

September 1996

To All of Our Valued Clients and Friends:

We are pleased to be able to send you our September newsletter. Our topics for this newsletter are as follows:

- Computer services
- Minimum wage increase
- Withholding taxes
- Electronic Federal tax payment system

#### **Our Services**

- We have received a tremendous amount of response to our previous article on computerization and would like to introduce additional information regarding computer services provided by CPAs. Since CPAs have knowledge of general business operations, accounting systems, as well as experience with various computer software, it is a big benefit for companies to take advantage of the computer services that are offered by CPAs. Kakimoto and Co., LLP has the experience and capability to assist small to medium sized companies in these areas.
- We are still offering the Peachtree promotional service to our valued clients and any new clients. We will provide a free demonstration of the Peachtree accounting software, and we will be more than happy to discuss your Company's accounting needs as our service to you. There is no charge for the demonstration and initial meeting. Please call to make an appointment at your earliest convenience.

If you are interested or have any questions, please call Gerald W. Kakimoto or Carol Kikuma at (310) 715-9100 or fax your requests to (310) 715-9830.

Please feel free to call us for the Japanese version of this newsletter.

All of your support is greatly appreciated.

Kakimoto and Co., LLP

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## **COMPUTER SERVICES**

These days the world is full of computer consultants. But not all computer consultants are created equal. Although, many possess a high level of computer skills; unfortunately, far too few possess the right amount of accounting and business skills to enhance their computer skills. Still others, such as those from larger accounting firms, may have the accounting and computer skills, but provide little personal attention to the client and generally turn out to be very expensive.

Too many companies have fallen victim to working with computer consultants that are unable to provide personalized attention and that lack the necessary background in accounting and business. Typically, what companies end up with is an expensive computer system that is incompatible with the nature of their business operation and a system that's too difficult to use by company personnel. Furthermore, all too often the follow-up and software/system support provides little or no help in rectifying the problem. As a result, many companies wind up spending a lot of money and either abandon or under-utilize their computer system and waste valuable resources trying to patch up the deficiencies.

The computer consultants at Kakimoto and Co., LLP know businesses and know accounting. We offer a personalized approach to our consulting, training and support with very reasonable fees. By blending our expertise of business operations, internal controls, and accounting systems, with our knowledge of various computer software, we can help you implement a computer system that is well suited for meeting your needs today, as well as tomorrow.

As we have mentioned in previous articles, we are available to provide to new or current clients a free Peachtree accounting software demonstration, and meet to discuss the accounting and computer needs of your Company.

## **MINIMUM WAGE INCREASE ALERT**

The state of California has conformed with new federal legislation. Effective October 1, 1996, the minimum wage will increase to \$4.75 per hour for most employees. Additionally, on September 1, 1997, the minimum wage will again increase to \$5.15 per hour.

The newly enacted federal law also contains an exemption to the \$4.75 per hour minimum wage known as the "opportunity wage." The opportunity wage is applicable only to employees under 20 years of age and provides that they may be paid a minimum \$4.25 per hour during their first 90 consecutive days of employment with each employer.

Although an "Official Notice" from the Industrial Welfare Commission (IWC) has not been prepared and mailed as of the date of this publication, all California employers should follow the new legislation as of October 1, 1996. Apparently, the delay has to do with the printing process.

## **WITHHOLDING TAXES**

U.S. subsidiaries may be responsible for certain reporting and withholding tax requirements when certain kinds of payments are made to the foreign parent company as well as to other foreign entities. The more common types of payments that may be subject to tax withholding include payments of interest, dividends, royalties, rents, and compensation for personal services.

### **FEDERAL**

Payments subject to withholding must meet the following criteria:

1. U.S. source income

Generally, income is from U.S. source if it is paid by domestic corporations of the United States, or if the property that produces the income is located in the United States. If the income is the result of personal services in the United States, it is from U.S. sources. Sourcing of compensation depends on the place where the services are performed.

2. Fixed or determinable annual or periodic income

Income is fixed when it is paid in amounts known ahead of time. Income is determinable whenever there is a basis for figuring the amount to be paid.

3. Income is not effectively connected with a trade or business in the U.S.

The recipient does not engage in activities which would be considered effectively connected with the conduct of a trade or business in the U.S. Otherwise, no withholding of tax is required if (1) the income is effectively connected with the conduct of a trade or business in the U.S., (2) the income is includible in the recipient's gross income, and (3) a statement claiming exemption (Form 4224) has been filed by the recipient.

