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May 2002

To All of Our Valued Clients and Friends:

We are pleased to be able to send you our May 2002 newsletter. Our topics for this newsletter are as follows:

International Trading of Tax Information:

With the globalization of corporate activities, tax authorities of various countries are more frequently exchanging information as approved in the Tax Treaties to prevent tax avoidance and tax evasion. The incorporation of tax planning provided by specialists is an indispensable corporate strategy for avoiding penalties and fines. We have provided basic information regarding information trading, especially as it relates to the United States and Japan (please refer to the attached sheet).

Outsourcing:

The complex and changing business environment requires businesses to become efficient in their performance. A tool currently being used by businesses to enhance their performance is through the use of "Outsourcing". Outsourcing enable businesses to employ external people within their areas of expertise while avoiding the complicated issues dealt with personnel management. The use of outsourcing however can also contribute to inefficiency if not utilize for their intended purpose. In the attached article, we have outlined some important aspects of outsourcing.

Wireless Networking:

The technology of wireless LANs that provides data connectivity with user mobility, introduces many options to businesses. The set up of networking for an efficient exchange of information is an inevitable business mission today. Kakimoto and Co. proposes not a mere information network system, but an innovative way of conducting business. We combine computer and accounting services using the newest technology available, such as wireless LANs, and introduce and offer IT support only possible as an accounting firm (please refer to the attached sheet).

Kakimoto and Co. offers reliable services in the area of audit, accounting, tax, IT, and management consulting. We try hard to meet your expectations in the areas of technical ability, customer service, and timeliness. We try to provide value to you for all of our services. If you are interested or have any questions, please contact us at (310) 715-9100. For more information about our firm, please visit our website at <http://www.kakimoto.com>.

The Japanese version of this newsletter is available by request or through our website.

Kakimoto and Co.

enc. Newsletter, May 2002

International Trading of Tax Information : What to Expect

The IRS has established several well tested ways to obtain information reported to Japanese authorities, and has documented its willingness to exchange U.S. information to Japan.

The Japan/U.S. Tax Treaty documents the agreement to exchange information to assist in the prevention of tax avoidance and tax evasion. The administrator of these treaty provisions, “the Competent Authority” for each country, regularly responds to or requests the exchange of information, and assists in the collection of tax. There are several types of exchanges:

Routine Exchanges - Routine material includes computer printouts based on information returns filed by U.S. withholding agents, primarily regarding income tax withholding (i.e., interest, dividends, rents, royalties, and the like).

Spontaneous Exchanges - The IRS states that it will “spontaneously” exchange information discovered via tax examination or investigation which suggests or establishes noncompliance with the tax laws of a treaty partner. Such exchanges include not only information relating to nonresident aliens and foreign corporations, but also to U.S. citizens and domestic corporations.

Specific Requests - Some typical specific requests include: determination of residence or citizenship; whether there is a liability for U.S. or foreign tax; financial transactions or ownership of financial or other assets; the control of companies; whether a taxpayer is engaged in business in a particular country; the source of an item of income; and copies of legal or financial documents. The taxpayer's own records and third party information are the typical sources of the information secured.

Mutual Compliance Programs - There are also programs established to “promote international cooperation in understanding the worldwide operations of selected major industries” and to secure “comprehensive data on worldwide industry practices and operating patterns.” The goal is to enable a more effective review of tax returns of multinational enterprises.

Where information proves difficult to obtain through treaty channels, the IRS has established an alternate tactic for information retrieval. The IRS has found use of a Summons to appear (and/or to produce documents) in U.S. Court to be a much more efficient method of gathering information. In U.S. v. Toyota Motor Corp., 1983, the Court agreed that the IRS is free to use the treaty or to issue a summons in order to obtain the information. Interestingly, in the Toyota case, the summons was attempted after repeated treaty requests had failed to secure information from the Japanese government. The summons, however, produced a quick and successful response. Although usually serving a summons on a foreign party can be logistically and legally difficult, entities related to U.S. Subsidiaries are required to designate the U.S. subsidiary as an agent to receive an IRS request or summons for records or testimony.

Although the odds of being caught in an omission or misstatement may still be temptingly low, be aware that penalties and interest, if caught, are substantial; and the chances of being caught are increasing. The required foreign and related party information reporting, and penalties for non-compliance thereto, have made it even more difficult to conceal information. Furthermore, the IRS is generally limited to three years, to question a taxpayer's report. However, if there is a misrepresentation or omission, the period of inquiry (Statute of Limitations) may be extended to six years, or even indefinitely when the taxpayer actually intends to mislead the IRS.

Remember, good tax planning prior to reporting is our best advice. Where an omission or mistake exists in a prior year return, consider amending the report to limit any potential

liability, or otherwise preparing in advance for a potential audit. In the event of an actual IRS audit, get professional help as early as possible for preparation and guidance through the process.

