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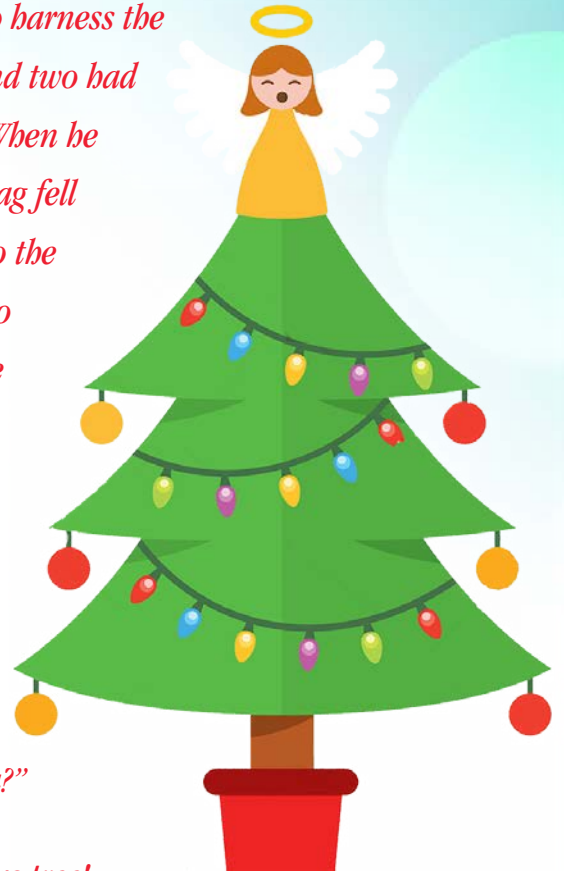


# President's Message

By Darryl K. Nitta



*Santa was getting ready for his annual trip but there were problems everywhere. Four of his elves were sick, and the trainee elves did not produce the toys as fast so Santa was beginning to feel the pressure of being behind schedule. Then Mrs. Claus told Santa that her mom was coming to visit. This stressed Santa even more. When he went to harness the reindeer, he found that three of them were about to give birth and two had jumped the fence and were nowhere to be found. More Stress. When he began to load the sleigh, one of the boards cracked and the toy bag fell scattering the toys on the ground. So frustrated, Santa went into the house for a cup of coffee and a shot of whiskey. When he went to the cupboard, he found the elves had hidden the liquor and there was nothing to drink. In his frustration, he dropped the coffee pot and it broke into hundreds of little pieces all over the kitchen floor. He went to get the broom and found that mice had eaten the straw it was made from. Just then, the doorbell rang. Santa cursed on his way to the door. He opened the door and there was a little angel with a great big Christmas tree. The angel asked: "Where would you like to put this tree, Santa?"*



*And that is how the little angel came to be on top of the Christmas tree!*

Special thanks to AccountingWEB for the perfectly timed Christmas joke! Although, I think most of us will feel like Santa this Holiday Season with all the gift shopping, dinners, sporting events, parties, parades, performances, religious commitments, cooking, traveling, in-laws, and everything else that comes along with Christmas Season. Just remember to take a step back, take a deep breath, and enjoy this time together as a dysfunctional family.

In theory, the 2019 tax return filing sea-

son should not have as many bumps as the 2018 tax return filing season. There are no new tax law changes to understand, there shouldn't be a government shutdown, and the tax software should be ready to go once 2020 starts. Since it is still the beginning of December, there is still ample opportunity to do tax planning for your clients. The name of the game to defer income and accelerate deductions still hasn't changed for cash basis taxpayers. Reach out to your valued clients to see if you can help review their 2019 tax situation and offer any planning

tips. Even if it ends up being just a phone call wishing them Happy Holidays, that call will go a long way to solidify your relationship with them.

---

Looking ahead: That was the last joke to make room for quotes to live by. My 2020 President Messages (only four more left) will each start with my favorite quotes which define my leadership style. Happy Holidays to everyone and best wishes for a prosperous 2020 for you and your families!

# Technology Tools - Change With The Times

By Randy Johnston



Are you doing things the same old way? Do you wish there were an easier way? Have you noticed how rapidly our technology tools

are changing? Continuous updates via the internet has become the standard for technology on our mobile phones, for Software as a Service (SaaS), and applications like Microsoft Office. Addressing security needs, new features and evolving the product can't be a once a year process releasing all the changes at one time using the waterfall approach. Developers are using short sprints spanning just a few weeks to add features and repair bugs while following scrum methodology.

