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September 1997

To All of Our Valued Clients and Friends:

We are pleased to be able to send you our September 1997 newsletter. Our topics for this newsletter are as follows:

- Remote Computing
- ‘97 Tax Act

<u>Our Services</u>

- ***Tax Returns*** - The 1997 individual tax return season is fast approaching! Kakimoto and Co., LLP can assist you in making the tax return filings smoother.
  We assist companies with 1 to 250 Japanese Nationals
  We can prepare tax returns in-house for any state
  Our fees are generally 40% less than the large accounting firms
  We deliver on the promised dates
  Please call us for a free consultation and fee quotes.

- ***Information Technology*** - Technology continues to be an important factor in making our businesses more efficient. Are you utilizing your computer system to its fullest? Are you experiencing computer problems and are not getting the proper support? *Please call us for a free consultation and fee quotes.* We provide these services by a *CPA*:
  Computer networking for small to medium sized companies
  Accounting software selection, installation, training, and support
  General computer usage consultation and training
  Internet consultation

Remote computing is a process that allows us to access a computer from another computer, enabling us to retrieve information when we are away from the office. For more information regarding this process, see our article entitled “Remote Computing” or feel free to contact our computer consultant, Karen Yoshimura.

If you are interested or have any questions, please call Gerald W. Kakimoto or Edward Y. Valparaiso 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.

Kakimoto and Co., LLP

September 1997

REMOTE COMPUTING

Remote computing, or as commonly referred "virtual office", is the process that allows you to access a computer from another computer. With the use of a modem, a phone line, and software, you can electronically link separate computer systems and perform procedures such as accessing, creating, transferring, and saving files. There are many ways remote computing can work for you. For example, employees can access their email or data files when working at home, traveling salespersons can access their centralized database from any location, and consultants can troubleshoot from their offices. It is a convenient way to retrieve information when you are away.

At Kakimoto and Co., LLP, we are always looking for ways to better service our clients. With the dynamics of technology, we all must take advantage of new and innovative ways to conduct our businesses. Using remote computing, we can assist you directly from our offices with procedures such as, recording transactions, formatting reports, and fixing software problems. Travel time is eliminated and the problem is dealt with promptly. Both time and money are saved.

We are successfully using remote computing with a few of our clients and would like to make available these services to more of our clients. Remote computing requires that both systems have the same communication software program installed. The one we are using is Symantec's pcAnywhere for Windows. It costs about $130, and is both easy to install and user friendly. If you are interested in remote computing and would like more information, please contact Karen Yoshimura.

'97 TAX ACT

Summary Of Quick Facts:

Businesses:

- **By 2007, self-employed individuals will be allowed to deduct 100% health insurance premiums for self and family**
- **Net operating losses (NOLs) can be carried back two years (instead of three) and carried forward 20 (instead of 15). This is effective for tax years *beginning* after August 5, 1997.**
- **Estimates for inventory shrinkage (undetected theft), subject to certain qualifications, are now deductible. This is effective for tax years *ending* after August 5, 1997**.

Individuals:

- **A top 20% net capital gains tax rate for individuals for investments held for at least 18 months.**
- **A top 18% net capital gains tax rate after 2006 for assets held five years or more.**
- **Homeowners may exclude up to $500,000 in gain from the sale of principle residence ($250,000 for single taxpayers).**
- **Qualified distributions from Roth IRAs are not includable in gross income or subject to additional tax on early withdrawals, subject to limitations.**
- **A $400 child credit in 1998, and $500 credit for 1999 and later, with AGI phase-outs.**
- **Up to $1,500 education HOPE credit after 1997.**
- **Up to $1,000 interest deduction on student loans in 1998, and increasing to $2,500 in 2001 and thereafter.**

'97 TAX ACT (continued)

More In-Depth Analysis Of The Major Tax Law Changes:

The Taxpayer Relief Act of 1997, which was signed into law on August 5, 1997, is the first major tax cut legislation in more than 16 years. The Tax Act provides significant tax cuts and new complexity for most individual taxpayers. Investors, homeowners, and families will benefit most from the Tax Act. While the tax act also includes tax cuts for estate/gift taxes and also business taxes, this article will focus on the tax cuts for individual taxpayers

Businesses:

Self-Employed Health Insurance

Self-employed individuals may deduct as a trade or business expense, a specified percentage of health insurance costs incurred during the tax year for themselves, their spouses, and their dependents. The new tax act phases in the higher percentage of the deductible health insurance costs.

Net operating losses (NOLs)

Under the Act, the NOL carryback period is shortened to two years from three years, but the NOL carryforward period is extended to twenty years from fifteen years. However, special carryback rules are applied to certain cases.

Estimates for inventory shrinkage

A business is generally permitted to determine its year-end closing inventory by taking a reasonable deduction for shrinkage (e.g., inventory loss due to undetected theft). However, the deduction for the estimated shrinkage may only be claimed if the business meets certain conditions.

