Japan

MARKET REVIEW

Overview of lease market. Total lease transaction volume for FY2015 was ¥5,039.3bn, an increase of 4.4% compared with FY2014; and leasing capital investment was ¥4,721.3bn, an increase of 7.0% compared with FY2014, representing a rise for the first time in two years since FY2013.

Leasing percentage (ratio of leasing capital investment to the total private capital investment) in FY2015 was 6.73%; i.e. approximately 7% of private capital investments were made through leasing.

Lease transaction volume by type of equipment in FY 2015. Industrial equipment (12.4% up), factory equipment (29.2% up) and others (22.5% up) had showed a double-digit increase. Information and communication equipment (2.5% up) and medical equipment (9.1% up) had also showed positive growth. On the other hand, office equipment (2.7% down), construction equipment (8.8% down), transport equipment (3.4% down) and commercial and service equipment (2.7% down) had showed negative growth respectively.

Lease transaction volume by size of lessee and by lessee's business type in FY2015. "Small and medium-sized companies" (companies with capital of ¥0.1bn and less or solo proprietors), which accounted for approximately 50% of total lessees showed a rise (10.2% increase) for the first time in two years and "large companies" (companies with capital of over ¥0.1bn) declined (3.7% down) for the third year in a row. "Manufacturing" (11.5% increase) and "non-manufacturing" (2.8% increase) had increased for the first time in two years.

Leasing capital investment for FY2015 on a consolidated basis. Leasing capital investment for FY2015 on a consolidated basis was ¥6,733.9bn, an increase of 9.3% compared with FY2014. Components were ¥5,527.7bn for domestic leasing (9.0% increase) and ¥1,206.2bn for overseas leasing (11.0% increase).

Laws and government policies

Legal characteristics of finance lease contracts. Finance lease contracts have a characteristic of financing, but it is only one of the characteristics of finance lease contracts.

The Legislative Council, which is an advisory council to the Minister of Justice, continued deliberations from September 2009 to February 2015 on revising the provisions on claims under the Civil Code.

Table 1: Lease transaction volume, leasing capital investment and level of penetration

	Lease transaction volume (¥bn)		Leasing capital investment (¥bn)		Total private capital investment (¥bn)		Penetration (%)
Fiscal year	(A)	Yearly change (%)	(B)	Yearly change (%)	(C)	Yearly change (%)	(B)/(C)
2000	7,945.7	7.3	6,992.2	6.2	72,076.4	3.2	9.70
2001	7,733.7	–2.7	6,914.8	–1.1	67,686.7	–6.1	10.22
2002	7,374.3	–4.6	6,605.2	–4.5	64,418.7	–4.8	10.25
2003	7,377.8	0.0	6,591.7	–0.2	65,848.1	2.2	10.01
2004	7,625.2	3.4	6,808.6	3.3	67,846.9	3.0	10.04
2005	7,941.3	4.1	7,101.7	4.3	70,635.7	4.1	10.05
2006	7,867.7	–0.9	7,121.3	0.3	74,650.7	5.7	9.54
2007	7,154.2	–9.1	6,342.0	–10.9	76,831.7	2.9	8.25
2008	6,056.4	–15.3	5,444.4	–14.2	71,014.7	–7.6	7.67
2009	4,921.9	–18.7	4,405.8	–19.1	60,718.0	–14.5	7.26
2010	4,555.3	–7.4	4,116.1	–6.6	61,945.1	2.0	6.64
2011	4,599.7	1.0	4,168.2	1.3	64,316.7	3.8	6.48
2012	4,875.4	6.0	4,510.6	8.2	64,797.9	0.7	6.96
2013	5,239.0	7.5	4,841.1	7.3	67,355.5	3.9	7.19
2014	4,825.2	–7.9	4,413.2	–8.8	68,389.6	1.5	6.45
2015	5,039.3	4.4	4,721.3	7.0	70,104.3	2.5	6.73

Source: JLA.
Note:
Total private capital investment, based upon nominal value, is researched by the Cabinet Office.
Fiscal year above is defined as the accounting period from April 1 to March 31.
The statistics above do not include hire-purchase transactions.

ASSOCIATION

JAPAN LEASING ASSOCIATION
Fukokuseimei Bldg., 2-2-2, Uchisaiwaicho-cho,
Chiyoda-ku, Tokyo, Japan, 100-0011
Tel: +81 3 3595 1501
Fax: +81 3 3595 2230
Website: www.leasing.or.jp
Chairman:
Yoshinori Kawamura, Sumitomo Mitsui Finance and Leasing Co., Ltd.
Vice Chairman:
Shuzo Fruya, JA Mitsui Leasing, Ltd.
Tadashi Shiraishi, Mitsubishi UFJ Lease & Finance Co., Ltd.
Makoto Inoue, ORIX Corp.
Hiroshi Motoyama, IBJL Leasing Co., Ltd.
Kenji Inaba
Senior Managing Director:
Kenji Inaba

During the deliberations, it was proposed that finance lease contracts be explicitly prescribed in the Civil Code. Two methods of prescribing finance lease contracts were considered. One is to prescribe them separately as a new typical contract1 and the other is to prescribe them in the section of leases (hereinafter leases as defined by the Civil Code are referred to as "Leases").

In Japan, the provisions of the lease contract template developed by the Japan Leasing Association have been used in practice as an established commercial customary law. Therefore, there is no need to prescribe finance lease contracts as a new typical contract.

Furthermore, the proposed definition provision failed to clearly distinguish finance leases from Leases. For these reasons, many public comments were against the idea of prescribing finance lease contracts as a typical contract.

On the other hand, the proposal to prescribe finance lease contracts in the section of Leases is to treat finance leases as a contract similar to Leases as currently defined by the Civil Code and apply the provisions on existing provisions on Leases to them except for those provisions that are inconsistent with the characteristics of finance lease contracts.

However, as it was unclear whether the proposed finance lease was the same as the lease that was currently recognised as a finance lease in practice for accounting purposes, it was expected that such a revision would increase the risk of legal disputes on the applicability of the finance lease provisions under the Civil Code.

It was also expected that explicitly prescribing the applicability or non-applicability of Leases provisions to finance leases would cause various harms and confusions to lease transactions carried out under the current commercial customary law. For these reasons, the proposal to treat finance leases as a contract similar to Leases met even more negative options than the proposal to prescribe finance lease contracts as a new typical contract.

The deliberations of the Legislative Council were completed in February 2015 and a bill to amend the Civil Code was submitted to the 2015 ordinary Diet session on March 31, 2015. However, finance lease contracts were not included in the bill due to the developments described above.

