Kakimoto & Nagashima LLP
Certified Public Accountants
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NEWSLETTER

Volume 8, Issue 1 January 2010

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Summary of Articles

Accounting for Uncertainty in Income Taxes (FIN 48/ASC 740) – Are You Ready?

Certain nonpublic companies will soon need to comply with the provisions of FASB Accounting Standards Codification Topic 740, "Income Taxes", as it relates to the accounting for uncertainty in income taxes (commonly referred to as "FIN 48"). After being twice deferred by the FASB, FIN 48 will become effective for most nonpublic companies for annual financial statements with fiscal years beginning after December 15, 2008. In this article we revisit the general requirements of implementation.

Report of Foreign Bank and Financial Accounts (Form TD F 90-22.1) Are Due June 30, 2010

If you have a financial interest in, or signature authority or other authority over any financial account in a foreign country, you may be required to file a "Report of Foreign Bank and Financial Accounts". There is an increased emphasis by the IRS on compliance with these reporting requirements and the penalties for noncompliance can be severe. In this article we explain the general requirements for foreign financial account reporting.

Online Hosted Quickbooks

Imagine having the ability to take your Quickbooks software with you anywhere you go. You would be able to work from anywhere, anytime and at your own convenience. Find out all the details about a new service that will allow these capabilities and much more.

2010 Standard Mileage Rate

The Internal Revenue Service has issued the 2010 optional standard mileage rates used to calculate the deductible costs of operating an automobile for business, charitable, medical or moving purposes.

Beginning on Jan. 1, 2010, the standard mileage rates for the use of a car (also vans, pickups or panel trucks) will be:

- 50 cents per mile for business miles driven
- 16.5 cents per mile driven for medical or moving purposes
- 14 cents per mile driven in service of charitable organizations

The new rates for business, medical and moving purposes are slightly lower than last year's. The mileage rates for 2010 reflect generally lower transportation costs compared to a year ago.

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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Accounting for Uncertainty in Income Taxes: Revisited

Background

In July 2006, the Financial Accounting Standards Board ("FASB") released FASB Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109*" ("FIN 48") which was subsequently codified in the FASB's Accounting Standards Codification ("ASC") 740 – *Income Taxes*. This accounting standard became effective for publically-owned companies for fiscal years beginning after December 15, 2006. For certain nonpublic companies, the FASB twice deferred the effective date of FIN 48 to address concerns regarding private entities and to provide for guidance related to pass-through entities and tax-exempt not-for profit organizations. Initially, FIN 48 was deferred to fiscal years beginning after December 15, 2007, but was subsequently deferred to fiscal years beginning after December 15, 2008 (ASC 740-10-65-1). Consequently, Accounting Standards Update 2009-6, issued in September, 2009, included the elimination of certain disclosure requirements for nonpublic entities.

FIN 48 (ASC 740) – Accounting for Uncertainty in Income Taxes

In an effort to promote increased transparency in financial statement reporting, FIN 48, as incorporated into ASC 740, provides for certain clarification and guidance on the recognition, measurement and disclosures of uncertain tax positions. Companies affected by this will need to address the adequacy of their processes for identifying and monitoring their uncertain tax positions. Management will be expected to provide its auditors and/or accountants with its analysis and assessment of tax positions. Certain key fundamentals that relate to the accounting for the uncertainty in income taxes follow:

Tax Positions

ASC 740 uses the term tax position to refer "to a position in a previously filed tax return or a position expected to be taken in a future tax return that is reflected in measuring current or deferred income tax assets and liabilities for interim and annual periods." The term "tax position" encompasses, but is not limited to:

- a decision not to file a tax return
- an allocation or shift of income between jurisdictions (including foreign countries)
- different characterization of taxable income or the decision not to include taxable income in the tax return
- a decision to classify a transaction, entity, or other position as tax exempt
- an entity's status, including its status as a pass-through entity or a tax-exempt not-for-profit entity

Evaluation of Tax Positions

The evaluation of a tax position is done in a 2 step process: recognition and measurement.

Recognition

A company determines if its tax positions, based on technical merits, meet the "more likely than not" ("MLTN") threshold of being sustained upon examination by a taxing authority or appeals process. In the evaluation, a presumption is made that the tax position will be audited by the appropriate taxing authority who has full knowledge of all relevant information.

Measurement

Under ASC 740, a tax position that meets the MLTN recognition threshold should initially and subsequently be measured as the largest amount of tax benefit that is greater than 50 percent likely of being recognized upon settlement with a taxing authority that has full knowledge of all relevant information. An unrecognized tax benefit results from a difference between a tax position taken or expected to be taken in a tax return and the tax benefit recognized and measured under ASC 740.

