



Kakimoto & Nagashima LLP

Certified Public Accountants Consultants

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Inside this issue:

Summary of Articles	1
• The AICPA's Auditing Standards Clarity Project: Clarification and Convergence	2
• Uncertain Tax Position Schedule	
• 2010 Tax Relief Act	3
• California NOL Suspension Extended Another Two Years and Two-Year Carrybacks Delayed	
Ways to Organize and Maintain Your File Server	4



Any Questions?

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Summary of Articles

Auditing Standards - Clarity and Convergence Across the Board

Today, companies are conducting business on a global scale. Companies must devise effective strategies and make business decisions based on information from a global perspective. Audited financial information needs to be reliable on an international level; users would expect the quality of audited information to be uniform across jurisdictions. The AICPA's Auditing Standards Board, which establishes auditing standards for nonpublic companies, initiated its "Clarity Project" in 2004; this project's goal was to make auditing standards easier to comprehend and apply in conjunction with providing for a better alignment with international auditing standards. Our current article provides an overview of the project.

Uncertain Tax Position Schedule

On September 9, 2010 through Announcement 2010-75, the IRS released the final schedule of uncertain tax position reporting that requires certain large business taxpayers to file Schedule UTP with their returns effective for tax years beginning on or after January 1, 2010. See the article in this newsletter for more information.

2010 Tax Relief Act

President Obama signed the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (the "Act") into law on December 17, 2010. The Act extends the Bush-era individual and capital gains/dividend tax cuts for all taxpayers for two years, provides for a two-year AMT "patch," a one-year payroll tax cut and estate tax relief. Please see the article in this newsletter for details.

California NOL Suspension Extended Another Two Years and Two-Year Carrybacks Delayed

Senate Bill 858 was enacted in October 2010, which extends the NOL suspension to include taxable years beginning on or after January 1, 2010 and before January 1, 2012. In addition, the phase-in of the two-year NOL carryback was delayed. See the article on page 3 for more information.

File Server Organization

Just as organization is key to maintaining a correct filing structure for your paper documents, electronic documents or soft copies require it as well. Setting up your company's file server with the proper structure and procedures for your business type is a vital aspect from the beginning in order to create less confusion at a later date. This article will give you some tips on how to organize your computer files properly.

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The AICPA's Auditing Standards Clarity Project: Clarification and Convergence

As international audit and attest standards become more widely accepted, certain projects are under way to achieve a harmonization between national and international standards.

The AICPA/ASB Clarity Project

In 2004, the AICPA's Auditing Standards Board ("AICPA/ASB") launched its "Clarity Project". The Clarity Project was undertaken in an effort to make U.S. generally accepted auditing standards ("U.S. GAAS") used for the audits of nonpublic companies easier to comprehend and put into use. In addition, the Clarity Project was designed to converge U.S. GAAS with International Standards on Auditing ("ISAs"); ISAs are issued by the International Auditing and Assurance Standards Board ("IAASB"). The AICPA/ASB expects to complete its Clarity Project in the second half of 2011. In 2009, the IAASB completed a similar project which goals included the enhancement of the quality and uniformity of the ISAs.

AICPA/ASB Clarity Standards Drafting Convention/Formatting

The reformatting/redrafting of U.S. Statement of Auditing Standards ("SASs") are anticipated to follow these guidelines:

- ◆ Establish objectives for each of the standards
- ◆ Include a definitions section, where appropriate, in each standard
- ◆ Separate requirements from application and other explanatory material
- ◆ Use formatting techniques, such as bulleted lists, to facilitate understanding
- ◆ Special considerations relevant to audits of smaller, less complex entities
- ◆ Special considerations relevant to audits of governmental audits

The AICPA's intent is to streamline existing standards and progress towards a more "principles-based" approach to standard setting.

Reorganization of U.S. Auditing Standards

Many of the "clarified" auditing standards that will be issued by the AICPA/ASB are expected to be issued in one "SAS" (expected to be issued using the next available number - "SAS No. 12X"). Certain SASs (Nos. 117-120) have been "clarified" and have been issued in advance of the Clarity Project's completion. When "SAS No. 12X" becomes effective, all SASs issued prior to SAS No. 117 will be superseded.

