Kakimoto & Nagashima LLP

Certified Public Accountants

Consultants

NEWSLETTER

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Any Questions?

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Summary of Articles

Accounting and Financial Reporting - Looking Forward to Major Changes

If all goes as planned, there will be several accounting standards that will be issued by mid-2011. The FASB has over 20 accounting/financial reporting projects underway, a number of them being conducted jointly with the IASB in anticipation of future convergence. Projects include: financial statement presentation, revenue recognition, leases and disclosures for loss contingencies. Summarized in this article are selected FASB projects, expected timing and possible changes in accounting/financial reporting that may result from each project's completion.

Small Business Health Care Tax Credit for Small Employers

The 2010 Patient Protection and Affordable Care Act provides a tax credit for qualifying employers who provide health care coverage for their employees. See the article in this newsletter for details.

Hire Act

In an effort to stimulate the nation's economy and promote job growth, the Hiring Incentives to Restore Employment ("HIRE") Act was signed into law by President Obama on March 18, 2010. As unemployment rates increased from 5.0% in December 2007 to 9.7% in March 2010 , President Obama signed the HIRE Act to provide incentives to employers who are willing to restore the jobs that were lost in the recent economic downturn. Find out more about the HIRE Act in the attached article.

2010 California Tax Credit for New Home / First-Time Buyer

A year after the first version of the Federal First-Time Home Buyer Credit went into effect; California launched a similar credit in early of 2009 which was to end earlier this year. However on May 1, 2010, California launched the 2010 Tax Credit for New Home and First-Time Buyers. See the Article on Page 3 for more information.

Spam-A-Lot

The fight against spam is a never ending battle. Everyday millions of people are being solicited through email for cheap medications, cheap software, or the ever so popular male enhancement products. To win the war, you need the right defenses. Read on to find out how.

Accounting and Financial Reporting Changes - Moving Forward

The U.S. Financial Accounting Standards Board ("FASB") is currently working on a number of accounting projects which may result in significant changes to accounting and financial reporting in the near future. Several projects are being conducted jointly with the International Accounting Standards Board ("IASB"); the FASB and the IASB recently agreed to expedite efforts in completing these projects. In addition, the FASB has certain separate accounting projects which most are expected to be finalized in 2010 or 2011.

FASB/IASB Joint Projects

The FASB and the IASB have made a significant amount of progress on a number of joint standard-setting projects. Since coming to a formal agreement in 2002 (the "Norwalk Agreement"), the FASB and the IASB have been committed to the convergence of U.S. GAAP and IFRS. In 2006, a "memorandum of understanding" ("MoU") between the two standard-setting bodies was issued providing a roadmap for convergence; subsequently, the MoU was updated in 2008 to report on the progress made since 2006. Reaffirming their commitment in November, 2009, the FASB and the IASB continued to establish target dates for its joint projects with a goal to issue a number of accounting standards in 2010 or 2011. Joint projects include:

• Financial Statement Presentation • Revenue Recognition • Accounting for Financial Instruments
• Leases • Consolidation: Policy and Procedures

With the issuance of these new standards, certain accounting and reporting issues may initially become more challenging and warrant additional attention. Anticipated principles or objectives, possible changes and expected standard issuance dates for the projects listed above are summarized below.

Project Area	Anticipated Principles or Objectives	Possible Changes	Expected Standard Issuance Date
Financial Statement Presentation	Develop a standard and guidance so that information presented in financial statements will: (1) Portray a cohesive financial picture of an entity's activities (2) Disaggregate information so that it's useful in predicting an entity's cash flows	Financial statements that would require assets, liabilities, income and expenses to be classified as business (operating or investing) and financing activities. Statement of cash flows to be presented utilizing the "direct method". Disaggregation of financial information may lead to more extensive/additional disclosures.	4th quarter/2011
Revenue Recognition	Development of a revenue recognition model which involves five steps: (1) Identify the contract(s) with the customer (2) Identify the separate performance obligations (3) Determine the transaction price (4) Allocate the transaction price to the performance obligations (5) Recognize revenue when a performance obligation is satisfied Principles developed will be applicable to all industries.	Supersede most U.S. GAAP guidance on revenue recognition. Changes in revenue amount and recognition timing. Greater use of estimates.	2nd quarter/2011
Accounting for Financial Instruments	Improve usefulness of financial instrument reporting; the project will: (1) Reconsider the recognition/measurement of financial instruments (2) Address issues related to impairment of financial instruments and hedge accounting	Would significantly change the accounting for a broad range of financial instruments including: investments in debt and equity securities, nonmarketable investments, debt obligations, loans, loan commitments and deposit liabilities.	2nd quarter/2011
Leases	Create common lease accounting requirements in which the assets and liabilities arising from lease contracts are recognized on the balance sheet.	May eliminate the practice of differentiating between operating and capital leases. All leases would be recorded on the balance sheet.	2nd quarter/2011
Consolidation: Policy and Procedures	Provide comprehensive guidance for consolidation of all entities, including entities controlled by voting or similar interests.	The concept of a "de facto" control model may be implemented which could result in consolidating additional entities.	Dependent on IASB proposed consolidation model