Although the bill to amend the Civil Code was submitted to the Diet session mentioned above, the deliberation of the bill was not completed then or at later sessions due to the existence of higher-priority bills and has not passed into law as of the time of this writing (August 2016). If the bill to amend the Civil Code is passed into law, the amended Civil Code will be enforced within three years from the date of promulgation.

As the proposed revision of the Civil Code is the most comprehensive revision since its initial enforcement in 1898 and is also expected to significantly affect the legal relationship between the parties of lease contracts, the Japan Leasing Association is currently preparing for a revision of its lease contract template.

Lease-related laws and regulations. In Japan, there is no law that specifically regulates leasing business or leasing companies. However, leasing business carried on by subsidiaries of financial institutions (banks, insurance companies, etc.) is regulated by the Banking Act and other related laws and regulations.

As the equipment that is the subject of lease transactions and parties to lease contracts are diverse, leasing companies need to comply with various laws and regulations that are applicable to them. For example, if leased equipment is to be disposed of at the expiration of the lease period, laws and regulations applicable to such a disposal include the Waste Disposal and Public Cleansing Act (Waste Disposal Act), the Act on Securing Quality, Efficacy and Safety of Pharmaceuticals, Medical Devices, Regenerative and Cellular Therapy Products, Gene Therapy Products, and Cosmetics (Act on Pharmaceuticals, Medical Devices, etc.), the Act on the Rational Use and Management of Fluorocarbons (Fluorocarbons Emission Control Act), and other environmental laws and regulations.

On the other hand, lease contracts with consumers are governed by the Consumer Contract Act and the Act on Specified Commercial Transactions. In addition, as finance lease contracts fall under the category of Specified Transactions prescribed by the Act on Prevention of Transfer of Criminal Proceeds (Criminal Proceeds Transfer Prevention Act), leasing companies are required to conduct, among others, customer identification and screening when a finance lease contract is concluded and reporting of suspicious transactions to the competent authority.

While leasing companies are naturally obligated to comply with these laws and regulations, the Japan Leasing Association annually submits recommendations to the government for the reform of any regulations that are clearly unreasonable for lease transactions and systems under which the use of leases is prohibited or restricted.

Government policies using leases. Government policies using leases can be classified into the following three categories:
(a) tax credits for certain capital investments;
(b) subsidies; and
(c) government insurance.

(a) Tax credits for certain capital investments. When a corporation or individual has introduced certain specified machinery and equipment (limited to new machinery and equipment) through a finance lease transaction, they are entitled to tax credits of an amount calculated as a certain percentage of the total lease payments that can be deducted from the amount of their corporation tax or income tax liability in the year in which the machinery and equipment has been put to use for their business (i.e. the year in which the lease commences).

Such tax credits are currently available in cases where an enterprise (including large enterprises) has introduced equipment under a lease contract for the purpose of productivity improvement (taxation system to promote capital investment for productivity improvement; applicable until March 31, 2017) and where a small and medium-sized enterprise has introduced machinery (taxation system to promote capital investment by small and medium-sized enterprises; applicable until March 31, 2017) or environment-related equipment (green investment tax credits; applicable until March 31, 2018) under a lease contract.

In Japan, fixed property tax is imposed on land, buildings and depreciable asset for depreciable operating assets. The 2016 tax reforms in Japan include a measure to cut fixed property tax by half for three years when a small and medium-sized enterprise introduces machinery and equipment pursuant to the provisions of the Small and Medium-sized Enterprises Business Enhancement Act.

In principle, the owner of the applicable machinery and equipment is required to pay fixed property tax (in the case of a leased property, the leasing company is the taxpayer). However, a leasing company is entitled to the tax reduction mentioned above also in the case of the introduction of machinery and equipment under a finance lease, provided that it has indicated to the lessee that the lease payments are to reflect the reduction of fixed property tax that is available to the leasing company.

(b) Subsidies. Under specific policy objectives, the national or local governments grant subsidies to cover part of lease payments to persons engaging in certain specified businesses when they have introduced equipment under a lease contract. Such subsidies are currently granted for the purpose of supporting rehabilitation of small and medium-sized enterprises that are the victims of the Great East Japan Earthquake and for the purpose of facilitating the introduction of energy-saving facilities and low carbon equipment by a small and medium-sized enterprise. In addition, various subsidies for those who engage in agriculture and forestry have been created.

(c) Government insurance. The "low carbon equipment lease credit insurance" is an insurance programme under which 50% of the damage suffered by the lessor who had concluded a finance lease contract with a small and medium-sized enterprise, etc. for eligible carbon equipment when it can no longer receive lease payments due to, for example, the default of the lessee is compensated for by insurance proceeds paid by the government.

The "compensation programme for the promotion of investment in state-of-the-art equipment using leases" was created in March 2014 as part of government policies under the Japan Revitalisation Strategies. Under this programme, when a loss is incurred on the residual value of the leased equipment at the expiration of an operating lease contract, part of the loss is compensated for by the national government. This programme ended on March 31, 2016. During the two years when the programme was in operation, capital investment of ¥200bn using operating leases was realised.

Table 2: Trend in lease transaction volume by type of equipment

	Lease transaction volume (¥bn)				Component ratio (%)				Yearly change (%)			
	FY2012	FY2013	FY2014	FY2015	FY2012	FY2013	FY2014	FY2015	FY2012	FY2013	FY2014	FY2015
Information and communication equipment	1,631.6	1,766.2	1,555.5	1,594.0	33.5	33.7	32.2	31.6	–0.3	8.2	–11.9	2.5
Computer hardware	814.7	940.7	798.0	810.7	16.7	18.0	16.5	16.1	0.8	15.5	–15.2	1.6
Computer software	429.6	449.2	368.7	380.8	8.8	8.6	7.6	7.6	3.9	4.6	–17.9	3.3
Telecommunication equipment	387.4	376.4	388.8	402.5	7.9	7.2	8.1	8.0	–6.6	–2.8	3.3	3.5
Office equipment	447.3	456.8	441.7	430.0	9.2	8.7	9.2	8.5	5.9	2.1	–3.3	–2.7
Industrial equipment	500.7	562.3	548.0	615.8	10.3	10.7	11.4	12.2	4.0	12.3	–2.5	12.4
Factory equipment	108.9	104.2	87.5	113.1	2.2	2.0	1.8	2.2	–5.3	–4.3	–16.0	29.2
Construction equipment	159.4	180.0	150.5	137.3	3.3	3.4	3.1	2.7	25.3	12.9	–16.4	–8.8
Transport equipment	621.8	661.0	631.5	610.3	12.8	12.6	13.1	12.1	19.8	6.3	–4.5	–3.4
Automobile	515.0	546.6	527.6	546.3	10.6	10.4	10.9	10.8	17.8	6.1	-3.5	3.5
Vessel	10.1	3.5	1.6	2.0	0.2	0.1	0.0	0.0	224.3	–65.6	–55.3	27.0
Medical equipment	272.8	302.3	227.8	248.5	5.6	5.8	4.7	4.9	4.8	10.8	–24.6	9.1
Commercial and service equipment	650.4	662.4	629.4	612.3	13.3	12.6	13.0	12.2	5.2	1.8	–5.0	–2.7
Commercial equipment	405.5	429.3	437.1	412.7	8.3	8.2	9.1	8.2	5.1	5.9	1.8	–5.6
Others	482.4	543.9	553.3	678.1	9.9	10.4	11.5	13.5	14.9	12.8	1.7	22.5
Physical and chemical equipment	59.6	57.5	49.0	55.1	1.2	1.1	1.0	1.1	4.2	–3.6	–14.7	12.4
Total	**4,875.4**	**5,239.0**	**4,825.2**	**5,039.3**	**100.0**	**100.0**	**100.0**	**100.0**	**6.0**	**7.5**	**–7.9**	**4.4**

