



Kakimoto & Nagashima LLP

Certified Public Accountants Consultants

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

W-8BEN-E: New Form for Entities Making Payments to Foreign Entities or Subsidiaries

Does your company make non-product related transaction payments to foreign entities? If the answer is yes, you may be required to obtain the new IRS Form W-8BEN-E from the recipients of these payments. Please see the article in this edition of our newsletter for an overview of the new Form W-8BEN-E reporting requirements.

The FASB and PCC Make Progress in Private Company Accounting Alternatives

The FASB and the Private Company Council ("PCC") continue to make headway in the development of accounting alternatives for private companies. New guidance includes three recently issued Accounting Standard Updates in the areas of goodwill, interest rate swaps and VIE's. Also issued was a new definition of a public business entity; this definition will be used to determine which entities will be eligible for the new private company accounting alternatives.

End of Life for Windows XP

After 13 years of prolonged support, Microsoft has ended its maintenance for the now ancient operating system. Approximately 24% of the world's PC's are still running Windows XP. Are you part of this population? If so, it is highly advised that now is the time to move on.

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ALLIANCE

W-8BEN-E: New Form for Entities Making Payments to Foreign Entities or Subsidiaries

In an effort to combat tax evasion by taxpayers holding accounts and other financial assets offshore, Congress enacted the Foreign Account Tax Compliance Act (“FATCA”) of 2010. FATCA added several new reporting requirements; for example, foreign banks and certain foreign entities with substantial U.S. owners must report certain information about their U.S. account holders or owners. In order to assist with FATCA’s expanded withholding and additional information reporting requirements with respect to payments made to foreign entities, the IRS created the new Form W-8BEN-E, *Certificate of Status of Beneficial Owner for United States Tax Withholding and Reporting (Entities)*, solely for entities. The new reporting requirement is significant and is expected to impact many taxpayers. In addition, penalties for noncompliance with FATCA can be substantial. This article highlights some of the key elements of the new Form W-8BEN-E reporting requirement.

What is Form W-8BEN-E?

Prior to FATCA, U.S. entities making payments to a foreign entity or to a foreign individual were required to obtain the prior version of Form W-8BEN, *Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding*, (the “Prior W-8BEN”) and file Form 1042 and Form 1042-S. U.S. entities obtained the Prior W-8BEN from foreign payees to certify the payees’ foreign status with the purpose of determining payment withholding requirements. Moreover, U.S. entities were required to file a return on Form 1042, *Annual Withholding Tax Return for U.S. Source Income of Foreign Persons*, and information return on Form 1042-S, *Foreign Person’s U.S. Source Income Subject to Withholding*. FATCA and the withholding of tax on resident aliens and foreign corporation provisions still require U.S. entities to file Form 1042 and Form 1042-S but the Form W-8BEN requirement has changed.

FATCA provisions led the IRS to revise the Prior W-8BEN, and the revised Form W-8BEN, *Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding and Reporting (Individuals)*, was released in February 2014. The FATCA provisions also led the IRS to create the new eight-page Form W-8BEN-E, which was released in March 2014 (the instructions were issued in June 2014). Now, foreign individuals must use revised Form W-8BEN and foreign entities must use new Form W-8BEN-E.

Beginning July 1, 2014, U.S. entities doing business with foreign entities or that have foreign subsidiaries must comply with FATCA withholding requirements. In order to facilitate transparency of these foreign transactions, FATCA requires the U.S. withholding agent to withhold 30 percent of the gross amount of withholdable payments made to these foreign entities if it does not receive a completed Form W-8BEN-E prior to payment.

The foreign entity can avoid this situation by providing a properly executed Form W-8BEN-E to the U.S. withholding agent to establish its FATCA status and foreign status, and to claim a reduced rate of, or exemption from, withholding (under treaty benefits), if applicable. Once the U.S. withholding agent receives a Form W-8BEN-E, the form must be reviewed for completeness and accuracy with respect to the claims made.

To Whom Does The New FATCA Reporting Requirement Apply?

As mentioned above, for FATCA purposes, a foreign entity receiving a “withholdable payment” from a “withholding agent” must provide Form W-8BEN-E to the withholding agent prior to receiving the payment. Withholdable payments include: U.S. source interest, dividends, rents, royalties, commissions, compensation for services, any

gross proceeds from the sale of property that can produce these types of income, and other fixed or determinable annual or periodical gains, profits, or income.

A withholding agent is any person, U.S. or foreign, that has control, receipt, custody, disposal, or payment of the U.S. source withholdable payment. The withholding agent may be an individual, corporation, partnership, trust, association, or any other entity. Thus, a U.S. subsidiary of a multinational company may be considered a U.S. withholding agent for the purposes of FATCA if it pays a dividend or interest to its foreign parent company. In an IRS audit, the IRS may request copies of a Form W-8BEN or W-8BEN-E from the U.S. person making any type of withholdable payment to foreign persons.