FASB Separate Projects

In addition, the FASB has two separate projects of interest on its agenda with expected finalization in the near term and are summarized as follows:

Project Area	Anticipated Principles or Objectives	Possible Changes	Expected Standard Issuance Date
Disclosure of Certain Loss Contingencies	To enhance the disclosure requirements for loss contingencies under FASB ASC 450, "*Contingencies*" (formerly SFAS No. 5, "Accounting for Contingencies").	Expand the population of loss contingencies that are required to be disclosed. Require an entity to disclose more qualitative and quantitative information regarding loss contingencies including their nature, potential timing and potential magnitude. Require a tabular reconciliation of recognized loss contingencies (public companies only).	3rd quarter/2010
Going Concern	Incorporate into FASB ASC guidance relating to going concern matters including: (1) Management's responsibility to evaluate a reporting entity's ability to continue as a going concern (2) Disclosure requirements	Require management of a reporting entity to consider all available information about the future, which is at least, but is not limited to, 12 months from the end of the reporting period.	1st quarter/2011

Please consult us for further information or to discuss the impact that these FASB projects may have on your Company's future accounting and financial reporting processes.♦

Small Business Health Care Tax Credit for Small Employers

The Patient Protection and Affordable Care Act, signed by President Obama on March 23, 2010, will provide tax credits for those small businesses who meet the requirements of "qualified employers." A qualifying employer must cover at least 50 percent of the cost of health care coverage for its employees based on a single (employee only) rate. A qualifying employer must also have less than the equivalent of 25 full-time workers. Employers with less than 50 half-time workers may be eligible. The average annual wages of the workers must also be less than $50,000. If all requirements are met, the employer is qualified. Both taxable and tax-exempt firms may qualify.

The first segment of this law runs from 2010-2013, in which the credit is worth up to 35 percent of a small business' premium costs for each year it qualifies. Starting January 1, 2014, the enhanced version goes into effect and the rate increases to 50 percent of premium costs. The credit begins to gradually phase-out for companies with average wages between $25,000 and $50,000 and for companies with the equivalent of between 10 and 25 full-time employees.

If you have any questions about the Small Business Health Care Tax Credit, please contact us.♦

HIRE Act

The HIRE Act provides two tax incentives to qualified employers who hire and retain unemployed or part-time employees.

PAYROLL TAX HOLIDAY
The first tax benefit for employers is the relief from the employer's share of the 6.2% Social Security Tax on wages paid to the qualified employees. The exemption applies to wages paid to qualified employees from March 19, 2010 through December 31, 2010 for services that are related to the trade or business of the employer. This tax forgiveness only applies to the employer's portion of Social Security Tax; newly hired employees will still be required to pay his/her portion of the tax.

RETAINED WORKER TAX CREDIT
The second tax benefit qualified employers can receive is the Retained Worker Tax Credit, which gives employers a tax credit of $1,000 or 6.2% of wages paid to the employee during the 52-week period, whichever is lower, for each qualified retained worker. A qualified retained worker is a worker who was hired by a company after February 3, 2010 and before January 1, 2011, and maintained employment with the company thereafter for 52 consecutive weeks.

REQUIREMENTS
To qualify for these benefits, the employer must be an entity other than the US federal, state, or local government or any of its instrumentalities. State colleges and universities, however, qualify under this program.

In addition to the foregoing, the newly hired employee must meet all of the following conditions:

1. Begins employment with the company after February 3, 2010, and before January 1, 2011
2. Was unemployed during the 60-day period before beginning work or worked less than 40 hours for anyone during the 60-day period
3. Was not a replacement of another employee of the company unless the former employee left employment voluntarily or for cause (including downsizing)
4. Employee is not a dependent or a relative of the employer, or if the employer is a corporation, does not own 50% or more of the outstanding stock of the corporation

The qualified employee must sign Form W-11 "HIRE Act Employee Affidavit" and submit it to the employer to certify that he/she was unemployed or was working for less than 40 hours for another person during the 60-day period prior to the date he/she began employment with the employer. The employer will retain this form to claim the payroll tax exemption or the new hire retention credit under the HIRE Act.

Time is ticking to benefit from the tax-savings incentives that were introduced in the HIRE Act. The tax forgiveness from Social Security Tax only applies to wages paid during 2010, and the Retained Worker Tax Credit is only available to workers who started his/her tenure with the company before January 1, 2011. Employers who are looking to expand the number of employees are highly encouraged to take prompt actions to benefit from this measure. If you have any questions about the HIRE Act, please contact us.♦

2010 California Tax Credit for New Home / First-Time Buyer

Generally, the California New Home and First-Time Buyer tax credits are available for taxpayers who purchase a qualified principal residence on or after May 1, 2010, and before January 1, 2011. In addition, if the taxpayer entered into an enforceable contract on or before December 31, 2010, the credit is still available as long as the purchase date (date escrow closes) is before August 1, 2011. Taxpayers who entered into a contract prior to May 1, 2010 may also apply for the credit, as long as the purchase date is after May 1, 2010.

