KAKIMOTO & NAGASHIMA LLP

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Summary of Articles

Pursuing Outsourcing Opportunities

Financial information must be prompt and reliable to facilitate the executive decision making process. Coupled with an increase in external reporting and compliance requirements, the demands on your accounting department may become overwhelming. Outsourcing certain accounting functions may make sense. Two primary questions that should be considered: "Can we perform the particular function efficiently and with the requisite competency?" " And if not, can someone else do it better and for less cost?" In this issue, we discuss the feasibility of outsourcing accounting functions.

What is a Totalization Agreement?

The U.S. – Japan Social Security agreement took effect on October 1, 2005. This agreement eliminates the dual social security contributions on the same earnings, resulting in tax savings for both the workers and the employers. The agreement also allows many people to become eligible for social security benefits in one or both countries.

Can You Hear Me Now?

Look out Ma Bell, someone's trying to become the new leader on the block. Voice over Internet Protocol (VoIP) is just that someone to do it too. It's a technology that has begun its growth spurt and is looking to come to the forefront of telecommunications. When all is said and done, you will soon be known as GrandMa Bell.

The Internal Revenue Service and Treasury Department have announced that the 2006 optional standard mileage rate has been changed to 44.5 cents a mile for all business miles driven. This is a decrease of 4 cents from the 48.5 cent rate put in effect between Sept. 1 and Dec. 31, 2005, a special change that was made in response to a sharp increase in gas prices caused by Hurricane Katrina. The rate prior to Sept. 1 was 40.5.

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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Pursuing Outsourcing Opportunities

Information is an essential and vital part of every organization. Access to the right information is crucial in decision-making; the better informed you are, the greater likelihood for success. However, excessive amounts of information or ineffective communication can also cause breakdowns in a company's system. Coupled with an increase in external reporting requirements, it is imperative that companies carefully orchestrate and integrate its internal and external information processes. Can your financial and accounting staff process information effectively? Is your company subject to new reporting requirements? Two areas an organization may want to consider outsourcing options are its accounting operations/processes and, if subject to, its Sarbanes Oxley Act (SOX) Section 404 compliance work.

Outsourcing Accounting Operations

Accounting departments that are supportive of executive and management decision-making processes are essential to an organization's success. An accounting/financial department that devoted more time to decision-making support, as opposed to additional time spent on routine transaction processes, was usually characteristic of companies that were outperforming their competition. Moreover, the importance of maintaining a sound financial and accounting structure was highlighted in recent corporate collapses.

Business process outsourcing ("BPO") involves the assignment of certain "back-office" processes to outside providers who have more experience in the operation and management of such processes. Benefits that can be achieved by outsourcing follow:

- Reduction of accounting/financial department costs
- Standardization of processes
- Elimination of duplication (or centralization) of processes
- Process efficiency increases
- Shorter and/or definitive timeframes

Companies should evaluate their internal financial operations structure and consider the possibility of outsourcing certain financial functions. Routine and traditional time-consuming tasks (receivables/collections, payables, fixed asset tracking, etc.) are excellent candidates for outsourcing. Areas that require judgment, strategic and policy-setting decisions should be retained internally. Processes such as budgeting, management report processing and accounting/tax compliance areas can also be explored for outsourcing possibilities.

If financial functions are outsourced effectively, companies will benefit from the streamlining of information and quality improvement in transaction processing while realizing cost savings in the long run. Value-added contributions provided by finance/accounting operations management and executives will increase because their time will not be occupied by the day-to-day administration of outsourced operations; management can focus on strategic business support activities.

SOX Section 404 Compliance

Section 404 of the Act requires public companies to take accountability for maintaining an effective internal control system; in addition, the company must report on the system's effectiveness. Compliance and reporting are required for larger ("accelerated filers") public companies for fiscal years ended on or after November 15, 2004. Generally, smaller public companies must comply with Section 404 provisions, however, compliance/reporting dates for certain companies have been extended by the SEC.

