



Building a better working world

Fixed asset valuation support service

Helping you revisit the value of your fixed assets

Ernst & Young Tax Co.

What is a fixed asset valuation support service?

This service involves reviewing the appraisal values of new and existing buildings which were originally assessed by local authorities and utilized as taxable bases for the purpose of determining fixed asset taxes, city planning taxes and real estate acquisition taxes. The fixed asset valuation support service offered by Ernst & Young Tax Co. ("EY Tax") can help verify appraisal values to identify potential miscalculations of the taxable bases of your properties.

Appraisal values of properties are not always calculated appropriately!

Fixed asset appraisal values are calculated by the relevant local authorities based on fixed property valuation standards set forth by the Ministry of Internal Affairs and Communications, and include the use of the designs, quotations, and preliminary inspections of buildings. However, this appraisal method is ambiguous especially in terms of the fixed property valuation standards applied to large-scale buildings. Furthermore, it is often the case that local authorities lack sufficient human resources with expert architectural knowledge necessary to conduct such appraisals. For these reasons, the local authorities' appraisal value of buildings may exceed their respective market values.

EY Tax's affiliate, Ernst & Young Business Partner Co., Ltd., has a leading track record in Japan of optimizing fixed asset valuations of new and existing buildings and working with local authorities to recommend revisions for a more appropriate valuation. These credentials in revaluing office buildings, commercial facilities, factories, logistics facilities and other properties nationwide can be leveraged to provide support in achieving a more adequate appraisal value for your building.

The advantages of this service

Business corporations may be able to reduce the fixed asset taxes of properties held for use in their business operations, while real estate companies, property investment funds and J-REITs may be able to reduce the fixed asset taxes of portfolio investment properties they own. As a by-product of these reductions, clients may be able to improve the annual cash flow and profit of their properties.

Furthermore, from a corporate real estate (CRE) strategy perspective (an investment and utilization strategy employed to increase the corporate values of real estate owned by companies), this service could result in higher value of properties used for business purposes when revalued using the income approach. It may also result in higher value of profit-generating properties and increases in the sales prices of investment properties.

Types of properties suitable for our service (examples):

- ▶ **Building use:** Office buildings, commercial facilities, factories, logistics facilities, data centers, R&D centers and other large buildings with total floor areas of approximately 10,000m² or more (e.g. housing complexes)
- ▶ **Location:** Nationwide coverage.
- ▶ **Year of construction:** Buildings constructed in 1985 or later.



In the event the annual reduction of the taxable base is JPY1 million

An increase in net operating income of JPY1 million
Capitalization rate: 5.0%

Appraisal value using the income approach JPY1 million ÷ 5% results in an increase of JPY20 million

Our credentials

Examples of cases (by building use) where we have provided successful fixed asset valuation support to our clients are as follows:

Existing buildings

- ▶ Office buildings
- ▶ Commercial facilities
- ▶ Factories, logistics facilities
- ▶ Data centers

New buildings

- ▶ Large-scale commercial facilities
- ▶ Factories, logistics facilities
- ▶ Amusement facilities
- ▶ Hotels, commercial facilities

Our policies for helping you revisit the value of your fixed assets:

- ▶ If the valuations of local authorities are found to be inappropriate, we will rationally discuss the issue with the local authorities by using figures derived from quotations, construction plans, etc. to support our comments. No negotiations will involve complaints or other interactions of a confrontational nature. All discussions held with the local authorities regarding errors and progress reports will be disclosed to clients in detail.
- ▶ This service is jointly provided by Ernst & Young Tax Co. and Ernst & Young Business Partner Co., Ltd. and will generally not be outsourced to third parties that are not EY member firms.

Service fees

- ▶ New buildings: In general, fixed fees per building
- ▶ Existing buildings: Contingency fees

Approach to existing buildings

Calculation method of the appraisal value of an existing building (General idea)



* Reconstruction expense correction rates and price fluctuation corrective coefficients are updated every 3 years by the Ministry of Internal Affairs and Communications.

* Aging reduction correction rates are set forth by building structure and use.

Errors in the appraisal value of a newly-constructed building leads to an excessive tax burden occurring over a long period of time. We will verify the appropriateness of your building's appraisal value by analyzing relevant information from when the building was constructed. If the appraisal value is found to be inappropriate, we will work with the local authorities to make revisions as necessary. In addition to enjoying reduction of taxes after revisions have been implemented, tax refunds may also be available for certain prior years.

First phase

About 1 week

A review of the overview of the appraisal value of all buildings

- ▶ Location, use, structure, floor area, year of construction and fixed asset appraisal value

Identification of buildings with potentially excessive appraisal values

Second phase

2 months

A detailed review of the appraisal calculations of buildings

Submissions of requests for the disclosure of information from local authorities, which form the basis of their appraisal value calculations

*No fees will be charged up to this point, except for certain cases.

Third phase

2 to 6 months
(May exceed a year in certain cases)

A thorough review of the appraisal, identification of areas that require adjustment and provision of support in the negotiations conducted with the local authorities

Approach to new buildings

Appraisal of a new building (General idea)



We will first evaluate your new building based on the same fixed property valuation standards applied by the relevant local authorities and then compare and test our appraisal results with the content of valuations conducted by the relevant local authorities. If the content of the valuations conducted by the local authorities are found to be inappropriate, we will work with the local authorities to obtain a consensus on revision of the valuations. This service may not only result in the reduction of fixed asset taxes and city planning taxes but also in a reduction in real estate acquisition taxes.

Contact

Comments or inquiries regarding this service may be directed to Brand, Marketing and Communications.

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About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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About EY's Tax services

EY's tax professionals in Japan provide you with deep technical knowledge, both global and local, combined with practical, commercial and industry experience. Our highly regarded tax professionals operate in four major cities in Japan. Our talented people, consistent methodologies and unwavering commitment to quality service help you to build the strong compliance and reporting foundations and sustainable tax strategies that help your business succeed.

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