The AICPA has mapped existing auditing standard sections to the expected clarity statements and related ISAs; the mapping is available on the AICPA's website (www.aicpa.org) under the ASB's Clarity Project area.

Significant Changes

Based on the exposure drafts issued by the AICPA/ASB, significant changes are expected in the following areas:

- ◆ Changes to the language used in the auditor's report
- ◆ Additional auditing requirements related to opening balances in initial audit engagements
- ◆ Additional auditing requirements related to the detection of illegal acts
- ◆ Major changes in terminology used as a result of harmonization with international standards

The AICPA/ASB anticipates that most ISA requirements will also be requirements of U.S. GAAS. However, it has been noted that certain differences between the U.S. clarified auditing standards and those of the PCAOB and IAASB will exist because of legal, regulatory and other considerations, as well as addressing situations specific to the U.S.

Effective Date

The effective date of the clarified auditing standards has been delayed and is now scheduled for audits of financial statements for periods ending on or after December 15, 2012. The decision to delay the effective date was due, in part, to allow CPA firms time to assess the clarified standards, make changes to quality control processes, modify audit methodologies and train personnel accordingly.

Kakimoto & Nagashima LLP is dedicated to our clients and their success. We are also committed to professional standards and assisting our clients to understand the new and significant changes in those standards. If you should have any questions or concerns, please do not hesitate to contact us.◆



Uncertain Tax Position Schedule

The IRS has finalized Schedule UTP that certain corporations will be required to file with their returns starting with the 2010 tax year to report uncertain tax positions.

In general, a corporation must file Schedule UPT with its federal income tax return if:

- The corporation files Form 1120, Form 1120-F, Form 1120-L, or Form 1120-PC;
- The corporation has assets equal to or exceeding \$100 million;
- The corporation or a related party issued audited financial statements and the audited financial statements cover all or a portion of the corporation's operations for all or a portion of the corporation's tax year; and
- The corporation has one or more uncertain tax positions.

As determined under FASB Interpretation No. 48 (FIN 48), some common examples of uncertain tax positions include excluding or deferring income, taking a tax deduction, and claiming a tax credit that would result in an adjustment on the tax return if the position is not sustained. Although the current requirement to report UTP's may not apply to most businesses, it is an important change to be mindful of as the IRS moves towards a policy of greater transparency.◆

2010 Tax Relief Act

The recently enacted Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (the "Act") is a far-reaching tax package that includes the extension of the Bush-era individual and capital gains/dividend tax cuts for all taxpayers for two years, provides for a two-year AMT "patch," a one-year payroll tax cut and estate tax relief. Following are some of the highlights in the Act.

Provisions Affecting Individuals:

Extension on Individual Income Tax Rates and Capital Gain and Dividend Rates

The Act extends the current income tax rates (10%, 15%, 25%, 28%, 33%, and 35%) for individual taxpayers through 2012. The current maximum tax rate of 15% (zero percent for taxpayers in the 10 and 15 percent income tax brackets) on capital gains and qualified dividends is also extended for two years through 2012.

Personal Exemption Phase-out and Itemized Deduction Limitation

The Act extends for two years through 2012 the repeal of the phase-out for personal exemptions and the overall limitation on itemized deductions for taxpayers with adjusted gross incomes above a certain threshold.

Employee Payroll Tax Cut

The Act reduces the OASDI portion of employee social security taxes during 2011 by two percentage points, bringing the rate down to 4.2% from 6.2% on wages earned up to the taxable wage base of \$106,800. Also, self-employed persons will pay 10.4% on self-employment income up to the threshold during 2011.

Alternative Minimum Tax

The Act increases the alternative minimum tax (AMT) exemption amounts for 2010 to \$47,450 (individuals), \$72,450 (married filing jointly) and \$36,225 (married filing separately). For 2011, AMT exemption amounts are \$48,450 (individuals), \$74,450 (married filing jointly) and \$37,225 (married filing separately).

