

JUNE 2018

KALA

The Official Publication of the Hawaii Society of Certified Public Accountants

58TH ANNUAL
CONFERENCE
JUNE 22, 2018
AT THE
PRINCE WAIKIKI

HSCPA

A game for those who seek to find a way to leave their world

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happening
in the
profession?**

**Are you a
target for
hackers?**

**Local
criminals
jailed!**

**What tax
reform means
for businesses**

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The Official Publication of the Hawaii
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President's Message

By Norman N. Okimoto



For those who know me, my loves are my family, friends, credit union, HSCPA/Accounting, and all sports, especially golf and any UH and Stanford athletic teams. However, my passion for HSCPA pales in comparison to how our fearless Executive Director Kathy Castillo and her Assistant Debbie Cortes feel about HSCPA and its over 1,500 members. Accordingly, for my last President's Message, I will be honoring Kathy and Debbie and sharing some insights into the co-MVPs of our HSCPA.

Thanks to the efforts of Ron Heller and Kent Tsukamoto, Kathy was recruited to be the Executive Director at HSCPA 23 years ago. HSCPA was going through some challenging times then, and Kathy was instrumental in stabilizing and moving HSCPA forward. Three months after she started, she recruited Debbie to be her Assistant. This dynamic duo has since put HSCPA on the national accounting map and has been the envy of all similar-sized societies. Although both are non-CPAs, both have always been in jobs related to accounting, and just LOVE HSCPA and its members. They refer to HSCPA members as THEIR members, and only want the best for them.



Debbie Cortes

If you consider Kathy as "Batman", Debbie is Kathy's "Robin". She thoroughly loves her job, Kathy and her members. As she remarked to me, "I'm so thankful every day for the work I do at HSCPA, and the support I receive from the Board, Kathy and my members. The

one thing I love most is being on location to coordinate all of our CPE seminars/events, because I get to meet my members in person. Seeing my members happy makes me happy!" That's why you usually see Debbie always smiling, unless you are taking too many bathroom and phone breaks!

Here are some fun facts about Debbie:

Favorite TV Show: Big Bang Theory

Favorite Restaurant:

California Pizza Kitchen (CPK)

Favorite CPK Dishes:

Spinach and Mushroom Flat Bread,

BBQ Chicken Chop Salad

Favorite Movie Genre:

Romantic Comedies

Favorite Book Reviewer:

Norman's Book Review

When asked what she liked about HSCPA members, she remarked they are courteous and professional.

Kathy Castillo

Looking back on her career, she feels like it was meant for her to be the HSCPA Director, and Debbie to be her Assistant. Like Debbie, she thoroughly loves her job, HSCPA Board, and HSCPA members. She finds her job rewarding and fulfilling. It presents her with opportunities to learn, grow and evolve with the profession.



Here are some fun facts about Kathy:

What's On Her iPad: Japanese movies, music and many notes

Favorite Activities:

Hula, hot yoga, barre workout

Favorite "Favorite":

Miso, her Maltese dog

Favorite Book Reviewer:

Norman's Book Review

She has fond memories of her high school and college years, especially since the legal drinking age

was 18 at that time. Social Clubs were the rage, it was an achievement to be on the Liberty House Hi-Board, and everyone went to night clubs to listen to local bands or disco music. Point After, Rumours, Hawaiian Hut, La Mancha, and Hula Hut were the places to hangout. Popular groups included White Light, Greenwood, Natural High, Ebbitides and Pinky's Rose Garden (above). For bonus points, guess which CPA was a member of the Ebbitides, and which [different CPA] was a member of Pinky's Rose Garden. The answers are on page 5.



Vision For HSCPA

When I asked Kathy about her vision for HSCPA, she stated as the profession evolves, HSCPA has to evolve with it. Everything now is technology, technology, and more technology. Members have to evolve and adapt to the rapidly changing



business landscape, and her and Debbie's role is to help their members adapt and be successful.

Summary

We are in good hands with Kathy and Debbie, and that's why every HSCPA President, including me, always thanks them for their hard work and support. I see their level of commitment and care for our profession and members and it is truly inspiring and heartwarming. I've seen them first hand always take the high road and right path in spite of naysayers and indifference, and keep on working even though they are under the weather or have gotten ill from working long hours. In closing, I think the song that epitomizes Kathy and Debbie is "[Devotion](#)" by one of Kathy's favorite group, Earth, Wind and Fire, especially the third verse which is shown below.

*"In everyone's life, there's a need to be happy
Let the sun shine, a smile your way
Open your heart, feel the touch of devotion
Maybe this song will help uplift your day."*

Arigato, Kam-sa-ham-nida, Mucho Gracias, Mahalo, Xiexie, Faafetai, Salamat, Appee Niffee Deebiru and Obrigado Kathy and Debbie, for your devotion in trying to "uplift our day," "send your smiles our way," and "make us happy!"

Answers:

Rodney Fukuya – Ebbtides

Kent Tsukamoto – Pinky's Rose Garden

HSCPA's Best & Brightest



*Pictured are: MJ Saguid (Y-CPA Squad), Sara Kobayashi, Katie Landgraf
(HSCPA member/UHWO faculty)*

Thanks to the generous voluntary contributions from HSCPA members, the Scholarship Fund is pleased to recognize it's best & brightest students attending Hawaii colleges and universities.

Sara Kobayashi – University of Hawaii at West Oahu

A devoted and dedicated 32-year old wife and mother of four children (a dog and two cats), Sara began her higher education journey thirteen years ago but dropped out of college to focus on her family. In 2014, after realizing how restricted her career options were without a degree, Sara decided it was time to go back to school. It's been an eventful (and busy!) four years as she continued to work full-time while attending community college then university full-time via distance education. She originally chose general business administration as her focus, until her intermediate financial accounting professor, Katie Landgraf, recommended that she change her focus to accounting. Sara was a little intimidated at first but thought that at best accounting would help her to manage her personal finances, which has always been a struggle for her family. She intended on only pursuing a four-year degree, and now find herself looking to the future as she plans to sit for the CPA examination in the fall. Sara's accomplishments would not have been possible without the generosity of donors, her professors, and the University of Hawaii System. For that, she is very grateful!