#### Withholding Rates:

Except when treaty benefits allow a lower rate, you must withhold tax at the rate of 30% on items of gross income from sources in United States that are not effectively connected with a trade or business in the United States. You must withhold the tax at the time of paying the income to the nonresident alien individual, foreign partnership, or foreign corporation. Withholdings should be deposited to an authorized financial institution using Form 8109 according to the instructions for tax deposits (similar to payroll tax deposits).

#### Treaty Benefits:

Residents of certain foreign countries may be entitled to reduced rates of, or exemption from, tax under an applicable tax treaty between the country with which they are residents and the United States.

*The tax treaty between Japan and the United States allows for **reduced rates** of withholding on certain payments. See table at end of article.*

#### Reporting Requirements:

Annual filings, Forms 1042 and 1042-S (on a calendar year basis only), are due by March 15 of the following calendar year. Form 1042 summarizes the payor's weekly tax liability for the entire calendar year and Form 1042-S provides information regarding the payments to and withholdings of each recipient during the calendar year. One copy of Form 1042-S is normally filed with the Form 1042 and the remaining copies must be furnished to the respective recipients by the due date of Form 1042.

### **CALIFORNIA**

The requirements are similar to federal requirements, although sourcing of income must be in California and the recipient must not have a permanent place of business in California.

#### Withholding Rates:

For California purposes, payments made to nonresidents for income received from California sources are subject to tax withholding at a rate of 7% unless a reduced rate is authorized by the Franchise Tax Board. Withholdings should be remitted to the Franchise Tax Board along with Form 592-A (remittance statement) by the 20th day of the month following the month that the total amount withheld from *all payees* exceeds \$2,500.

**Reporting Requirements:**

Similar to federal requirements. Form 592 (annual transmittal form) and Form 592-B (report of tax withheld) are due by January 31 of the following calendar year. Form 592-B is similar to the federal Form 1042-S, in which one copy is to be filed along with Form 592 and the remaining copies are to be provided to the respective recipients by the due date of Form 592.

**SUMMARY OF RATES:**

The following table provides the treaty reduced federal withholding tax rates and the standard California withholding tax rates related to certain payments made to individuals and corporations considered residents of Japan:

<u>Type of payment</u>	<u>Federal</u>	<u>California</u>
Interest paid to controlling Japan corporations	10%	7%
Dividends paid to Japan parent or shareholder corporations (greater than 10% ownership)	10%	7%
Dividends paid to Japan individual shareholder	15%	7%
Industrial royalties	10%	7%*

\* If the rights under contract are utilized in California.

**ELECTRONIC FEDERAL TAX PAYMENT SYSTEM (EFTPS)**

As a result of the 1993 North American Free Trade Agreement Implementation Act (NAFTA) and Internal Revenue Code, the Internal Revenue Service recently sent Form 9779, EFTPS, to some taxpayers. This tax treaty mandates a taxpayer who had employment taxes of more than \$50,000 for calendar year 1995 to deposit all Federal Tax payments electronically. The Internal Revenue Code also requires you to use the Electronic Federal Tax Payment System (EFTPS) to make your tax deposits electronically. These rules apply to all tax deposits including taxes reported on Form 940, 941, 943, 720, 945, 990-C, 990-PF, 990-T, 1042, 1120 and CT-1.

Form 9779 is an enrollment form for EFTPS. Taxpayers can choose the remittance method from two options, ACH Debit and ACH Credit methods.

If you choose the ACH Debit option, you will initiate each payment by instructing the Treasury Financial Agent for your area to withdraw funds from your bank account and route them to the Treasury’s account at the Federal Reserve Bank. The Financial Agent will provide you with an acknowledgment number. Once an acknowledgment number is issued to you, the Financial Agent is responsible for processing the payment. Any failure to deposit the tax will be deemed to be due to reasonable cause, and you will not subject to penalties if:

1. you initiated the transaction on time
2. the amount of the deposit is correct
3. sufficient funds are available in you bank account.

If you fill in threshold amounts for each tax on lines 12 - 29 on Form 9779, EFTPS will warn you when your deposit amount is larger than the threshold.

If you choose the ACH credit payment option, you will instruct your bank to send each payment directly to the Treasury's account at the Federal Reserve Bank . You will remain liable for the payment until it as been credited to Treasury's account at the Federal Reserve Bank.

This requirement was scheduled to start on January 1, 1997. The IRS recently announced that the start of the EFTPS would be delayed until July 1, 1997. If you fail to deposit electronically, 10% penalty will be charged for the taxes deposited. The IRS encourage you to enroll at least 10 weeks before the start of EFTPS since the enrollment process can take up to 10 weeks to complete.

We recommend you talk with your bank and payroll company to determine what services are available for EFTPS before choosing your remittance method.

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