Estate, Gift, and Generation-Skipping Transfer (GST) Taxes

The estate tax will be reinstated for 2011 and 2012 after the one-year hiatus during 2010. The exemption amount will be \$5 million per individual in 2011 with a maximum tax rate of 35%. For gifts made in 2010, the exclusion amount stays at \$1 million and the maximum gift tax rate remains 35%. After 2010, the gift tax rate will be reunified with the estate tax (with an exclusion of \$5 million and a maximum rate of 35%). The GST exclusion for decedents dying or gifts made after December 31, 2009 is equal to \$5 million per individual. The GST tax rate for transfers made during 2010 is 0% and 35% for 2011 and 2012 respectively.

Credits and Other Provisions

The child tax credit, dependent care tax credit, adoption tax credit, employer-provided child care tax credit, and earned income tax credit have been extended for two years through 2012. Education Incentives such as Coverdell education savings accounts, the section 127 exclusion from income for employer-provided education assistance, the student loan interest deduction, the exclusion from income for certain scholarships, and American opportunity tax credit for college tuition has also been extended through 2012.

Provisions Affecting Businesses:

Bonus Depreciation

The Act extends and expands the current option to claim 100% additional first-year bonus depreciation of the cost of qualified property placed in service after September 8, 2010 and before January 1, 2012 (before January 1, 2013 for certain longer-lived and transportation property) and to claim 50% of the cost of qualified property placed in service after December 31, 2011 and before January 1, 2013 (after December 31, 2012 and before January 1, 2014 for certain longer-lived and transportation property)

Other Provisions

The research and development credit, the 15-year write-off for qualified leasehold improvements and restaurant buildings, the temporary exclusion of 100% of the gain on the sale of certain small business stock as well as many other provisions that expired at the end of 2009 have been retroactively reinstated and extended through 2011. ♦

California NOL Suspension Extended Another Two Years and Two-Year Carrybacks Delayed

As part of the California budget deal, Senate Bill 858 extends the NOL suspension to include taxable years beginning on or after January 1, 2010 and before January 1, 2012. This provision applies to taxpayers whose pre-apportioned income exceeds \$300,000. For corporations, this \$300,000 threshold applies to all members included or includable in a combined reporting group in the aggregate, and not on a member-by-member basis.

The carry forward period for post-2007 NOLs remains 20 years; however, to account for the suspension periods, the carryover years have been extended.

The legislation also delayed the phase-in of the two-year NOL carry back, which would have applied to NOLs resulting from taxable years beginning on or after January 1, 2011. Senate Bill 858 delays the carryback to taxable years on or after January 1, 2013. There is still a three-year phase-in period for the NOL carrybacks. Only a 50% carryback is allowed for NOLs incurred in the 2013 taxable year, 75% for NOLs incurred in the 2014 taxable year, and 100% for NOLs incurred in after the 2014 taxable year.

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

2011 Standard Mileage Rates

The Internal Revenue Service has issued the 2011 optional standard mileage rates used to calculate the deductible costs of operating an automobile for business, charitable, medical or moving purposes.

Beginning on Jan. 1, 2011, the standard mileage rates for the use of a car (also vans, pickups or panel trucks) will be:

- 51 cents per mile for business miles driven
- 19 cents per mile driven for medical or moving purposes
- 14 cents per mile driven in service of charitable organizations

The standard mileage rate for business is based on an annual study of the fixed and variable costs of operating an automobile. The rate for medical and moving purposes is based on the variable costs as determined by the same study. Independent contractor Runzheimer International conducted the study.

Ways to Organize and Maintain Your File Server

A file server is simply a computer where users keep and share their data, other than their workstations. While ideally it would be running a server-class operating system, all operating systems have basic file-sharing capabilities. Creating a file structure that makes sense to users on this machine will save time and headaches down the line. This article provides a few tips to make sharing effective and easy for your business. Although this article uses examples and terminology from Windows, the concepts and techniques are applicable to almost all flavors of operating systems.