The Shift from Work/Life Balance to Integration

By Mandi Jean Retter – Boomer Consulting, Inc.



As more and more young professionals continue to enter the workforce, a change in how we approach work-life balance is

underway. More seasoned professionals may remember the days when work and home life was home life. Yet as technology advances, we've seen a paradigm shift from this classic way of thinking.

Cell phones, apps, websites and cloud-based platforms allow individuals to be plugged into work at any time of day. And platforms like Twitter, Instagram, and Facebook allow people to be constantly connected on a personal level as well.

Work/life balance is the ability to divide your energy so that you are fully capable of managing not only your professional responsibilities, but your responsibilities outside of the office as well. Most people think of work/life balance as getting work done in the working hours and shutting work off when you get home. Yet here at Boomer, we've noticed something a little bit different about the desire to attain a healthy work/life balance in 2018. It isn't just about a healthy divide of energy (personal and professional). It has become more critical to integrate work and life so that people, across all levels of an organization, have an overall well-rounded connection to both their work and their home life at all times.

Work/life integration, born from the principles of a healthy work/life balance, takes this idea to the next level by encouraging organizations to trust that their employees will get the work done regardless of where they're doing it, how long it takes

or what is happening around them.

Some people may think that work/life integration is all about working wherever you want, whenever you want but this isn't necessarily accurate. The overall principle of work-life integration is trust. You must trust that your employees will complete the work assigned to them, in a reasonable timeframe, while also providing them the tools needed to do their jobs. While some organizations encourage working from anywhere, most organizations may not have the ability to allow that type of flexibility. But what can easily be done to support healthy work/life integration is to understand that life happens at the same time work is happening.

For example, a teacher might text a picture of your kid in the classroom doing something they're proud of. As a parent, you take a few seconds (maybe show off that picture to your co-workers) and send a note back to the teacher. This takes some time away from work, but not more than a minute or two. This minute or two might make up for that email you sent from your kitchen on Saturday morning while you were making coffee and checking your phone. We as a workforce must remember that in 2018, life and work happen at the same time. Work/life integration is about blending the two, trusting that the work will get done, and supporting your employees both personally and professionally.

So now the question has shifted from being 'how do we create a healthy work/life balance' to 'how do we create healthy work/life integration?'

The best way to adapt to a more social way of working is to support employees by offering a healthier office culture. Young professionals feel the need to be deeply connected with the work that they do. This connection creates a sense of purpose and pride and in turn brings more dedication, hard work and sustainability. Employees who are not connected to their work, who feel that they aren't valued in the workplace and don't feel trusted will not be as dedicated to producing high-quality work.

So, what are the best ways to promote healthy work/life integration?

Top-down leadership

For work/life integration to really impact a team, the change has to come from the top. Leaders who trust their employees, trust their fellow leadership teams and lead by example are necessary for implementing change in an organization. For some seasoned leaders, the idea of work/life integration might be a hard pill to swallow at first. But just remember that the culture around the workplace has shifted. If you can keep your eye on the prize (a successful team with happy clients) then integrating this new mindset will be easier and more welcomed along the way.

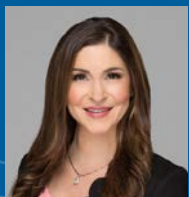
Encourage time off

Everyone in your team needs to take time away from work. Especially if you're in a demanding industry or go through very busy periods. When team members are overworked with little time to rest, burnout and animosity can build. An easy way to avoid this downfall is to encourage your team to take time away from work and unplug while out of the office.

Continued on page 17

REFINANCING YOUR MORTGAGE CAN OPEN THE DOOR TO SAVINGS.

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(5/2018)

FIXED RATE MORTGAGE¹

30 YEAR FIXED RATE WITH 1.875% POINTS
for Owner Occupied Properties

Interest rate
4.250%¹

Interest rate as of 5/2/18

Corresponding APR
4.410%¹

ADJUSTABLE RATE MORTGAGE²

5/1-YEAR ADJUSTABLE RATE MORTGAGE WITH 0.125% POINTS
for Owner Occupied Properties

2.875% Interest Rate²
fixed for the first
5 years then adjusted
annually thereafter.