There are exceptions to the FATCA withholding requirement. The foreign payee can qualify as an exempt beneficial owner as reflected on Form W-8BEN-E supplied by the foreign payee. A beneficial owner is an individual or entity that enjoys the benefits of owning an asset, regardless of under whose name the title of the property or security is held. In some cases, no withholding is required under FATCA rules if the payee qualifies as an “Excepted Non-Financial Foreign Entity” (“Excepted NFFE”). Some examples of excepted NFFEs are publicly traded companies, affiliates of publicly traded companies, and certain other non-financial entities.

When Do I Need to Have a New W-8BEN-E Completed?

In general, a W-8BEN-E is valid until the form’s period of validity expires. The form is valid from the date signed until the last day of the third succeeding calendar year. For example, a Form W-8BEN-E signed on September 30, 2014 remains valid through December 31, 2017. However, if the withholding agent is aware -- or has reason to know -- of a change in circumstances that makes any of the information on the current form unreliable or incorrect, then it must obtain a new form from the foreign entities.

The Treasury and the IRS have announced that calendar years 2014 and 2015 will be regarded as a transition period for purposes of IRS enforcement and administration with respect to Form W-8BEN-E. The IRS will take into account good-faith efforts of withholding agents to comply with the new provisions for FATCA-related enforcement actions. While the IRS allows entities to use the prior version of the Form W-8BEN through the end of 2014, additional documentation may still be required to determine FATCA status.

We recommend that all U.S. taxpayers with foreign payees perform a full review of their organization including foreign parents, subsidiaries, and vendor files to identify all foreign entities with whom they do business.

What Happens If I Don’t Comply?

Penalties for noncompliance with FATCA can be substantial. A withholding agent or payer that fails to obtain a Form W-8BEN-E and fails to withhold as required under the rules may be assessed tax at 30 percent of the payment amount as well as interest and penalties for lack of compliance.

If you have any questions about FATCA’s reporting requirements or new Form W-8BEN-E, please contact our office. ♦

Private Company Financial Reporting: Current Developments

In May 2012, the Private Company Council (“PCC”) was formed to work with the U.S. Financial Accounting Standards Board (“FASB”) to identify exceptions or modifications to address user needs of private company financial statements. In 2014, the FASB issued new guidance, jointly developed by the PCC, regarding private company accounting alternatives in the following areas:

- Accounting for goodwill
- Simplified hedge accounting – interest rate swaps
- Exemption from consolidation of certain variable interest entities

In December 2013, the FASB also issued ASU 2013-12, “Definition of a Public Business Entity” (“ASU 2013-12”); the definition will be used to determine which entities may utilize the new private company reporting alternatives on a going forward basis. Entities meeting the definition of a public business entity will not be eligible to elect private company alternatives.

Public Business Entity

A business entity meeting any one of the five criteria stipulated in ASU 2013-12 will be considered a public business entity (“PBE”). ASU 2013-12 also excludes not-for-profit entities and employee benefit plans from the PBE definition. Entities will need to carefully consider if they are eligible for the private company accounting alternatives. If eligible, when deciding whether to elect a private company accounting alternative, the following should also be carefully considered:

- Plans to go public or be purchased by a PBE in the near future.
 - Private accounting alternatives would not be available once becoming a PBE; financial statements/reporting would need to be retrospectively recast for PBE accounting requirements.
- Acceptance by financial statement users.
 - Entities that provide financial statements to their parent companies, banks, financial institutions, or others should contact these users prior to utilizing private company accounting alternatives to ensure financial statement acceptance.
- Evaluate cost/benefit of accounting alternative adoption.
- Assess impact on financial ratios and metrics used for financial/banking requirements.

Accounting for Goodwill

In January 2014, ASU 2014-02, “Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill” (“ASU 2014-02”) was issued by the FASB. Private companies are provided with an accounting alternative meant to simplify the accounting for goodwill. If elected, a nonpublic entity will be able to amortize goodwill on a straight-line basis over a ten year period or a more appropriate useful life, if shorter. Goodwill is tested for impairment only when a triggering event occurs. If this accounting alternative is elected, it should be applied prospectively to goodwill existing as of the beginning of the period of adoption and new goodwill recognized in annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015.

Simplified Hedge Accounting – Interest Rate Swaps

In January 2014 the FASB also issued ASU 2014-03, “Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps – Simplified Hedge Accounting Approach”. Nonpublic entities which are not financial institutions are provided with an accounting alternative which may make it easier for certain interest rate swaps to qualify for hedge accounting. The simplified hedge accounting approach will be effective for annual periods beginning after December 15, 2014 and interim periods within annual periods beginning after December 15, 2015.

