KAKIMOTO & NAGASHIMA LLP

CERTIFIED PUBLIC ACCOUNTANTS
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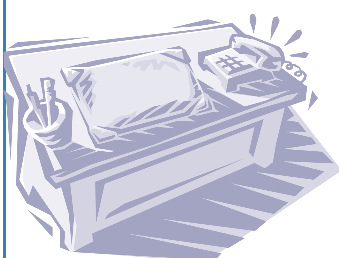

Any Questions?

We are committed to providing our clients with quality and excellent services. If you have any questions or comments, please let us know by either e-mail or phone.

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Summary of Articles

Are You At Risk?

Traditionally, organizations have focused on the loss exposure associated with risk. However, with risk there is opportunity. Today, organizations are moving beyond the perception of viewing risk solely in terms of negative outcomes and uncertainty. Companies have come to the realization that utilizing the proper risk management, not only contemplates protection of its' assets, but that opportunities can also be discovered.

The New U.S.-Japan Tax Treaty

The New U.S.-Japan Tax Treaty has been recently ratified. What provisions have been significantly revised and what effect do these revisions have for Japanese corporations that do business in the U.S.? The new treaty acknowledges the interdependence of the current U.S.-Japan economies and is anticipated to promote economic growth and revitalization of the two countries on a national and global basis. This newsletter issue presents the key treaty revisions, in brief, which are particularly relevant to Japanese companies doing business in the U.S.

Selecting the Ideal Computer System

Introducing a new computer information system can greatly influence a company's future. Are you leaving this costly project up to an IT company? Computer systems are available in several forms, and each comes with its own merits and demerits. Have you considered factoring today's recent IT trends and characteristics to optimize your system that meets your current business requirements and visions?

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Risk Management - Pursuing Uncharted Opportunities

As organizations move forward into the global marketplace and move past the repercussions of past corporate scandals, companies are faced with risks that change and proliferate on a continual basis. Risks are unavoidable and inescapable. Traditionally, efforts in risk management have been concentrated on avoiding the unfavorable outcomes of an event. However, businesses today are changing their perception of risk. Companies are not only considering the hazards associated with risk but are recognizing the opportunities that could arise from proper risk management. The payoffs inherent with risk and return transactions in conjunction with recognition given to the tolerable risk of a given business can present a new or previously unidentified area of opportunity. These opportunities are of value and can ultimately translate into the improvement of company earnings and performance.

Risk management is the process of assessing risk and then developing strategies to manage the risk. Generally, guidelines in the risk management process should include:

- Risk identification and assessment
- Plan development and implementation
- Review and evaluation of the plan

Risk identification/assessment: Identify potential risks; risks must be assessed as to their potential severity of loss and probability of occurrence. Risks can fall into a number of different classifications including but not limited to: operational, strategic, financial, contractual and informational. The impact of risks should be quantified.

Plan development/implementation: Actions to risks fall into four major categories: avoidance, reduction, retention and/or transfer. Management of risk has traditionally included the "silo" approach in which individual departments develop strategies for their own areas. However, movement from the silo approach to a process known as "enterprise risk management" (ERM) has emerged to contemplate the rapidly evolving and highly unpredictable risk environment. ERM involves the abandonment of traditional functional, departmental, or divisional lines; risk assessments and opportunities are integrated into a forward-looking process across the entire enterprise. ERM objectives include establishment of a common risk culture, consistent practices that are utilized within departments and effective management of risk for the whole enterprise.

"Risk management is the process of assessing risk and then developing strategies to manage the risk."

A strategic risk management framework will integrate the information compiled into the management decision-making process. Measuring and monitoring functions should be implemented as a means of understanding and reporting the status and impact of risks.

Review/evaluation: Risks are constantly changing and shifting; outcomes may not have resulted as earlier predicted or expected. Modifications to the plan should be made on a regular basis.

A company can place itself in a better competitive position with the adaptation of a different perspective of risk. Emphasis should not only be placed on the losses associated with risk, but the overall management of risk including its opportunities. The proactive management of risk rather than reactive can augment the development of business strategies, improve on investment decision-making and ultimately enhance corporate value.♦

The New U.S. - Japan Tax Treaty

On November 6, 2003, U.S. and Japanese government representatives signed *the New U.S.-Japan Tax Treaty* (hereafter, the New Treaty), which substantially modifies, for the first time in 33 years, the previous U.S.-Japan tax treaty that was signed in 1971. This New Treaty was ratified on March 30, 2004 and is generally applicable with respect to withholding taxes on July 1, 2004 and thereafter. All provisions of the New Treaty will take full effect beginning January 1, 2005.

The New Treaty is a reflection of the efforts made by both nations to stimulate mutual investments by both U.S. and Japanese companies. The new treaty acknowledges the interdependence of the current U.S.-Japan economies and is anticipated to promote economic growth and revitalization of the two countries on a national and global basis. As an example, the New Treaty eliminates the source country 10% withholding tax on royalty payments between parent and subsidiary companies. In general, withholding taxes on certain investment income have either been eliminated or sharply reduced.