5.250% Interest Rate²
Current Fully Indexed
Variable Interest Rate

4.379%
Corresponding APR²

Interest rate as of 5/2/18

OTHER LOAN PROGRAMS

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Rates are current as of 5/2/18 and can change at any time. Subject to loan approval. Certain requirements and restrictions apply. Other rates and terms available for second home or investment properties. Call for a custom rate and term quote.
1 Interest rate and Annual Percentage Rate (APR) are for a refinance 30 year loan secured by a fee simple single family residence with a loan-to-value ratio less than or equal to 60% and borrowers' credit score greater than or equal to 740. For a qualifying \$100,000 loan, there are 360 monthly principal and interest payments of \$491.94. Monthly payments do not include additional costs such as taxes and insurance. The actual monthly payment will be greater. Lender closing cost may range from \$900 - \$1,270, plus an origination fee of 1% of the loan amount. Third party closing cost can range from \$1,878 - \$3,271.00 for loans up to \$679,650. The maximum loan amount available for the interest rate quoted is \$679,650. Certain requirements and conditions apply. Other rates and terms available for loans not meeting the required conditions. Interest rates effective as of 5/2/18. Rates and terms vary based on loan amount, occupancy and credit qualifications.
2 Interest rate and Annual Percentage Rate (APR) are for a refinance 30 year loan secured by a fee simple single family residence with a loan-to-value ratio less than or equal to 60% and borrowers' credit score greater than or equal to 740. For a qualifying \$100,000 loan, there are 60 initial monthly principal and interest payments of \$414.89 at the initial interest rate of 2.875%. The current fully indexed variable rate is 5.250%; at that rate, there would be 300 monthly principal and interest payments of \$552.20 for the remaining loan term. After the initial fixed-rate period, your interest rate can increase or decrease annually according to the market index. The index is the average of the Interbank offered rates for one-year, U.S. dollar-denominated deposits in the London market (LIBOR) as published daily in The Wall Street Journal. Since the index in the future is unknown, the \$552.20 monthly principal and interest payment is based on the current index plus a margin of 2.50% (fully indexed rate) as of 5/2/18. The lifetime adjustment cap is 6% over the initial interest rate. Monthly payments do not include additional costs such as taxes and insurance. The actual monthly payment will be greater. Lender closing cost may range from \$900 - \$1,270, plus an origination fee of 1% of the loan amount. Third party closing cost can range from \$1,878 - \$3,271.00 for loans up to \$679,650. The maximum loan amount available for the interest rate quoted is \$679,650. Interest rates and payments may increase after loan consummation. Certain requirements and conditions apply. Other rates and terms available for loans not meeting the required conditions. Interest rates effective as of 5/2/18. Rates and terms vary based on loan amount, occupancy and credit qualifications.
† #1 Residential Lender ranking is for total number of residential loans and total dollars made by a lender in the State of Hawaii in 2017. Information compiled by Title Guaranty derived from Hawaii Bureau of Conveyances tax data recorded information for 2017. Information is deemed reliable but not guaranteed.

5 steps to prevent complex inventory frauds

Fraudsters are becoming increasingly creative. Here's how SMEs in the manufacturing sector can guard against losses.

By Cecilia Locati, FCMA, CGMA

When we think about inventory theft, we often think of a sales assistant stealing a product from a shop stockroom or an employee carrying away items from a warehouse. Although these are common forms of theft, more complex cases of inventory fraud affect manufacturers, too.

Noncash fraud schemes, a category that includes inventory theft, are among the most common types of frauds, accounting for 19% of all asset misappropriation schemes, according to the 2016 Report to the Nations on Occupational Fraud and Abuse by the Association of Certified Fraud Examiners (ACFE). They are second only to billing schemes, which account for 22% of all asset misappropriations.

The following real-life case study shows how creative fraudsters can be when it comes to inventory theft. The names of the company and individuals have been changed.

INVENTORY THEFT AT CHOCOLATECO

ChocolateCo is a family-owned manufacturer of luxury handmade chocolate bars. The business was founded at the end of the 19th century and is still owned by direct descendants of the founding family.

At the time of the fraud, the company was owned and managed by Luke. As general manager, Luke spent the majority of his time looking after the finance, marketing, and sales figures; purchasing and production activities were managed by Adam. After 30 years on the job, Adam was appointed production and purchasing manager after Luke's father retired.

Adam was highly regarded and trusted by Luke, given his long service.

The accounting and finance tasks were handled by a small finance team that was mainly focused on accounting, taxes, and preparation of statutory accounts. Every quarter Luke and Adam would meet briefly to discuss the performance of the past quarter. The discussion was based on a report prepared by the finance team that included a few key figures (sales, margins, cash, and inventory balances), comparative figures from the previous quarter, and a brief explanation of the most significant variance between the figures.

The organization of the warehouse was quite straightforward: A purchasing assistant oversaw the buying of the raw materials to make the chocolate bars, the warehouse team was in charge of receiving goods and performing quality controls on the materials received, and the production team managed the machinery to produce the final product. In addition, Adam also managed a small team of drivers who were in charge of dispatch and delivering the goods to ChocolateCo's clients.

At the end of every afternoon, Adam would record in the system how much raw material was used and how many bars were produced that day. He would then print out the delivery notes for that evening and hand them over to the delivery team. Once drivers received their papers, they would load their trucks and deliver their products to the customers.

Adam was the only member of the pro-

duction team with access to the company system, thus he was the only one with insight into the exact input and output figures. After some time, the accounting manager began to suspect that these numbers did not add up.

This came to light when a production team member remarked on the number of bars produced that day to her friend, the accounting manager, over dinner. The number simply did not resonate with the accounting manager; she had checked the stock level and the daily production before leaving the office that evening to prepare the quarterly report.

The following day, when she confirmed that the production yield recorded the previous day did not match the number mentioned by her friend, she suspected a larger problem. She tracked these numbers over the next few days, and once she was sure there were inconsistencies, she went to speak to Adam about the problem. Adam stated that the numbers in the system were correct as he counted the bars personally; however, the accounting manager still thought there was a problem and went to speak directly with Luke about the discrepancies.

The accounting manager explained the situation to Luke and told him that she suspected that a production operator was stealing the missing bars before Adam could account for them in the system.

Based on these suspicions, Luke hired a fraud investigator. He did not mention it to Adam in an attempt to prevent any change in his behavior that might alert those



members of his team who were involved. The investigator advised Luke to perform a surprise inventory count before the delivery trucks left the plant at the end of the day.

This surprise count revealed that several boxes of bars that had been loaded onto one of the trucks were not accounted for at all in the warehouse system. The driver of this truck quickly confessed that he had been defrauding ChocolateCo with Adam's help.

He went on to explain that each day, Adam recorded 10 kilograms of chocolate less than the actual weight of production for the day (e.g., if 1,000 kilograms were produced, he inputted 990 kilograms). The driver would then load his truck with the number of bars indicated in the delivery notes, which were handed out by Adam, plus an additional 10 kilograms. These additional bars, which had never been recorded in the warehouse system, were then delivered and sold to a third party by the driver, and the proceeds were split between the driver and Adam. Based on the figures provided by the driver and later confirmed by Adam, the pair were able to steal goods with an estimated total value of £150,000 (about \$197,000) over three years.

