Kakimoto & Nagashima LLP
Certified Public Accountants
Consultants

NEWSLETTER

Volume 11, Issue 1 February 2013

Inside this issue:

Summary of Articles

Tax Updates

The first big news for 2013 was President Obama signing into law a bill to avert the "fiscal cliff". The new law, the American Taxpayer Relief Act of 2012 ("ACT"), includes numerous changes to tax law which will affect both individuals and businesses. This edition's tax article introduces some of the provisions of the ACT that are effective for 2013. Also covered are changes that have been made independent of ACT. In addition, on January 24, 2013, representatives from the governments of the United States and Japan signed a new Protocol to the income tax treaty between the two countries. The tax article lists some of the key amendments to the existing Treaty which will be in effect after ratification.

FASB/IASB Joint Projects: Revenue Recognition and Leases

The FASB and IASB are making progress on their major convergence projects. Significant changes are expected in accounting and financial reporting; these changes may also have a sizeable impact on an entity's controls/processes, information systems, business operations and human resources. Entities should consider the broad implication and implementation issues these accounting changes may have. Summarized in this article are tentative decisions reached to date, FASB/IASB next steps and possible issuance/effective dates for the revenue recognition and leases joint projects.

Cloud Backup

Cloud backup is a service that provides users with a system for the backup and storage of computer files over the internet. Your data is encrypted then transmitted and stored in secured data bunkers throughout the world. Access to your data is available 24/7 using any internet connection. Turn to the back to find out how your data can be kept safe in any kind of emergency.

Kakimoto & Nagashima's future newsletters will only be published on-line for your convenience. Please make sure we have your current e-mail address by registering with us at:

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

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

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:

http://www.knllp.com

Tel: (310) 320-2700
Fax: (310) 320-4630
E-mail: sboffice@knllp.com

An Independent Member of the plante moran ALLIANCE

The American Taxpayer Relief Act of 2012

On January 2nd, 2013, President Obama signed the American Tax Relief Act of 2012 ("ACT") averting the "fiscal cliff" of tax increases and spending cuts (spending cuts are on a temporary basis.

Among the tax items not addressed by the ACT was the temporary lower 4.2% rate for employees' portion of the Social Security payroll tax, which was not extended and has reverted back to 6.2%.

Below are the main tax features of the ACT:

INDIVIDUAL TAX PROVISIONS

Individual Tax Rates

All individual tax rates (10%, 15%, 25%, 28%, 33% and 35%) under the 2001 and 2003 ACTs are retained. A new top rate of 39.6% is imposed on taxable income over $400,000 for single filers, $425,000 for head-of-household filers, and $450,000 for married taxpayers filing jointly ($225,000 for each married spouse filing separately).

Phase-out of Itemized Deductions and Personal Exemptions

The personal exemptions and itemized deductions phase-out is reinstated at a higher threshold of $250,000 for single taxpayers, $275,000 for heads of household, and $300,000 for married taxpayers filing jointly.

Capital Gains and Dividends

A 20% rate applies to capital gains and dividends for individuals at the top income tax bracket threshold ($450,000/$400,000 – joints/singles); the 15% rate is retained for taxpayers in the middle tax brackets. The zero rate is retained for taxpayers in the 10% and 15% tax brackets.

Alternative Minimum Tax

The exemption amount for the AMT on individuals is permanently indexed for inflation. For 2012, the exemption amounts are $78,750 for married taxpayers filing jointly and $50,600 for single filers.

Estate and Gift Tax

The estate and gift tax exclusion amount is retained at $5 million indexed for inflation ($5.12 million in 2012), but the top tax rate increases from 35% to 40% effective Jan. 1, 2013. The estate tax "portability" election, under which, if an election is made, the surviving spouse's exemption amount is increased by the deceased spouse's unused exemption amount, was made permanent by the ACT.

BUSINESS TAX PROVISIONS

Bonus Depreciation

The additional 50% first-year depreciation deduction for investment in "qualified property" is extended for property placed in service before Jan. 1, 2014 (Jan 1, 2015 for certain longer period production property and transportation property).

Expensing of Certain Depreciable Property

The limitation on the amount of property that can be expensed under Sec. 179 is increased to $500,000 for tax years beginning in 2013, with a phase-out beginning when the total amount of eligible Sec. 179 property exceeds $2 million.

Research and Development Credit

The ACT reinstated the research and development credit retroactively from January 1, 2012 through December 31, 2013. The ACT modifies rules for taxpayers under common control and rules for calculating the credit when there is a change of ownership for a portion of a trade of business.

