Aoyama Sogo Accounting Firm Innovation Speed Quality

NewsLetter

～The latest in alternative investments～

Vol.33 2024.5.31

Chairman's Column

Is there a PLC for an Accounting Firm?

Several days ago, the electronics manufacturer Sharp announced their exit from the LCD TV business. For many years, Sharp stood for LCD, and LCD was synonymous with Sharp. Manufactured in the Kameyama Factory (Mie prefecture), the world-class Kameyama LCD panel was admired as a cool-looking gadget with high specifications.

Well-known is the fact that a product life cycle (PLC) exists for a company's products. The cycle includes the launch of the product/service, generation of sales, and discontinuation. While the LCD panel will continue to be used not just for TVs but for PCs and smartphones, Sharp's management likely decided on their exit based on future competition, profitability, and stability of earnings. Since it symbolized Japan's technology for many years, it is a bit sad to hear this news.

At Aoyama Sogo Accounting Firm (ASA), we provide our clients with tax and accounting services; in particular, servicing SPCs used as investment vehicles. So long as our clients remain in business, we believe our services will continue to be needed. In that respect, I believe there is no PLC.

For example, tax accountant services are protected through a certification system in Japan. However, creating deliverables is getting easier, as SaaS models with accounting capabilities mature and tax preparation can be done through smartphones. Like in the case of Sharp, the profitability of product/services may be falling. The tax and accounting industry as a whole may be on the decline as well. In the future, a foreign player with no market ties can potentially take over the market with a powerful platform. The metaphorical "black ship" usually arrives when least expected.

In the past, many accounting firms competed by lowering fees to gain clients. With inflation and insufficient workers, that model no longer works. Instead of making journal entries like in the past, we plan to automate journal entries, and provide fast and accurate deliverables.

The applications of AI are just beginning, but unquestionably here to stay. In the future we need to think more as consultants to engage with our clients and to lead them to possible solutions.

Although the term *consulting* may be misleading, the work of explaining deliverables is within the realm of our work. We plan to focus even more on growing our staffs' professionalism to lead our clients.

by Kazuhiro Matsuzawa, Chairman

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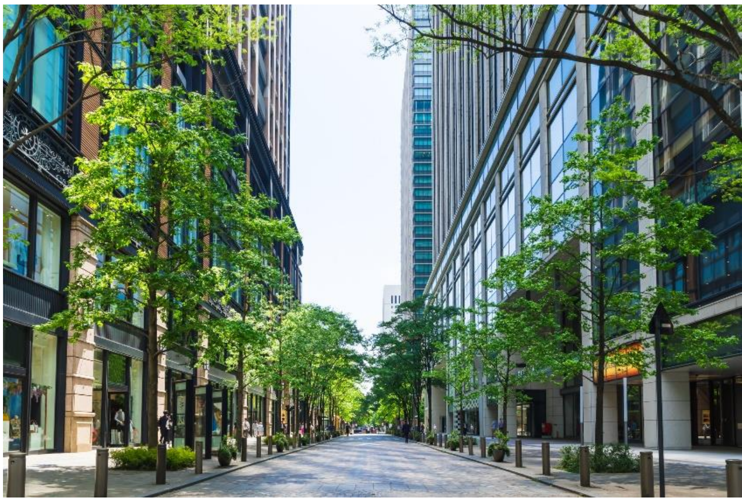
REIT and Funds

Comparing Private REITS and Private Funds



As of March 2024, there are 58 J-REIT stocks holding 23 trillion yen in total assets. While Private REITs have climbed to 57 investment corporations with 6 trillion total assets. Since the introduction of the REIT, the market has steadily grown. In particular, Private REITs have added 11 investment corporations since March 2023, resulting in an increase of 1 trillion yen in assets.

The Private REIT is a product that was born after J-REITs took a massive hit during the Lehman Brothers fallout. The difference is that while the J-REIT is available to individual investors in a public market, private REITs are only available to institutional investors and companies. Private REIT shares are based on the property appraisal value and is unaffected by stock market fluctuations. Since the product does not undergo such drastic price fluctuations, it is good for steady long-term ownership.

The private REIT is similar to a private fund, since the product is only available for limited investors. However, the following are differences.

“No fixed term”

Private funds have a fixed term that end in liquidation after a fixed period of management. Private REITs, like J-REITs have no fixed term. This is one reason why the Private REIT may be suitable as a long-term investment.

“An open-ended fund”

Private funds often are closed-ended, meaning no cancellations are allowed during the term. Meanwhile, some Private REITs are open-ended, allowing early cancellation, which results in higher liquidity and lower ownership risk. However as previously mentioned, because the potential investor pool is limited compared to a J-REIT, it has lower liquidity.

To prevent mass cancellation at the same time, some private REITs have a non-cancellation clause or set a limit on cancellation amount.

