



Kakimoto & Nagashima LLP

Certified Public Accountants Consultants

NEWSLETTER

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Summary of Articles

Why Your Company Should Consider a Change in Auditors

Companies cite a number of different reasons for changing auditors. Poor customer service. Audit fees too high. Substandard working relationship. Has the time come to look for a new auditor? Audit firms are not all the same; selecting the right audit firm may take some extra effort but will be well worth it in the long run.

Generous Tax Provisions For Capital Investment in 2011

During times of economic slowdown, Congress has used bonus depreciation and enhanced business expensing provisions to help promote capital spending. The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (the "Act") included generous provisions for quick writeoffs for purchases of certain capital assets. Under current law, these provisions are much more generous for assets placed in service in 2011 than they are for assets placed in service in 2012. Please note, however, the American Jobs Act of 2011 introduced on October 5 by Senate Majority Leader Harry Reid that is currently awaiting vote may extend 100% bonus depreciation to 2012.

Use Tax – Responsibilities as Consumers

As the State of California is increasing its collection efforts, it is important for consumers to understand its responsibilities regarding *Use tax*, a topic that is often overlooked. Here we discuss what is subject to use tax, who should pay, how to report, and some common mistakes made by consumers.

Can an iPad be Used as a Laptop Replacement?

Now that the iPad 2 has been released, it is time to review the device to see how well it can perform in the corporate environment. Have the improvements to its capabilities pushed it far enough to become a laptop replacement? Only time will tell.

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

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

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

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Who's Looking at Your Financial Statements? How to Select the Right Auditor

Has the time come to look for a new auditor? Is your company being charged financial statement audit fees which you feel are too high and/or, perhaps worse yet, being the recipient of bad service? Companies have cited the following complaints in working with their auditors:

- Inadequate service
- Not meeting agreed-upon deadlines
- Higher fees not commensurate with requested service
- Poor response time
- Not receiving enough attention
- High staff turnover
- Staff members that do not have the proper level of expertise
- Not proactive enough

Selecting a New Auditor

Selecting the wrong auditor can result in wasted costs, time and effort. Management should be diligent in their selection process and begin the search to allow for an appropriate transition time before the next reporting date. Remember, all auditors are different; all firms have different philosophies and audit approaches. It's up to you to select one that's suitable for your company.

In general, the selection process includes: research/investigation, interviews and fee estimates/proposals. In order to get a better idea of what firms have to offer, a certain amount of research needs to be performed. Firm research can include: website searches, firm specifics, firm reputation, firm client base information, word-of-mouth/industry references and peer review results. Interviews need to be conducted with potential firms to discuss company information, servicing requirements, areas of significance to your company and to get a "feel" for the audit firm. Proposals should be reviewed for fee reasonableness and engagement specifics consistent with the company's requirements/expectations.

Throughout the process, a company should consider the following evaluation criteria:

- Experience
- Expertise/technical knowledge
- Quality
- Integrity
- Independence
- Audit plan approach; service team
- Partner and manager involvement
- Appropriate communication channels (external and internal)
- Support/resources
- Quality control procedures

Kakimoto & Nagashima LLP Financial Statement Audit and Other Services

We have over 25 years of experience in auditing U.S. subsidiaries of Japanese publically-held companies, as well as servicing many privately-held companies (Japanese and local). Kakimoto & Nagashima LLP is in the unique position to offer you talent and expertise that can be tailored to your operations. We also provide services in the following areas:

- Parent company external auditor reporting package preparation and coordination
- Interaction with your Parent company internal auditors/accountants
- Consolidating package services
- Other assurance/agreed-upon procedure services

We have an outstanding reputation as a quality service provider and are an attractive alternative to Big Four pricing. We are able to provide you with the audit services that you are accustomed to at a lower and reasonable cost. With SEC public company requirements on the rise for external auditors, larger audit firms have little time left to spend with their smaller clients; larger firms may not be geared to effectively handle smaller engagements. Because of our size, we can better address your specific needs and provide a suitable platform for you to raise your concerns, comments and questions.

Our audits are conducted to produce high-quality services that are built from our in-depth understanding of your business and accounting policies/operations, in addition we strive for unparalleled client servicing which include:

- Emphasis on our client's perspective, needs and satisfaction
- Providing a high-quality product
- Commitment to meet or exceed our client's expectations
- Commitment to always deliver on time
- Easily accessible professional personnel
- Professionalism
- Responsive to our client's needs

We are also an independent member of the Plante & Moran, PLLC alliance and, as a result, we believe our alliance will provide for a larger resource base to draw upon. With the combination of solid technical expertise, talent and integrity from the professional staff members of both firms, we expect to deliver a broader and more diversified array of quality services.