The tax credits are limited to the lesser of five percent of the purchase price or $10,000, which will be allocated equally over three successive tax years beginning with the year in which the residence was purchased. The tax credits are nonrefundable and unused credits cannot be carried over to the next year. The total credit available is $100 million for the New Home Credit and $100 million for the First-Time Buyer Credit. The tax credits will be allocated on a first-come-first-served basis.

Only one credit is allowed per taxpayer. The First-Time Buyer Credit is expected to be used up first; therefore if a taxpayer qualifies for both credits, the law specifies that the amount will be allocated under the New Home Credit. Taxpayers will not be eligible for either credit if they meet any of the following:

- The taxpayer was allowed a 2009 New Home Credit.
- The taxpayer is under 18 years old. (A taxpayer who is married at the date of purchase is considered to be 18 if the taxpayer's spouse/registered domestic partner (RDP) is 18 or older at the date of purchase.)
- The taxpayer or the taxpayer's spouse/RDP is related to the seller.
- The taxpayer qualifies as a dependent of any other taxpayer for the tax year of the purchase.

For both credits, a qualified principal residence must be a single family residence (detached or attached), condominium, a unit in a cooperative project, a house boat, a manufactured home, or a mobile home. The residence must also be eligible for the California property tax homeowner's exemption and be occupied by the taxpayer as their principal residence for a minimum of two years immediately following the purchase. Under the First-Time Buyer Credit, the buyer must be a first-time buyer, meaning the buyer has not had ownership interest in a principal residence (within or without California) during the preceding three year period ending on the date of the purchase of the qualified residence. If the buyer was married at the date of purchase, the buyer's spouse/RDP also must have not had ownership interest in a principal residence in the preceding three years. Under the New Home Credit, in addition to the items mentioned above regarding a qualified principal residence, the residence must have not been previously occupied.

Based on the applications for First-Time Buyer Credit as of June 1, 2010, the requested credit has reached over half the available credit. The available credit will likely be exhausted before the end of the effective date. If you would like to know more about the credit or the application process, please contact us or visit the state's website at www.ftb.ca.gov.♦

Spam-A-Lot

Unsolicited email, or spam as it is more commonly referred to, is a problem for companies because of its ability to change regularly, inundate mailboxes with useless email, affect employee productivity and pose a security risk.

A recent report showed that over 82% of all US email is spam. With about 980 million email accounts around the world, it would be interesting to see what the world wide spam percentage is. Spam is becoming more and more insistent and with spammers teaming up with virus writers, the situation is growing increasingly malicious.

Spammers never use their own email address, but will typically have thousands, if not millions, of disposable accounts. They can send spam out to millions upon millions of email addresses within minutes. Open proxies are often used to hide the spammer's location or they will take control of a host computer (a victim's computer filled with the right malware, viruses and worms) and send out mass spam. All the while, it remains completely undetected. With such a hit and run technique it can be very difficult to track down spammers. When they are found, fines and/or jail time is the common punishment.

Spam is not just annoying adult related ads or unreadable gibberish. Some spam is extremely dangerous and people have had their banking accounts wiped out, credit cards maxed out and have suffered identity theft. Identity theft is one of the hardest things to get rid of. It can be almost impossible to regain your identity. A spammer only needs a little bit of information about you to receive all of your records. One dangerous type of spam is phishing. A phishing spam will look just like the original website, like PayPal for example. It will ask you to login to verify information, as soon as you login, the sender of the email now has access to your PayPal and bank account. Then there is the Nigerian type of spam, where the sender will use a convincing sad story over the course of time to get you to send or donate money to them.

Can spam be stopped? It is impossible to eradicate spam due to its ever-changing nature but there are ways to effectively reduce spam. Here are three simple steps:

- Employees should delete any email that looks unfamiliar or suspicious and ignore email asking for personal details;
- Employees should not be allowed to install unauthorized software and should be denied access to peer-to-peer sites;
- Companies should install a product that is capable of identifying as many forms of spam as possible yet without deleting important email.

Spam is a problem for every company – small or large – but something can be done. Anti-spam appliances are available to add on to your corporate email structure. Once set up, it can possibly filter out over 90% of all incoming spam messages.

When considering the purchase of an anti-spam solution, it is easy to be overwhelmed by choice. The anti-spam market is getting more and more crowded, and the offer is as varied as it is confusing, ranging from the state-of-the-art to the frivolous. Cisco's IronPort, Barracuda Networks Spam & Virus Firewall, and Mirapoint's RazorGate are a few of the most popular appliances on the market.

At the firm of Kakimoto & Nagashima LLP, a spam appliance has recently been implemented into the infrastructure. All employees have noticed a significant decrease in the amount of spam they receive every day. Those who used to receive 20-30 spam messages a day have reported that they are now getting only 1-2. We are a believer of this device here at Kakimoto & Nagashima LLP and we can help make you one too!♦

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