In this way, private REITs are stable since they are less affected by the market and have substantial liquidity. However, from a management perspective, since there are a limited number of investors, if a few decide to move their investments into safer products, it may stifle performance and management. Either way, with investors coming from industries other than real estate, the use of private REITs will likely grow.

by Itsuki Onodera, ASA REIT Partners K.K.

Reference:

Survey data: Investment Trusts Association, Japan

Monthly change in assets of public real estate trusts

Monthly change in assets of private real estate trusts

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Aoyama Sogo Accounting Firm
～The latest in alternative investments～ Vol.33 2024.5.31

Japan REIT

Internal and External Growth in a Corporate context

In REIT terms, there is internal growth and external growth. I first heard these terms when REITs didn't exist in Japan. REITs were solely in the U.S.

Later, Japan would establish their first J-REIT by modeling the external management style[1] of Australia's REIT (LPT).

At the time, Japan's investment trust was a securities investment trust regulated under the "Act on Investment Trusts and Investment Corporations". Upon the first REIT formed, the Act was renamed the "Investment Trust Act", which included the real estate investment trust (REIT). I speculate that perhaps they included both types of trusts (securities investment trust and J-REIT) within one law due to both being externally managed.

Defining the terms

- *Internal growth*: A growth strategy that increases profitability by increasing property rents and occupancy and lowering expenses.

- *External growth*: A growth strategy that increases profitability by acquiring new properties and growing the portfolio (total assets)

I was confused at the time as to why they were defined separately. I found out that the terms "internal/external growth" were originally corporate growth strategies.

[1] Ownership and management of the investment asset are with separate entities. "Internal management" is when one entity both owns and manages.

Under corporate growth strategies:

- *Internal growth*: Utilizing a company's internal resources to grow profit (example: R&D, branding, new product development, cost reduction, etc.)

- *External growth*: Obtaining external resources to grow profit (example: M&A, outsourcing, business partnerships, joint ventures, etc.)

When examining U.S. REITs, they are internally managed "real estate investment trusts", but they are in fact like businesses that invest in real estate (no law exists like the Japanese Investment Trust Act which regulates special companies). The REIT must only satisfy certain requirements to be treated as a pass-through. I speculate that the U.S. REIT was first established by applying the concepts of corporate growth strategies to real estate investment.

Perhaps we should rethink internal and external growth for REITs and real estate firms through the lens of corporate growth strategies. Maybe there is actually more to growth than just rent, occupancy rate, expenses, and property acquisition.

by Shigeru Hirai, Business Management Group

Aoyama Sogo Accounting Firm Innovation Speed Quality

NewsLetter

Aoyama Sogo Accounting Firm

～The latest in alternative investments～ Vol.33 2024.5.31

Tax Update

Limitations for foreign operators without a permanent establishment in Japan: Simplified consumption tax system and Special 20% relief measure

【Background of Reform】

In general, foreign operators without a permanent establishment in Japan are assumed not to have any taxable purchases.
The problem was that if the simplified consumption tax system is allowed for such foreign operators, the deemed purchase ratio used by business type will be much greater than the actual taxable purchase amount.
Under the 2024 tax reform, the following change took effect.

【Details of Reform】

① *Unavailability of the simplified tax system*

The general rule is that operators with taxable sales less than 50 million yen in the taxable period can select either general taxation or simplified taxation to account for purchase tax credits.
However, foreign operators without a permanent establishment in Japan on the first day of the taxable period may not select simplified taxation. Instead, general taxation will apply.

② *Unavailability of tax credit relief measure (20% special measure) for small operators*

As of October 1, 2023, the invoice system (qualified invoice retention method) began. Under this system, previously tax-exempt businesses that become qualified invoice issuers can apply purchase tax credits equal to 80% of taxable purchases and pay the remaining 20% as consumption tax.

However, foreign operators without a permanent establishment on the first day of the taxable period are not eligible for the tax credit relief measure (20% special measure) available for small operators.

【Applicable periods】
The rule above takes effect for taxable periods that begin on October 1, 2024, and after.

【Summary】

	System	Pre-reform	Post-reform
Foreign operators without a permanent establishment on the first day of the taxable period	Simplified taxation	Applicable	Non-applicable
	Purchase tax credit relief measure (20% special measure) for small operators	Applicable	Non-applicable

※ Tax reform measures often become applicable on April 1 of the following year after the tax reform proposals are announced. However, please be aware that this reform will be applicable from October 1, 2024.

by Harutomo Yamasaki, Knowledge Group

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From the Editor

For many businesses and consultants, the topic of “when to change” becomes a focus. For example, in the case of ramen shops and restaurants, when change comes too fast, customers may voice dissatisfaction saying, “it tastes different”. Too slow and they may say “the taste has gone bad”. When the change is timed slightly off, the impression will dramatically change as well. In business, when to change becomes a point of focus. In June, ASA Group will undergo a structural change, so we need to make sure our clients don’t think “the taste has gone bad”.

by Jun Murata, Corporate Officer