Source: JLA
Note:
FY above is defined as the accounting period from April 1 to March 31.The statistics above do not include hire-purchase transactions

Taxation

Outline of lease taxation. *Definition of lease transaction.* Under the current lease taxation, a lease is defined as a rental transaction of assets which meets both of the criteria below. However, the definition of lease in the tax treatment does not include either a rental transaction of land which does not transfer the title to the land to the lessee or other transactions specified by ordinances:

(i) A lease which is non-cancelable for the lease term, or a lease that is similar to that.

(ii) A lease in which the lessee is able to substantially derive all the economic benefits arising from the leased asset, and the lessee pays substantially all of the costs arising from the use of assets.

Classification for lease transaction. The definition of "lease" under the tax treatment is similar to that of a finance lease under the lease accounting standard. Therefore, "a lease" defined under the tax treatment is similar to a finance lease defined under the lease accounting standard. Any other rental transaction in the tax treatment is classified as an operating lease in the lease accounting standard.

A rental transaction of land which does not transfer the title of the land is out of scope of the lease defined in the tax treatment. If a rental transaction transfers the title to the land to the lessee, that kind of rental transaction is included in the scope, and the lease is treated as a lease which transfers the title of the leased asset to the lessee.

A lease is classified as either a lease which transfers the title of the leased asset to the lessee or a lease which does not. If a lease meets one of the criteria below, that lease is classified as a lease which transfers the title of leased asset to the lessee.

(i) A lease which includes a title-transfer option: A lease grants a lessee an option which transfers the title of the leased asset at a nominal price or nil during the lease term or at the end of the lease term.

(ii) A lease which includes a bargain purchase option: A lease grants a lessee an option which enables the lessee to purchase the leased asset at a significantly advantageous price for the lessee during the lease term or at the end of the lease term.

(iii) A lease in which the leased asset is not able to be distinguished from the lessee's own assets, and a lease in which only the specific lessee will or can use the leased asset: It is expected that only the specific lessee will or can use the leased asset for the economic life of the asset, from the standpoint of the type, usage and location of the leased asset. In addition, a leased asset is not able to be distinguished from the other assets owned by the lessee.

(iv) A lease whose lease term is significantly shorter than the legal economic life of the leased asset: A lease term is significantly shorter than the legal economic life of the leased asset (only if it is expected that the short-term lease causes substantial tax reduction for the lessee.).

There is no criterion (iv) in the lease accounting standard. If a lease term is much shorter than the legal economic life of the leased asset, the lease (a finance lease) is treated as a lease which transfers the title of leased asset to the lessee under the tax treatment even if the lease does not legally transfer the title to the leased asset to the lessee.

A lease term should be more than 70% of the legal economic life of leased asset, if the economic life of leased asset is less than 10 years. If the legal economic life of the leased asset exceeds 10 years, a lease term should be more than 60% of the legal economic life.

Judgment for lease transaction. If a lessee pays the amount approximately more than 90% of the acquisition cost of the leased asset during the non-cancelable lease term, that kind of rental transaction meets the criteria that a lessee pays substantially all of the costs arising from the use of the assets. The acquisition cost of the leased asset includes the interest expense incurred by a lessor for the acquisition of the leased asset, personal property tax, insurance cost and other additional costs.

Basis of taxation on lease transaction. A lessor and a lessee would calculate their taxable income by each fiscal year, as if a leased asset were sold or purchased when the leased asset was delivered from the lessor to the lessee.

Depreciation on leased assets. A lessee should depreciate its leased asset based on a specified depreciation method, which is called a "straight-line method during the lease term". A lessee is required to attach a statement for how the lessee calculates the

Table 3: Trend in lease transaction volume by size of lessee

	Lease transaction volume (¥bn)				Component ratio (%)				Yearly change (%)			
	FY2012	FY2013	FY2014	FY2015	FY2012	FY2013	FY2014	FY2015	FY2012	FY2013	FY2014	FY2015
Large companies	2,192.1	2,136.6	1,979.8	1,905.5	45.0	40.8	41.0	37.8	10.0	–2.5	–7.4	–3.7
Listed companies	1,085.2	954.5	841.8	807.9	22.3	18.2	17.4	16.0	5.7	–12.0	–11.8	–4.0
Small and medium-sized companies	2,284.1	2,644.8	2,362.8	2,603.5	46.8	50.5	49.0	51.7	2.4	15.8	–10.7	10.2
Public sector and others	399.3	457.5	482.9	530.3	8.2	8.7	10.0	10.5	6.3	14.6	5.6	9.8
Total	**4,875.4**	**5,239.0**	**4,825.2**	**5,039.3**	**100.0**	**100.0**	**100.0**	**100.0**	**6.0**	**7.5**	**–7.9**	**4.4**

Source: JLA
Note:
FY above is defined as the accounting period from April 1 to March 31.The statistics above do not include hire-purchase transactions

expenses recognised as depreciation expenses when submitting its tax return.

$$\frac{\text{(Acquisition cost} - \text{Residual value guaranteed by a lessee)}^{2}}{\text{The number of months in the lease term}} \times \text{The number of months in the lease term in the FY}$$

A lessee is not allowed to account for a leased asset in accordance with the straight-line method during the lease term, if that leased asset arises from a lease which transfers the title of leased asset to the lessee. The lessee would depreciate that leased asset over its legal life, using the same depreciation method the lessee applies to the assets owned by the lessee.