Exemption from Consolidation of Certain Variable Interest

Entities

The FASB issued ASU 2014-07, “Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements” in March 2014. If certain criteria are met, private companies can choose to be exempt from evaluating lessors in common control leasing arrangements for consolidation under the variable interest model. Private companies electing the exemption must apply it retrospectively for annual periods beginning after December 15, 2014 and interim periods within annual periods beginning after December 15, 2015.

PCC Current Project Agenda

Accounting for Identifiable Intangible Assets in a Business Combination

In September 2014, the PCC voted to finalize guidance to simplify the accounting treatment for intangible assets acquired in a business combination. In a business combination, this accounting alternative would allow private companies to elect not to separately recognize and measure certain intangible assets. Entities that elect this alternative are required to elect the private company alternative for goodwill (ASU 2014-02). This PCC alternative is awaiting endorsement by the FASB.

Potential Amendments to the Existing Definitions of a Public Entity in the FASB Codification

This is the second phase of the PBE definition project. This project will address potential consequential amendments to the existing definitions of a public entity in the FASB Codification. This may involve changing and/or consolidating the various definitions that now exist in U.S. GAAP. Discussions are likely to begin in late 2014.

We’re Here to Help

If you have any questions about how these updates will affect your company’s accounting and financial reporting needs, or for help determining whether adopting these alternatives would be beneficial to you, please consult us for further information. ♦



End of Life for Windows XP

Earlier this year on April 8th, Microsoft finally ended support for its well-loved operating system (OS), Windows XP. Windows XP has been around, and in frequent use, for an unprecedented 13 years. Currently, XP is still estimated to be running on 24% of PC's worldwide, second only to Windows 7 at 51%. While it is still possible to continue using XP indefinitely, doing so would put you at a greater security risk of future attacks, as new holes found in the OS will not be patched.

Windows 7 or Windows 8.1?

This is the most common question when looking to upgrade from Windows XP. Ideally, Microsoft would like for all users to upgrade to Windows 8.1. However, due to the public scrutiny of its latest OS, Windows 7 is still available for purchase from most of the top PC manufacturers. Therefore the decision comes down to usability of each OS. While Windows 7 will be more familiar to XP users than will Windows 8.1, it can also be more expensive to get a Windows 7 PC at this point, since they are less common now and most often found in business-class machines.

Why I should upgrade to Windows 7

As far as familiarity, Windows 7 would be the most ideal upgrade path. The Desktop and Start Menu are prevalent and the basic functionality is similar enough to XP that you won't have to relearn much. Windows 7 is currently used by slightly over half of all PC users worldwide, making it the most popular OS of choice. It is also the first choice amongst IT professionals when upgrading their business PCs as well.

If you are running any legacy applications, Windows 7 contains XP mode. This option will allow the user to install a shell of XP and in turn will allow you to install your older programs that will not otherwise run on Windows 7.

Just as XP has expired, so too will Windows 7 at some point. Please keep in mind that consumer support for Windows 7, which includes warranty claims and free tech support, will end as soon as January 2015, although Microsoft's extended support, which includes the all-important stream of free security updates, along with other business perks, will continue until at least 2020.

Why I should upgrade to Windows 8.1

The learning curve when moving from XP to 8 is definitely steep. Microsoft got rid of the Start menu and replaced it with an app launcher that takes up the whole screen. This Start Screen is filled with new tablet style apps and Live Tiles that are optimized for touch interaction. This functionality is what initially brought on the disdain for Windows 8. However, in a move that brought smiles to the faces of these disgruntled users, Microsoft has issued an update to the OS making it Windows 8.1. Hidden within the settings is an option to boot directly to the desktop and the return of the Start button, which only acts as a toggle to switch back and forth from the desktop to Start Screen.

The biggest advantage Windows 8.1 has is better performance. Windows 8.1 uses less RAM and fewer CPU resources than Windows 7 and therefore runs faster. Boot times have been reduced to 10-15 seconds. Long gone are the days where you would be able to go and make a cup of coffee after turning on your PC. And surprisingly, Windows 8.1 will not only work on your older IT equipment, but it runs faster than Windows 7, while also having a smaller data footprint, meaning more hard drive space available that is not being used by the OS.

Final Verdict

There is no clear cut winner or loser in this battle. You cannot go wrong with either choice as long as the decision is based on your current needs and requirements, but it is highly recommended to replace all XP machines in your office. Kakimoto & Nagashima LLP has just recently completed a comprehensive migration away from Windows XP. Should your office need help in migrating off of Windows XP, please do not hesitate to give us a call. ♦



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

newsletter@knllp.com

Focus on what really matters and let us handle the miscellaneous.

