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August 2002

To All of Our Valued Clients and Friends:

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

Antivirus and Personal Firewalls:

As the Internet becomes more popular, the damages caused by a computer virus and malicious code have increased recently. New types of virus and malicious codes are discovered daily, and it becomes indispensable for a company to take a precautionary action by installing an antivirus program to protect its computers and networking systems. Antivirus and personal firewalls programs can be very effective against them if used properly. Many antivirus and firewall programs are on the market today and you can download the demos of these products or install trial versions to test how the program will work with your PC environment and with your company's needs. (Please refer to the attached sheet).

Bonus Depreciation:

A new law titled "The Job Creation and Worker Assistance Act of 2002" passed the legislation on March 9, 2002, and it was created preliminarily to boost the US economy after September 11, 2001. The law encourages the purchase of depreciable assets by allowing a "bonus" depreciation of thirty percent on the adjusted basis of qualified assets for the first year when they are placed in service after September 11, 2001. Please note that not all depreciable assets necessarily qualify for this special depreciation, and it is rather complicated to apply this law and get the tax benefits. Please feel free to ask our staff about possible tax benefits under this law. (Please refer to the attached sheet).

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

Kakimoto and Co.

enc. Newsletter, August 2002

ANTIVIRUS AND PERSONAL FIREWALLS

As the Internet becomes more popular, more and more users are moving on to broadband connections, which means the Internet access is always available and is continuously on. Although the faster download speeds are a plus, one negative drawback is data protection.

The term v*irus* has become a generic phrase for many different types of malicious code. A virus is a piece of code that replicates itself within a computer when the infected program runs, but it needs human intervention – as when users deliberately share a file – to spread from computer to computer. If an infected attachment is opened or an offending program unknowingly is downloaded, the malicious code can spread throughout the network, hiding, rewriting, or damaging files.

Worms and Trojan horses are more common today than viruses. A *worm* is a malicious code that can spread from computer to computer by itself, typically through e-mail. A *Trojan horse* is software that appears innocuous but actually contains malicious code. Trojan horses could leave back doors open through which hackers can gain access to data files.

Antivirus programs offer protection against all viruses, worms and Trojans. Antivirus programs scans downloaded files and attachments to detect any malicious code. But antivirus programs must be current to be effective. Virus definitions need to be updated regularly since new viruses, worms and Trojan horses are discovered daily. Currently, there are a multitude of antivirus programs available.

E-mail is clearly the predominant vulnerability point for viruses these days. Current viruses – or at least the most famous ones – are spread via security holes in Microsoft Outlook and Outlook Express. Free patches have been available from Microsoft to address these problems, but many people are reluctant to apply them. As much as it is recommended to install one of the antivirus programs, it is also essential to keep current with the latest Windows Update (on the Start menu) and Office Update (http://office.microsoft.com/ProductUpdates/).

In addition to antivirus software, personal firewalls provide added protection against hackers and malicious code. Personal firewalls are software programs you install on your computer to protect it from malicious intruders, port scans, Trojan horses, worms, and all the other malicious code. Personal firewalls monitor all traffic flowing into and out of the network, and automatically block suspect material. This traffic control application blocks hackers from gaining access to your system.

Many personal firewall programs are on the market today and can be downloaded for free, while others are fairly inexpensive and usually offer trial versions. To select the firewall that best fits your company's needs, it is best to download demos of products and or install the trial versions to test how the firewall will work within your environment. Some are clearly better than others, but you will spend less time and money installing and maintaining antivirus and firewall programs than you will recovering from the damage caused by a virus or malicious code.

BONUS DEPRECIATION

The Job Creation and Worker Assistance Act of 2002, which became law on March 9, 2002, allows a "bonus" (additional) 30 percent depreciation on the adjusted basis of qualified property for first year assets placed in service after September 11, 2001. This bonus 30 percent is in addition to the usual annual depreciation allowance and is deductible for both regular tax and alternative minimum tax (AMT) purposes. It is designed as a "business incentive" to encourage business to purchase depreciable assets after September 11, 2001.

To qualify for this special depreciation allowance, the property must fit one of the following four categories:

1. Tangible personal property subject to MACRS depreciation with recovery periods of 3, 5, 7, 10, 15, or 20 years;
2. Software that would be depreciable over 36 months;
3. Certain leasehold improvements: short-year interior parts of building improvements, such as carpeting or shelving; or
4. Water utility property.

Additionally, the property must technically be purchased after September 10, 2001 and before September 11, 2004, and original use must begin after September 10, 2001 and before January 1, 2005. Therefore, any property used before September 11, 2001 does not qualify for this special depreciation.

Specifically, the new law increases maximum depreciable amounts for automobiles used in 2001 and 2002 from $3,060 to $7,660.   Formerly, depreciation deduction was limited for any car costing over $15,300. Now that limitation has been increased to $17,409.

At the taxpayer's option, the increased maximum depreciation deduction will not apply if taxpayer elects **not** to claim the special depreciation allowance. The election must be in writing on the tax return. If taxpayers have already filed 2001 tax return, it is possible to file an amended 2001 return to claim the benefits of the new law and lower tax liability.

Please note that the additional depreciation allowance reduces the basis of property that would otherwise be clamed through the life of the asset. The impact in future tax returns will be a reduction in the amounts available for depreciation.

Although the basic ideas of the new bonus depreciation are easy to understand, applying the law and getting the tax benefits are complex. Please feel welcomed to consult with our staff regarding how this will benefit your business, possible advantages in amending your return for 2001, or generally how these new rules will affect your business.