Aoyama Sogo Accounting Firm Innovation Speed Quality

NewsLetter

～The latest in alternative investments～

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Aoyama Sogo Accounting Firm

Chairman's Column

Non-financial Disclosures: CO_2 emissions calculation for ASA

Reskilling has been gaining attention. I was reading the newspaper just the other day, and the term "learning vacation," like workcation caught my eye. The idea is to focus on relearning by changing the learning environment. As a practitioner myself, I recommend taking certification exams or something similar that leads to clear achievements. Since the core identity of ASA is an accounting firm, the bookkeeping tests make sense. Rather than vaguely studying for something, the level 1 or 2 bookkeeping certifications will enable staff to explain topics better and motivate them further as professionals.

Personally, I am interested in the field of environment, energy, and decarbonization management.

Feeling the impact of the ISSB (under the IFRS Foundation), the Financial Services Agency is considering disclosures in annual reports for GHG emissions across the firm's entire supply chain. There is speculation that Tokyo stock exchange Prime listed companies with market cap of 3 trillion yen or more will be subject to this rule. The rule may possibly take effect in March of 2027 or 2028 (April 22, 2024, edition of Nikkei Business).

Since our firm is not a publicly listed company with market cap of 3 trillion yen or more, you may think we won't be affected. However, being part of the upstream or downstream supply chain will likely subject us to provide data for scope 3 GHG emissions calculations. This will undoubtedly add a bit more burden on us.

In the ordinary course of our business, our international clients seem to have a higher awareness of topics like carbon neutrality and CO_2 emissions reduction. We often get requests to provide information or get asked questions. In particular, we get asked about our firm's CO_2 emissions and related

services. In the U.S., if the new president becomes Trump, some say that rules may change. However, this trend seemingly won't stop, and firms will likely be asked to explain their roadmap to carbon neutrality.

For ASA, we may need to calculate annual emissions. As an accounting firm, we don't produce any consumer goods. Instead, scope 3 items like business trips and paper disposal may have a big impact on calculation. For example, the total emissions for a business trip to the Kansai region may differ depending on whether travel is by bullet train, airplane, car, or boat. A process to gather this information would be needed.

Typically, the bullet train produces less emissions than airplanes. Since each of our departments book tickets separately, the only difference from an administrative perspective may be cost. If that's the case, our company-wide process may need a review.

In addition to current disclosure requirements, disclosure of non-financial information is unavoidable. My immediate goal is to learn more about the environment, energy, and decarbonization management, even if that means becoming a basic level ESG professional.

by Kazuhiro Matsuzawa, Chairman

Announcement

Introducing ASA REIT Partners K.K., a new group company.

On April 23, 2024, ASA REIT Partners K.K. was formed. The company provides middle office (work not requiring a license) and administration services (accounting, tax payment support).

Back in June 2023, ASA created a REIT planning group to not only provide accounting and tax payment services but to support an industry struggling with a labor shortage. The newly formed company is an extension of this internal department. Currently, we have several members with prior experience in asset management and real estate.

In 2023, about 10 private REITs were setup. With additional entities being setup in 2024, there is concern that available resources will further dry out. Our mission is to share our resources with management firms, so that asset managers can focus on their primary work of asset management. By supporting management work that don’t require a license, we look to create a new industry standard, one that more effectively allocates workload.

ASA group will continue to work together as *one* to provide our services. We sincerely appreciate your continued support and business.

by Kenichi Shimizu, ASA REIT Partners K.K.

Japan REIT

The path to J-REIT (My perspective)

The current market cap of J-REITs is 15 trillion yen, held by 58 stocks. Slightly down from the record of 18 trillion yen with 64 stocks (in 2021), but the J-REIT market is still massive.

In the 1990s, I was working at a bank, where I was assigned to the newly formed securitization division. At the time, securitization in Japan was imitating the U.S. securitization of receivables and loans, with the originator's primary purpose to get assets and loans off-balance sheet. To localize U.S. practices in Japan, the firm held discussions with big law firms and accounting firms, resulting in the use of Cayman Island charitable trusts and SPCs for securitization. Later, domestic structures were developed that would utilize Japanese SPCs and trusts. The same department was also active at the time with project finance and marine vessel finance derived from the U.S., in addition to leveraged leasing of aircraft and structure development using SPCs.

After that, the banking world struggled with bad debt issues which would lead to developing (dubbed "flight" schemes) securitization structures for collateralized real estate for the banks themselves, instead of advising their own clients. Such structures used trusts and SPCs, merging no-term real estate assets with 5-year fixed term debt. Consequently, refinancing issues would emerge.

The TK-YK equity structure (YK= yugen kaisha, currently the GK = godo kaisha) would be developed as an unprecedented way to utilize the TK partnership under the commercial code. However, contrary to the current state, no foreign equity investors were present at that time, and most Japanese companies were weakened by bad debt, which led to the question of *who* would be the TK investors. At the time, my department dealt with the challenge of securitizing real estate, and I was convinced that *Japan's economic recovery would only happen through public REITs*. Unfortunately, the bank had no know-how of public equity.

As time passed, the bank I was working for became part of a joint venture. Head-hunters became active and many of my senior colleagues left for foreign companies. Meanwhile, I was casually observing the industry on the brink of starting J-REITs. Just when I was burnt out with office politics, an offer landed in my lap, *"A foreign investment company is starting a REIT in Japan. Would you be interested?"* I decided to accept the offer.

And when things were just getting started, the September 11 terrorist attacks in the U.S. happened. The stock market took a catastrophic hit and both the market and my career took a bumpy road after that (I left the REIT world for a few years after that).