EXTENSION OF EXPIRED PROVISIONS

Individual Tax Extender Provisions

- **Deduction of state and local general sales taxes** – The ACT extends the election to take an itemized deduction for state and local general sales taxes in lieu of the itemized deduction permitted for state and local income taxes for two years, through tax years beginning before January 1, 2014.
- **Marriage penalty relief** – The ACT extends permanently the increase in the standard deduction and the 15% regular income tax bracket for married taxpayers filing jointly to twice the standard deduction and the 15% bracket for singles.
- **Child credit** – the ACT makes permanent the $1,000 child credit.

Business Tax Extender Provisions

- **Depreciation of certain real property improvements** - The ACT extends retroactively from January 1, 2012 through December 31, 2013, the 15-year cost recovery period for certain leasehold improvements, restaurant buildings and improvements, and retail improvements, which are placed in service before January 1, 2014.
- **Work opportunity tax credit** – The Work Opportunity Tax Credit ("WOTC") provides credits for employers who hire individuals in target groups (e.g., war veterans and welfare recipients). The WOTC expired after 2012 with exceptions for those who hire qualified veterans. The ACT extends the WOTC to apply to qualified individuals who begin work for the employer prior to January 1, 2014.♦

Questions or comments about this issue or inquiries about our newsletter by e-mail subscription service can be sent to:

newsletter@knllp.com

Other Laws Applicable From 2013

IRS Delays Effective Date of Repair vs. Capitalization Regulations

On December 14, 2012, the Treasury Department and IRS released Treasury Decision 9564 ("TD 9564") which includes "technical amendments" to temporary regulations (issued in Dec. 2011) on a number of issues concerning the deduction and capitalization of expenditures related to tangible property. TD 9564 reflects guidance provided by the IRS in Notice 2012-73 which was issued in November 2012 and provides that:

- The final regulations, expected to be released in 2013, will be effective for tax years beginning on or after January 1, 2014 (changed from Jan 1, 2012)
- There may be changes to the temporary repair vs. capitalization regulations (released on Dec. 23, 2011) in the areas of dispositions, the De Minimis Rule, and the Safe Harbor for Routine Maintenance.
- Taxpayers will have the option to apply the temporary or final regulations to tax years beginning on or after January 1, 2012 through the end of 2013.♦

Single Sales Factor Formula – California Apportionment

Beginning with the 2013 taxable year (i.e., taxable years beginning on or after January 1, 2013), the use of the single- sales factor apportionment formula in California is mandatory. In addition, market-based sourcing is required for all taxpayers for purposes of sourcing sales of other than tangible personal property.

Under the market-based sourcing rules, sales, other than sales of tangible personal property, are generally sourced to California when benefits are received/used in California or sources generating revenues are located in California.♦

Standard Mileage Rates for 2013: IRS notice 2012-72

Following rates apply for the use of a car (also vans, pickups or panel trucks) beginning on January 1, 2013 (1cent/mile increase).♦

Purpose	Standard Mileage Rates
Business	56.5 cents per mile
Medical and moving	24 cents per mile
Charitable	14 cents per mile (no change)

New Health Care Taxes Effective in 2013

Beginning in 2013, the following taxes will be applied to married taxpayer earning in excess of $250,000 and unmarried taxpayers earning over $200,000:

- An additional .09% Medicare Hospital Insurance Tax on wages and self-employment income that exceeds the threshold amounts.
- A 3.8% net investment tax on certain types of investment income. The tax applies to the lesser of the applicable individual's net investment income or modified adjusted gross income in excess of the threshold amounts.♦

United States, Japan Sign Protocol to Income Tax Treaty

On January 24, 2013, representatives from the governments of the United States and Japan signed a new Protocol to the income tax treaty. The new Protocol amends the existing tax treaty which was signed in 2003 to bring that agreement into closer conformity with the current tax treaty policies of both countries.

Key aspects of the protocol includes:

- Rules for exclusive residence-country taxation of interest (i.e., no withholding tax)
- Expansion of category of direct dividends (i.e., at least 50% of voting stock instead of more than 50% and a reduced required holding period of six months)
- Arbitration system to promote settlement of tax related disputes with respect to the Convention
- Reinforcement of mutual cooperation between tax authorities of the both countries such as by expanding the subject of mutual assistance for tax collection
- Exchange of information between two countries' competent authorities to facilitate the administration of each country's tax laws

The Protocol will enter into force on the date of the exchange of the instruments of ratification after the completion of their respective domestic procedures, and shall in principle have effect:

- In respect to taxes withheld at source, for the amounts paid or credited on or after the first day of the third month next following the date on which the Protocol enters into force;
- In respect to other taxes, for taxable year beginning on or after the first day of January next following the date on which the Protocol enter into force.♦

Revenue Recognition and Leases – FASB/IASB Joint Project Updates: Moving Targets?