How did fraud on this scale happen? It turns out that concealing it was, in fact, quite easy. Nobody in the warehouse other than Adam had access to the company IT system. Adam was the only one who recorded inbound and outbound production volumes for the day, and he was also the one who checked that the outbound deliveries were accurately prepared by the drivers. The quarterly reports discussed with Luke included just two figures related to inventory: the total value of the raw materials and the amount of finished goods stock at

quarter end. As Luke's only concern was having enough stock to fulfil orders, he found this information to be adequate and didn't ask any further questions. Furthermore, Adam decided when to do the periodic stock count, so he made sure that no extra bars were left in the warehouse beforehand.

The two fraudsters were immediately fired. They agreed to repay the amount; however, neither party did so in the end. The driver was already in debt in an attempt to finance his lavish lifestyle, and very little was recovered from Adam, leaving ChocolateCo to take the financial hit.

HOW CAN MANUFACTURING COMPANIES PROTECT THEMSELVES?

Manufacturing companies should focus on the following key areas to prevent inventory fraud.

Segregation of duties. The lack of segregation of duties played a key role in the ChocolateCo case, as Adam performed a number of conflicting tasks.

To prevent fraud, employees involved with the production process should not be involved with the shipment process.

After the fraud case, ChocolateCo reorganized its warehouse team, creating separate supervisor roles for the production and shipping processes.

The production supervisor was responsible for entering production input and output figures in the system. The plant manager who replaced Adam did not have writing access to the system; he checked and validated the data inputted and edited by the production supervisor

after having verified their accuracy.

In the delivery team, the shipping supervisor checked the accuracy of every shipment prepared by the delivery team, and, in addition, the plant manager performed random checks on a sample of shipments.

Production yield analysis. Production yield, the difference between actual output and standard output based on standard inputs of materials and labor, would have been a useful indicator of the efficiency of the production process. If ChocolateCo had used this metric regularly, it would have been clear that based on the raw materials used, the annual output should have been approximately 2,600 kilograms higher, and the fraud could have been detected much sooner.

Management reporting process. The lack of a structured management reporting process allowed fraud to take place within ChocolateCo. Luke and Adam's quarterly meetings were informal, brief, and not detailed enough for proper fraud prevention. If the operational and financial performance variances had been properly monitored, the fraud would have come to light much sooner.

After this incident, a detailed management reporting package including specific KPIs for each department was implemented, and the quarterly review meetings were extended to include the heads of relevant departments including sales, marketing, and finance. The meetings follow a structured agenda, and all the KPIs are reviewed in detail and crosschecked by the heads of each department. In addition, the actual performance is compared with a newly created budget.

Continued on page 17



HSCPA 58TH ANNUAL CONFERENCE June 22, 2018 at the Prince Waikiki **Jungle Magic in the Evolving Accounting World**

Jungle Magic
Accounting
JUMANJI

Like the Jumanji movie, the accounting profession is based on hard work, trustworthiness, self-discipline, prudence and imagination. It's 360 degrees of opportunities as accounting services continue to evolve in this global economy. While there are still some fear factors that surface, we need to view them as service opportunities. Artificial intelligence ... blockchain ... big data ... cyber security attestation ... these are some of the factors that's shaping the accounting industry today.

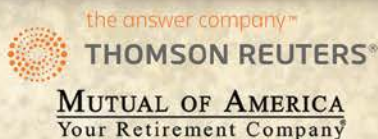
Join us at the 58th Annual Conference as we highlight many of these issues featuring our keynote address by **Tim Christen**, past chair of the American Institute of CPAs – and a funny guy! He will provide an overview of the key forces driving change for the CPA profession today and in the future.

Nick Graf, Consulting Director of Information Security with CNA Risk Control, and a certified ethical hacker. He will discuss what's in front of most people's minds today – data security and privacy. With the near daily occurrence of businesses losing customer information (due to hacking, human error, etc.), compliance with breach notification laws is a major concern. Another is that since the U.S. lacks a unified national law, various states (like New York) have passed their own data security laws.

One of Hawaii's finest prosecuting attorneys, **Chris Van Marter**, senior deputy prosecuting attorney and chief-white collar crime unit of the Hawaii Department of the Prosecuting Attorney's office, will discuss the conditions that result in fraud, why fraud schemes go undetected for so long, the most common red flags that are missed (even by professionals), and some of the best-practices and techniques for responding to fraud. Chris will also mention cases that involved CPAs – both as defendants and witnesses. The profession has unfortunately faced its own accounting scandals, and Chris will be sharing information on some of Hawaii's high-profiled cases.

It's been about six months since the tax reform (Tax Cuts and Jobs Act) has been enacted and states continue to react and respond to the various provisions. Hawaii's foremost tax experts, **Ron Heller and Tom Yamachika**, will guide you through this maze and how it impacts Hawaii taxpayers.

The deal you get for only \$275 (early member rate)? Timely updates, critical information, and sensational stories with 7 hours of CPE, local-style breakfast, Chef's special lunch, swag bag, hosted parking, awesome sponsors and HAPPY HOUR! How can you pass this up? Register now!



FEATURED SPEAKERS



Timothy "Tim" Christen, CPA, CGMA, is Past Chairman of the AICPA and currently serves on the board of CPA.com. Tim also serves as the Chairman of the Board of Baker Tilly

International (BTI). BTI is the world's tenth largest accounting and advisory firm network. The \$3.4B organization includes 33,600 team members in 147 countries. He is Chairman Emeritus of Baker Tilly Virchow Krause, LLP (Baker Tilly). Tim has a proven track record of achieving profitable organic growth while concurrently identifying, negotiating and integrating strategic mergers. His thought leadership on culture, strategy and innovation led to Tim being recognized as one of the five Most Admired US Managing Partners by Inside Public Accounting. He has also been recognized by Accounting Today as one of the 100 most influential people in the accounting profession.



Nicholas "Nick" Graf serves as Consulting Director of Information Security for CNA's Risk Control unit. Nick has more than a decade of information security experience and

specializes in data leakage prevention, security policies, incident response, data breach and security awareness. Prior to re-joining CNA in 2011, Nick served as a Senior Analyst for Information Security Risk Assessment at HSBC. Prior to that role, Nick held roles in CNA's Information Technology unit.