## So, How Do I Accommodate the Rapid Change?

First, you need to have your own vision. What are your business strategy and tactics, and what are your information technology (IT) strategy and tactics? How do you build your business case for the use of any technology and how do you

justify your expenditures? How do you manage change? What do you have in place for governance of the changes? Or, do you simply "decide".

Second, you need to pick tools that either work together from the software creator, that have an automated way to connect with software tools we call digital plumbing, or you have to have available IT expertise in-house or contracted to keep the tools running. In the CPA firm world, we attempted to work around most these problems by picking all our applications from a single vendor like CCH Wolters Kluwer or Thomson Reuters. This approach is commonly referred to as the "one suite" method.

Our expectation was that these vendors would make all their modules work together or "talk" to each other, so a client set up in practice management would flow into the tax software. We had a similar expectation when we purchased software from a major vendor like Sage Software who had lots of modules that

they owned and sold. However, by the time we reached the early part of this century, it was clear that integrations to third party vendors were going to become more common. Today, most vendors don't build a complete solution. They expect you to acquire all the third-party applications you need to solve your business issues. This approach is commonly referred to as the "best-of-breed" method.

As a business manager, you must assume that your applications will change regularly, probably even monthly. This is quite different than the past where applications had major revisions once or twice a year with the waterfall method of releases. You will need to have training for your team to accommodate the rapid change. Most users do not have the desire, time or insight to recognize new software features and optimize the way they use them. Worse, many do not even notice that a new feature has arrived.

For best results, we believe that your business should have all the processes used mapped. When software is updated, these processes can change for better or worse. You need to make sure your team understands the changes and what the firm believes is the best method to use the software to run the business smoothly.

Further, vendors will try to sell additional applications and features that you may or may not need. Consider how you will evaluate or vet the opportunities presented continuously by new software and features. Not all problems should

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be solved with technology, but not using features that you are already paying for seems like such a waste of human capital. As examples, consider the use of Excel Tables, the Excel Data Model along with the Extract, Transform and Load features of Get Data or the use of certification in Adobe Acrobat. All these features have been available for years, and we suspect many of you do not know they exist.

### How Can We Help Our Team?

Education and Training! While CPA professionals routinely take continuing professional education (CPE), it is important to focus on learning new techniques that will save time. Education helps see the big picture and understand strategy while training instructs on how to complete

a simple task. While just in time learning is convenient to learn how to solve a pressing problem, the technique learned may not be the optimal way or even a way you want the problem solved. On the other hand, the user may have spotted a new easier way to complete critical tasks. You should learn from the user (or the user from you), your processes should be updated, and the new method taught to everyone.

As a business manager or owner, one of your jobs is to help people be as effective as possible and do their work in the optimal way possible. This fits quite well with human nature, which is to do things in the easiest way possible. Of course, that desire to do things in an easy way is often off set by not wanting to change. You can achieve the best of all worlds if you can

help people change by optimizing their processes and making things easier. However, this is not a “one and done”. While we used to recommend process revisions twice a year, the software updates that are changing almost monthly are making us think that processes need to be revised more often, perhaps monthly. Perhaps we’ll learn from you as you learn the optimal way to revise your processes. If you do, we’d love to learn from you,

*Randy Johnston is a nationally recognized educator, consultant, and writer with over 40 years of experience in Strategic Technology Planning, Accounting Software Selection, Paperless, Systems and Network Integration, Business Continuity and Disaster Recovery Planning, Business Development and Management, Process Engineering and outsourced managed services.*



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# 5 Marketing Tools To Grow Your Advisory Services

By Jon Hubbard of Boomer Consulting, Inc.

Marketing is a crucial part of growing a firm. While many firms have successfully marketed their traditional service lines, they're finding the same tools and methods that worked for audit and tax don't work for advisory and consulting services. To help fast track your success, I've compiled this list of five marketing tools that every advisory and consulting service needs.

## #1 - Clear messaging framework

CPA firms are historically bad at properly communicating the value of their services. They spend too much time talking about their history and experience and not enough time talking about their clients and their successes. This is due to not having a clear framework for developing the messaging for your firm and its services. As a result, most prospects and clients are confused when reading your website and materials and are often not even aware of everything you can offer them.

To communicate more clearly, you need to follow a messaging framework, so potential clients know how to engage, follow along and remember your firm. When a potential client visits your website, they should be able to instantly understand what you do and how they'll benefit from working with you.