The U.S Financial Accounting Standards Board ("FASB") is currently working together with the International Accounting Standards Board ("IASB") on several joint projects which will result in significant changes to accounting and financial reporting in the future. KNLLP's current article summarizes major developments and status in two important joint FASB/IASB projects: revenue recognition and leases.

Tentative decisions reached to date, next steps and anticipated issuance/effective dates for the projects are summarized below; the Boards' decisions are tentative and may be changed at future Board meetings.

Revenue Recognition
Principles/objectives – tentative decisions reached to date:

Five step revenue recognition model:
- Identify the contract with a customer
- Identify the separate performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the separate performance obligations in the contract
- Recognize revenue when (or as) the entity satisfies a performance obligation

Other recognition/measurement issues:
- Licenses – implementation guidance
- Product warranties
- Costs to obtain/fulfill a contract
- Onerous performance obligations
- Repurchase provisions

What's next?
The Boards have completed redeliberations of the recognition and measurement principles in major areas. Redeliberations are expected in 2013 on remaining topics, including scope, disclosure and transition.

Anticipated issuance/effective dates
The Boards' objective is to issue the final accounting standard in the first half of 2013. The Boards have not determined an effective date, but have indicated that it will be no earlier than annual periods beginning on or after January 1, 2015 with a possible deferral period given to nonpublic entities.

Leases
Most significant provisions – tentative decisions reached to date:

- Exposure draft to be reexposed due to revised proposals
- Scope
- Lease definition
- Right-of-use model
- Lessee accounting
- Lessor accounting
- Lease payments
- Lease term
- Subsequent measurement for lessees
- Presentation/disclosure

What's next?
The revised Exposure Draft is expected in the first half of 2013.
Anticipated issuance/effective dates
The Boards' target is to issue the final accounting standard in 2013, however, issuance may shift into 2014. The effective date has not yet been determined, but it will likely not be before 2016.

The accounting models noted above, if adopted, would result in sweeping changes to accounting and financial reporting requirements. We encourage our clients to begin planning for the effect of these changes which would likely have an impact on: controls/processes, information systems, operations/performance measurements and personnel. Please consult us for further information or to discuss the impact that this may have on your Company's future accounting and financial reporting needs.♦

Cloud Backup

Most companies have some sort of data backup solution in place. The tried and true method of tape backup is what most companies are using today. For smaller businesses and the self-employed - optical disks, usb memory devices or external hard drives may be the chosen medium. In the event of emergency, these backup solutions should enable the business to recover any data that is lost.

However, backing up to an external hard drive doesn't help when your office burns down or a tornado tears off the roof. If your computer is destroyed, your backup solution which is sometimes stored just 10 feet away in a closet, is probably gone too.

Cloud backup, also known as online backup, is a strategy for backing up data that involves sending a copy of the data over a proprietary or public network to an off-site server. The server is usually hosted by a third-party service provider, who charges the customer a fee based on capacity, bandwidth or number of users.

Online backup systems are typically built around a client software application that runs on a schedule determined by the level of service the customer has purchased. If the customer has contracted for daily backups, for instance, then the application collects, compresses, encrypts and transfers data to the service provider's servers every 24 hours. To reduce the amount of bandwidth consumed and the time it takes to transfer files, the service provider might only provide incremental backups after the initial full backup.

Third-party cloud backup has gained popularity with small offices and home users because of its convenience. Capital expenditures for additional hardware are not required and backups can be run dark, which means they can be run automatically without manual intervention.

A growing number of companies now offer these cloud-based backup services. Two of the more well-known for small business users, Carbonite (www.carbonite.com) and Mozy (www.mozy.com), offer similar features with different pricing plans. Other more full-featured services like Autonomy (www.autonomy.com) and Symantec Backup Exec.cloud (www.symantec.com/backup-exec-cloud) are also available for larger corporations.

Our office relies on cloud backups and is a proponent for these types of services. If you feel the need to implement cloud backup services in your office, give us a call and we can help you find the right solution.♦