Ronald "Ron" Heller, Attorney & CPA, is a director of Torkildson Katz Hetherington & Knorek, a law corporation, and practices in the areas of taxation, tax litigation, business/commercial litigation (including

CPA malpractice defense), and business law. He has served on the Board since 1988 and was the Society's president for 1994-95. An active member of the Society, Ron also served as a member of the AICPA Council in 1994-96, 2002-04, 2011-13, and was re-appointed in 2015. He also served on the AICPA Accountant's Legal Liability Committee.



Christopher "Chris" Van Marter is the Senior Deputy Prosecuting Attorney, Chief-White Collar Crime Unit, of the Department of the Prosecuting Attorney's office. His area of expertise covers prosecuting complex white-collar crimes, including securities fraud, money laundering, identity theft, and racketeering, as well as all high technology computer crimes and public corruption cases.



Thomas "Tom" Yamachika is President of the Tax Foundation of Hawaii - the 'watchdog' that keeps an eye on Hawaii's taxes. Tom is also the owner of Aloha State Tax, a small law firm with emphasis on State taxes. Prior

to going solo and the TFH, Tom was a principal with Acuity LLP where he managed the tax consulting practice, including quality and risk management and practice development.



Big Mahalo to All “Young” CPA Volunteers

“Providing opportunities for young CPA professionals to become involved in the profession; giving back to the community; and connecting with the sustaining value of being a CPA.”



October 28 Give Back Day Ala Moana Beach



April 28 Lantern Floating Hawaii

The Y-CPA Squad (Trisha, Yumi, Michelle, MJ, Adrian, Colin, Jill, and Darryl) would like to recognize and thank all the Y-CPA committee members for generously volunteering their time this past 2017-2018 fiscal year. Together, we have accomplished our annual goals related to promoting our profession and giving back to the community. Upon renewing your 2018-2019 HSCPA membership, please remember to volunteer again (and encourage others to sign up)!

A busy and fulfilling year . . . our accomplishments:

August 26	Hawaii Foodbank CSFP Senior Food Box Packaging
October 4	Presentation at UH-West Oahu
October 10	Presentation at UH-Manoa
October 25	Presentation at McKinley High
October 28	Give Back Day beach clean-up at Ala Moana Beach Park
November 4	AGIF Conference
November 13	Meet the Pros Accounting Mixer with AICPA Chair Kimberly Ellison-Taylor

November 16	Presentation at Maryknoll
February 3	VITA at Leeward Community College
February 28	Presentation at UH-West Oahu
March 8	Presentation at UH-Manoa
April 25	Mix & Mingle “Building Your Distinctive Professional Brand”
April 28	Lantern Floating Hawaii
Other high school presentations at Aiea, Kamehameha, Mililani, Waianae and Waipahu	

What’s ahead for 2018-2019 so far . . .

August 25	Hawaii Foodbank CSFP Senior Food Box Packaging
October 27	Give Back Day beach clean-up at Ala Moana Beach Park
November 8	Meet the Pros Accounting Mixer
Ongoing	Presentations at UH-Manoa, UH-West Oahu and high schools



November 13 Meet the Pros Accounting Mixer



August 26 Foodbank

**SPECIAL
PRESENTATION**

Finding Greatness

**June 27 (Wednesday)
11:30 a.m. to 2:30 p.m.**

Plaza Club - 20th Floor
(Parking available at downtown municipal lots)



Motivational speaker, consultant, tennis pro, coach ... Rusty Komori will share his secrets in achieving and sustaining success in business, sports, or anywhere else by inspiring others in "finding greatness" in their lives.

Join us for a special presentation with Rusty Komori, author of Beyond the Lines. He led his Punahou boys' varsity teams to win an unprecedented 22 consecutive state championships, a national record as the longest streak in the United States - in all sports.



**\$55 HSCPA Member
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**Buffet lunch
Two (2) CPE credit
hours**

**AS SEEN IN
KALA**

**Norman's Book
Review**

**BEYOND
THE LINES**

**Creating a Leadership
Culture to Achieve
Extraordinary Results**

RUSTY KOMORI
National Record 22 Consecutive Championships



Norman's Book Review

"The Myths of Innovation"

by Scott Berkun

As CPAs, we have a voracious appetite for information and learning new things. Some CPAs even feel they are true innovators, creating new ways to save clients or their companies big bucks. Other CPAs believe they are wild and crazy people, but we will save that for another day. If you want to know how life changing innovations were created, the many myths which accompanied some of these innovations, and how you can be an innovator yourself, then this is the book for you! Noted below are some of the interesting things I learned from the book, and page 17 lists a few of the innovators and their contributions to society.

About the Author

Scott Berkun is a best-selling author of seven books, including this book. He studied computer science, philosophy, and design at Carnegie Mellon University, worked at Microsoft from 1994 – 2003, taught creative thinking at the University of Washington, and currently is an author, public speaker and seminar leader. I thought it was cool that he left Microsoft to "fill his bookshelf with books he has written." He is a great writer as he took a complicated topic and made it easy to understand and learn about.

Sobering Secret of All Past Innovators

When we read about such icons from "Vincent van Gogh to Steve Jobs to Albert Einstein," etc, we revel at their

brilliance and believe they were legends in their own time. In reality, "while they were becoming legendary, they were rarely seen as legends. Their innovations were perceived in a radically different way than we see them now."



What If A Candy Bar Melted in Your Shirt Pocket?

Imagine finding your candy bar had melted in your shirt pocket while working. You probably would be upset and change your shirt. That happened to Dr. Percy Spencer when he worked at Raytheon's radar laboratory. Instead of getting upset, he became curious and placed popcorn kernels and an egg next to the radar equipment he was working with. The popcorn kernels popped and the egg exploded. "He spent the next 10 years developing this chance encounter into one of the most used appliances in the world, the microwave oven!"