## #2 - Website wireframe that focuses on client value

As I mentioned previously, your website's copy needs to focus on what's in it for your clients. Too often, firms focus on highlighting their own expertise and

accomplishments. The truth is, clients don't necessarily work with the most experienced or accomplished advisors. They work with professionals who quickly demonstrate they can provide value, make their lives better, and solve problems.

Your website's wireframe needs to focus on client value rather than your firm. You should also include:

- Client testimonials. Including three or four client testimonials will significantly enhance your authority and show potential clients that the services you offer really work.
- Clear calls to action. You want to give potential clients an obvious path toward working with you.

## #3 - Lead-generating PDF

As I mentioned above, your webpage needs a clear call to action. A direct call to action is like a "buy now" button. It clearly asks potential clients to take the next step toward working with you by scheduling an appointment, placing an order, making a call, etc.

However, sometimes people aren't ready to take that step. This is where transitional calls to action, such as a lead-generating PDF, comes into play.

Offer visitors to your advisory webpage a checklist, worksheet, or short white paper – something that provides value and builds trust with clients who aren't quite ready to buy. In exchange for the PDF, you collect something equally valuable – their email address.

## #4 - Automated email series

Now that you've collected email addresses from visitors to your webpage that have shown some interest in your services, you need an automated email series that triggers specific messages to be sent whenever customers take a particular action.

Using a workflow or automation in your email marketing platform, craft a series of emails that offer value, share your knowledge to make their lives/businesses better and point their attention to your products and services.

A simple framework might be:

- Welcome and deliver your lead-generating PDF
- Address a major objection to buying your service. For example, "Most people think X, but if they only knew Y, then Z."
- Provide a case study or social proof to show how their life/business will improve after working with you.
- Offer help. Ask them to reply with the biggest challenge they're facing.
- A strong call to action. Final email with a strong call to action, asking the potential client to schedule an appointment with you today.
- Re-engagement email. If you don't receive a response to the previous email, encourage re-engagement by asking why they aren't interested in working with you right now.
- Re-engagement email. Still no response? Send a final email asking if the potential client is still interested



in hearing from you and offering to take them off of your list if they're no longer interested.

## #5 – Compelling client testimonials

As I mentioned above, including client testimonials and case studies in your marketing plan can help build trust and grow your firm. But how do you gather these testimonials?

Instead of emailing clients to ask for a testimonial (and getting back vague responses), ask specific questions. Here are a few examples to help you get started:

- What was your biggest problem or challenge before working with our firm?
- How did that challenge or problem make you feel?
- What changed after you started working with our firm?
- Do you have any specific metrics or other results you can share?
- What would you say to someone considering working with our firm?
- Anything else to add?
- Do we have your permission to feature your company and this testimonial in our marketing materials?

Once you receive their responses, craft the story for them. Compile their re-

sponses into quotes, testimonials or case studies and send it back to the client for their final approval. This process will give you better client testimonials that tell a compelling story of transformation.

Generating new clients is a big challenge for every firm entering the advisory services arena. But with these five tools, you can differentiate yourself from the competition and provide more value to clients. The result will be greater revenue and continuous, long-term engagements.

*Jon Hubbard, Director at Boomer Consulting helps accounting firm leaders find success in the areas of leadership, talent and growth.*

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# 2019 Meet the Pros Accounting Mixer

Another great event by the Y-CPA Squad was held on November 4th at the Honolulu Country Club. Both professionals and students were treated to a special guest speaker, renown leadership guru, Glenn Furuya of Leadership Works. Glenn emphasized the importance of enjoying your job and to have a "Singing Heart"! His advice is to place people in jobs that bring them joy and set them up to succeed. Does your heart sing?

# Meet the Pros



## Heart sings!



- Doing something you **love**
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## "People are like **tea bags**

you never know how strong they are until they get into hot water."

Eleanor Roosevelt





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## **DECEMBER 2**

### **Professional Ethics for Hawaii CPAs**

This course will cover the basic tenets of professional ethics, and explain recent changes in the AICPA Code of Professional Conduct. You will learn to identify, analyze and respond to conflicts of interest, how to apply independence rules in your practice, and key rules regarding client confidentiality. The presentation will also cover recent Hawaii developments and tips to avoid malpractice claims or liability.

[CLICK HERE FOR MORE INFO](#)

## **DECEMBER 4**

### **Preparing Not-for-Profit Financial Statements Under ASU No. 2016-14**

ASU No. 2016-14, Presentation of Financial Statements of Not-for-Profit Entities, is the most significant not-for-profit reporting standard in over 20 years and is now fully effective. To properly implement the new financial reporting model professionals must have a strong, working knowledge of the new requirements.

