Kakimoto & Nagashima LLP
Certified Public Accountants
Consultants

NEWSLETTER

Volume 6, Issue 1 January 2008

Inside this issue:

Kakimoto & Nagashima LLP News!

We are proud to announce that our Los Angeles and Gardena offices have combined into one. Our new address is:

21241 S. Western Ave., Suite 200
Torrance, CA 90501

A map is available on our website at this address:
http://www.knllp.com/company/access.html

Summary of Articles

Going Global - International Financial Reporting Standards/IFRS

The use of International Financial Reporting Standards ("IFRS") for financial reporting purposes is gaining acceptance in a number of countries. Some estimate the number to be over 100 and growing rapidly. Convergence programs between IFRS and generally accepted accounting standards in the U.S and Japan are underway. As IFRS is accepted in more places in the world, we are fast approaching the utilization of one set of globally accepted set of standards - will you be ready?

Employer-Provided Vehicles: How Much Should be Included in Employee's Benefit?

Employers often provide fringe benefits to their employees. Fringe benefits provided to the employees are subject to employment taxes unless the law specifically excludes it, and must be reported on employees' Form W-2. Fringe benefits which are commonly provided to the executives transferred from the parent company to the U.S. subsidiaries include: moving allowance; rent allowance/ allowance paid for family members staying in Japan; and personal use of an employer-provided vehicle. Many people have questions on how to determine the value of the benefit for employer-provided vehicles. In this newsletter, we will focus on the topic of employer-provided vehicle for personal use.

I.T. Infrastructure Checklist

When was the last time you examined your I.T. infrastructure? If you're like most businesses, this has become much of an after-thought. Perhaps 2008 is a good time to do so. Please use this basic checklist to make a quick inspection to see how well equipped your business is.

The Internal Revenue Service and Treasury Department have announced that the 2008 optional standard mileage rate has been changed to 50.5 cents a mile for all business miles driven. The new rate for business miles compares to a rate of 48.5 cents per mile for 2007.

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

International Financial Reporting Standards - Going the Distance

Today, companies are operating in a global marketplace and need to make business decisions in that context. Financial information needs to be relevant, reliable and understandable on an international level. A substantial amount of progress is being made on achieving an accounting standards framework to be used on a worldwide basis. The International Financial Reporting Standards ("IFRS") is a principle-based set of standards which is already being used in several countries for financial statement reporting purposes.

In 1973, the International Accounting Standards Committee ("IASC") was formed to develop standards to improve the quality and comparability of financial statements that could be utilized on a worldwide basis. In 2001, the IASC transitioned into what is now known today as the International Accounting Standards Board ("IASB"). During its administration, the IASC issued 41 international accounting standards ("IAS"); the IASB further developed the IASs and, in addition to these, issued 8 pronouncements. In a broad sense, IFRS includes pronouncements issued by the IASC and IASB, as well as interpretations issued by the Standing Interpretations Committee.

The IFRS in comparison to U.S. generally accepted accounting principles ("U.S. GAAP") are principle-based which provide general guidance with interpretation as a matter of preparer and auditor judgment. U.S. GAAP standards are "rule-based" accompanied by specific implementation guidance. Due in part to the litigious culture of the United States, U.S. GAAP is composed of complex rules containing "bright lines" for preparers and auditors to follow in order to avoid misunderstandings that may lead to corrective actions and lawsuits.

Why IFRS? The following are a few benefits that can be achieved by the implementation of IFRS:

- Greater transparency of financial reporting results
- Promotes a better understanding and comparability of financial statements
- Reduced complexity of standards
- Ultimate improvement in cost efficiencies; focusing on one set of standards as the base for reporting and internal control processes (streamlining can be performed on a global basis)
- Market efficiencies - facilitates investment in foreign markets

Convergence of IFRS and U.S. GAAP

The IASB and the Financial Accounting Standards Board ("FASB") came to a formal agreement in 2002 (the "Norwalk Agreement") in making commitments to: (1) "make their existing financial reporting standards fully compatible as soon as possible" and (2) "to coordinate their future work programs to ensure that once achieved, compatibility is maintained". In 2006, the IASB and FASB reaffirmed their commitment to convergence by issuing a "memorandum of understanding" which provided for a roadmap for convergence between IFRS and U.S. GAAP. Included in the roadmap were the following goals:

- Short-term convergence: by 2008 reach conclusions regarding how major differences should be resolved including differences in impairment, income tax, research and development and subsequent events
- Other joint projects: by 2008 have made significant progress on joint projects including business combinations, consolidation, fair value measurement, revenue recognition, liability/equity distinctions and post retirement benefits

Convergence of IFRS and Japanese GAAP

On August 8, 2007, the IASB and the Accounting Standards Board of Japan ("ASBJ") announced that an acceleration of the convergence of Japanese GAAP ("J GAAP") and IFRS would take place. Known as the "Tokyo Agreement", the ASBJ and IASB agreed to eliminate by 2008 major differences between J GAAP and IFRS with other differences removed by June of 2011.