In complying with SOX Section 404 requirements, company management can anticipate the following:

- management evaluation and report on the effectiveness of internal control as it relates to financial reporting
- substantial amounts of time and resources allocated to the confirmation of internal control processes
- external auditor to verify management's assessment process and effectiveness of the internal control system
- audit committee/board of directors interaction throughout the entire process

Due to independence concerns and issues, a company's external auditors will not be able to assist the company in the design, implementation or documentation of internal control procedures. A company will need to evaluate its internal controls for initiating, authorizing, documenting and processing transactions, unusual/infrequent transactions, financial statement/disclosure assertions and adherence to proper accounting policies/procedures. In addition, evaluation must be performed on a company's internal controls related to fraud prevention and detection. The amount of work to comply with Section 404 is substantial. This can result in some companies being understaffed due to the extra workload and/or lack of staff that are unable to fully comprehend the technical aspects of internal control.

We encourage management to consider the time and resources required to comply with Section 404; a prompt response is necessary to prepare for and prevent deficiencies in staffing and resources. A company may outsource its entire Section 404 compliance work or outsource only certain areas.

The use of a smaller CPA firm for a company's outsourcing requirements will provide a company with more flexibility and enhance the quality of information processing. A reduction in overall professional fees and lower staffing costs should also result. Please consult us to discuss the possibilities of outsourcing for your company. There are a number of options and varying degrees of service performance to select from; we would be happy to assist your company in tailoring a services package suitable for your needs .♦

Strategic Interpretation/Analysis Mission Development Policy Setting/Approval	Forecasting Tax Compliance Budgets Credit Mgmt. Financial Accounting/Interpretation Mgmt. Reporting External Reporting	Cash/banking A/P Cost Accounting A/R Inventory Accounting Fixed Assets G/L Processing
RETAINED	**OUTSOURCING CANDIDATES**	
0% ←		→ **100%**

What is a Totalization Agreement?

The U.S.-Japan Social Security agreement will enter into force on October 1, 2005. This agreement will eliminate the payment of social security taxes to both countries on the same earnings. It also allows many people to become eligible for monthly retirement, disability or survivors' benefits under the Social Security system of one or both countries by utilizing the eligibility periods from both countries.

The highlights of the agreement are summarized below.

Coverage and Social Security Taxes

Prior to the agreement, employees of Japan sent to the United States on a foreign assignment may have been required to pay social security taxes to both countries.

Under the agreement, the employee and employer will pay Social Security taxes only to Japan if the employment is in Japan. If the employer sends the employee from Japan to work in the United States for that employer for a period of five years or less, the employee will continue to be covered by the social security system of Japan and will be exempt from coverage in the United States by following certain procedures.

Certificate of Coverage

To establish an exemption from coverage and taxes under the United States Social Security system, the employee must continue to be covered under the Social Security system in Japan, and the employer in Japan must request a certificate of coverage (Form J/USA6) from the Social Insurance Agency of Japan. A certificate of coverage issued by Japan serves as proof of exemption from Social Security taxes on the same earnings in the United States. The certificate of coverage received from Japan will show the effective date of the exemption from paying Social Security taxes in the United States. Generally, this will be the date work commences in the United States, but no earlier than October 1, 2005.

For those employees currently working in the United States, whether or not the assignment will be for duration of five years or less should be determined based on the starting date of October 1, 2005.

The certificate of coverage issued by Japan does not need to be submitted to the Internal Revenue Service (IRS) or the Social Security Administration (SSA.) It should be retained by the employer in the United States in case of an audit by the Internal Revenue Service.

It is the position of the SSA and the IRS that the United States Social Security taxes should be withheld and remitted to the IRS by the employer in the United States until the certificate of coverage is received from Japan. Once the certificate of coverage is received, the effective date of exemption will determine whether or not an amended payroll tax return will be required to claim a refund of overpaid taxes.

Eligibility for Benefits and the Totalization Agreement

In order to qualify for social security benefits from Japan, 25 years of credit (calculated on a monthly basis) is required, while the eligibility requirement for the United States is forty quarter credits (equivalent to 10 years.) Individuals who have Social Security credits in both Japan and the United States may be eligible for benefits from one or both countries. If the basic requirements under the country's benefits are met, regular benefits will be paid from that country's social security system. However, if the basic requirements are not met, the agreement may help those individuals to qualify for the benefits by adding the social security credits in both countries.

If the individual has at least six quarters, but less than forty quarters of coverage under the United States Social Security system, the periods of coverage credited under the Japanese social security system that does not overlap with the coverage under the United States may be taken into account to satisfy the requirement for entitlement of the benefits. When the U.S. benefit becomes payable as a result of counting both U.S. and Japanese Social Security credits, the initial benefit is calculated as if the entire credits were earned in the U.S., and then the benefit is reduced to reflect the proportion of the Japanese credits that allowed the benefit to become payable.