20 years have gone by, and it gets me emotional to think about how the future I envisioned has become a reality.

by Shigeru Hirai, Fund Services Division

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Tax Update

Size-based Enterprise Tax Reform

Under the 2024 tax reform, companies subject to the size-based enterprise tax will change. This is to prevent companies from avoiding the size-based tax by reducing or setting capital to below 100 million yen for the subsidiary by setting up a holding company or spinoff.

(Table 1)

Before reform (For fiscal years that begin before effective date (April 1, 2025))	After reform (fiscal years that begin after the effective date)
The companies below are subject to the size-based tax: ① Companies with capital over 100 million yen at the fiscal year end	The companies below are subject to the size-based tax: ① Companies with capital over 100 million yen at the fiscal year end ② Companies that satisfy all conditions below (※1) ・Capital over 100 million yen at the prior FYE ・Companies with capital less than 100 million yen at this FYE ・Companies with contribution amount (paid-in capital + additional paid-in capital) over 1 billion yen. ③ Companies that satisfy all conditions below (※2) ・Companies with capital less than 100 million yen at this FYE ・Companies that are a subsidiary of a company with contribution amount over 5 bilion yen ・Companies with contribution amount over 200 million yen (Any disbursements made from additional paid-in capital after the announced date (June 30, 2024) are added back)

※1: Transition measure for Table 1 "After Reform"②

To prevent companies from last minute capital reductions to avoid size-based tax, for fiscal years that begin after the effective date ("first fiscal year"), companies that satisfy all requirements below <u>will be subject</u> to size-based tax. (Table 2 ⓐ, ⓑ)

- Companies subject to size-based tax in any fiscal year that lands between the fiscal year prior to the year of the announcement date until the fiscal year prior to the first fiscal year
- Companies with paid-in capital less than 100 million yen at the end of the first fiscal year
- Companies with contribution amount over 1 billion yen at the end of the first fiscal year

However, companies that satisfy all requirements below will not be deemed to be reducing capital to avoid tax, and thus <u>not</u> be subject to the size-based tax (Table 2 ⓒ)

- Companies subject to size-based tax in the year preceding the fiscal year that includes the announcement date
- Companies with capital under 100 million yen on the day preceding the announcement date
- Companies not subject to size-based tax for each fiscal year that ends after the announcement date

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Tax Update

from previous page

※2 : For Table 1 "After Reform ③" (1) Relief measure and (2) Special measure

(1) Relief measure

For companies that are newly subject to the size-based tax under Table 1③, the increase in enterprise tax (comparative enterprise tax amount) calculated in place of the size-based tax, is eligible for the enterprise tax deduction.

- For fiscal year that starts between April 1, 2026, to March 31, 2027
  2/3 of the size-based enterprise tax amount that exceeds the comparative enterprise tax amount.
- For fiscal year that starts between April 1, 2027, to March 31, 2028
  1/3 of the size-based enterprise tax amount that exceeds the comparative enterprise tax amount.

(2) Special measure

For companies that became a subsidiary through M&A based on the special business reorganization plan during the period from the amendment date of the Act on Strengthening Industrial Competitiveness to March 31, 2027, regardless of the above, the size-based tax will not apply for 5 years.

Summary

With this latest reform, the size-based enterprise tax may apply to companies with capital less than 100 million yen, so extra caution is necessary when determining its applicability.

by Satoshi Gondaira, Certified Tax Accountant

(Table 2)

Assumptions FYE: March 31 Contribution amount: over 1 billion yen	Year preceding the fiscal year that includes announcement date (FYE March 31, 2023)		Day preceding the announcement date (March 29, 2024)		Fiscal year that includes the announcement date (FYE March 31, 2024)		Fiscal year preceding the first fiscal year (FYE March 31, 2025)		First fiscal year (March 31, 2026)	
	Capital (yen)	Applicabe	Capital (yen)	Applicabe	Capital (yen)	Applicabe	Capital (yen)	Applicabe	Capital (yen)	Applicabe
ⓐ If capital is reduced to 100 million yen and no changes are made after announcement date and during FYE March 2024.	＞100M	size-based tax	＞100M	-	100M	non-size-based tax	100M	non-size-based tax	100M	size-based tax
ⓑ If capital is reduced to 100 million yen and no changes are made after announcement date and during FYE March 2025.	＞100M	size-based tax	＞100M	-	＞100M	size-based tax	100M	non-size-based tax	100M	size-based tax
ⓒ If capital is reduced to 100 million yen by the day preceding the announcement date and no change in capital afterwards.	＞100M	size-based tax	100M	-	100M	non-size-based tax	100M	non-size-based tax	100M	non-size-based tax
ⓓ If the company is <u>not</u> subject to size-based tax for the FYE March 2023, and no change in capital afterwards	100M	non-size-based tax	100M	-	100M	non-size-based tax	100M	non-size-based tax	100M	non-size-based tax

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From the Editor

The guiding principles of ASA Group are defined as ISQ. In our line of work, we understand the importance of *Innovation, Speed, and Quality*. The key is to put these principles into action. The strongest organizations are adept at applying these principles to any circumstance. For each member who is equipped with the skills to apply these principles, the organization will be that much more capable in delivering solutions.

From Sun Tzu's Art of War, as one passage reads "the formation of the army is like water", the key to victory or success is to move flexibly and adapt to the situation. In August, ASA Group marks its 25th anniversary. Our guiding principles were declared soon after the firm's establishment. For the next quarter century, we look to continue to provide flexible solutions as your service provider.

by Jun Murata, Editor-in-chief