Lease payment. A lessee should account for the interest component included in the total lease payments as interest expense. A lessee is allowed to treat that interest expense as tax-deductible in each fiscal period, regardless of whether a lessee recognises the interest expense using the effective interest method or the straight-line method in which a lessee evenly allocates interest component of lease payments over the lease term.

Furthermore, unless leases are material for a lessee, the lessee is also allowed to account for the total amount of lease payments without allocating that amount between the interest component and the repayment of the liability in the lease accounting standard. If a lessee chooses this accounting method, the lessee would treat the amount of the lease payments as the amount of depreciation expense for a finance lease in which the lease payments are regularly fixed and does not include any contingent rentals and so on.

If a lessee accounts for maintenance costs or other service costs separately from the total lease payments, the lessee is allowed to treat the maintenance costs or other service costs as tax-deductible.

Tax treatment for finance lease accounted for in accordance with accounting requirements for a rental transaction. Under the lease accounting standard, there are some cases in which a lessee and a lessor are allowed to account for a finance lease which does not transfer the title of leased asset, according to the accounting method for a rental transaction (i.e. off-balance-sheet treatment

Table 4: Trend in lease transaction volume by lessee's business type

	Lease transaction volume (¥bn)				Component ratio (%)				Yearly change (%)			
	FY2012	FY2013	FY2014	FY2015	FY2012	FY2013	FY2014	FY2015	FY2012	FY2013	FY2014	FY2015
Agriculture, forestry, fisheries, and mining and quarrying of stone and gravel	31.3	70.7	52.9	76.0	0.6	1.3	1.1	1.5	13.7	125.7	–25.2	43.8
Construction	222.9	272.8	260.1	272.9	4.6	5.2	5.4	5.4	11.3	22.4	–4.7	5.0
Manufacturing	931.1	966.4	881.0	981.9	19.1	18.4	18.3	19.5	–0.4	3.8	–8.8	11.5
Manufacture of food	166.8	167.9	142.8	150.2	3.4	3.2	3.0	3.0	17.1	0.7	–15.0	5.2
Textile mill, lumber and wood, and pulp products	80.1	84.5	69.8	72.5	1.6	1.6	1.4	1.4	–1.0	5.5	–17.4	3.8
Chemical and allied, petroleum and coal, plastic products	98.0	91.4	93.3	88.4	2.0	1.7	1.9	1.8	4.3	–7.7	2.1	–5.2
Iron and steel, non-ferrous metal, and fabricated metal products	105.6	110.6	108.1	113.9	2.2	2.1	2.2	2.3	–5.8	4.8	–2.3	5.4
Production, electrical, information and communication, Transportation machinery	342.4	353.4	343.6	435.1	7.0	6.7	7.1	8.6	–9.2	3.2	–2.8	26.6
Others	138.2	158.5	123.5	121.8	2.8	3.0	2.6	2.4	8.1	14.6	–22.1	–1.4
Non-manufacturing	3,298.7	3,527.2	3,173.4	3,263.2	67.7	67.3	65.8	64.8	6.9	6.9	–10.0	2.8
Electricity, gas, heat supply and water	58.9	77.0	58.4	80.6	1.2	1.5	1.2	1.6	89.9	30.7	–24.2	38.1
Information and communications	257.8	227.9	252.8	256.7	5.3	4.4	5.2	5.1	–8.7	–11.6	10.9	1.5
Transport and postal activities	303.2	315.2	278.4	299.2	6.2	6.0	5.8	5.9	10.5	3.9	–11.7	7.5
Wholesale and retail trade	887.7	1,019.9	917.0	873.6	18.2	19.5	19.0	17.3	5.4	14.9	–10.1	–4.7
Finance and insurance	134.1	136.1	117.4	124.7	2.7	2.6	2.4	2.5	19.9	1.5	–13.8	6.2
Real estate, goods rental, and leasing	353.2	330.8	358.7	373.9	7.2	6.3	7.4	7.4	38.3	–6.3	8.4	4.3
Accommodations, eating and drinking services	107.9	112.3	96.8	115.8	2.2	2.1	2.0	2.3	4.7	4.1	–13.8	19.6
Medical, healthcare and welfare	347.7	400.1	324.9	377.9	7.1	7.6	6.7	7.5	2.6	15.1	–18.8	16.3
Services, N.E.C.	848.3	907.8	769.2	760.9	17.4	17.3	15.9	15.1	0.1	7.0	–15.3	–1.1
Government, except elsewhere classified	391.4	401.9	457.9	445.2	8.0	7.7	9.5	8.8	11.5	2.7	14.0	–2.8
Total	**4,875.4**	**5,239.0**	**4,825.2**	**5,039.3**	**100.0**	**100.0**	**100.0**	**100.0**	**6.0**	**7.5**	**–7.9**	**4.4**

Source: JLA
Note:
FY above is defined as the accounting period from April 1 to March 31.The statistics above do not include hire-purchase transactions

for lessees). However, under the tax treatment for leases, such finance leases are still treated as sale/purchase transaction of leased asset (that is, the amount a lessee recognises as a lease expense in the profit-and-loss statement is classified as depreciation in the tax treatment). In this case, a lessee is not required to submit a statement for how the lessee calculates the expenses recognised as depreciation expenses.

Tax treatment on lessor. There is a regulation in the tax treatment for a case that a lessor accounts for leases in accordance with the regulation of deferred payments. In the regulation, a lessor would account for leases as if the lessor provided long term-instalment sales. Regardless of whether a lessor chooses any of the three accounting methods in the lease accounting standard, called "accounting method 1, 2 or 3", there is no difference between the interest revenues and the taxable income calculated based on the regulation of deferred payments. Therefore, a lessor is allowed to apply the regulation of deferred payments in the tax treatment, regardless of the accounting method the lessor chooses.

Treatment for leased asset after the lease term. A lessor should treat an asset returned from a lessee at the end of a lease as if the lessor newly acquired that asset from the lessee. The amount of the acquisition cost should be the fair value of the asset at the point the lessor receives the asset from the lessee. If it is difficult for a lessor to measure the asset at the fair value, the lessor is allowed to use the estimated residual value in the lease accounting standard instead of the fair value.

If a lessee chooses to continuously use the leased asset after the initial lease term (the lease term of the finance lease), the lease term would be extended. The lessor would start to depreciate the leased asset over the estimated economic life of the asset or the term below. If the depreciable term has a fraction less than one year, the fraction would be cut off. If the depreciable term is less than two years, the depreciable term should be two years.