Is History Objective? No!

Historians are just like all of us, they have "biases, opinions, points of views, and desires, and they don't have the time to explore all facts and points of view. That's why there is no objective history. In fact, there is a discipline to study historians, called historiography." As noted historian Edward Carr wrote, "It used to

be said the facts speak for themselves. This is of course untrue. The facts speak only when the historian calls on them: it is he who decides to which facts to give the floor and in what order or context... a fact is like a sack – it won't stand up 'til you've put something in it."

How To Be Creative

Want to create something great? While there is no magic formula other than hard work and luck, the author states the best advice he has read on starting creative work comes from John Cage, the most innovative composer of the 20th century who said, "It doesn't matter where you start, as long as you start." According to the author, "there is no perfect beginning: it's only after you start – no matter how roughly – that you can evaluate and build on what you've done, shift directions, or start over with the insight and perspective you've gained in the process. You can't find something new if you limit your travels to places others have already found."

What Good Is Weak Glue

While working at 3M Company in the 1970's, Art Fry unintentionally created weak glue, glue that was strong enough to allow for adhesion to an object, but weak enough to allow the adhesion to be temporary. "Instead of throwing the glue away, he wondered what the weak glue might be good for. A friend needed sticky paper for his music notations and

so Art gave birth to Post-it Notes!" Post-it Notes would later be released nationally in 1980.

The Probability of Innovation

Accountants like numbers and the author notes prospective innovators face so many challenges that at best the probability of success is less than 1% (0.390625%)! That's why creating something great is so difficult. If you still want to be an innovator, he recommends following Hans Solo's advice, which is "Never tell me the odds."

How Going Hiking Led to the Invention of Velcro

In 1941 when George de Mestral went hiking in the Swiss Alps, he noticed burrs were stuck to his clothes. It piqued his curiosity so "he put some burrs under a microscope and did some experiments. He eventually invented Velcro based on the interlocking hooks and loops of the burrs and his clothing."

Per Wikipedia, George de Mestral also created the name "Velcro," which is a portmanteau of the French words velours ("velvet") and crochet ("hook").

From Mining to Sandpaper to Masking Tape

"3M Company was started in 1902 as Minnesota Mining and Manufacturing Company, mining for mineral deposits to make grinding wheels. It then decided to make sandpaper. In 1925, lab assistant Richard Drew began experimenting, on his own time, with ways to mark the borders between the two-tone auto paint jobs which were popular in the Roaring Twenties. As a result of his efforts, he invented masking tape and the history of 3M was changed forever for the better!"

How "Fake News" Helped Promote eBay

When eBay got started and tried to get reporters interested in their "desire to create a perfect market economy where people could freely trade with each

other," there was no buzz. So, what did eBay do? "They invented the story that Pierre Omidyar created eBay so his fiancé could trade PEZ dispensers!" Reporters loved that story and eBay got the publicity they wanted. To this day, many people still believe the PEZ story is true. In fact, I remember hearing about this story and thinking it was romantic and true.

Summary

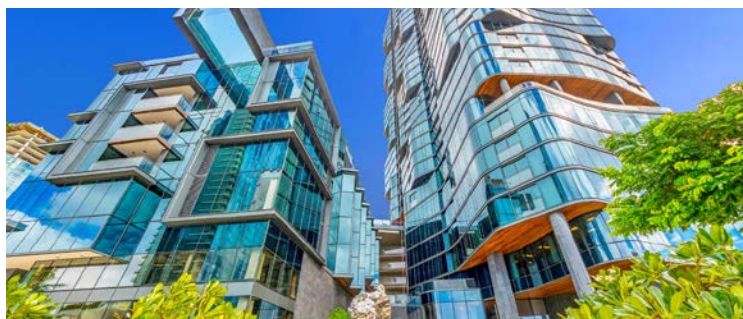
As you can tell, I really liked Scott's book! I learned so much about the history of innovation, and I obtained great insights to help me personally as well as professionally. While I may not have the good fortune of creating a blockbuster innovation, I will really appreciate the hard work that goes into all new innovations. I also hope to inspire my employees to be the best they can be and help our company survive and thrive in the future. I sincerely believe Scott's book will be just as interesting and helpful to you! Enjoy!

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Living	2,479 sq.ft.	1,691 sq.ft.	1,704 sq.ft.	1,793 sq.ft.
Description	3 BD, 3.5 BA	2 BD + Den, 2 BA	2 BD + Den, 2 BA	Lanai 93 sq.ft.
Views	Ocean, & Auahi Street Views	Diamond Head, Ocean, Marina, Mountain & City Views	Diamond Head, Ocean, Marina, Mountain & City Views	2 BD, 2.5 BA, 2 Pkg Partial Ocean & Kamakee Street Views

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JACK TYRRELL
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CPA FIRM MICROCOMPUTER TECHNOLOGY

By Joy Takaesu of Carr, Gouveia + Associates, CPAs, Inc.



Microsoft has released the Windows 10 April 2018 Update, formerly known as the Spring Creators Update. There were some earlier reports of the update conflicting with Avast antivirus and with certain solid-state drive models. As of this writing, fixes are being issued.

Here are a few of the new features included with the April 2018 Update:

Timeline: the Windows 10 Task View now shows a history of recently accessed files and programs. To access the Task View, you can click on the Task View button in the taskbar, located to the right of the Start menu & Cortana icon, or you can use the keyboard shortcut Windows key + Tab. You can use the scroll bar on the right side to quickly view and open older files and apps. This data is stored only on the local machine, unless you are signed in with your Microsoft account and have syncing enabled. The Timeline feature can be disabled by going to All Settings in the taskbar, Privacy, Activity history, and then either turning off your account or unchecking the boxes under Activity history.

Password recovery: Microsoft added an option to reset a Windows 10 local account password. To manage password recovery for the local account, go to Settings, Accounts, Sign-in Options, and click Update your security questions. In the event that the local account password is forgotten, it can be reset by answering all three security questions.