Now is the time to obtain that knowledge!

[CLICK HERE FOR MORE INFO](#)

## **DECEMBER 5**

### **Latest Developments in Government and Nonprofit Accounting and Auditing**

The course materials utilizes a highly illustrative and innovative format. Over 30 focused exercises are included to provide an enhanced working knowledge of the latest developments in government and nonprofit accounting and auditing.

[CLICK HERE FOR MORE INFO](#)

## **DECEMBER 6**

### **Revenue Recognition, Leases, and Financial Instruments: The FASB's "Big Three" New Standards**

Sometimes we can avoid addressing the elephant in the room for a while. However, when there are three elephants in the room, it's time to address the issues. Designed for practitioners and their staff, whether in public accounting or business and industry, this course provides a comprehensive review and update of the FASB's Big 3 accounting and reporting areas, including equity securities, hedging and impairment.

[CLICK HERE FOR MORE INFO](#)

## **DECEMBER 9 [KAUAI]**

### **Selected Topics in Individual Tax**

Participants will review the rules, cases, and regulations that apply to common problems involved in preparing an individual income tax return. Specific areas will be explored in depth.

[CLICK HERE FOR MORE INFO](#)

## **DECEMBER 10**

### **Year 2019 Tax Update**

This comprehensive Federal Tax Update will cover all new tax legislation, including a comprehensive review of the changes made by the Tax Cuts and Jobs Act, Technical Correction Act of 2019, and Tax Extenders Act; and other new regulations, cases, and rulings in all areas of federal taxation through October 15, 2019.

[CLICK HERE FOR MORE INFO](#)

## **DECEMBER 11-12**

### **Individual Tax Workshop (Advanced)**

Participants will review the rules, regulations, and forms required for the filing of the individual income tax return. This two-day program will use the Form 1040 to highlight commonly encountered problems.

[CLICK HERE FOR MORE INFO](#)



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**DECEMBER 16**

**How Accountants Can Leverage  
Blockchain: A Hands-On Workshop  
for Blockchain Beginners**

You don't need to be a techie to attend this session – we'll teach you what you need to know! Bring your laptop – this HANDS-ON course contains online learning games from @TrueUp and the opportunity to use an actual @Oracle #Blockchain system. Non-techie accountants play an important role in ensuring the success of a Blockchain initiative. Attend this session to learn how to play a key role in designing the processes, data model, and internal controls for a Blockchain system.

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**JANUARY 16**

**Basis Calculations & Distributions  
for Pass-Thru Entity Owners  
Schedule K-1 Analysis**

This comprehensive case-driven training is designed to get the accountant up to speed quickly in the area of basis calculations and distribution planning for the owners of pass-thru entities (i.e., S corporations, partnerships, and limited liability companies (LLCs)). The cornerstone of this course is the line-by-line analysis of the Schedule K-1s and how it affects the basis calculations.

[CLICK HERE FOR MORE INFO](#)

**JANUARY 17**

**Passive Activities & Rental  
Real Estate Income Tax Issues**

This comprehensive training is designed to get the accountant up to speed quickly with the complex passive activity loss (PAL) rules that apply to certain investments in trades or businesses and rental activities. The cornerstone of the course is the in-depth coverage of the detailed tax law and regulations applicable to passive activities under IRC 469 and how and when the 3.8% net investment income tax under 1411 applies.

[CLICK HERE FOR MORE INFO](#)

**JANUARY 27**

**Tax Planning Based on Form 1040**

Planning is a year-round process, and this course is loaded with ideas that can be used throughout the year to reduce taxes. Among the ideas discussed will be the Alternative Minimum Tax, charitable giving, tax-saving strategies for real estate owners and investors, and much more. Working systematically through Form 1040, the practitioner will be given many ideas on how to reduce taxes through planning.

[CLICK HERE FOR MORE INFO](#)

**JANUARY 28**

**Everything You Need to Know About the  
New Pass-Through Entity Rules: IRC Sec-  
tion 199A – The Code and Regulations**

The Tax Cuts and Jobs Act (TCJA) has made it so individuals, estates, and trusts may now deduct up to 20% of their qualified business income from sole proprietorships and pass-through entities. Many of our clients will benefit from this deduction. Join us to gain insight into the complexity of Section 199A and to advise your clients so that they can benefit from this deduction fully.