(i) If the initial lease term is longer than the legal economic life of the leased asset, the depreciable life of the returned asset is 20% of the legal useful life.
(ii) If the initial lease term is less than the legal economic life of the leased asset, the depreciable life of the returned asset is 20% of the initial lease term plus the term calculated by means of deducting the initial lease term from the legal useful life of the leased assets.

Sale-and-leaseback transaction. A sale-and-leaseback transaction is a transaction in which a lessee sells its own asset to a lessor, and the lessee uses the asset through a lease with the lessor.

Some sale-and-leaseback transactions are regarded as not sale-and-purchase transactions but loans to a lessee, based on the type of leased asset as well as the situation and the circumstance. If a sale-and-leaseback transaction is regarded as a loan to a lessee, the lessee and the lessor should calculate the amount of the taxable income by each fiscal year, as if there were not a sale/purchase transaction of leased asset, but a loan from the lessor to the lessee.

Consumption tax. Consumption tax is levied on the amount of consideration paid in certain transactions (i.e. transfer of assets, rental of assets and provision of services) carried out by business operators for consideration in the course of its business in Japan and the amount of acceptance value (including customs duty) of foreign goods that are accepted from the bonded area.

The consumption tax rate is currently 8% including local consumption tax, but it has already been decided that the rate will be raised to 10% as of April 1, 2017.

For finance lease transactions (lease transactions under the Corporation Tax Act), consumption tax is levied on the total lease payments when the asset is delivered (date of inception of the lease).

The lessee deducts the consumption tax amount levied on the total lease payments as the consumption tax amount pertaining to taxable purchase from the consumption tax amount pertaining to its taxable sales at once in the tax period to which the date of inception of the lease belongs. However, if the lessee accounts for lease payments as a rental transaction, it may deduct only the consumption tax amount levied on the lease payments paid during each tax period as the consumption tax amount pertaining to taxable purchase (deduction in instalments).

Table 5: Trend in leasing capital investment (consolidated basis)

		Leasing capital investment (¥bn)				Component ratio (%)				Yearly change (%)		
		FY2012	FY2013	FY2014	FY2015	FY2012	FY2013	FY2014	FY2015	FY2013	FY2014	FY2015
Domestic	Finance lease	4,440.9	4,981.6	4,407.1	4,766.9	80.1	77.8	71.5	70.8	12.2	–11.5	8.2
	Operating lease	583.9	662.2	666.5	760.8	10.5	10.3	10.8	11.3	13.4	0.7	14.1
	Total	5,024.8	5,643.8	5,073.6	5,527.7	90.6	88.1	82.4	82.1	12.3	–10.1	9.0
Overseas	Finance lease	293.5	353.9	387.6	374.9	5.3	5.5	6.3	5.6	20.5	9.5	–3.3
	Operating lease	225.0	404.8	699.5	831.3	4.1	6.3	11.4	12.3	79.9	72.8	18.8
	Total	518.5	758.7	1,087.1	1,206.2	9.4	11.9	17.6	17.9	46.3	43.3	11.0
Total		**5,543.3**	**6,402.5**	**6,160.7**	**6,733.9**	**100.0**	**100.0**	**100.0**	**100.0**	**15.5**	**–3.8**	**9.3**

Source: JLA
Note:
Companies subject to the consolidated lease statistics were the 27 companies to which the Association's directors and auditors belong (of which 22 companies were included in the statistics)
Calculated by adding the statistics, i.e. consolidated lease statistics (after adjustment for duplication) to the non-consolidated lease statistics
FY above is defined as the accounting period from April 1 to March 31. The statistics above do not include hire-purchase transactions

The lessor, in principle, accounts for the total lease payments as taxable sales. However, if the lessor accounts for lease payments in accordance with the deferred payment basis, a special exception is permitted regarding the timing of asset transfer and for part of the asset that is deemed not to have been transferred, tax is levied in subsequent tax periods. In this case, the lessor pays, in each period, only the amount of consumption tax levied on lease payments received in each tax period.

As for operating lease transactions (rental transactions other than lease transactions under the Corporation Tax Act), consumption tax is levied on lease payments paid each month.

Personal property tax. Personal property tax is imposed on fixed assets such as land, a house, a depreciable asset, based on the Local Tax Law. The personal property tax is imposed on the value of the assets and the tax rate for depreciable assets is 1.4%.

As explained above, the Corporate Tax Law treats a finance lease which does not transfer the title of leased asset, as if a lessor sells the leased asset to a lessee, while the Local Tax Law regulates that an entity or person who is registered as an owner of the asset in the book for depreciable assets should pay the personal property tax. Therefore, a lessor would pay the personal property tax associated with leased assets as long as the lessor is registered as an owner of the leased assets. In almost all the lease transactions in Japan, lessors pay the personal property tax associated with leased assets in practice.

No personal property tax is imposed on a leased asset, if the purchase price of the leased asset is less than ¥0.2m.

Accounting for leases

Outline of lease accounting standard. *Scope.* The lease accounting standard is applied to companies to which "Accounting Guidance for SME" or "Accounting Basic Outline for SME" is not applied.

Definition of lease. A lease is defined as follows: A lessor, an owner of a leased asset, provides a lessee with a right to generate benefits by using the asset for the agreed period (lease term), while the lessee pays the agreed lease payments to the lessor.

Classification for lease. A lease is classified either as a finance lease or as an operating lease:

(i) Finance lease: A finance lease is a lease which is non-cancelable for the lease term specified by the contract or a lease which is similar to that, and in which the lessee is able to substantially derive all the economic benefits arising from the leased asset, and the lessee pays substantially all of the costs arising from using the asset over the lease term. A finance lease is classified either as "a finance lease which transfers the title of leased asset to the lessee" or as "the other finance lease which does not".

(ii) Operating lease: An operating lease is a lease which is not classified as a finance lease.

Numerical criteria for classifying finance lease. If a lease applies to either (i) or (ii) below, the lease is recognised as a finance lease. Even if the present value of the total lease payments for the non-cancelable lease term is 88% or even if the lease term is 73% of the economic life of the leased asset, those kinds of leases could be classified as finance leases, because the criteria include the word, "approximately".

(i) The criterion for the present value (90%): The present value of the total lease payments for the non-cancelable lease term is "approximately" 90% or more of the estimated purchase price of the leased asset by the lessee.

(ii) The criterion for the economic life of the lease assets (75%): The non-cancelable lease term is "approximately" 75% or more of the estimated economic life of the lease asset.

How to measure the present value of the total lease payments. Based on the condition of the lease payments, a lessee should measure the present value of the total lease payments at the inception of the lease. A lessee discounts total lease payments, using an imputed interest rate by a lessor. If the imputed interest rate by the lessor is not available for the lessee, the lessee is allowed to discount the total lease payments using its incremental borrowing rate.

