

CONTENTS

Feature Articles

This month's focus: **Re-visiting Private Pension Tax Arrangements**

Overview	<i>Akiko Nomura, CMA</i>	2
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Articles

Discussion Points of the Taxation of Private Pensions in Japan	<i>Yoichi Taniuchi, CMA</i>	6
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Because of their external funded and pre-funded nature, the taxation of private pensions can be categorized in three phases: contribution, investment, and the payment of benefits. Tax incentives require a publicness and regulatory framework that are considered acceptable, and there is therefore a trade-off between them and regulations.

In Japan, some issues remain regarding the taxation of private pensions, such as the treatment of corporation tax on a retirement pension fund and strengthening of the taxation of benefit payments. However, it is necessary to restructure the taxation of private pensions based on the fairness and neutrality of such taxation rather than the superficial and one-sided expansion of preferential treatment.

Tax Treatment of Retirement Savings in Private Pension Plans in the US	<i>Kota Okada / Biena Nakamura</i>	17
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In Japan, due to the rapid aging of the population the role of public pensions has to be reduced and hence further asset accumulation through individual self-help efforts will be necessary. Here, the key is private pensions. In private pension systems such as defined contribution plans in the US, the contribution limit is approximately 10 times higher than in Japan and they allow catch-up contributions to account holders who are close to retirement age. In addition, there are various reform efforts such as promoting "automation" and solving problems in the phase of asset withdrawal (decumulation). In Japan, where longevity is higher than in the US, it is important to implement comprehensive reform of the tax treatment of retirement savings in private pension plans.

Pension System, Private Pension Tax System in the UK *Kuniaki Sano* 26

Prior to 5 April 2006, the UK pension tax system was different depending on whether a pension plan was occupational based or a personal one, and when one joined such plans. The Finance Act of 2004 introduced the annual allowance (AA) and lifetime allowance (LTA), a tax system common to all private pension plans. As a result, it was expected that the management costs of pension plans would be reduced and private pension plans subsequently promoted.

In Japan, the introduction of a common annual contribution limit to defined benefit (DB) corporate pension plans and defined contribution (DC) pension plans is being discussed. The private pension tax system in the UK can be a useful guide. However, the social background in the UK and Japan are different. For example, in the former, DB corporate pension plans provide strict protection for existing pension entitlements, but in the latter it is possible to reduce pension entitlement that has already been generated under such plans.

In introducing a “common contribution limit for DB and DC plans” in Japan, it is necessary to consider differences in the social background between it and the UK.

Private Pensions in Canada and How to Level the Playing Field ... *Yosuke Fujisawa* 39

There is a need to establish a private pension system that fairly supports the preparation of retirement income. Canada has a common tax-free saving account (TFSA) contribution room regardless of the type of private pension plan. It provides fair tax treatment regardless of an individual’s job. This article gives an overview of private pensions in Canada and explains how the common TFSA contribution room works.

Prospects

Revisiting “Value Investment and Its Future” *Hiromichi Tamura, CMA* 49

Rethinking ESG Investment: from Social and Environmental Factors other than Governance (3)

Carbon Tax and CAPM *Naoyuki Yoshino / Tomonori Yuyama, CMA* 56

Special Posting

Impact of Adopting New Accounting Standards and Audit System, Revision Trends: Accounting standards on revenue recognition, key audit matters (KAM) *Koei Otaki, CMA* 66

SME Measures in Singapore under COVID-19		
.....	<i>Masashi Ikeda, CMA / Noriko Fukumitsu</i>	76
	Based on our research across regions/countries, central and local governments have introduced anti-COVID-19 measures that reflect their particular microstructure and uniqueness. In this report, we reveal Singapore’s involvement in 1) SME digitalization and 2) sightseeing/inbound strategy under COVID-19. There still remains a dilemma between economic recovery/activities and medical policies to maintain the lifestyle of the public, but we are convinced that “add-on” policy/tactics on exiting those must be identical and essential, especially from medium and long-term viewpoints.	
Point of View	<i>Yasuhiro Atsumi</i> 85
Articles		
Consideration of the Momentum Effect and Implications for Investment Practice		
.....	<i>Yasuhiro Iwanaga</i>	90
	This paper confirms the possibility that the behavioral finance framework can explain the background of the momentum effect for country-level stocks, bonds, and commodities as well as for individual stocks. The results of this analysis suggest that it may be possible to predict, to some extent, periods in which the momentum effect is effective and those in which it is not. The results also suggest that the returns of investment strategies that rely on the momentum effect may be highly correlated with the returns of trend-following strategies.	
Book Reviews		
.....	<i>Akihiko Oba, CMA / Kei Kodachi, CMA / Tadashi Nunami</i>	100
SAAJ News	107