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# Norman's Book Review

## "A Chinese Kitchen"

by Lynette Lo Tom

I have known Lynette and her husband Neal Kanda for a long time, and they are one of my favorite couples. They are personable, creative and energetic! I was super excited to review Lynette's cookbook because I knew it would be memorable, informative and filled with priceless recipes. For those of you who know Lynette, she gives 200% in whatever she does. Thus, I wasn't surprised when she noted in her book that she went to Zhongshan, China, Taiwan, Hong Kong and Singapore to do proper research for her book.

We all have our favorite Chinese restaurants, which we patronize and order take out during the holiday season. If you want to do something different this year and dazzle your friends and relatives at a holiday gathering, make one or more of the dishes in Lynette's book. You will not only be the hit of the party, but you will be able to educate everyone on the history of the dish you made.

You will learn about the history of the Chinese people and food in Hawaii, complete with awesome historical pictures. You will also learn different Chinese cooking methods. There is a detailed glossary at the end of the book which will make you an expert in Chinese cuisine.

### Chinese Recipes

We CPAs love a value proposition, as well as tables and graphs, so you will be happy to know the book has 113 different recipes broken up into the following 10 categories!

Lynette tapped into her vast network of friends who graciously shared their cookbooks, family recipes and restaurant recipes to make her cookbook a success!

### Sample Dishes

The following are four sample dishes from Lynette's cookbook, to give you a flavor of the recipes in the book.

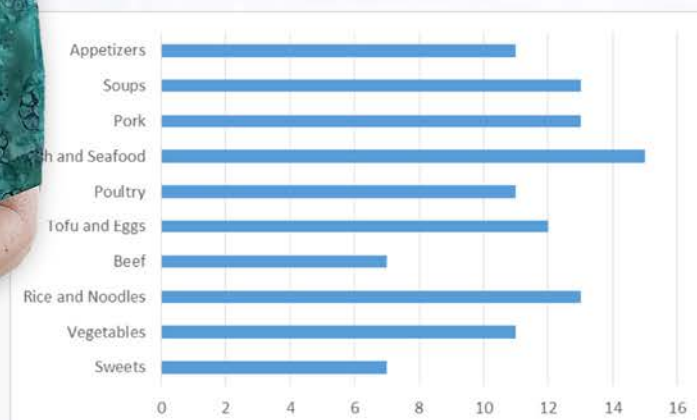
### Char Siu Spareribs

Adapted from "Cooking the P. Lau Way" by Priscilla Lau, char siu spare ribs is a Chinese and island favorite. The picture looked sooo delicious, I had to include it in my review. As Lynette noted in her book, "the fundamental ingredients are sweetener, salt, liquor and Chinese five-spice powder. The marinade can also be used with chicken, pork chops, pork shoulder or pork butt."



*"Life is short, so let's get cooking!"*

- Lynette Lo Tom



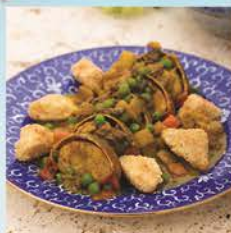


*Hawaii-Style Cake Noodle is unique to Hawaii...it is not found anywhere else in the world. What makes it unique to Hawaii is its square shape, thickness (1/2 inch to an inch) and that saimin noodles (Japanese influence) are usually used to make cake noodles.*

*"A Chinese Kitchen" will make a special Christmas gift or stocking stuffer. To purchase a book, please e-mail the HSCPA office [info@hscpa.org](mailto:info@hscpa.org). You can purchase it for \$12, with \$3 of every purchase being donated to the HSCPA Scholarship Fund.*

### Curried Lobster with Fried Haupia

Many of us fondly remember Hilton Hawaiian Village (HHV)'s famous Curried Lobster with Fried Haupia banquet dish. It was the creation of Executive Chef Dai Hoy Chang of HHV's Golden Dragon Restaurant. Since it was an extra charge item, we were always appreciative of the hosts who included it on their banquet menu. Thanks to Lynette, we can now make the dish at home!



### Manoa Valley Stuffed Fried Bean Curd

Thanks to this cookbook, I learned Sig Zane is not only a famous Hilo fashion designer, but also an innovative cook! He created this fascinating dish, "drawing on his Chinese heritage, but added a Korean flair with the kim chee. He named this dish after the place he grew up in."