Interest and Penalties

Interest and penalties are required to be accrued if an uncertain tax position will not be ultimately sustained. The accrual of interest and penalties would begin in the period in which it would begin accruing under the relevant tax law.

Financial Statement Accounting/Disclosures

An unrecognized tax benefit is generally recorded either as an increase in a liability for income taxes or a reduction in income taxes refundable. The resulting liability cannot be aggregated with either deferred tax liabilities or assets. Nor does ASC 740 allow for the subsequent derecognition of a tax benefit related to an uncertain tax position to be offset with the use of a valuation allowance.

Upon the adoption of ASC 740, as it relates to the accounting for the uncertainty in income taxes, an entity must evaluate whether changes would have been necessary as if the accounting standard for uncertain tax positions had been applied at the end of the prior year. The cumulative effect of applying such standard shall be reported separately as an adjustment to the opening balance of retained earnings.

For nonpublic entities, disclosures related to the accounting for the uncertainty in income taxes are required as follows:

- interest and penalty amounts recognized in the financial statements
- foreseeable significant increases and decreases of unrecognized tax benefits within 12 months of the reporting date
- open tax years by major tax jurisdictions
- accounting policy on the classification of interest and penalties (either as income taxes or another expense category)

Implementation Plan

In order to achieve a successful implementation and provide for subsequent compliance for the accounting for the uncertainty in income taxes, management should establish a strategy/plan which would incorporate, at a minimum, the following steps:

1) Identification of tax positions
2) Evaluation of tax position recognition
3) Measurement of tax benefit from tax position to be recognized
4) Determine proper accounting treatment and classification
5) Prepare financial statement disclosures
6) Subsequent recognition, derecognition and measurement
7) Documentation of an entity's methodology, evaluation/analysis, sources of support, etc.

KNLLP ASC 740/FIN 48 Services

The accounting for the uncertainty in income taxes poses several challenges that companies must overcome in order to properly implement and subsequently follow to comply with financial statement reporting standards. We can assist you in preparing for this requirement; our services can be tailored to help in the entire process or be limited to specific areas. Please consult us to discuss the possibilities of adapting a services package suitable for your company.♦

Report of Foreign Bank and Financial Accounts

In the modern global economy more and more people in the United States have foreign financial accounts. While there are many legitimate reasons for owning foreign financial accounts, it is important to remember that such ownership comes with certain responsibilities. Foreign account owners must remember that they may be required to report their accounts to the government, even if the accounts do not generate taxable income.

The Bank Secrecy Act, passed by Congress in 1970, gave the Department of Treasury authority to establish recordkeeping and filing requirements for United States persons with financial interest in, or signature authority or other authority over, financial accounts maintained with financial institutions in foreign countries. This provision of the law requires that a Form TD F 90-22.1, Report of Foreign Bank and Financial Accounts ("FBAR") be filed if certain requirements are met.

What is the purpose of an FBAR?

The FBAR is a tool to help the United States government identify persons who may be using foreign financial accounts to circumvent United States law. Investigators use FBARs to help identify or trace funds used for illicit purposes or to identify unreported income maintained or generated abroad as well as to provide an additional tool to combat money laundering and other crimes.

Who must file an FBAR?

Any United States person who has a financial interest in, or signature authority or other authority over, any financial account in a foreign country must file an FBAR if the aggregate value of the accounts exceeds $10,000 at any time during the calendar year.

The term "United States person" includes a citizen or resident of the United States, or a person in and doing business in the United States. Generally, a person is not considered to be in, and doing business in the United States unless that person is conducting business within the United States on a regular and continuous basis. Persons who are merely visiting the United States or who sporadically conduct business in the United States, are not in, and doing business in, the United States for FBAR reporting purposes. In addition, a "United States person" includes a domestic partnership, a domestic corporation and a domestic estate or trust.

A "financial account" includes any bank, security, securities derivatives or other financial accounts. A financial account also includes any savings, demand, checking, deposit, or any other account maintained with a financial institution.

A person has "signature authority" over an account if that person can control the disposition of money or other property in the account by delivery of a document containing his signature to the bank or other person with whom the account is maintained. A person with "other authority" over an account is a person who can exercise power that is comparable to signature authority over an account by direct communication, either orally or by some other means to the bank or other person with whom the account is maintained.

When is the FBAR due?

The FBAR is not an income tax return and should not be mailed with any income tax returns. The FBAR must be filed on or before June 30th of the year following the year that the account holder meets the $10,000 threshold. The granting of an extension to file Federal income tax returns by the IRS does not extend the due date for filing an FBAR. There is no extension available for filing the FBAR.

Are there penalties for not filing?

