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June 1999

To All of Our Valued Clients and Friends:

We are pleased to be able to send you our June 1999 newsletter. Our topics for this newsletter are as follows:

- USING MULTIPLE OPERATING SYSTEMS
- CONFIDENTIAL PAYROLL WORK FOR JAPANESE EMPLOYEES
- "PAYEE" AND "FOREIGN STATUS" FOR WITHHOLDING PURPOSES

Our Computer Services

Computer technology is developing and improving dramatically day-by-day. It may be profitable for you to consider upgrading or implementing new programs. Kakimoto and Co., LLP has various computer services for reasonable fees. The following are important points for you to consider:

- ***Japanese and English windows on the same computer*** – To compete in today's global marketplace companies must process information in many different languages. In the past it was difficult to use English in combination with another language on the same computer. Due to advances in software we can help you use one computer to do business in English as well as other languages such as Japanese. Please see our article for details.
- ***Y2K evaluation and problem solution*** - The new millenium is quickly approaching! Is your company ready? Understanding the potential issues presented by Y2K is the first step. If your computer system uses only two digits to record the year in the date fields, (for example, the year 1998 is recorded as 98), it may read "00" as the year 1900 instead of 2000. The effects of this problem can be disastrous! If you feel your company faces a Y2K problem, we are available to review your computer system and determine its ability to handle the year 2000.
- ***Accounting software deployment*** - This is our Company's specialty. A quality computerized accounting solution can save considerable time and money. Please contact us for a free consultation.

Employee Benefit Plan Audit

If you have an employee benefit plan, you may be required to provide the IRS with audited plan financial statements when filing Form 5500. We can help you determine whether you are required to provide such financial statements and, if so, conduct the audit of your employee benefit plan. Please contact us for more information about audited financial statements for your employee benefit plan.

If you are interested or have any questions, please call Gerald W. Kakimoto or Edward Y. Valparaiso at (310) 715-9100. For more information about our firm, please visit our website at <http://www.kakimoto.com>.

The Japanese version of this newsletter is available by request or through our website.

Kakimoto and Co., LLP

enc. Newsletter, June 1999

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USING MULTIPLE OPERATING SYSTEMS

Today's business world stretches across the globe. In order to compete, companies must have access to data in a variety of languages, not just English. In the past, in order to do business in other languages, most firms have had to dedicate a separate PC to the processing of information in different languages. This solution has several drawbacks including high cost and often results in many users fighting for time on one of the specialized PCs.

There is a better solution. Software such as V Communications' System Commander allows multiple operating systems to exist on a single PC. This eliminates the need for a completely separate PC when processing information in a different language. Instead of ten English based computers and one Japanese based computer, a company can have eleven computers with both English and Japanese installed.

At Kakimoto and Co., LLP, we find this type of setup to be a very convenient way to write documents and send e-mail in both English and Japanese. We find it to be a cost-effective way to communicate with our clients who use a Japanese operating system. Of course, other foreign operating systems that are available can be installed, as well as another type of operating system. For example, both Windows 98 and Windows NT can be installed on the same computer. If you are considering switching operating systems, this is an easy way to test the compatibility of the new operating system with your existing software before making the change.

With the high usage of PCs in the office, we need to evaluate whether we are efficiently utilizing them. Most users are under-utilizing their software. If you need assistance with using your software, whether it is your accounting, word processing, or spreadsheet software, please give us a call. At Kakimoto and Co., LLP, we have experience working with many accounting software, including ACCPAC, Macola, Platinum, Real World Accounting, SBT, Solomon, Peachtree, MYOB, and Quickbooks. We are also familiar with the Microsoft Office programs. Let us help you better utilize your computer system to increase office productivity and provide you with information to help manage and control your business.

And if you are still wondering if your computer system is Y2K compliant, it is not too late to take action, but you must do so now. We are available to assist you with assessing your needs, evaluating your risks, and developing a Y2K action plan. We encourage you to call us and make an appointment to discuss this matter further.

CONFIDENTIAL PAYROLL WORK FOR JAPANESE EMPLOYEES

Japanese enterprises often face the dilemma of how to report payroll for Japanese employees receiving compensation from both the United States and Japan. This dilemma occurs because companies wish to maintain confidentiality regarding earnings received from Japan. The payment in the United States is usually reported on the employees W-2, and the payroll taxes are properly withheld and processed by the employer. However, the payments from Japan are often reported as "other income subject to self-employment tax" on the individual's tax return. The Internal Revenue Service has pointed out the oversight of this reporting method.

CONFIDENTIAL PAYROLL WORK FOR JAPANESE EMPLOYEE (CONTINUED)

The Internal Revenue Service (IRS) regulates that compensation for work performed in the U.S. should be reported in the employees W-2. The employer would be responsible to withhold the taxes and deposit them to the proper tax authorities. In addition, the employer would be required to pay the employer's share of FICA tax. Although self-employment tax is paid when reporting the income as "other income" on an individual's tax return, there is also a corresponding deduction from adjusted gross income for one-half of the self-employment tax paid. As a result, the IRS requires reporting the income through the W-2 in order to collect timely on the employer's full share of payroll tax.