On December 6, 2007, the ASBJ published a Project Plan which stipulates the time frames to be used for the convergence of certain items. Designated in three categories, short-term, medium-term and long-term, project items will have a definitive schedule to reach full convergence. Items scheduled for short-term convergence (to be substantially completed by the end of 2008) include: business combinations (phase 1), inventories/LIFO, impairment, intangibles, construction contracts and retirement benefits. Medium-term and long-term items include: business combinations (phase 2), retrospective restatement, consolidation, revenue recognition, financial instruments, financial statement presentation and liability/equity distinctions.

Looking Forward

Moving towards the use of a universal set of accounting principles is not without its challenges. Companies operate in countries with diverse cultural backgrounds; differing interpretations and applications of accounting standards are inevitable and will need to be synchronized. Infrastructure changes may result, for instance, from legal framework reconsiderations involving financial reporting matters. In addition, there will be resistance to an ultimate abandonment of U.S. GAAP, long perceived as the "gold standard" for financial reporting. A move to IFRS will require acceptance of the IASB as the governing body of standard setting.

Ultimately, moving to a global set of accounting principles should result in cost efficiencies and more effective processes. However, significant efforts will be required such as: modifications of systems, creation of new policies, training of personnel and the education of users and investors.

Where Do We Go From Here?

It is expected that convergences or transitions to IFRS will take place in the next decade. Events are already taking place in the movement to utilize IFRS in the United States. Late in 2007, the SEC announced that it would allow foreign private issuers to file financial statements using IFRS without reconciling them to U.S. GAAP. Also, the SEC is formally soliciting public comment on the role of IFRS and the possibility of allowing U.S. companies to file using IFRS instead of U.S. GAAP. Adopting IFRS will not only impact accounting policies but will entail modifications to many company processes: financial reporting, internal control, tax and legal to name a few. Companies should prepare themselves by considering:

- Analysis of the costs and benefits of transition
- Assessment of related entities already using IFRS (parent companies, subsidiaries, joint ventures)
- Evaluation of how IFRS reporting will impact accounting policies and reporting results/requirements
- Implementation plans for IFRS conversion/centralization processing
- Education of users and investors

If you should have any questions about the contents of this article, please do not hesitate to contact us.♦

How to Treat Employee's Personal Use of an Employer-Provided Vehicle

General rule of an employer-provided vehicle

An employer generally reports only personal use of an employer-provided vehicle as a fringe benefit on Form W-2. Business use is accounted for as a company expense. If an employee reimburses the personal use to the employer, the employer does not need to report the amount on Form W-2 as a fringe benefit.

An employer may include the entire benefit (business, as well as personal) in an employee's fringe benefit. In that case, the employee can claim the business use portion as business expense on his/her income tax return as an itemized deduction if his/her itemized deduction is greater than the standard deduction.

Business use vs. Personal use

In general, the following are treated as personal use when an employer does not place any restriction on an employee for the use of an employer-provided vehicle:

- Use of the vehicle on weekends, vacations or family events
- Use of the vehicle for commuting, including working on weekends

The employer can exclude the value of any de minimis benefit, such as the employee's occasional errands while driving an employer-provided vehicle on business. The term "de minimis benefit" means any property or service the value of which is so small to make accounting for it unreasonable or administratively impractical.

Evidence required
Both employers and employees are required to maintain adequate records to substantiate the business use mileage of an employer-provided vehicle. If adequate records are not provided by the employee, the employer should include 100% of the benefit as fringe benefit on the employee's Form W-2.

Determining the Fair Market Value of an Employer-provided Vehicle

There are several methods to determine the fair market value of an employer-provided vehicle, such as "Annual Lease Value Rule," "Cents-per Mile Rule," or "Commuting Rule." If none of the above rules apply, "General Valuation Rule" is used.

