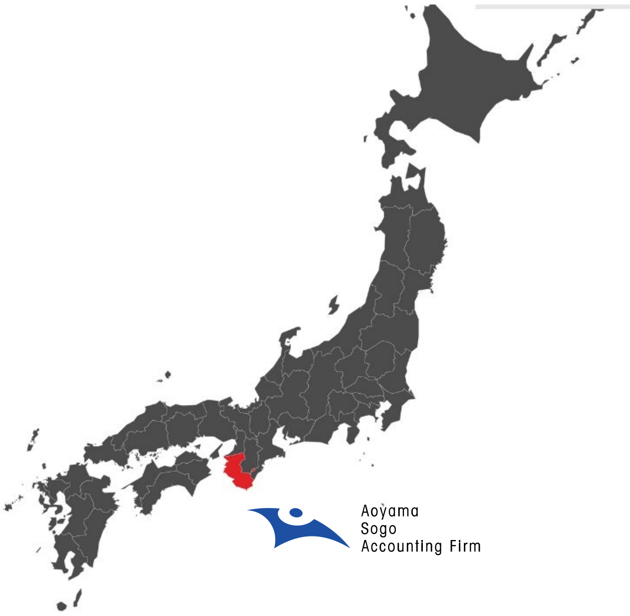
[New office opening] Wakayama prefecture

One of our goals is to facilitate a work environment for “whenever”, “wherever”, and “for anyone”. The purpose is to implement a diverse workstyle accelerated by Covid and to proactively address the labor shortage in our industry.

As mentioned in our previous newsletters, besides our Tokyo office, we now have satellite offices providing services in Fukuoka, Kobe, and Wakayama. Wakayama office is our newest addition located in the heart of Wakayama city’s business district, which is also close to Wakayama Castle, giving it a historic feel.

Wakayama residents often move out to Osaka and nearby prefectures to find work, but hopefully ASA Group can attract people to fund administration and be part of solving regional city issues like the outflow of residents and city revitalization.

Until now, our satellite offices primarily performed tax and accounting services, but our Wakayama office may also handle bank account services. This is one part of fortifying our business continuity management by mitigating risk in light of more frequent natural disasters and unprecedented virus outbreaks.



The days of simply hiring experienced candidates is somewhat over and we must adopt a more diversified workforce. Our Group has many full-time remote workers and improving our diversity at the moment. We also understand the increasing importance of communication and engagement within our teams and with our clients.

As part of our mission to continue to contribute to an active fund industry, we look to open additional offices that become centers for people to get together, to casually exchange information, and to revitalize regional cities.

by Toshihiko Hatta, Management Strategy Group

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Japan Real Estate

Implied Cap Rate – Calculation and Use

The term "implied cap rate" is often seen on analysis reports of public REITs. What is the implied cap rate?

Generally, cap rate is calculated as:
Cap Rate = Property income (NOI) /Property value

If the acquisition price-basis is used, property income is NOI actually generated from the property and property value is the acquisition price.

If appraisal value-basis is used, property income is NOI calculated by a real estate appraiser and property value is the appraisal value calculated by the appraiser (In practice, the cap rate is sometimes determined before appraisal value is calculated.)

Implied cap rate is calculated as expected future income (NOI) divided by property value based on market cap of the REIT.

As one measure of the capital markets, the implied cap rate is essentially a barometer for how investors view property value.

Generally, the implied cap rate which is based on capital markets is said to be lower than the property acquisition-basis cap rate since the former has higher liquidity. Depending on capital market conditions, the reverse may occur, but generally the REIT must acquire property at a cap rate higher than the implied cap rate, otherwise the share price will drop, which makes fund-raising through capital markets difficult.

Additionally, the spread between the implied cap rate and acquisition-basis cap rate tends to be higher for lower volatility assets (residential, logistics) than higher volatility assets (office, hotel).

Since the implied cap rate moves before changes in the cap rate of actual property, it is one measure that predicts the real estate market in large part dictated by the transaction of REITs.

by Shigeru Hirai, Client Relations Group

U.S. News

U.S. Economy Snapshot

by Yuichi Totani, Client Relations Group

※ OCTOBER 2023 figures, unless otherwise noted.