If the individual has at least one month of coverage, but less than twenty-five years of coverage under the Japanese social security system, the periods of coverage credited under the U.S. social security system that does not overlap with the coverage under Japan may be taken into account to satisfy the requirement for the entitlement of the benefits. When the Japanese benefit becomes payable as a result of counting both Japan and U.S. Social Security credits, the initial benefit is calculated as if the entire credits were earned in Japan similarly, as in the U.S., the benefit is then reduced to reflect the proportion of the U.S. credits that allowed the benefit to become payable.

Claims for Benefits

Individuals applying for benefits in either the U.S. or Japan by utilizing the credits earned in the other country do not have to do anything to have the credits earned in the other country to be counted. The Social Security offices of both countries will contact each other directly to obtain the necessary information. Although each country may count the credits in the other country, the credits are not actually transferred from one country to the other. The credits remain in the country where they were earned, and can be used to qualify for benefits there.

Claims for benefits for both Japan and U.S. can be filed at the same time. Applicants should apply to the Social Security office of the country of residence at the time the application is submitted. If the individual is applying for benefits from the other country (i.e., not the country of residence,) information from the application will then be sent to the other country for consideration.

Each country pays its own benefits. U.S. payments are made by the Department of Treasury each month, covering benefits for the previous month. Japanese benefits are paid by the Japanese Social Security office by direct deposit on the 15th day of even-numbered months, covering benefits for the previous month and the current month.

The benefits under the agreement also extend to self-employed individuals.♦

Voice over Internet Protocol

Technological innovation is hurling itself upon us once again. This time it is coming in the form of improving the way we make telephone (voice) calls. It brings with it several new capabilities that really change the meaning of the phrase *telephone call*. VoIP is the name of this new communications technology. VoIP stands for Voice over Internet Protocol. Basically, VoIP means "voice transmitted over a digital network."

VoIP is often referred to as IP Telephony because it uses the latest innovations with the popular and familiar IP protocols to make possible enhanced voice communications throughout the enterprise. IP networking supports corporate, private, public, cable, and even wireless networks. IP Telephony unites an organization's many locations – including mobile workers – into a single converged communications network.

And by the way, don't let the "voice" part of the acronym fool you – telephony calls using VoIP go above and beyond the call of duty. When it comes to placing telephone calls, VoIP provides a range of support services and features unequalled in the world of telephony.

How Does VoIP Work?

VoIP means basically what the acronym states: Voice travels over the Internet. When VoIP was first developed, it worked only with the Internet and nothing but the Internet so help us all. Today, VoIP operates over most network types, including those used throughout the corporate sector. But the "I" has stuck with the acronym. The "P" represents the term Protocol. Protocol refers to the type of rules that the network uses to send and receive signals. These signals are the high and low electrical or optical pulses often represented by the more familiar 1s and 0s of digital networking.

IP Telephony works by converting voice communications into data packets. Conveniently, it runs on the popular Ethernet LAN (local area network) technology, which currently supports over 96 percent of all companies' needs for LANs.

Saving Money with VoIP

Before digital networking took off, everyone had to use the one and only Plain Old Telephone Services (POTS). POTS runs over a network called the Public Switched Telephone Network (PSTN) which has been around since Alexander Graham Bell invented the telephone. That is why the majority of companies today have POTS-related systems in place. These POTS telephone systems use the old tried-and-true (and more expensive) method of telephone service known as circuit-switched.

One of the big "aha's" with VoIP is that companies can enjoy an immediate cost-benefit with their regional toll and long-distance voice and videoconferencing charges. Prior to VoIP telephony, everyone was critically dependent on POTS running over the PSTN with no other options for their telephone needs. All calls made over POTS are regulated and companies are billed for local, interstate, intrastate, and long distance tolls. By using VoIP, the tolls are non-existent because all calls are bypassing the regulated, wireline carrier services of the conventional telecommunications carrier companies and therefore reducing costs.

VoIP can offer an alternative and cost effective solution to your company's telephony needs. SBC and AT&T beware! VoIP is upon us and looks like it's here to stay .♦

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