Kakimoto & Nagashima LLP
Certified Public Accountants
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NEWSLETTER

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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. Our company profile is available on the internet at:

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Summary of Articles

Accounting for Fair Value Measurements

What is fair value? In the past, there were different definitions of fair value and a limited amount of guidance in their application. As part of its current fair value project, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157 "Fair Value Measurements" ("SFAS 157"). SFAS 157 provides a definition for fair value, the establishment of a framework for measuring fair value and expands upon fair value measurement disclosures in an effort to achieve increased consistency in fair value measurements.

Tax incentive on "Economic Stimulus Act 2008"

While the U.S. economy is gradually sliding into a bear market, the government has been straining to halt the wheel by offering various incentives for taxpayers to recuperate the economy. In addition to the tax rebate offered to individuals, the U.S. government also provides businesses with two tax incentives related to the purchase of certain qualified properties this year. With the assistance of appropriate professionals for planning and implementation, taxpayers could maximize this opportunity as effectively as possible.

Laptop Encryption – What you need to know

Today, information is often an organization's most important asset. As laptops are overtaking desktop PCs as the major source of computing and media storage, laptops frequently store an organization's most valuable information. That is why laptop encryption is becoming increasingly important.

The Internal Revenue Service announced an 8-cent increase in the optional standard mileage rates for the final six months of 2008. The rate will increase to 58.5 cents a mile for all business miles driven from July 1, 2008, through Dec. 31, 2008.

Fair Value Measurements – Moving Forward

In our November, 2003 article "Fair Value - Do You Know What You're Worth" we discuss the relevance of fair value measurement for financial statement reporting purposes and the Financial Accounting Standards Board's ("FASB") fair value project activities. In September, 2006, the FASB issued Statement of Financial Accounting Standards No. 157 "Fair Value Measurements" ("SFAS 157") in connection with its fair value project. Fair value measurement guidance has developed over time and has been dispersed across various accounting pronouncements. In an effort to achieve more consistency in fair value measurements, SFAS 157 provides a definition for fair value, the establishment of a framework for measuring fair value and expands upon fair value measurement disclosures. It is important to note that SFAS 157 does not require fair values to be used in situations not already established by GAAP but it concentrates on the process used for fair value measurement. Under SFAS 157 (paragraph 5), fair value is defined as:

> "Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

A difference from previous fair value definitions is that the SFAS 157 definition clarifies that price is the "exit" value as opposed to the "entry" value (for an asset, the price it could be purchased for).

SFAS 157 states that the valuation techniques used in the measurement of fair value should be in accordance with one or more of three categories of approaches: the market approach, the income approach and the cost approach. Valuation techniques used to measure fair value are to be consistently applied.

SFAS 157 also establishes a fair value hierarchy in which the FASB believes will increase consistency and comparability in fair value measurements and related disclosures. The fair value hierarchy assigns priorities to the inputs to valuation techniques used to measure fair value into three general levels. Inputs refer largely to the assumptions that market participants would use in pricing the asset or liability; inputs can be either observable or unobservable. The fair value hierarchy consists of the following three input levels:

- Level 1: Quoted market prices in active markets for identical assets or liabilities

- Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly

- Level 3: Unobservable inputs that are not corroborated by market data

Expanded disclosures relating to fair value measurement are also required by SFAS 157. The required disclosures should enable users of financial statements to ascertain the inputs used to develop an entity's fair value measurement and the entity's valuation techniques. Required disclosures are generally segregated into two categories: (1) recurring and (2) nonrecurring fair value measurements. For assets and liabilities measured at fair value on a recurring basis, the reporting entity should include disclosure regarding:

- fair value measurements at the reporting date,
- input levels used to measure fair value,
- additional information relating to fair values based on level 3 inputs,
- valuation techniques used to measure fair value and a discussion of changes in valuation techniques, if any, during the period (in annual periods only)

If an entity measures assets and liabilities at fair value on a nonrecurring basis, disclosure should include the following:

- fair value measurements recorded during the period and explanation for the measurements,
- input levels used to measure fair value,
- for level 3 inputs, a description of the inputs and information related to the development of the inputs,
- valuation techniques used and, a discussion regarding changes, if any, in the techniques used to measure similar assets or liabilities in prior periods (in annual periods only)

SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The FASB issued FASB Staff Position FAS 157-2 on February 12, 2008, which delays the effective date of SFAS 157 for all nonrecurring fair value measurements of nonfinancial assets/liabilities to fiscal years beginning after November 15, 2008.

Kakimoto & Nagashima LLP is dedicated to our clients and their continued success. We are also committed to professional standards and assisting our clients to understand the new and significant changes in those standards. If you should have any questions or concerns, please do not hesitate to contact us.♦

Tax incentive on "Economic Stimulus Act 2008"

On February 13, President Bush signed the Economic Stimulus Act (ESA) of 2008 into law. It includes significant incentives to encourage taxpayers to purchase qualified property this year.

I. 2008 Section 179 Expensing (Expensing of Assets)

The ESA significantly increases Internal Revenue Code section 179 small business expensing levels for 2008. Under existing law, the section 179 small business expensing limit for this year would have been $128,000 with a $510,000 phase-out threshold. For 2008, the ESA temporarily increases the expensing limit to $250,000 and the phase-out threshold to $800,000.