Assumptions for the explanations for each rule are: 1) an employer provides an employee a vehicle; and 2) only the personal use portion is included in the employee's Form W-2.

General Valuation Rule
In general, the value equals the amount that an individual would have to pay in an arm's-length transaction to lease the same or comparable vehicle on the same or comparable conditions in the geographic area in which the vehicle is available for use. It is important to maintain adequate records, such as a copy of estimate for leasing the same or similar vehicle.

Annual Lease Value Rule
In a majority of the cases, the amount includable in gross income is calculated based on the "Annual Lease Value Table," which is shown in the IRS regulations. The left column of the table shows the fair market value of the vehicle, and the right column shows the annual lease value of the vehicle which corresponds to the fair market value.

The fair market value of the vehicle is determined as of the first date on which the vehicle is made available to any employee for personal use. Recalculation of annual lease value based on the fair market value is required after December 31 of the fourth full calendar year following the first date, or when an employer transfers the use of a vehicle from one employee to another employee. Fair market value on a specific date is available on Kelley Blue Book (www.kbb.com).

Annual lease value in the table includes the value of maintenance and insurance for the automobile, but it does not include the value of the fuel an employer provide to an employee for personal use. You must include the value of the fuel separately in the employee's wage at 5.5 cents per mile or at fair market value. If the employer provides a vehicle to an employee for a continuous period of 30 or more days but less than an entire calendar year, the employer can prorate the annual lease value.

<Example>
ABC Company purchased a vehicle for $25,000 three years ago. The vehicle was assigned to Mr. Suzuki on December 2, 2007. The fair market value of the vehicle on Kelly Blue Book on that date is $15,000. The annual lease value table shows that the annual lease value is $4,350. The prorated annual lease value which is included in Mr. Suzuki's 2007 Form W-2 is $358 ($4,350 x 30 days / 365 days).

Cent-per-Mile Rule
Under this rule, an employer determines the value of a vehicle provided to an employee for personal use by multiplying the standard mileage rate by total miles the employee drives the vehicle for personal purposes. The standard mileage rate is available on the IRS website (www.irs.gov). For 2007, the standard mileage rate is 48.5 cents a mile. For 2008, the rate increased to 50.5 cents a mile. These amounts include the value of maintenance, insurance, and fuel. If the employee purchases fuel for his/her own personal use, the employer can reduce the rate by no more than 5.5 cents.

An employer can use this rule if either of the following conditions is met.

1. The employer reasonably expects that the vehicle will be regularly used in the employer's trade or business throughout the calendar year (or for shorter a period during which the employer owns or leases it). A vehicle is regularly used in trade or business if at least 50% of the vehicle's total annual mileage is for trade or business.
2. The vehicle meets the mileage test.
   The vehicle meets the mileage test if it is actually driven at least 10,000 miles (for shorter periods, reduce the annual 10,000 miles requirement proportionally) and use of the vehicle during the year is primarily by employees.

An employer cannot use this rule if the value of the vehicle on the first day the employer makes the vehicle available to any employee for personal use is more than the amount determined by the IRS as maximum automobile value for the year. For 2007, the maximum amount is $15,100 for a passenger automobile and $16,100 for a truck or van.

Commuting Rule
An employer can use this rule if 1) the vehicle is owned or leased by the employer and is provided to one or more employees for use in connection with the employer's trade or business; 2) the employer requires the employee to commute to and/or from work in the vehicle; 3) the employer has established a written policy under which no one may use the vehicle for personal purposes other than commuting or de minimis personal use; and 4) the employee required to use the vehicle for commuting is not a control employee. A control employee is generally any of the following employees:

- A board appointed officer whose pay is $90,000 or more
- A director
- An employee who owns a 1% or more equity, capital, or profits interest in the business
- A employee whose pay is $180,000 or more

This method can also be used if there is more than one employee who commutes in the vehicle, such as an employer-sponsored commuting van pool. Under this rule, you determine the value of a vehicle you provide to each employee for commuting use by multiplying each one-way commute by $1.50. The value includes the value of any goods or services directly related to the vehicle, such as fuel.

Please refer to Publication 15-B issued by the IRS if you would like to know more information regarding this topic. www.irs.gov/pub/irs-pdf/p15b.pdf.♦

I.T. Infrastructure Checklist

Most businesses we visit have mechanical issues that need attention and correction. Your business, regardless of its size, is probably no exception. Qualified internal IT personnel as well as outsourced vendors frequently make incorrect recommendations based on their level of knowledge or perception that the business won't spend the money to do things right. This year is an excellent time to prepare your network infrastructure for the future while giving you more flexibility and reliability in day-to-day operations. When your infrastructure is right, you also have greater productivity, team member satisfaction and easier disaster recovery.