If a lessee guarantees the residual value of the leased asset, the lessee and the lessor should include the guaranteed amount in the total lease payments when measuring the present value of the total lease payments. If a third party guarantees the residual value of the leased asset, only the lessor should include the guaranteed amount in the total lease payments.

A lessee and a lessor should account for administrative expense, such as personal property tax and insurance costs, separately from the lease payments. Similarly, a lessee and a lessor should account for maintenance expense separately from lease payments. However, a lessor and a lessee need not do so if the amount of the expenses is immaterial.

If a lease contract includes a bargain purchase option, the amount of the option should be included in the total lease payments when measuring the present value of the total lease payments.

Criteria for classifying finance lease which transfers title of leased asset to lessee. If a finance lease meets one of the conditions below, the finance lease is classified as a finance lease which transfers the title to leased asset to the lessee:

(i) A lease with a condition that the title to the leased asset transfers to the lessee: A lease contract includes a condition that the title to the leased asset transfers to the lessee for the lease term or at the end of the lease term.

(ii) A lease which includes a bargain purchase option: A lease contract which grants the lessee the right to purchase the leased asset at a nominal price or a price significantly lower than the fair value of the asset at the point of exercising the option – it is reasonably certain that the bargain purchase option will be exercised.

(iii) A lease with assets manufactured according to the specification by a lessee: A lessor is unlikely to sell or re-lease a leased asset to a third party at the end of lease term, because the asset is manufactured according to specification by a specific lessee. Consequently, it is reasonably certain that the leased asset will or can be used by only the specific lessee for the economic life of the leased asset.

Lessee accounting for finance lease. (i) Recognition of leased assets and the liabilities. A lessee should initially recognise a leased asset and the liability arising from a finance lease which does not transfer the title of leased asset to the lessee at the lower of (a) and (b) at the inception of the lease:

a) the present value of the total lease payments; or

b) the price at which the lessor has purchased the leased asset (a lessee is allowed to use the estimated purchase price, if the lessee does not know the price at which the lessor has purchased the asset).

A lessee should similarly recognise the leased asset and the liability arising from a finance lease which transfers the title of leased asset to the lessee at the price at which the lessor has purchased the asset. If a lessee does not know the price, the lessee is allowed to recognise them at the lower of the present value of the total lease payments and the estimated purchase price.

A lessee should aggregately recognise leased assets attributed to "property, plant and equipment", separating from leased assets attributed to "intangible fixed asset". A lessee is also allowed to include leased assets attributed to property, plant and equipment in "property, plant and equipment" and to include leased assets attributed to intangible fixed asset in "intangible fixed asset".

A lessee should classify the corresponding liability as follows:
a) The liability whose due date from the balance sheet date is within one year: Current liability.
b) The liability whose due date from the balance sheet date is after one year: Fixed liability.

(ii) Depreciation of leased assets. A lessee should depreciate the leased asset arising from a finance lease which does not transfer the title to leased asset to the lessee during the lease term, and the residual value of leased asset is nil. If a lessee guarantees the residual value of leased asset, the guaranteed amount should be treated as the residual value.

(iii) Accounting for lease payments. A lessee should allocate the lease payments between the interest component and the liability component. A lessee should account for the interest component as expense and account for the liability component as repayment of the liability.

The interest component should be allocated by each fiscal period over the lease term, using the effective interest method in principle. When a lessee measures the interest component, the lessee should use the interest rate that makes the present value of the total lease payments equal to the carrying amount of the leased asset and the liability. A lessee treats the amount of lease payment minus the amount of interest component as the repayment of the liability.

If a lessee classifies a lease as a finance lease, excluding the administrative expense component or maintenance expense component from the lease payments, the lessee should account for the lease payment minus those expenses based on the accounting method explained above. Those expenses excluded from lease payments should be recognised as administrative expenses or maintenance expenses.

(iv) Accounting at the end of lease term. At the end of the lease term, a lessee is not required to account for a finance lease which does not transfer the title of the leased asset to the lessee, unless the lessee guarantees the residual value of the leased asset. If a lessee guarantees the residual value of the leased asset, the lessee should account for the amount to be paid to the lessor as loss on sale etc., when the amount is fixed. The amount to be paid to the lessor is the difference between the amount guaranteed by the lessee and the actual sales value by the lessor.

(v) Accounting for lease to identical lessee after expiration (re-lease). If a lessee chooses to continue to use the leased assets after the end of the finance lease which does not transfer the title to the leased asset to the lessee, the lessee should recognise the lease payment as expense on an accrual basis.

If the title of leased asset is transferred to the lessee, the lessee should change the accounting item from "leased asset" to its own asset and continue to depreciate the asset as its own assets.

(vi) Footnote. A lessee is required to explain the depreciation method for leased assets arising from finance leases and the kinds of the leased assets in the footnote to financial statements. However, a lessee would not be required to do it if finance leases are immaterial. Leases are treated as immaterial if the balance of the remaining lease payments at the year-end is less than 10%. A lessee would judge whether the leases are material or not, as explained below.

Simplified accounting requirements by lessee for finance lease. (i) Lease assets without materiality. A lessee is allowed to account for immaterial finance leases which do not transfer the title to leased asset to the lessee in accordance with a simplified accounting method. The simplified accounting method a lessee may adopt is either (a) or (b) below:

a) The simplified accounting method in which the lessee does not allocate lease payments between interest component and liability component. A lessee recognises a leased asset and the corresponding liability at the amount of the total lease payments. The lessee only recognises depreciation expenses in profit and loss.

b) The simplified accounting method in which the lessee recognises the amount of the interest component of lease payments on a straight-line basis over the lease term. A lessee recognises a leased asset and the corresponding liability at the present value of the total lease payments or the estimated purchase price of the leased asset. Although the lessee recognises both interest payment and depreciation expense, the amount of the interest component is allocated on a straight-line basis over the lease term.

If lease payments are regularly fixed over the lease term in the lease contract, the amount of lease expense recognised by the lessee adopting one of the simplified accounting methods above would be equal to the amount of lease payments on the condition that the lessee depreciates the leased asset with "straight-line method over the lease term".