Settings changes: Some of the harder-to-find Control Panel settings have been added to Settings, such as configuration options for fonts (Settings – Personalization – Fonts), sounds (Settings – System – Sound), and startup apps (Settings – Apps – Startup).

How to delay Windows 10 updates

For those who do not wish to update to the newest version yet, there are a few options to delay the update. However, Windows 10 has been increasingly aggressive in pushing out updates. Even with the settings below, Windows 10 will continue to download security and vulnerability updates as they are pushed out. Under All Settings, Update & security, Windows Update, Advanced options:

Under Pause Updates, you can toggle the setting to On, to temporarily pause updates for up to 35 days.

Under “Choose when updates are installed,” there is a dropdown menu. The default setting is “Semi-Annual Channel (Targeted),” which receives the update sooner. To delay updates, select “Semi-Annual Channel.” Those on “Semi-Annual Channel” are only supposed to receive the update after Microsoft deems the update ready for enterprise deployment, about four months after the “Targeted” branch. There are also dropdown menus to defer updates for a certain number of days.

If you have any questions or comments, please call me at (808) 837-2517, or send e-mail to joy@cga-cpa.com.

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When it comes to your information management program, what matters most to you? We think you will agree, it's access: secure and compliant, yet fast and convenient for you. Access serves premier accounting firms throughout Hawaii.

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Continued from page 6

Create opportunities for teams to be socially involved

In a day and age where over one billion people are active on Facebook, providing ways for your team to be socially involved in an online way creates solidarity within your organization. Take advantage of websites and apps that allow team members to connect on their own time, yet in a personal way. (Here at Boomer, we like Facebook's Workplace!)

Create processes and leverage technology

Technology is evolving quicker than most people can keep up and there are thousands of apps and websites to help in any aspect of your life. So, take advantage of the resources available and find software, programs and products that will work for your team. In companies that have lots of remote workers, sites like Sococo are useful for connecting in a one-on-one

way. Websites like Asana and Trello easily allow for project management and organization. Creating structure with the use of technology will allow organizations to spend less time on the basics and more time on the details.

Trust and respect your people

Trust is the biggest part of work-life integration, and respect goes hand-in-hand with trust. When you respect that your team members are individuals with lives outside of the workplace, you provide them with a sense of security that they're not alone in this world. That other people understand that life-events that happen. Whether that be a triumph or a tragedy, life will at some point get in the way of work. So, if you create a trusting and respectful environment, employees will be energized and passionately connected to your organization and the work that

they're doing. And if life has to take them away from work, they'll be even more ready and willing to come back and even work harder to make up for the time away.

Work-life integration isn't something that can happen overnight, and it takes thoughtful leadership to implement. But time and energy spent creating a platform of trust and understanding can make a lasting impression not only on your organization as a whole but with each team member as well.

As a Project Manager for Boomer Consulting, Inc., [Mandi Jean](#) brings with her a creative background and passion for process and organization. Her primary focus is on training engagements, including the P3 Leadership Academy, and overseeing events at the Accounting Innovation Center.

Continued from page 9

Surprise stock counts. The first piece of advice from the fraud investigator in this case study was to perform a surprise stock count. Pictured are: MJ Saguid (Y-CPA Squad), Sara Kobayashi, Katie Landgraf (HSCPA member/UHWO faculty). xcellent deterrent, and surprise inventory counts can be used as an effective procedure to prevent and detect fraud. Predictable controls can be easily eluded; the knowledge that the likelihood of getting caught is higher would make fraudsters think twice. According to the 2016 ACFE report, surprise audits can reduce the average loss due to fraud from \$195,000 (£144,000) to \$100,000 (£74,000), a reduction of

49%. Furthermore, surprise audits can halve the average duration of the fraud from 24 months to 12 months.

Automated production process. The machinery used by ChocolateCo had no interface with the enterprise resource planning (ERP) system, i.e., the equipment did not record the amount of raw materials used during the production process or the number of bars produced. These two numbers were accounted for manually by Adam, allowing room for fraud to occur.

Manual processes are more prone to errors and fraud. The use of production machinery that is seamlessly integrated

with the company's ERP helps to prevent this type of fraud. Nowadays the most advanced production machines are able to measure input and output and automatically update the company's system.

Cecilia Locati

cecilialocati@fraudfence.co.uk is director of Fraud Fence, a consultancy that advises companies on internal fraud prevention. To comment on this article or to suggest an idea for another article, contact Samantha White, an FM magazine senior editor, at Samantha.White@aicpa-cima.com.

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TAX FOUNDATION OF HAWAII

Hawaii's Watchdog on Taxes & Government

By Tom Yamachika

We Can't See It or Touch It, But We Can Tax It!



The Use Tax is a tax designed to protect our local businesses. As a consumer, you often have a choice between

buying a product from a local seller and one from somewhere out of state. Our general excise tax applies to the local seller, but it might not apply to the foreign one. Therefore, our law says that if you buy from the foreign seller and our GET in fact cannot apply to that sale (usually because the seller does not have a sufficient presence within Hawaii for it to be subject to Hawaii taxes), then you as the buyer will have to pay the same amount of tax to the State directly.

Most states that have a sales tax also have a use tax, for these reasons. But those states' taxes generally apply only to sales of goods, not to services or anything else. Our tax applies to other things as well since there was a realization that local sellers of services needed to be protected. Thus, in 2000 and 2001 the laws were amended to bring services and contracting within the scope of the Use Tax.

At the time, there was a lot of thought given to the issue because an "import" of services is tougher to see than, say, the import of a new car.

Here, this bill makes taxable an entire new category, and it's unclear how much thought, if any, was given to the matter. The bill sailed through the legislative process without much in the way of testimony. Even our Department of Taxation was only able to say that the bill was consistent with its position on custom software (software specially written for a customer). The relevance of the Department's position is debatable because most states, including ours, consider custom software to be services, and we already apply Use Tax to services.