### Stir Fried Rice Noodle with Char Siu and Vegetables (Char Siu Chow Funn)

Keoni Chang, corporate chef at Foodland, submitted this favorite Chinese dish. Lynette "likes to serve it with a dipping sauce of Chinese red vinegar or a mixture of Chinese hot mustard and soy sauce." Chef Keone "likes to fry the noodles at a high enough heat and for enough time so the edges are browned or slightly charred."



### Taste Test – Bacon Spam Fried Rice

At our last HSCPA Executive Committee meeting, Executive Director Kathy Castillo made Bacon Spam Fried Rice from Lynette's book. As you can tell from the picture, the fried rice was onolicious!!! The recipe for this dish is noted below.


### Book Illustrations

Thanks to Leeward Community College's (LCC) chef-instructor David Millen and his students, all the recipes in the book were tested, prepared and photographed at LCC. They did a great job and I got hungry every time I read through the book.

### Summary

Lynette does an amazing job of bringing to life the rich history of the Chinese people who immigrated to Hawaii and brought their style of cooking here. The recipes are numerous and filled with passion and love. Many of the recipes have been passed down through generations and keep you connected to your roots. This cookbook is Lynette's way of honoring her parents, grandparents and ancestors, all of whom enjoyed cooking for family and friends.

In addition to being a keepsake cookbook, it would make a special Christmas gift or stocking stuffer. If you are interested in purchasing a book, please call or e-mail the HSCPA office. You can purchase it for \$12, with \$3 of every purchase being donated to the HSCPA Scholarship Fund.



**Bacon Spam Fried Rice (makes 6 servings)**

4 c. cooked day-old long-grain rice, cooled (if frozen, at room temperature) 1 T. vegetable oil 2 eggs, beaten 3 strips bacon, cut into 1/4" strips 1 small onion or half a large onion, diced	2 cloves garlic, minced 1/2 c. Spam (or shrimp, ham, chicken, pork, or sausage), cut into 1/4" cubes 1/4 c. frozen peas, thawed 3 T. oyster sauce or soy sauce 1 T. sriracha sauce (optional) 1/4 c. chopped green onions
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In heated wok/skillet, add 1 T. vegetable oil over medium heat; scramble the eggs and set aside. In same skillet, cook the bacon for 4 minutes on medium heat, then add onions and garlic; cook a few more minutes until the onions are translucent. Add Spam, rice and peas. Keep stir-frying and make sure that you do not have clumps of white rice. Add green onions, except for a tablespoon, which is used for garnish. Serve hot. Freezes well.

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*Have a very Merry Christmas and Happy New Year!  
Kung Hee Fat Choy, too!!!*



# CPA FIRM MICROCOMPUTER TECHNOLOGY

By Joy Takaesu of The CPA Collective



Microsoft has started rolling out its Windows 10 November 2019 Update, which includes mostly minor, under-the-hood

improvements. Certain laptops may see better battery life. One new feature is the ability to more easily manage and customize notifications, and mute notifications for specific apps. The Windows File Explorer Search has been updated to integrate OneDrive.

With the holidays approaching, scammers are targeting organizations via fraud shipping e-mail notifications. According to e-mail filtering service Proofpoint, fake shipping e-mails increase in frequency during the holiday season. Scammers craft e-mails designed to imitate notifications from familiar, legitimate operators (e.g. DHL, FedEx, UPS, and USPS). Fraudulent shipping e-mails may include:

- a fake tracking number
- a claim that a package could not be

delivered because no one could sign for it

- a request for additional postage
- an invalid address warning
- a fake invoice or claim form



All of these are meant to get you to click on a malicious link or attachment. Proofpoint recommends looking for these red flags:

- E-mail mismatch – Check the “From” name and email address. This is not foolproof, because the sender information might have been spoofed, but if the sender does not match the expected organization, it’s a quick way to detect a fraudulent notification.
- Typos – Spelling and punctuation errors or strange word choices are likely signs of an impostor, especially if purportedly coming from a global organization like the USPS.
- Invalid tracking number – Instead of

clicking on a tracking number link from an e-mail, manually go to the official site (e.g. USPS, or the vendor you are expecting a package from), and look up the tracking number.

According to Proofpoint, attackers use fake tracking numbers in hopes that users won’t take the time to verify them.

- Disguised links – The text displayed for a hyperlink can be disguised to look legitimate. You should hover your mouse over the link and carefully examine the actual URL. Be cautious and watch out for fake domains that look similar to the real one.