Whether your needs are tax reporting, tax planning, or audit representation, Kakimoto and Co. stands ready to serve your needs.

Outsourcing

Outsourcing is a powerful tool used by businesses today. Small and mid-sized companies are avoiding complicated personnel management by hiring external staff. Among the external staff positions that are currently being outsourced consist of the following, payroll processing, accounting services, IT support, and staff operations. The benefits of hiring outsourced personnel enable management to drastically reduce personnel cost and attain efficiency in a short time.

Before considering the use of outsourced personnel, businesses should first carefully plan their objectives. The following points should be considered by businesses whether they would benefit by the use of outsourced personnel:

1. Examine and understand their business organization and determine the nature and extent of their operations that can be outsourced.
2. Place a priority on which departments would best benefit from the outsourcing.
3. Be selective of outsourced vendor in their expertise, reliability, commitment to quality and reputation, and their knowledge of cost reduction.
4. Drafting a contract describing the extent of responsibility and payment term including the commencement and termination date. Provisions should be stated within the contract addressing termination conditions, notification of termination before a specified period of time, and remedies for infringement of the contract.
5. An official announcement should be made in-house to allow management to rearrange staff positions and designating a person who will be in charge of managing the outsourced operation. It is important to review the outsourced operation periodically and review the results.

The uncertainties and competitive business environment is among the reasons why outsourcing is becoming so popular. The prolonged recessionary business environment of today has forced businesses to review the nature of their business, improve their form of management by streamlining their decision making processes, and reduce operating cost. Outsourcing is the strategic means for businesses to resolve these problems they currently face in a competitive business environment.

Wireless Networking

A wireless local area network (LAN) is a flexible data communications system implemented as an extension to, or as an alternative for, a wired LAN. Using radio frequency (RF) technology, wireless LAN's transmit and receive data over the air, minimizing the need for wired connections. Thus, wireless LAN's combine data connectivity with user mobility.

The widespread reliance on networking in business and the meteoric growth of the Internet and online services are strong testimonies to the benefits of shared data and shared resources. With wireless LANs, users can access shared information without looking for a place to plug in, and network managers can set up or augment networks without installing or moving wires. Wireless LANs offer the following productivity, convenience, and cost advantages over traditional wired networks:

- **Mobility:** Wireless LAN systems can provide LAN users with access to real-time information anywhere in their organization. This mobility supports productivity and service opportunities not possible with wired networks.
- **Installation Speed and Simplicity:** Installing a wireless LAN system can be fast and easy and can eliminate the need to pull cable through walls and ceilings.
- **Installation Flexibility:** Wireless technology allows the network to go where wire cannot go.
- **Reduced Cost-of-Ownership:** While the initial investment required for wireless LAN hardware can be higher than the cost of wired LAN hardware, overall installation expenses and life-cycle costs can be significantly lower. Long-term cost benefits are greatest in dynamic environments requiring frequent moves and changes.
- **Scalability:** Wireless LAN systems can be configured in a variety of topologies to meet the needs of specific applications and installations. Configurations are easily changed and range from peer-to-peer networks suitable for a small number of users to full infrastructure networks of thousands of users that enable roaming over a broad area.

Users need very little new information to take advantage of wireless LANs. Because the wireless nature of a wireless LAN is transparent to a user's network operating system, applications work the same as they do on wired LANs. Wireless LAN products incorporate a variety of diagnostic tools to address issues associated with the wireless elements of the system; however, products are designed so that most users rarely need these tools.

Wireless LANs simplify many of the installation and configuration issues that plague network managers. Since only the access points of wireless LANs require cabling, network managers are freed from pulling cables for wireless LAN end users. Lack of cabling also makes moves, adds, and changes trivial operations on wireless LANs. Finally, the portable nature of wireless LANs lets network managers preconfigure and troubleshoot entire networks before installing them at remote locations. Once configured, wireless LANs can be moved from place to place with little or no modification. However, reliable full-speed operation depends on a strong radio signal, which can be hindered by obstructions like metal or reinforced walls, or interference from other wireless devices such as intruder detectors. The suggested ranges of 100 feet to more than 300 feet are often rather optimistic, and therefore consideration of optimal locations is suggested.

Flexibility and mobility make wireless LANs both effective extensions and attractive alternatives to wired networks. Wireless LANs provide all the functionality of wired LANs, without the physical constraints of the wire itself. Wireless LAN configurations range from simple peer-to-peer topologies to complex networks offering distributed data connectivity and roaming. Besides

offering end-user mobility within a networked environment, wireless LANs enable portable networks, allowing LANs to move with the knowledge workers that use them.

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