Civil and criminal penalties for noncompliance with FBAR reporting requirements can be severe. Civil penalties for a non-willful violation can be up to $10,000 per violation. Civil penalties for a willful violation can range up to the greater of $100,000 or 50% of the amount in the account at the time of the violation. Criminal penalties for violating the FBAR requirements can amount to up to $500,000 or 10 years imprisonment or both. Civil and criminal penalties may be imposed together. Civil penalties can be assessed anytime up to six years after the date of the violation.

What to do if you have failed to file FBARs

Recently the United States government has intensified its efforts to clamp down on individuals seeking to avoid paying taxes through the use of offshore bank accounts. Included in those efforts is an increased emphasis on compliance with FBAR reporting requirements. The IRS and the Department of Justice have conveyed their intent to continue to aggressively pursue tax evaders and those not complying with the FBAR reporting requirements.

You can find Form TD F 90-22.1 on the IRS website at: http://www.irs.gov/pub/irs-pdf/f90221.pdf

If you learn that you were required to file FBARs for past years, you should address the matter immediately. Please contact us for more information regarding the filing of FBARs.♦

Online Hosted Quickbooks

Do you wish that you can access your full-featured QuickBooks software easily and reliably from anywhere, at anytime? As with most users of Quickbooks or other software of a similar nature, the answer will be an astounding yes. However, a problem lies in the fact that Quickbooks is installed on your pc or server at your workplace and can only be accessed while there.

A solution to that problem would be to subscribe to a service where your Quickbooks software is hosted online and off-site. By doing this, it will enable you to work in Quickbooks while on the road or in the privacy of your own home. Not only you, but your co-workers and even your accountant can access your Quickbooks software from any location and it will be available for anyone 24 hours a day, 7 days a week.

How It Works

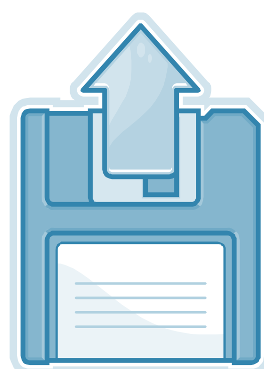
From a user perspective, the QuickBooks application hosting service works pretty much like running QuickBooks on your own computers, with one notable exception: it's not running on your computers. In a QuickBooks hosting model, the QuickBooks applications and all the QuickBooks data are installed and run from the ASP's (application service provider's) computers. The applications are the same ones that you would install on your PC if you wanted to. There is no special version of QuickBooks that has been designed for hosting. The functionality of the software, and how it runs under Windows, is the same whether it's installed on your PC or on the host's computers. This also means that, if you want a program to integrate with QuickBooks, that other program likely needs to be installed on the host computers, as well.

For example, QuickBooks offers features where it integrates with Microsoft Office. When you have Office installed on your computer along with QuickBooks, you are able to seamlessly export data from QuickBooks into an Excel spreadsheet – complete with formatting. You are able to do this because QuickBooks and Office use elements from the Windows operating system to communicate. If both QuickBooks and Excel are not installed on the computer, the integration is not able to occur. The same is true with a hosted service. If you want applications to integrate at the host, then those applications likely have to be installed and running at the host. This is true for complete applications, such as Microsoft Office, as well as for plug-ins and Web-connected services that require controls or other software be installed on your PC.

Some of the benefits of subscribing to a service like this include:

- **Lease QuickBooks Licenses**: The ability to lease QuickBooks licenses enabling users to get started right away without the up-front costs of a full QuickBooks license.
- **Anywhere, Anytime Access**: Run QuickBooks securely at anytime from anywhere with an Internet connection. No more sending QuickBooks files back and forth to the CPA.
- **Full-Featured Desktop QuickBooks**: Access the full-features of the desktop versions of QuickBooks.
- **Multiple QuickBooks Versions**: Run any number of full-featured, desktop QuickBooks editions or versions from QuickBooks 2007 to QuickBooks 2010 Enterprise.
- **Simplified PC Maintenance**: Run QuickBooks from any PC without having to install QuickBooks.
- **Multi-User Access**: Have multiple users access the same QuickBooks company file at the same time. A business user and their CPA can be in the same file at the same time.
- **Multiple QuickBooks File Access**: Access multiple QuickBooks company files from a single logon. You can work with multiple company files for the price of just one user logon.
- **Extended Feature Access**: Subscribe to extended features like integrated credit card processing or Microsoft Office.
- **Reliability**: Get the reliability of a fully-clustered, multi-tier infrastructure.

From 2010 and beyond, more and more software suites will be available to use in a virtual model such as this one. The ease and usefulness of this service will pay dividends for years on end. Let Kakimoto & Nagashima LLP help you to be one of the many to utilize these services that are on the cutting edge of technology.♦



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http://www.knllp.com/newsletter/registration.php

We look forward to providing you with up-to-date accounting and tax information through our website.