The Los Angeles County District Attorney’s Office issued a warning to the public to avoid using public USB charging stations, like those found in airports and hotels. Hackers may alter USB wall chargers or cables and leave them plugged into public outlets. Components have become so physically small that hackers can insert wireless implants into normal-looking, functional USB cables, and potentially use them to deliver malware or take control of a device. Instead of using an unknown USB port, experts recommend bringing your own portable USB chargers, using an AC power outlet, or using a power-only cable or adapter that doesn’t allow data transfer.

If you have any questions or comments, please call me at (808) 837-2517, or send e-mail to [jtakaesu@thecpacollective.com](mailto:jtakaesu@thecpacollective.com).

## Hawaii Practices For Sale

**Gross revenues shown:** Hilo Tax & Accounting \$34K; Honolulu CPA \$145K; Kapolei/Waipahu Area CPA \$109K; Honolulu CPA-\$798K. For more information, please call 1-800-397-0249 or to see listing details and register for free email updates visit [www.APS.net](http://www.APS.net).

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# TAX FOUNDATION OF HAWAII

Hawaii's Watchdog on Taxes & Government

By Tom Yamachika

## Invasive Species Inspection Fee for Air-flown Commodities



Hawaii is an island state that is home to a unique set of flora and fauna. It's vulnerable to invasive species not only from foreign countries but also from the mainland United States, and our Department of Agriculture has traditionally worked hard to keep the bad stuff out. Little fire ants? Brown tree snakes? We don't want them, but we do want tons and tons of goods from the mainland and from foreign lands. That's why DOA has had in place a rigorous inspection program to scrutinize those shipments and, hopefully, catch any undesirable hitchhikers before they have a chance to damage our island ecosystem.

In 2008, our lawmakers thought, sensibly enough, that the importers of freight should defray the costs of these inspections. They passed a bill imposing a fee of 50 cents per thousand pounds of freight (increased in 2011 to 75 cents) that goes into a special fund called the "Pest Inspection, Quarantine, and Eradication Fund." The fee is paid by the shipper, collected by the transportation company, and then paid over to the State. The fund pays for operating costs of pest inspection, quarantine, eradication, and monitoring programs and related purposes.

But the fee is collected only on shipments by water.

### Why?

In mid-2010, the Air Transport Association sued in federal court and petitioned the U.S. Department of Transportation to rule that the inspection fee was preempted by federal law, specifically the Airline Deregulation Act of 1978, 49 U.S.C. §41713, and the Anti-Head Tax Act, 49 U.S.C. §40116. (Because of the latter act, the U.S. Supreme Court felled the Hawaii Public Service Company Tax in 1983 as it applied to income from air transportation of passengers and cargo.)

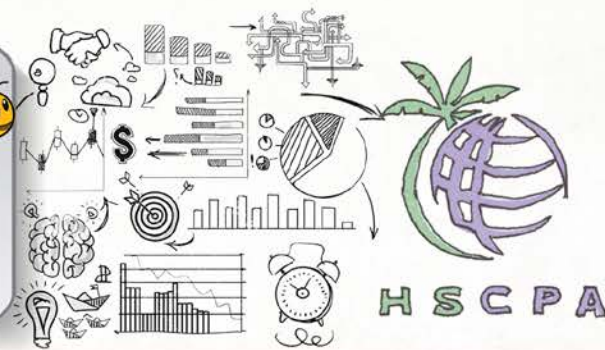
In 2012, the USDOT ruled that the inspection fee was indeed preempted. The State settled with the airline industry association and refunded the fees that had been collected. But then it looks like the State just gave up on the fees as they related to air freight.

The USDOT ruling, however, suggested that it might be possible to structure the fees to fix the problem. An article published in 2013 in the American Bar Association's Air and Space Lawyer, furthermore, outlined one possible fix. The fee would have to be (1) imposed by the airport operator, in this case the State; (2) wholly used for airport or aeronautical purposes; and (3) reasonable, nondiscriminatory, and not unreasonably burdensome to interstate commerce. Element (1) is already satisfied. Element (2) can be satisfied if a separate air

cargo inspection program, different from the marine cargo inspection program, is established and paid for by the air carrier fees. DOA already has the air cargo inspection program in place, so establishing a separate fund to pay for it would seem to be an easy fix. Element (3) should be achievable if the DOA doesn't get too greedy and periodically adjusts its fee levels to match costs. The State Auditor's Report No. 18-15 (page 24) observed that the balance in its special fund for these operations has been slowly creeping upward, so some tweaks may be necessary to ensure that revenues and expenses are in balance.