Jobs Report	CPI	10-year Treasury
• **Nonfarm Payroll** 150,000 ↑ (dramatic drop from Sept. gain of 297,000) • **Unemployment rate** 3.9% (Highest since Jan.) • **Avg pay** 0.2% ↑ (up 4.2% YOY)	• 0.4% ↑ (annual 3.7%) • Core CPI 0.3% ↑ Much of inflation attributed to rise in housing costs **Annualized Inflation rate** 3.6% (in Sept.) **GDP** 4.9% annualized at end of 3Q	• Yield ～4.5% (as of Nov. 8) Yields have dipped since the last Fed meeting which kept rates steady. **30-year Fixed Rate Mortgage** • **7.76% (as of Nov. 2)** 7 week low but remains high. Fewer mortgage applications as well.

Federal Reserve Watch

Inflation rate remains high after a strong jobs report in September and high consumer spending. However, the October report showed considerable slowing in new jobs added. There is also expected to be headwinds for the economy as borrowing costs are still high, and Covid savings will begin to deplete.

On November 1, the Fed kept the central bank rates steady for a second consecutive meeting. The S&P500 and Nasdaq has each climbed by roughly 3% since. The 10-year Treasury yield has dipped to about 4.5% as of November 8.

Economists and analysts still seem unclear whether the economy is headed towards recession or a soft landing (where inflation falls, but unemployment rates are kept in check.)

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Japan Tax Update

Treatment of Invoices for Business trip expenses

The invoice system officially began on October 1. Many businesses were seemingly well prepared but once implemented, I notice many errors daily when checking qualified and nonqualified invoices and receipts. In this volume, I will explain about the most frequently asked topic of “employee business trip expenses (transportation and accommodations).”

As mentioned briefly in last month’s newsletter, article 9 of the law states “exemptions regardless of entity size that allow purchase tax credits without the retention of qualified invoices.” Within Article 9, business trip expenses will typically fall under either ① Public transportation (shipping vessel, bus, or railway) of passengers costing less than 30,000 yen for which qualified invoice issuance is exempted ② Transactions that involve collected entry tickets and such that include descriptions required for simplified qualified invoices (excludes those that qualify as ①), and ⑨ Distributions to employees deemed necessary as ordinary business trip expenses and such(business travel, accommodations, daily allowance and commuting allowance).

To put simply, if the expense is (a) paid/settled by the company or corporation under its own company name (through petty cash or credit card under the company name), then either ① or ② above applies. If the expense is (b) clearly paid/settled by the employee on behalf of the company under the name of the employee (through the employee’s cash on hand or personal credit card), ⑨ above will likely apply.

For example, if railway tickets 30,000 yen or more are (a) purchased under company name will require an invoice, while if (b) employee pays under their name on behalf of the company, the invoice is unnecessary. Additionally, if ⑨ employees pay on behalf, there are no requirements such as “public transportation” or “under 30,000 yen”, and applicable if it falls under the broad interpretation of “ordinary and necessary business trip expenses (business travel, accommodations, daily allowance, and commuting allowance).” The specific interpretation is stated in part under the Income Tax Act (Basic Notice of Income Tax Act 9-3).

Because the invoice system is a completely new system in Japan’s tax assessment history, the tax agency’s enforcement policy and standard practice for transactions are still not concrete. This will likely necessitate follow-up explanations to address the state of reforms, guidelines, and standard practice for transactions.

by Masaaki Kidokoro, Tax Consulting Group

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Editor's Afterword

As explained in our Chairman's column, our firm is part of Prime Global, a global alliance of accounting firms. One of the biggest challenges for many of these firms is employee recruitment and training. In the past, it was said that everything that happens in Japan had occurred in the U.S. about 3 to 5 years prior. However, although politics and culture may differ by country, Covid has undoubtedly changed technologies and economies in similar ways.

For one, the workforce of the future will need to evolve with the times and adopt new technologies. Similarly, it goes without saying that organizations must have management and systems in place to train such personnel.

by Jun Murata, Corporate Officer