Many of your company's audit concerns can be alleviated through investigation, planning and taking certain proactive steps for selecting the right auditor. Performing a thorough selection process will enable your company to make an audit firm choice that's suitable for the needs of your company. Due to the unique composition of our clientele and numerous years of servicing U.S. subsidiaries of Japanese companies, we are able to draw upon a large reference and resource base which will address your specific needs. Please contact us or visit our website for further information on our audit services.♦

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

newsletter@knllp.com

Generous Tax Provisions for Capital Investment in 2011

In December, 2010 President Obama signed into law the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (the "Act"). The Act provided valuable incentives for businesses, including quick writeoffs for purchases of certain capital assets. Under current law, the incentives for capital asset purchases are much more generous for assets placed in service in 2011 than they are for assets placed in service in 2012. The American Jobs Act of 2011 currently awaiting vote may extend 100% bonus depreciation to 2012. Planning for capital spending should include the consideration of these provisions that offer unusually generous deductions for the limited time only.

Section 179 Expense Deduction

Under Internal Revenue Code ("IRC") Section 179 a corporate taxpayer can elect to deduct a specified amount of the cost of new or used tangible personal property rather than depreciating such costs. For tax years beginning in 2010 or 2011 the amount of costs which can be expensed is \$500,000. The \$500,000 limit is reduced dollar-for-dollar to the extent that total property placed in service in the tax year exceeds \$2,000,000. Therefore, the Section 179 expense deduction will be completely phased out when the cost of property eligible for expensing exceeds \$2,500,000. However, for tax years beginning in 2012, the maximum amount which can be expensed will be reduced to \$125,000 with the dollar-for-dollar reduction starting at \$500,000. For tax years beginning in 2012 the Section 179 expense deduction will be completely phased out when the cost of property eligible for expensing exceeds \$625,000. For tax years beginning in 2013 and thereafter the maximum amount which can be expensed is reduced further to \$25,000 with the dollar-for-dollar reduction starting at \$200,000. Thus for tax years beginning in 2013 the Section 179 expense deduction will be completely phased out when the cost of property eligible for expensing exceeds \$225,000.

The IRC Section 179 expensing deduction is limited to taxable income. There is no reduction of the Section 179 expensing deduction depending on the portion of the year the asset is held. The amount that may be expensed is the same regardless of when the property was placed in service during the year.

Property that is eligible for expensing under Section 179 is generally machinery and equipment and off the shelf computer software. Qualified real property (qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property) is eligible for up to \$250,000 of expensing under Code Sec 179 for tax years beginning in 2011. The \$250,000 expensing of qualified real property counts against the overall Sec. 179 limitation of \$500,000.

100% Bonus Depreciation

The Act also extends the current 50% first year bonus depreciation allowance under IRC Section 168 for two years for qualifying property placed in service through the year 2012. The Act goes further to provide for a first year bonus depreciation deduction of 100% of the cost of qualified property placed in service on or after September 9, 2010 and before January 1, 2012. Thus, the depreciation provisions are much more generous in the year 2011 than in 2012 under current law.

Qualifying property must be new and generally includes machinery and equipment, certain computer software, and qualified leasehold improvement property which is acquired and placed in service before January 1, 2012. Qualified restaurant property or qualified retail improvement property may fall within the definition of qualified leasehold improvement property and is eligible for 100% bonus first-year depreciation.

The depreciation deduction for passenger automobiles is subject to dollar limits that are annually adjusted for inflation. However, Heavy Sport Utility Vehicles ("Heavy SUVs") are exempt from the luxury car depreciation limits and the taxpayer can take 100% bonus first-year depreciation.

The first year bonus depreciation deduction is permitted without proration for the amount of time the asset is in service during the year. As a result, the 100% write off is available even if qualifying property is placed in service late in 2011.

The 100% first-year bonus depreciation deduction applies to all qualified properties unless the taxpayer "elects out". The first year bonus depreciation deduction could have negative impact for taxpayers incurring losses or with expiring net operating loss carry forwards. Careful consideration should be made for the option of "electing out".

Expensing deductions under Section 179 and depreciation deductions under section 168 are far more generous this year than they will be next year. As noted a bill currently waiting for vote may extend the first year bonus depreciation through 2012. Please stay tuned. Please note the discussions above are limited to federal tax provisions and that many state laws do not conform to federal law for Section 179 expense deductions and the first year bonus depreciation deduction. Please contact our office if you have any questions. ♦

Use Tax – Responsibilities as Consumers

The Concept of Use Tax

Many of us are familiar with the concept of Sales Tax, a type of tax that is imposed on transactions that involve sales of merchandise from one party to another. From eating at a restaurant to purchasing a brand new car, we see sales tax often in our daily lives. However, did you know that consumers are also responsible for tax on *using* the good, otherwise known as the *use* tax?

Use tax is a topic that is often overlooked by many consumers, even though it goes hand in hand with the concept of sales tax. Over 20 states have adopted this concept, which is tax assessed on the use, storage, or other consumption of items of otherwise "tax-free" items.

In California, the use tax law has been in effect since July 1, 1935. As sales tax is generally not charged by retailers that are not "engaged in business" in California, the law was originally intended to protect California sellers who will be at a disadvantage when out-of-state retailers sell goods to California customers without charging sales tax.