Just as you would organize paper files in a filing cabinet, your server should be arranged in such a way that all users of an organization can easily get at what they need without having to search extensively. If you don't have a file server already, the first step should be planning. Sit down with your users to find out how they would use the file server on a day-to-day basis, and more importantly, what sorts of things they'd like to do. Use this information, along with the pointers here, to plan out your implementation and to build and maintain a reliable and user-friendly server.

Directory Organization on the Server

Your file server should bend to meet the needs of your organization, not the other way around. Most often, file servers contain a variety of different data folders at the root (or first) level of the hard drive, such as D:\staff, D:\programs, D:\admin, etc. At first, this may seem like the simplest arrangement, but this setup makes maintenance difficult.

Instead, set up the different folders inside a single root level folder -- such as D:\data -- so that the different data folders end up something like this: D:\data\staff, D:\data\programs, or D:\data\admin. With this type of setup, you can maintain multiple folders for your staff to use and preserve a single container on the server for your data.

What follows is one example of a relatively simple file structure. The first level contains a single directory, named "data," which contains all of the different shared folders. Within that first-level folder are two primary folders: "users" and "shared." Within the users area are individual folders for everyone in your organization.

Inside the shared folder are directories for different program areas, such as "admin," "clients," "finance," etc. The idea with this configuration is to provide two types of shares: individual shares for each user, and shares based around the different aspects of the organization's structure, such as finance and client services.

Again, the actual layout of the directory structure should take shape from your organization's arrangement. For instance, if your organization were a doctor office, you'd create a top-level shared area for patients with subfolders containing specific information for each family member, with blood tests or vaccination records. When developing your file structure, it's always easier to add shares than to remove them, so start out with a simple setup and expand to a more complicated structure as needed.

Please note that shares are almost always folders, but folders are often not shares. A share (or fileshare, or shared folder) is a network address connected to a specific folder on a server's hard drive. A folder (or directory) is a container for files on a hard drive. Folders can be nested within other folders, creating a hierarchy, often referred to as a tree. Shares can point to any folder within the hierarchy. To make matters even more complicated, shares do not have to have the

same name as the folder they point to (though we recommend using the same name for both).

Share and File Permissions

Perhaps the most important part of setting up a file server is creating appropriate folder and share permissions. Permissions are the fundamental mechanism used to secure computer files. They determine who has access to what file (or folder) and what they can do with the file. Each folder should have its own set of permissions, allowing different users and groups of users to have different permissions to access and modify the files in each folder as needed.

Sally is the accountant and needs access to the payroll area, but you don't want anyone else to see that information, so the payroll folder permissions should be set so only Sally and the director can access it. But the organization's phone list is in the staff folder and that folder can be accessed and read by anyone, while only the human resources director has write permissions. The details of setting up users and groups is outside the scope of this article, but check out the Microsoft and Apple websites for articles for specific instructions.

When setting up permissions, you should ask yourself: How concerned is my organization with security and privacy? You probably don't want everyone on staff rooting through the contents of your server, nor do you want a complete lockdown of your data.

The best solution is something in between: an intermediate level of permissions, with users having read and write access to their individual folders. The different shared folders should have different permissions, depending on which users and groups need access to the files contained within. For the most part, the group, not the user would determine the permission level of the shared files.

For instance, anyone from accounting would have access to financial information, while customer service reps would be the only ones with access to customer records. It's much easier to add and remove users from groups than to add and remove users from individual shares.

If possible, you shouldn't give everyone permission to create folders within the shared areas because the more folders at each level, the easier it is to misplace files. A simplified set of permissions is shown with the sample file structure from the previous step.

Once you've set up everything, be sure to communicate to staff how and why the shares have been configured. If your users know where files are supposed to go and why, they're much more likely to put stuff where it belongs, keeping clutter down. As part of this process, you should let your users know just what level of privacy and permissions they can expect when working on the server.

A file server is often a well-used piece of your network, yet one of those components where it is noticed only when it is not available or failed. Ensuring that it is well designed and managed would require some planning, but will save you time in the long run. With a well-managed file server your users may even be compelled to share more information with one another, at least the ones that they are permitted to see. We, here at Kakimoto & Nagashima LLP, can help you organize your file server should the need arise. Contact us to find out how. ♦