So what, if anything, is the bill trying to tax? License fees, franchise fees, and royalties perhaps? Certainly, a franchise to run a particular branded business in Hawaii or a license to show a particular television show here, for example, are intangible property in Hawaii. But there is already a Hawaii Supreme Court case, *In re Heftel Broadcasting Honolulu, Inc.*, 57 Haw. 175, 554 P.2d 242 (1976), cert. denied, 429

U.S. 1073 (1977), saying that when that kind of intangible property is created, the franchise owner or license owner has to pay GET, even though the owner may not have any other connection with or physical presence in Hawaii. Now, the way the Use Tax is designed is that if the seller is legally obligated to pay GET, Use Tax is not imposed on the buyer. The buyer won't know if the seller paid the GET, so liability for Use Tax doesn't depend on whether the seller actually paid the GET.

So what is really happening? Is the objective to scare people into paying taxes they don't owe? Consider what happened to the automobile dealerships in the late 1960's and through the 1970's when they were paying Use Tax, thinking that they were importing automobiles from an unlicensed seller, and the Department was getting GET from the manufacturers unknown to the dealerships. The story is described in another Hawaii Supreme Court case, *In re Aloha Motors, Inc.*, 69 Haw. 515, 750 P.2d 81 (1988), but the court had to give effect to the statute of limitations and held that the dealerships could get a refund of three years of Use Tax, although there had been double payments for a decade. Eventually, special legislation was passed in 1990 (Act 297) to relieve the dealerships from this injustice.

The Use Tax Law is already confusing. Rather than mindlessly adding to the confusion with new taxes that haven't been tried anywhere else, a comprehensive revamp of the Use Tax Law is needed. At least make it so people have a reasonable chance of understanding the existing law.

Hawaii Practices For Sale

Gross revenues shown: Hawaii Island CPA-\$383K, accounting (57%), tax (42%); Hawaii Neighbor Island CPA-\$1M, Tax (49%), acctng (46%), other (5%), cash flow 50%+; Honolulu CPA Majority Partnership Opportunity-60%+/\$300K; Island of Kauai CPA-\$748K. For more information, please call 1-800-397-0249 or to see listing details and register for free email updates visit www.APS.net.

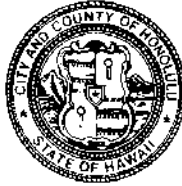
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REAL PROPERTY TAX CREDIT FOR HOMEOWNERS
City & County of Honolulu

The City & County of Honolulu offers a real property tax credit to property owners who meet certain eligibility requirements. Applicants who qualify, are entitled to a tax credit equal to the amount of taxes owed for the current tax year that exceed 3% of the titleholders' combined gross income. This tax credit will be applied to next year's taxes. Annual filing is required for this credit.

The Eligibility Requirements are as follows:

- Homeowner must have a home exemption in effect at the time of application and for the subsequent tax year.
- Any of the titleholders do not own any other property anywhere.
- The combined income of all titleholders cannot exceed \$60,000.

Applications will be available from July 1, 2018 at the following locations:

- All Satellite City Halls
- Treasury Division at 530 South King St. Room 115, Honolulu, Hawaii 96813.
- Tax Relief Section at 715 South King St. Room 505, Honolulu, Hawaii 96813.

On line @ <http://www.honolulu.gov/cms-bfs-menu/site-bfs-sitearticles/6416-treasury-division.html>

The application deadline is October 1, 2018

We thank the many accountants and accounting firms that have been helping property owners by informing them of this tax credit and helping them apply for this credit.

For more information or assistance, contact the Real Property Tax Relief Office at 768-3205.

Information furnished is subject to change without notice.



H S C P A

Identifying Tax Benefits Available to Families Caring for Special Needs Children

July 27 (Friday) ♦ 8:30 to 12:00 noon

Prince Waikiki

**What
Keeps you up
at night?**

- What tax benefits are available for my clients with special needs children?
- Will I have to care for my aging parents while raising children or heading into my own retirement?
- Who will take care of my disabled child when I can't -- and how will they have good quality of life and maintain government benefits?

This course will discuss a variety of unique tax and financial planning issues related to families and their members, and include recent tax changes under the Tax Cuts and Jobs Act that affect such planning. We will be comparing 2017 to 2018 legislation.

This course reviews the tax planning issues (including up-to-date tax changes) confronted by families caring for those with special needs.

The course addresses the various statutory and court-determined requirements that must be met for a dependency deduction exemption, a medical expense deduction, impairment-related work expenses, and the child and dependent care credit. In addition, other credits are reviewed, including the adoption credit, and the earned income tax credit. Furthermore, the session will focus on some financing nuances associated with the medical expense deduction (i.e., retirement planning distributions and home equity loans), the tax benefit rule, and the interaction of the medical expense and home equity deductions, as well as other financing techniques, with the Alternative Minimum Tax. As the definition of "family" expands, CPAs and other financial advisers need to understand the income tax and financial planning opportunities available in assisting families as they plan for their unique situation. A Case Study will also be provided.

Additionally, there will be information provided as to the top mistakes made for planning for a special needs dependent.



Thomas Brinker, CPA/PFS, JD, LL.M., CGMA, ChFC, CFE, AEP, is a Professor of Accounting at Arcadia University. He also serves as Executive Director for the MBA program and Chair for the School of Global Business. He is currently a tax consultant for the special needs community and to local CPA and law firms in the Philadelphia area. His practice concentrates on tax planning and compliance for individuals and businesses.



Kirk S. Barth, CFP®, ChSNC®, CLU®, ChFC®, LUTCF, is an investment advisor with MassMutual Pacific, and the owner of Special Needs Hawaii, a financial and special care planning firm. Kirk's diverse experience has also led him to become a financial professional focusing on Special Needs Planning, helping families with dependents with special needs plan for the future as well as retirement strategies, business continuation strategies, and life insurance.

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July 13, 2018**