This issue presents the treaty revisions, in brief, which are particularly relevant to Japanese companies doing business in the U.S.

Key Revisions

General Rules of Taxation

The provisions of Article 1 of the New Treaty carry forward the general principles of taxation which existed in Article 4 of the prior treaty. The "preservation clause" allows certain domestic tax law, which could be more beneficial or less restrictive for the taxpayer, to override the tax treaty. The "saving clause" allows countries to retain the right of taxation on their residents as provided under domestic law despite the fact that the tax treaty may state otherwise. Both of these clauses continue to remain in effect under the New Treaty.

Unlike the prior treaty, the New Treaty includes an additional provision that permits the U.S. to tax a former U.S. citizen or long-term resident for a period of 10 years following the loss of citizenship or residency if a primary purpose for the loss of citizenship or residency was the avoidance of tax.

Taxes Covered

Taxes subject to the New Treaty are the same as those covered by the prior treaty: Income taxes and Corporate taxes for Japan, Federal income taxes and Corporate taxes (except for social security taxes) for the United States. State and local taxes are not covered by the New Treaty and treated in the same manner as the prior treaty.

Withholding Tax Rate on Dividends

The prior treaty provided for a reduction in the withholding tax rate to 10% on dividends received by a corporation who owned 10% or more of the voting stock of the corporation paying the dividends. The prior treaty imposed a 15% withholding tax for other general dividends.

Under the New Treaty, the withholding tax in connection with dividends was mitigated to 5% (in the case of 10% or more of voting shares held) and 10% (all other dividends), respectively.

Furthermore, under the New Treaty, a corporate shareholder, who directly or indirectly owns more than 50% of the voting stock of the corporation paying the dividend, is allowed an exemption from the withholding tax provisions. In this case, there is a condition that the corporation receiving the dividend has voting stock ownership exceeding 50% for the 12-month period preceding the date the dividend is declared.

Withholding Tax Rate on Interest

Under the New Treaty, the withholding tax rate of 10% on interest payments is retained. Under the prior treaty, interest payments to the Bank of Japan, the Export-Import Bank of Japan, etc. had been exempt from U.S. tax withholding. Pursuant to the New Treaty, entities exempt from withholding tax have been expanded to include: standard banks, insurance companies, and registered securities dealers. Moreover, interest on credit sales of merchandise or equipment is also exempt from tax withholding.

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Withholding Tax Rate on Royalties

Under the prior tax treaty, the payment of royalties for copyright, patent, design, trademark, etc. was subject to the 10% withholding tax; payments of this nature are now exempt from withholding tax under the New Treaty.

For more details, consultation with a professional is recommended. If you should have any questions or concerns, we would be happy to discuss them with you.♦

Selecting the Ideal Computer System

Your company decides to implement a new computer system, but how do you select the best one? In general, one of two types must be chosen; either developing a custom-made system or installing packaged software.

Custom-made systems are created to satisfy current business needs, providing an opportunity to design ideal features and reports. As a result, launching the system will not largely alter the business flow and is presently thought to be the best choice. At the same time, however, designing, programming, and testing can be very time consuming, resulting in costly labor fees. In addition, custom-made systems are often focused only on running the current business, and there is a tendency to overlook the need to gather accounting information for financial reporting purposes, causing a need to use alternative procedures for data collection.

On the other hand, if a packaged software is installed, much of the format for running the basic business activities are covered since a variety of products are sold to meet the complexity of each business. In addition, although there is a licensing charge, expense can be greatly minimized by eliminating labor costs incurred during the development process (i.e. programming). Packaged software, however, is limited and may not be able to handle the need for specific activities or production of specially formatted reports, requiring the company to adjust their business to the standard functions of the software. Also, in higher performance software, many complex functions are present and may go unused. Furthermore, since new functions and reports are introduced, it may require hours of training for the users.

Still, the largest advantage of the packaged software generally will be, the link between "real time" business flow and accounting information. For example, when a sale occurs, a customer invoice is produced, and simultaneously, the sales and the account receivable accounts are updated; the transaction is further reflected in cost and inventory accounts. The information then flows to financial reports, such as the balance sheet and the profit and loss statement (income statement) allowing mangers to check the present financial status. Also, in higher performance accounting software and ERP packages, modules are offered to provide reports on sales activity, manufacturing processes, and inventory control which is also viewable in real time.

Recently, with the diversification of business activities and change in business environments, there is a large demand for a more flexible information system. Software distributors are releasing various versions/modules for each software, providing the opportunity to select one designed to meet the needs of the user. In addition, to resolve packaged software limitations, add-on programs are now being created by technicians using commonly known languages such as Java (instead of the language used specifically for each package). This third type of system, packaged software with custom-made add-ons, is being introduced to not only large businesses but also to medium and small sized companies.

Implementation of an information system is not something that can be simply chosen considering its costs and business impact. In order to introduce the optimum system, we recommend taking into account your current operations and future business goals as well as other various components.♦

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