The calculation formula for the ratio of the outstanding lease payments at the year-end is:

$$\frac{\text{The balance of the remaining lease payments at the year-end}}{\text{The balance of the remaining lease payments at the year-end} + \text{the balance of the fixed assets and intangible fixed assets}} < 10\%$$

(ii) Lease with small assets and lease with short term.

a) A lease in which the amount of the total lease payments is ¥3m or less: A lessee is allowed to adopt the off-balance-sheet treatment if a finance lease which does not transfer the title to the leased asset to the lessee is immaterial on the lessee's business activity and the amount of the total lease payments is ¥3m or less. Furthermore, if a finance lease includes several assets classified to different accounting items, the lessee is allowed to allocate the amount of the total lease payments into each of accounting items in judging whether the amount of the total lease payment is ¥3m or less.

b) A lease whose lease term is one year or less: A lessee is allowed to adopt the off-balance-sheet treatment, if the lease term is one year or less. However, no lease expense arising from a finance lease whose lease term is within one year is tax-deductible under the tax treatment for leases. Therefore, there is no finance lease within one year in practice.

c) A lease in which the amount of the total lease payments is less than the amount depreciable in a lump if a lessee purchases the same asset: If leased assets are immaterial, and the amount of the total lease payments per asset is less than the amount depreciable in a lump at the moment a lessee purchases the same asset, the lessee is allowed to adopt the off-balance-sheet treatment. As some interest expenses are usually included in lease payments, a lessee is allowed to judge the amount of the total lease payments, considering the interest expenses into account.

Lessor accounting for finance lease. (i) Recognition of investment asset in leases or lease receivable. For a finance lease which does not transfer the title of leased asset to the lessee, a lessor should initially recognise an investment in lease on its balance sheet at inception, while a lessor should initially recognise a lease receivable for a finance lease which transfers the title to leased asset to the lessee. An investment in lease is composed of a right to receive lease payments in the future and the estimated residual value of the leased asset.

The amount to be recognised as "an investment in leases" or a lease receivable depends on the accounting method a lessor adopts. The accounting method 1 requires a lessor to recognise an investment in lease or a lease receivable at the amount of the total lease payments. The accounting method 2 or 3 requires a lessor to do so at the purchase price of the leased asset.

A lessor should classify its "investment in lease" or "leasing receivables" as follows:

a) Investment in lease or lease receivable arising from the lessor's main business activity: Current assets.

b) Investment in lease or lease receivable arising from the lessor's minor business activity:
   - Investment asset in lease or lease receivable which will be received within one year from the date after the balance sheet date: Current assets.
   - Investment in lease or lease receivable which will be received after one year from the date after the balance sheet date: Fixed assets.

(ii) Basis of lessor accounting. A lessor should choose one of the accounting methods and the lessor should continue to use the accounting method. In a case of a finance lease which transfers the title to leased asset, the account "investment in lease" is replaced by "lease receivable".

In Japan, total lease transaction volume for FY2015 was ¥5,039.3bn, an increase of 4.4% compared with FY2014.

The accounting method 1 is when a lessor recognises sales revenue and cost of sales at the inception of the finance lease:

- A lessor should recognise sales revenue at the amount of the total lease payments, and should recognise an investment in lease at the same amount at the inception of the lease.
- A lessor should recognise the purchased cost of the leased asset as cost of sales.
- A lessor should recognise the difference between the sales revenue and the cost of sales as interest revenue. A lessor should defer the interest revenue which should be recognised after the current period, and set off the interest revenue with the investment in lease in each year-end.

The accounting method 2 is when a lessor recognises sales revenue and cost of sales on an accrual basis:

- A lessor should recognise an investment in lease at the amount of purchased cost of the leased asset at the inception of the finance lease.
- A lessor should recognise the amount of lease payments to be received in the current period as sales revenue.
- A lessor should recognise the amount of lease payments minus the amount of interest revenue allocated in the current period as cost of sales.

The accounting method 3 is when a lessor recognises interest revenue, without recognising sales revenues:

- A lessor should recognise an investment in lease at the amount of the purchased cost of the leased asset at the inception of the finance lease.
- A lessor should allocate the lease payments to be received between interest revenue and collection of the investment in lease, and should recognise the amount of interest revenue as profit.
- A lessor should recognise the amount of lease payments minus the amount of interest revenue in the current period as collection of the investment asset in leases.

(iii) Accounting for interest revenues. The amount of interest revenue is the amount of the total lease payments and the estimated residual value minus the purchased cost of leased asset. The

amount of interest revenue in each fiscal period would be a same amount regardless of the accounting method 1, 2 or 3. A lessor should measure the amount of interest revenue with the effective interest method, using an interest rate implicit in the lease by the lessor.

(iv) Accounting for administrative cost and maintenance cost. If a lessor accounts for administrative costs or maintenance costs separately from the amount of the total lease payments to be received when classifying a lease as a finance lease or an operating lease, the lessor should recognise the amount of those costs as profit, separating from any revenue measured in either accounting method 1, 2, or 3. Otherwise, the lessor should recognise the actual cost of the fixed asset tax, insurance cost, or the others as deduction.

(v) Accounting at the end of the lease term. A lessor is required to account for an asset returned from a lessee at the end of the finance lease which does not transfer the title to the leased asset to the lessee. A lessor should transfer the account "investment in lease" to "supplies" or "property, plant and equipment" depending on its purpose for the returned asset. If a lessor sells or disposes of the returned asset, the lessor should recognise the difference between the carrying amount of the asset and the selling price as profit and loss.

(vi) Accounting for lease to the identical lessee after the expiration (re-lease). If a lessee chose to continue to use the leased assets after the end of the finance lease which does not transfer the title to the leased asset to the lessee, the lessee would enter into a re-lease. In this case, a lessor should transfer the account "investment in lease" to the account "property, plant, and equipment", and the lessor should depreciate the property, plant, and equipment over the estimated lease term of the re-lease. A lessor should recognise the lease payments to be received as revenue on an accrual basis.

(vii) Footnote. A lessor should explain its investment in lease arising from finance leases which do not transfer the title to leased asset in the footnote by disaggregating the "investment in lease" into the receivable component, the estimated residual value of leased assets (not guaranteed by lessees), and the interest component.

Lease receivable component	XXX
Estimated residual value of leased assets	XXX
Interest revenue component	XXX
Investment in lease	XXX

A lessor should explain the amount to be collected within five years and the amount to be collected after five years in the footnote for both lease receivables (arising from finance leases which transfer the title to leased asset to the lessee) and investment in lease (arising from finance leases which do not transfer the title to leased asset). A lessor should also explain the amount to be collected by each year within five years.

If the lease receivables or the investment in leases are immaterial, the lessor is not required to explain them in the footnote. Those are treated as immaterial if the total amount of the remaining lease payments to be received and the residual value of leased assets is less than 10%, as explained below. In addition, a lessor should explain in the footnote which accounting method the lessor has chosen.