Section 179 Expensing at a Glance

- ESA increases the section 179 expensing limit to $250,000 and phase-out cap to $800,000
- Companies can expense up to $250,000 in purchases as long as they don't spend more than $800,000
- Expensing is phased-out for each dollar that purchases exceed $800,000
- Companies with total purchases of $1,050,000 or more cannot use section 179
- New and used equipment is eligible for expensing
- The new limit applies to tax years that start in 2008, but will revert back to prior limits after 2008
- Can be combined with bonus depreciation
- "Sport Utility Vehicle", meaning any 4-wheeled vehicle primarily used for business purposes to carry passengers and weighing under 14,000 pounds gross-vehicle weight, may qualify for a $25,000 section 179 deduction

II. 2008 Bonus Depreciation

The ESA temporarily reinstates bonus depreciation. Companies that purchase qualified property in 2008 will be able to depreciate an additional 50 percent of the cost of assets placed in service this year.

Bonus Depreciation at a Glance

- ESA allows additional first-year depreciation of 50 percent of the purchase cost
- Applies, among other things, to purchases of NEW tangible personal property (including construction, mining, forestry, and agricultural equipment) with a MACRS recovery period of 20 years or less
- Qualified property must be acquired after December 31, 2007 and placed in service before January 1, 2009
- Not applicable if a binding purchase contract existed prior to January 1, 2008
- Allowed for both regular and alternative minimum tax purposes
- Discretionary - Taxpayer need not claim the bonus depreciation

How is it computed?

Bonus depreciation is equal to the applicable percentage (50 percent) of the "unadjusted depreciable basis" of qualified property. Typically, the unadjusted depreciable basis is the cost of the property (adjusted downward to reflect any personal use) reduced by any amount expensed under section 179. The regular MACRS deductions are computed after reducing the unadjusted depreciable basis by the additional first-year allowance.

For purposes of section 179, qualifying property is generally depreciable tangible personal property that is purchased for use in the active conduct of a trade or business. Unlike bonus depreciation, both new and used equipment are eligible for section 179 expensing.

The deductions provided by the asset expense election and bonus depreciation are illustrated by the following example: *"Corporation X purchases and places in service machinery (5-year property) in its calendar 2008 tax year having a cost of $650,000, which will be subject to the half-year convention. Corporation X will elect to expense $250,000 under section 179, leaving the machinery with a remaining depreciable basis of $400,000. Applying the bonus depreciation provided by the Act, Corporation X is entitled to a further deduction in 2008 of $200,000 (50% of $400,000), leaving the machinery with a remaining depreciable basis of $200,000. Standard first-year depreciation for 5-year property under the half-year convention is 20%, providing Corporation X with further depreciation on the machinery of $40,000. Accordingly, Corporation X is entitled to a total expense and depreciation deduction of $490,000 in 2008 on its $650,000 machinery. The remaining $160,000 cost of the property is recovered after 2008 under otherwise applicable rules for computing depreciation."*

Increase in first-year luxury auto depreciation caps

The first-year depreciation cap for a vehicle subject to the luxury auto cap is increased by $8,000 if the 50 percent bonus depreciation deduction is claimed on a vehicle acquired after December 31, 2007 and placed in service before January 1, 2009, as amended by the Economic Stimulus Act of 2008. If bonus depreciation is not claimed, the increase does not apply.

The amount of the depreciation deductions shall not exceed:

50-percent additional deduction			
Passenger Vehicles *		Trucks/Vans	
Tax Year	Amount	Tax Year	Amount
1st Tax Year	$10,960.00	1st Tax Year	$11,160.00
2nd Tax Year	$4,800.00	2nd Tax Year	$5,100.00
3rd Tax Year	$2,850.00	3rd Tax Year	$3,050.00
Each Succeeding Year	$1,775	Each Succeeding Year	$1,875.00

Limitations:
*Unloaded gross vehicle weight shall not exceed 6,000 lbs.♦

Laptop Encryption – What you need to know

Hardly a week goes by without another incident of sensitive, confidential information left exposed due to a lost or stolen laptop. Such mishaps highlight the costs, in not only lost dollars and reputation but also the personal toll on employees and customers in time, effort, anxiety, and frustration that careless handling of data on laptops can extract.

While huge sums are spent on protecting internal networks from hackers, employees are walking out the front door with laptops that not only have vast quantities of data stored on them, but also have applications connecting to internal networks and protected websites. A recent poll found that 88% of employee laptops carry sensitive information; everything from patient, customer and employee records to intellectual property, financial data and passwords. Between business risks, security breach headlines and regulatory compliance, companies have plenty of motivation to use encryption as a last line of defense against data leaks that result from laptop theft or loss.

There are a range of attempts to guide organizations and individuals to comply and handle their data security in a better way. Names like Sarbanes-Oxley, PCI Data Security Standard, HIPAA, and the Data Protect Act are all examples of guides for different industries and sectors. Many organizations have to have an information security policy in place that proves they have taken necessary steps and measures to safeguard the information they gathered. If these policies are not adhered to, the regulators may prosecute.

Encryption is the only secure method for complete protection of data stored on your hard disk. Alternative methods such as boot protection, Bios password or security chips are not sufficient unless combined with encryption. All the experts agree that end-user education is a critical component of any successful laptop data protection program.

Hard disk encryption is the technique to use because it is:

- Transparent - not noticeable to the user.
- Quick - extremely fast "on-the-fly" encryption.
- Comprehensive - encrypts everything stored to eliminate user interventions.
- Reliable - the most robust and secure method available
- Non-invasive - does not interfere with other applications or your network.
- Simple - easy to administrate.

Protecting data on laptops is no longer merely a matter of avoiding embarrassing publicity; it has become a business imperative, backed in many cases by legal liability and regulatory mandates. Laptop encryption is an extremely important security project that realistically should be undertaken by every organization that uses extremely portable computers.

All of the laptops in use by Kakimoto & Nagashima LLP are protected using encryption protocols. Please contact us if you feel that your business laptops need encryption protection as well.♦

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