



## Chairman's Column

***Tax Topics: Defense Tax and Tax on SPCs***

The weather continues to be brutally hot, so I hope you are taking care of yourselves. This month, I've picked up two note-worthy tax topics.

① Special Corporation Defense Tax and its impact on solar power operators

When I was recently reviewing a cash flow statement plan for a solar power business, I noticed that a "Defense Tax" (formally named the Special Corporation Defense Tax) will be assessed starting April 2026. This new tax will be collected to fortify national defense and will be added as a fixed ratio of corporate tax. Specifically, about 5% additional tax will apply on the corporate tax amount, with a 5-million-yen deduction allowable. Appropriate considerations should be made for any effect on long-term cash flow for both solar power operators and corporations alike.

② According to the August 29 Nikkei morning edition, a 3-year audit conducted by the Tokyo Regional Taxation Bureau resulted in dismissing additional tax assessments on an overseas investment structure that utilized the tax treaty with Singapore. The structure was comprised of a Singapore SPC (special purpose company) that invested in a TMK (tokutei mokuteki kaisha). By distributing real estate profits to the SPC, the TMK held corporate tax to virtually zero and



withholding tax to 5% based on the tax treaty. A double tax reduction was essentially achieved. What is alarming is that during the three-year period from 2020 to 2022, the TMK distributed about 640 billion yen to Singapore. Under ordinary 20% tax, the national treasury of Japan would have collected 980 million yen in tax.

The National Tax Agency had considered applying the Principal Purpose Test to prevent the overuse of the treaty but seems to have stopped. Singapore, which has established itself as a tax haven and Asia's financial hub will likely be reluctant to change the reduced rate of 5%.

This case is a just one example where the system's effectiveness is tested in relation to cross-border investment structures and tax implications. We should look out for any future developments.

*by Kazuhiro Matsuzawa, Chairman*



## ASA News

## ***ASA FACTOR – Freeing up time and resources for your Fund Management***

Our administration group performs a wide range of fund management support functions within ASA Group. While the SPC plays an essential role in an investment structure, a multitude of complex and detailed administration arises. They include correspondence with financial institutions, cash management, and review of contracts. Our team executes these matters effectively based on our experience and standardized workflows.

Through decades of serving clients, we have gained expertise in efficiently and effectively providing a plethora of administrative services. Services such as daily cash management, loan covenant management, and calculation of key metrics (KPI, DSCR, LTV) are standardized and managed so that our firm does not rely on any one individual.

As a result, we have achieved both speed and accuracy that provides our investors and stakeholders with a high level of comfort.

Our strength is our cash management team, which is comprised of many employees with background in financial institutions. With over 95% employee retention rate and 100% return from maternity/parental leave, our work environment is



friendly to women, which leads to experience and knowledge that builds within our firm to maintain a stable system. Our exceptionally low employee turnover ensures business continuity, and fast and attentive communication with our clients.

Of course, in addition to cash management, we have seal management, support of legal matters, electronic public notices, and other wide-ranging support for fund managers. Our clients are comforted knowing that their project is supported by both our vast experience and robust systems.

We will continue to serve our client's important projects with our cash management group's teamwork and systematic approach.

*By Akiko Sakai, ASA FACTOR*



## Real Estate

## *The Future of Generative AI in Real Estate Management*

The evolution of generative AI is ushering in big changes to the real estate industry. Rapidly increasing use cases include - automating property appraisal, optimizing leasing strategies, and using chatbots for tenant correspondence.

In the U.S., REIT giant Prologis has implemented AI in logistics facilities to optimize energy consumption and improve occupancy rate. U.S. real estate giant CBRE is developing an internal system with generative AI that makes tenant rent appraisals and contract negotiations more efficient.

In Japan, major developers like Mitsui Fudosan is using AI to analyze visitor flows within commercial properties to optimize tenant placement and planning for sales channels. Additionally, Tokyu Land Corp. implemented a system that analyzes energy consumption data for their office buildings with AI to propose energy saving measures to tenants. Such initiatives have been acknowledged from an ESG management perspective as well.

However, the effectiveness of AI is said to be based on the “quality and quantity of data.” In other words, without accurate and various data, the results are limited. Only when ample quantity and quality of data is obtained are accurate projections and decision-making possible.

There seems to be a limit with just standard contract and valuation data in the form of rent roll and appraisal data. Instead, by using actual usage data collected from IoT sensors for energy consumption status and entry/exit logs, combined with external data such as



demographics and economic data, a property's occupancy and future demands can be assessed multidimensionally. This will directly translate to projecting vacancy risk and expected average rents, which should dramatically raise the quality of decision-making in property investment and management.

Generative AI is also being deployed for recurring work such as drafting investor reports and generating leasing ads, which creates hope to compensate for the lack of human capital. In the U.S., CBRE IM<sup>5</sup> is an example of leveraging AI to reduce the annual costs to prepare market and investor reports by several hundred million dollars.

In the future, the gap between real estate firms that effectively use AI and those that do not may widen. As generative AI quickly becomes a vital infrastructure in real estate management, investors may perhaps adopt a new criterion in investment decisions – the AI-adaptability of asset management firms.

*by Shigeru Hirai, Quality Control Office*

(Source: Prologis Research, CBRE report and press release, PR Times, Tokyu Fudosan News)