Simplified accounting requirements for finance lease. A lessor is allowed to account for interest component in accordance with a simplified accounting method if the remaining balance written below is immaterial. Under the simplified accounting method, a lessor is allowed to recognise interest component on a straight-line basis over the lease term. A lessor would judge whether the investment in lease and the residual value are immaterial or not as follows. However, a lessor mainly engaged in lease transactions is not able to adopt this simplified accounting method.

The calculating formula for the ratio of the total balance at the year-end of the lease payments and the estimated residual value of the leased assets is:

$$\frac{\text{The total balance at the year-end of the lease payments and the estimated residual value of the leased assets}}{\text{The total balance at the year-end of the lease payments and the estimated residual value of the leased assets} + \text{account receivables}} < 10\%$$

Accounting for sale-and-leaseback transaction. If a sale-and-leaseback transaction is classified as a finance lease, the lessee and the lessor should account for the sale-and-sleaseback transaction in accordance with the accounting for a finance lease. The lessee should recognise the leased asset at the actual selling price of the leased asset to the lessor and depreciate the leased-back asset, while the lessor should recognise the investment in lease or lease receivable at the actual purchase price of the leased asset.

The lessee should defer the difference between the selling price and the carrying amount at the point of selling the asset to the lessor, and should recognise the difference as long-term prepaid expense or long-term deferred revenue. Based on the ratio of depreciation expense, the lessee should add the long-term prepaid expense to the depreciation expense or subtract the long-term deferred revenue from the depreciation expense.

If it is clear that loss on sales of the asset clearly arises from the estimated fair value of the asset being lower than the book value of the asset, the lessee would recognise the loss at the point of selling the asset, instead of deferring the loss.

Accounting for operating lease. A lessor and a lessee account for an operating lease in accordance with the accounting method for a rental transaction (that is, the off-balance-sheet treatment, and a lessee recognises neither a leased asset nor the corresponding liability). On the other hand, a lessor recognises an asset it leases on its balance sheet, and depreciates the asset. The lessor recognises the lease payments to be received as revenues.

A lessor and a lessee are required to explain non-cancelable operating leases in the footnote as follows:

- The amount of the remaining lease payments to be paid or received within one year after the balance-sheet date.
- The amount of the remaining lease payments to be paid or received after one year.

If an operating lease is partially non-cancelable, a lessor and a lessee are required to explain the amount of the remaining lease payments during the partially non-cancelable lease term in the footnote.

A lessee and a lessor are not required to explain an operating lease in the footnote if the operating lease meets the one of conditions below. The conditions (i) to (iii) are identical to those for a finance lease:

(i) An operating lease is immaterial for the lessee's business activity and the amount of the total lease payments is ¥3m or less. Furthermore, if an operating lease includes assets classified to different accounts, the lessee is allowed to allocate the amount of the total lease payments into each account in judging whether the amount of the total lease payments is ¥3m or less.
(ii) The lease term is one year or less.
(iii) Leased assets are immaterial, and the amount of the total lease payments per asset is less than the amount depreciable in a lump at the moment a lessee purchases the same asset.
(iv) If a lessee informs a lessor of the intention to cancel the operating lease in advance (two or three months before the cancellation date), the lessee is able to cancel an operating lease and is not required to pay the lease payment arising after the notified cancellation date. In this case, the lessee is not required to explain the lease payment arising from the notification date to the cancellation date in the footnote.

Accounting for small and medium-sized companies. A small and medium-sized company which is classifies as neither (i) nor (ii) below is able to adopt "Accounting Guidance for SME", instead of adopting the current lease accounting standard:

(i) A company, its consolidated company, and its affiliated company to which Financial Instruments and Exchange Laws applies.
(ii) A company with an accounting auditor and its consolidated company, including a company which meets the conditions below:
  - a company whose capital stock is equal to or more than ¥500m; or
  - a company whose liability is equal to or more than ¥20bn.

A lessee who applies the "Accounting Guidance for SME" may alternatively choose to account for a finance lease which does not transfer the title to leased asset to the lessee in accordance with the accounting method for a rental transaction (i.e. off-balance-sheet treatment).

Accounting basic outline for small and medium-sized companies. "Accounting Basis Outline for SME" is intended to be applied to SMEs which should apply an easier and more understandable standard than "Accounting Guidance for SME". Under the "Accounting Basis Outline for SME", a lessee would generally account for a finance lease as a rental transaction (i.e. off-balance-sheet accounting).

New international accounting standards for lease. The IASB and the FASB have deliberated for many years on the development of new lease accounting standards as part of their joint project. However, they failed to eliminate certain differences in opinion including those related to lessee accounting and have ended up publishing separate new lease accounting standards that are different to each other.

In Japan, the number of listed companies adopting IFRS has increased sharply in recent years. However, enterprises with global operations will be required to apply different lease accounting standards to the parent company and to some of its subsidiaries, which is expected to result in a significant increase in administrative work.

Following the publication of the new lease accounting standards, the Accounting Standards Board of Japan (ASBJ) announced its plan to decide whether to start deliberation on the revision of the Japanese lease accounting standards after deliberating on the needs for ensuring consistency between the Japanese lease accounting standards and international accounting standards and any related concerns.

Under the current situation in which IFRS and US accounting standards are inconsistent, the future direction of the Japanese lease accounting standards is extremely uncertain.

The Japanese accounting regime is characterised by the strong inter-relationship between consolidated financial statements and separate financial statements and between accounting and taxation system. In this structural environment, the leasing industry was significantly affected by the revision of the Japanese lease accounting standards in March 2007 and the accompanying revision of the lease taxation system.

The Japan Leasing Association plans to respond to any future developments under the basic policy that the current Japanese accounting and taxation system should be maintained despite the issuance of any new international lease accounting standards.

Notes:

1 The Civil Code specifically prescribes 13 types of contracts including sales, loans for consumption and leases. They are called typical contracts.

2 Under the tax treatment for leases, a lessee treats the amount of the total lease payments as the acquisition cost of the leased asset in principle. If a lessee recognises the leased asset at the estimated purchase price or the present value of the total lease payments in accordance with the lease accounting standard, the lessee is allowed to treat that amount as the acquisition cost. If the amount of the total lease payments includes a residual value of leased asset guaranteed by a lessee, the lessee should exclude that residual value when calculating the depreciable amount.

Author:
Yoshinori Kawamura
Chairman
Japan Leasing Association
Fukokuseimei Bldg., 2-2-2
Uchisaiwaicho-cho
Chiyoda-ku
Tokyo
Japan, 100-0011
Tel: +81 3 3595 1501
Website:
www.leasing.or.jp