It is our hope that you can use the following as a checklist to see how your technology infrastructure measures up to current and reasonable standards. We have prepared a simple list of key technologies. Here are our best suggestions for the properly dressed infrastructure:

Protection

1. **Surge protection** — Every item that touches your network should be plugged through a surge protector. Common items missed include copiers, printers, scanners and monitors.
2. **UPS** — All servers should have UPS protection. You may want to consider having UPS protection on desktops if you have frequent power outages.
3. **Backup** — Traditionally associated with servers, most backup now involves removable disks, network attached storage (NAS) and off-site Internet backup. There are still applications where tape makes sense.
4. **Continuous Data Protection (CDP)** — This technology can back up servers in real time, replicate the data to another site or your home and, from there, can be duplicated to an Internet backup site. Sometimes the CDP is part of your firewall, but most often today, it is purchased as a separate appliance. **for businesses of 50 or more*
5. **Generator** — If you are in an area where you have extended power outages, full building generators can provide enough power for your entire network. Minimally consider extended power for your servers and machine room's air conditioning. **for businesses of 50 or more`*

Network

- **Two or more high-speed communication lines** — Even small businesses can justify having two or more lines to the outside world; particularly with our dependence on Internet Web access, e-mail and remote access. Make sure if you spend money on multiple lines, that there are different upstream providers (for example, cable modem and DSL or MPLS and wireless, Frame Relay and cellular, etc.). Additionally, have technicians configure your firewall to use the extra bandwidth all of the time and have automatic failover installed.

- **Load balancing firewall** — Frequently, we see residential grade firewalls (Linksys, Dlink, NetGear) instead of commercial grade firewalls (SonicWALL, WatchGuard, Cisco). You should be particularly concerned about this protection for your business.

- **SSL-VPN capability** — Secure Socket Layer Virtual Private Networks allow connection to your network using the commonly open browser port 80, keeping your team from being cut off from your office by other people's firewalls. If you want your team to securely access your network from home, clients' offices or on the road, you should consider this technology. For some firewalls, it can be added as a software feature; for others, it is a separately purchased and maintained piece of hardware.

- **Commercial grade power over Ethernet (POE), segmenting, Virtual LAN (VLAN) switch** — This sounds like a mouthful, but today's switches need some features that you may not have purchased in the past.
  - ◊ POE — This feature supports Voice over IP (VoIP) phones and allows you to provide power to the phone handset, security cameras and wireless access points.
  - ◊ VLAN — Even for small networks, the ability to segment users of different departments or volumes of data can be easily accomplished with today's VLAN switches.
  - ◊ Commercial grade — Like firewalls, we often see products that are sub-standard deployed in mission-critical positions. Many of the products are home grade, and even units that pretend to be business ready don't have enough speed to handle the loads of busy networks. Suspect names include LinkSys, Dell and DLink. Switches without enough capacity are silent bottlenecks in your network.

- **Certified CAT 6a cable** — The certification reports should be kept on file. We generally don't recommend that you replace old network cables unless:
  - ◊ They are not certified, and a small test shows they won't certify easily.
  - ◊ You intend to stay in your office for at least two years.
  - ◊ You intend to run gigabit network speeds. CAT 6 cable is really the minimum cable that should be used for 1GB networks, and 1GB is our slowest recommendation for servers and workstations today. Watch for new standards such as CAT 6f or CAT7 that is intended to support 10GB networks. You can use CAT 5 and 5E cable that is certified, but you will again have a silent bottleneck on performance.

- **Wireless Access Points** — Wireless access points need to have the following capabilities. They should:
  - ◊ Support the new N technology as soon as it is approved as a standard. We are discontinuing our prior recommendations for 802.11 b/a/g wireless technologies.
  - ◊ Be able to be configured for both private access inside the firewall and public access outside the firewall.
  - ◊ Be firmware upgradeable — security flaws are frequently found and need to be fixed.

Please use this evaluation checklist to ensure that your infrastructure is done right. If you feel that your businesses infrastructure do not match the minimums of this checklist, the professionals at Kakimoto & Nagashima can help you do so. Please contact us for any concerns you may have.♦

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

newsletter@knllp.com