It's almost year-end & it's that time to take care of your miscellaneous taxes. As a business owner/manager, you need an accounting firm that can take you beyond the numbers so you can spend precious time on what really matters- your business.

At KNLLP, we take care of your needs by offering preparation of the following returns/forms:

- **1099/1096**
- **1042/1042-S**
- **Sales & Use Tax**
- **Business License Renewal**
- **Secretary of State filings**
- **W-8BEN/W-8BEN-E**
- **Property tax**

DID YOU KNOW THAT YOU CAN BE PENALIZED UP TO **\$1,500,000** IF YOU DON'T FILE FORM 1099s ON TIME? IMAGINE IF YOU DON'T HAVE TIME TO TAKE CARE OF OTHER MISCELLANEOUS TAXES!

Penalties For Late Filing Of Form 1099s

It is important to file your Form 1099s on time to avoid incurring penalties. The deadline for 2014 form 1099s is March 2, 2015, or March 31, 2015, if filing electronically. According to the General Instructions for Certain Information Returns, the penalty applies if you fail to file timely, you fail to include all information required to be shown on a return, or you include incorrect information on a return. The penalty also applies if you file on paper when you were required to file electronically, you report an incorrect Taxpayer Identification Number ("TIN") or fail to report a TIN, or you fail to file paper forms that are machine readable.

The amount of the penalty is based on when you file the correct information return. The penalty is:

- \$30 per information return if you correctly file within 30 days (by March 30 if the due date is February 28); maximum penalty \$250,000 per year (\$75,000 for small businesses)
- \$60 per information return if you correctly file more than 30 days after the due date but by August 1; maximum penalty \$500,000 per year (\$200,000 for small businesses).
- \$100 per information return if you file after August 1 or you do not file required information returns; maximum penalty \$1,500,000 per year (\$500,000 for small businesses).

You can avoid these penalties by E-filing your 2014 1099s by the March 31, 2015 deadline. If you chose to paper file, the deadline is March 2, 2015. If you paper file you are also required to file Form 1096, Annual Summary and Transmittal of U.S. Information Returns. If you fail to do so, you must E-File to avoid the penalties.

KNLLP is here to make taxes less taxing. If you have any questions about Forms 1099 and 1096, Forms 1042/1042-S, sales & use tax, property tax, business license renewal, Secretary of State filings and W-8BEN/W-8BEN-E, please contact KNLLP at 310-320-2700 between the hours of 9am - 6pm PST, Monday through Friday or email us at tbaba@knllp.com.



Key dates to remember:

1099— due on March 2, 2015 Paper file; March 31, 2015 E-file
1042/1042-S— due on March 16, 2015
Sales & Use Tax— due on February 2, 2015 Annual; February 2, 2015 Quarterly (CA). It may differ depending on the state.
Business license renewal— due on January 1st and delinquent if filed on the first business day of March (Los Angeles); filing date for other cities may vary.
Secretary of State filing— 90 days after filing of initial Article of Incorporation, and annually thereafter during the applicable filing period. Filing date for other states may vary.
W-8BEN/W-8BEN-E—provide to the withholding agent or payer or collect from the payee before income is paid or credited to you.
Property Tax Return— due on April 1, 2015 (LA County); filing date for other counties may varies.

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Kakimoto & Nagashima LLP (KNLLP) was established in 2004 as a result of a merger between Kakimoto and Co. (est. 1979) and Nagashima & Company (est. 1992). Our firm prides itself on providing quality services to meet our client's expectations at reasonable prices. The following outlines our primary strengths and services:

What we offer to our clients:

- A Firm culture that emphasizes our client's perspective, needs and satisfaction
- Professional staff who are committed to meet or exceed client expectations
- An alternative to the high costs of using large firms
- High quality services based on our training and expertise
- A commitment by the entire staff to always deliver on time
- Easily accessible professional personnel
- Professionalism based on the large firm experience of senior management

Our primary strengths and services:

- A staff of over 40 qualified professionals to assist our clients in timely manner
- A network of contacts including attorneys, consultants, insurance agents, real estate specialists, and others
- We are very responsive to our clients' inquiries and concerns
- Significant international clientele in a broad range of industries
- International tax emphasis
- An outstanding reputation as quality service provider
- Highly trained staff constantly pursuing continuing education
- We are full service firm offering:
 - Full scope financial and special audits, reviews and compilations
 - Accounting and tax outsourcing work
 - Corporate, partnership and individual tax returns
 - Tax research
 - Representations before tax authorities
 - Mergers and acquisition work including company evaluation and due diligence
 - General consultations by experienced professionals
 - Computer consultations including hardware, accounting and other software, and networking needs

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