In order to report payroll in compliance with IRS regulations and also maintain confidentiality, we can provide assistance by being the connection to your payroll company, such as Automated Data Processing, Inc. (ADP). We can act as a middleman and receive information regarding compensation received from Japan, calculate gross wages, and transmit this information to the payroll company's master file directly. ADP would in turn calculate the payroll tax liability for all the employees paid in the United States, as well as for the compensation received from Japan. The company will continue to file the necessary payroll tax forms and W-2's, but the information regarding the Japanese employees will only be sent to personnel authorized to receive this information.

If your company is currently reporting the payroll of Japanese representatives on the tax return as self-employment income, please contact our office for more information regarding the payroll services we can offer.

"PAYEE" AND "FOREIGN STATUS" FOR WITHHOLDING PURPOSE

U.S. individuals and corporations that make certain types of payments to foreign persons are required to withhold and pay U.S. tax on such payments. Payments subject to withholding include, among other things, U.S.-source interest, dividends, rents, royalties, salaries and wages. The withholding tax rate under the U.S.-Japan Treaty is, generally, ten percent. A person required to withhold is called a "withholding agent," and is subject to penalties for failure to withhold.

In October 1997, the IRS issued new regulations that changed the withholding rules. These regulations will become effective on January 1, 2001. These regulations, among other things, establish new procedures for withholding agents to follow in order to avoid penalties for failure to withhold the correct amount of tax. The regulations specify the types of documentation that a withholding agent must rely on for this purpose. The regulations also provide a set of presumptions that withholding agents may rely upon when documentation is not available, or is unreliable.

Payee Documentation

First and foremost, if a withholding agent knows, or should know, that a payee is a foreign person, the agent is required to withhold. Absent such knowledge, the withholding agent must rely on information the payee provides. Valid documentation the payee may provide are Form W-9 (Request for Taxpayer Identification Number and Certification), Form W-8 (Certificate of Foreign Status) or Form 81-33 (Exception From Withholding on Compensation for Independent (and Certain Dependent) Personal Services of a Nonresident Alien Individual).

"PAYEE" AND "FOREIGN STATUS" FOR WITHHOLDING PURPOSE(CONTINUED)

Presumptions

If the payee provides no, or unreliable, documentation, the withholding agent must rely on the presumptions specified in the regulations to determine beneficial owner status (i.e., who the payee is) and the payee's status as either a U.S. or foreign person.

The presumptions are as follows, and must be applied in the order given. First, the agent presumes the payee is an individual, trust or estate, if the payee's name or other indications reasonably suggest such status. In such a case, the payee will generally be considered a U.S. person (unless, e.g., the payment is made to an offshore account), and no withholding will be required.

Second, if the agent does not presume the payee is an individual, trust or estate, the withholding agent must determine whether the payee is a corporation or other exempt recipient. A withholding agent presumes a payee is a corporation if the payee meets the "eyeball test," or if the agent has a corporate resolution or similar document clearly indicating corporate status. A corporation meets the eyeball test if its name contains an unambiguous expression of corporate status, such as the words "Incorporated," "Inc.," "Corporation," "Corp." or "P.C." (but not terms such as "Co." or "Company"). A withholding agent presumes a payee is an exempt recipient if the payee meets the definition of an exempt recipient (e.g., an international organization, the U.S. or a foreign government, a foreign central issue bank, a securities or commodities dealer, a financial institution or a broker).

If the agent presumes the payee is a corporation or other exempt recipient, the agent considers the payee to be a foreign person if an "indicia of foreign status" exists. Indicia of foreign status exists if (1) the withholding agent knows that the payee's employer identification number begins with "98"; (2) all communications with the payee are mailed to an address in a foreign country; (3) the payee is on the "per se" list of foreign corporations; or (4) the payment is made outside the U.S. In all other circumstances, the agent presumes the corporation or other exempt recipient is a U.S. person.

Third, and finally, if the payee is not a corporation or other exempt recipient, the agent presumes the payee is a partnership. The "indicia" criteria discussed above also apply to foreign partnerships. Payments to a foreign partnership are treated as made directly to each partner. Unless all partners provide documentation, the withholding agent must apply the presumptions to each partner. However, if the partnership fails the indicia test, the withholding agent presumes it is a U.S. partnership. In that case, the withholding agent may treat the payment as made to the partnership (rather than to each partner) and not withhold.

Treaty Benefits

The presumptions outlined above cannot be used when a payee claims a reduced withholding rate under a treaty. In such case, the withholding agent may rely only on appropriate documentation.

If you would like to have additional information or have any questions, please do not hesitate to contact us.

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