Who is Responsible and How Should It Be Reported?

In general, the same items subject to sales tax are also subject to use tax, which are "tangible personal property". Section 6016 of the Revenue and Taxation Code defines "tangible personal property" as "personal property which may be seen, weighed, measured, felt, or

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touched, or which is in any other manner perceptible to the senses".** This means all businesses and consumers (including individuals) are subject to use tax, when items are purchased tax-free.

If you have a California seller's permit, use tax can be reported together with sales tax on your Sales and Use Tax Return. Even if you are not required to hold a seller's permit, the Qualified Purchaser Program requires consumers to register and file a Use Tax Return when all of the following conditions are met:

- Consumer receives at least \$100,000 in gross receipts (both in-state and out-of-state)
- Consumer is not required to hold a seller's permit
- Consumer does not hold a use tax direct payment permit
- Consumer is not otherwise registered with the Board of Equalization to report use tax

If you do not hold a seller's permit nor a use tax account, you must report use tax on qualified purchases on your California income tax return.

Common Mistakes and How to Avoid Them

In the past, many consumers believed that items purchased through the internet are not subject to tax because of the "Internet Tax Freedom Act". This prevents charging taxes on Internet access fees, however, it does not provide an exemption from tax for purchases made on the internet. It is recommended to review out-of-state online/mail order/television shopping purchases periodically to see if the retailer had collected sales tax. Although out-of-state, some retailers are determined to be "engaged in business" in California. In those cases, they will collect sales tax. It is when the retailers do not charge sales tax that the consumer becomes responsible to pay tax assessed on the purchases.

As the state of California is increasing its use tax collection efforts, consumers are now being scrutinized for staying compliant with sales and use tax regulations. The Board of Equalization provides multiple resources that can answer some of the concerns you may have about sales and use tax. If you have further questions, you can also ask a tax professional at our firm.♦

***Certain items exempt from sales tax are also exempt from use tax. For California, please refer to Publication 61 provided by the Board of Equalization.*

Can an iPad be Used as a Laptop Replacement?

A recent survey found that one out of five Americans teenage or older want an iPad. No wonder Apple is selling three million iPads a month. It's the fastest-selling single product in the history of consumer electronics.

Most buyers are choosing an iPad as a supplement to their current computers -- for watching movies in bed or reading books. The iPad is more than a multimedia device and book reader, of course. It's great for e-mail and Web browsing -- both functions are well served by smartly designed software that comes with the iPad -- and it can do all the You Tube and Facebook stuff just as readily as a laptop computer.

The iPad pretty much has the personal side of computing covered. But what about the business side? What about the daily tasks you do

on your laptop or on your desktop computer? Will you be able to perform a full days work with only a tablet?

Let's get one thing out of the way first. The iPad isn't a good candidate for replacing your work computer. You can't plug a scanner or backup hard drive into it, for example. And transferring data between devices is cumbersome.

But I'm convinced that many of you would find the iPad a delightful replacement or supplement to a typical laptop computer, whether a Windows PC or Mac, if you mostly use a laptop for three typical functions -- e-mail, web browsing and portable document reading.

Of course the occasional word processing and spreadsheet functionalities are there for a cost. One of the best apps available for purchase to support these functions, which also includes a presentation editor, is Documents To Go. But relying on the on-screen keyboard will prove to be very burdensome. Accessories available to purchase, such as Bluetooth keyboards will help to alleviate this. Be warned that there are no abilities to support a mouse, as of yet.

If your company supports a remote desktop type environment, then the iPad can provide basic functions for this as well. Citrix, Sonicwall, LogMeIn, and other companies are releasing apps to get the iPad connected into your corporate network. Which means that you would be able to connect into your terminal server and use it just as you would on your laptop. Or you can take control of your desktop pc and use it as if you were sitting right in front of it.

There are various other key elements that make the iPad great for the business environment. Some of these are:

- **The iPad is great for meetings**

Use it to quickly review documents on-the-fly before a face to face meeting.

Being able to lose the "wall" created from the screen when using a laptop to present to a client.

Using the Skype app to create a virtual face to face meeting with a client.

- **The iPad works as a second monitor**

Apps offered by DisplayLink and Air Display will enable the iPad to be used as a second monitor on pc's and/or laptops.

- **iPads are ideal for taking notes**

Apps, such as Evernote, enable the user to create cloud based notes that can be viewed on the iPad, computers or even smartphones.

- **The iPad turns on instantly**

Long gone are the wait times to boot up your laptop before a meeting.

So, should you embrace the iPad? That depends on what you are going to use it for and whether it makes sense for you to spend the money. And you need to understand that there's more cost to buying an iPad than just purchasing the device. You also have to decide which accessories and apps you want. That pushes up the cost of ownership.

If your job requires a lot of data entry, then this is not quite the right product for you as of yet. Perhaps down the road more and more iPads will be seen in the workplace. However, if you feel that you can fully utilize the iPad to make your job easier and more efficient, give us a call and we will help you make the best decision.♦