Individuals:

Capital Gains Cuts for Long-term Investments

The maximum net capital gains tax rate for individual taxpayers has been lowered to 20% from the present 28% rate for long-term held investments, effective retroactively to sales made after May 6, 1997. For taxpayers in the 15% regular tax bracket, the rate is lowered to 10%.

As of July 29, 1997, "long-term" means holding the investment for more than 18 months. However, assets sold between May 6 and July 28 qualify for the 20% rate if they were held for more than one year. Assets held for more than a year but less than 18 months sold on or after July 29 will be taxed as a "mid-term gain" at 28%.

Assets purchased after December 31, 2000 and held more than five years will be taxed at 18%.
For individual taxpayers in the 15% bracket, assets held for more than five years and sold after December 31, 2000 will be taxed at only 8%.

Gain on Principal Residence

Effective retroactive to May 7, 1997, up to $500,000 ($250,000 for single taxpayers) in gain from the sale of a principal residence may be excluded. The individual must have owned and occupied the residence as a principal residence for an aggregate of at least two of the five years before the sale.

This new rule is reusable every two years (i.e. the exclusion applies to one sale or exchange every two years, but pre May 7, 1997 sales are not taken into account).

For sales made or contracts signed after May 6, but before August 5, 1997, taxpayers have the option to use the old rollover deferral and the $125,000 exclusion for age-55-or-over individuals.

'97 TAX ACT (continued)

Expansion of Individual Retirement Accounts (IRA)

For tax years beginning after 1997, non-working spouses will not be considered an active participant in an employer-sponsored plan merely because the individual's spouse is an active participant. Therefore, non-working spouses will be able to make deductible contributions of up to $2,000 to an IRA.

Roth IRA
With the introduction of the "Roth IRA" (formerly called IRA Plus), taxpayers now have the opportunity to make nondeductible contributions to an IRA which will have tax-free buildup (interest and dividends) and withdrawals. Special rules apply to qualify for such a tax-free distribution and penalty-free early withdrawals.

Contributions are allowed up to $2,000 per individual ($4,000 per year for married couples). Contribution limitations apply for individuals with large adjusted gross income for the year of contribution.

Education IRA
The law also provides a new education IRA for taxpayers to make nondeductible annual contributions of up to $500 per child for paying their qualified higher education expenses. Contributions are limited if modified adjusted gross income exceeds certain levels. Though the contribution is not deductible, the earnings buildup and withdrawals are tax-free provided that they are used to pay the beneficiary's postsecondary education expenses. The income exclusion is not available for any year in which the HOPE scholarship credit or the lifetime learning credit is claimed.

Amounts in an Education IRA account can be rolled over to another child in the same family.

Withdrawals from regular retirement IRAs will also be penalty-free for higher education expenses.

<u>Education Tax Credits</u>
Education tax credits are available only for a taxpayer, his spouse, and any students who can be claimed as a dependent of the taxpayer.

Hope Scholarship Credit
For each of the first two years of postsecondary education, a maximum credit of $1,500 per student can be claimed for qualified tuition and related expenses. Credit amounts are reduced for individuals who have modified adjusted gross income above certain amounts. The credit applies to expenses paid after December 31, 1997, for an academic period beginning after that date.

The credit phase-out begins when taxpayers' modified AGI reaches $40,000 ($80,000 for a joint return). Taxpayers will not be entitled to the credit when their modified AGI reaches $50,000 and $100,000 for single and joint filers, respectively.

Lifetime Learning Credit
A 20% credit for the first $5,000 of qualified expenses paid after June 1998 through 2002 and to the first $10,000 thereafter. The credit amount does not vary with the number of students in a taxpayer's household. The credit applies to undergraduates and graduates, professional degree candidates, or working Americans pursuing job skill training and cannot be taken in the same tax years in which the HOPE scholarship credit is claimed with respect to the same students. The credit can be claimed for an unlimited number of years. The income limitation is the same as Hope credit.

<u>'97 TAX ACT (continued)</u>

Other Education-related Tax Provisions
Beginning in 1998, individuals will be able to deduct qualified education loan interest for the first five years of the loan in an amount that will rise from $1,000 in 1998 to $2,500 in 2001 and thereafter.

Employer-provided educational assistance for undergraduate studies is excludable from gross income for three years through May 31, 2000.

Tax-free treatment for state prepaid tuition plans.

New Child Tax Credit

Taxpayers with qualifying children under age 17 will be allowed to claim the new child tax credit in the amount of $400 per child in 1998 and $500 per child in 1999 and thereafter. There is a phase-out of the credit which begins when modified AGI reaches $110,000 for joint filers, $55,000 for married filing separately, and $75,000 for single or head-of-household filers.

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