Lawmakers should give serious consideration to performing the fixes and working with USDOT and the airlines to pass and implement a legitimate inspection fee. Invasive species need to be caught and eliminated regardless of the means by which the species hitchhikes to Hawaii. It doesn't seem fair that only one part of the transportation industry is paying to protect our islands while another part gets a free ride.

*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 Accuity LLP where he managed the tax consulting practice, including quality and risk management and practice development.*



## Uncertain Times By Adrian Hong



Because CPAs do not sell physical goods, they are not directly affected by the escalating tariff war between China and the United States. However,

many of their customers are or will be and the broader economy and stock market are definitely affected by changes to global trade. That is why I think it is important that CPAs understand what these tariffs mean for businesses and talk with their clients about how these tariffs may be affecting the business.

**Uncertainty.** The most significant and negative impact of the current trade war is the uncertainty it generates. Businesses do not know what rules they will be operating under in the future. Will tariffs on goods I import be at 10% or 25% in three months? Will I be allowed to do business with certain entities in China going forward? Because there is no certainty, companies do not know what the best strategy for their company is.

My company, Island Plastic Bags, had to decide whether to move our supply chain out of China and into Vietnam or hold off on making any changes. If we moved our supply chain and the trade war resolved quickly, we would have spent a lot of resources for nothing. If we kept our supply chain in China and the tariffs increased, then we would be forced to eat the additional tariffs (making us unprofitable). We eventually decided to move our supply chain to Vietnam right before President Trump announced by

tweet that an additional tariff of 15% (on top of the 10% already in place) would be added to the products we brought in. Right now, it appears we made the correct decision. However, we don't know because we don't have an idea of what will happen next, especially when we are one tweet away from an escalation or resolution to this trade war.

Investments by companies are being hurt by this uncertainty. Company bosses do not want to spend money on land, equipment, etc. if they don't know if the investments will pay off. If the trade war starts to really hurt the global economy, now would be a bad time to be buying or building new plants, making new products, etc. It is better to hold off on investments until it is clear how the trade war will be resolved.

**Indirect Effects.** Another problem is the indirect effects of the tariffs. If you increase tariffs on steel and PV panels, U.S. manufacturers of steel and PV panels make out, but the businesses that use those inputs are hurt. Costlier steel makes it less likely businesses will build new plants, homes, cars, etc. because the increased cost will make it less likely consumers will buy them. That hurts the construction industry, automotive industry, etc. Costlier PV panels make it less likely consumers will buy a PV system, which hurts the PV installation industry.

There are many of these knock-on effects. Customers believe that if they buy U.S. made goods that they will not be

affected by the tariffs. However, because business is so global now, there probably are components or intellectual property from China in that U.S. product you just bought. Even my company has raw materials and machinery that we have brought in from China to manufacture our trash liners and other plastic bags. It is the same with many other businesses.

**Logistics.** The last major problem is logistics. Moving supply chains is very expensive and painful. You have to vet new suppliers, get customers on board with new products, and deal with new issues in a country that is new to you. In addition, other countries do not have the roads, ports, sea lanes, airports, etc. that China does. China has built itself up to ship out a massive amount of product. Southeast Asian countries do not have the same infrastructure. It is harder to get products into and out of these countries. What is worse, China may be the only source for the products you are bringing in. You might not be able to find a substitute that matches the quality and pricing you are getting from China.

Talking to your clients about their exposure to the trade war will help you better understand their businesses and what risks they are exposed to. It also gives you the opportunity outside of your traditional role to provide business advice to help your clients navigate these issues. Changing a business's supply chain is a complex, risky, and expensive venture that your clients will undoubtedly need help with.



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# How Accountants Can Leverage Blockchain:

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**8:30 a.m. to 4:30 p.m.**  
**Oahu Country Club**

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**\$200**

**8 CPE credit hours**

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Designed by Top 25 Accounting Thought Leader, Donny Shimamoto, CPA.CITP, CGMA, and powered by gamified learning platform, TrueUp, who was selected as part of the 2018 AICPA Innovation Accelerator, this course will:

- Provide you with a basic understanding of Blockchain and its implications for the accounting profession.
- Lead you through hands-on exercises in two major use cases for Blockchain: (1) Tracking movement of assets and (2) Management of ownership (tokenization)
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You won't want to miss this course designed specifically for management accountants and auditors who want to gain a working understanding of Blockchain concepts and experience interacting with an actual Blockchain.

*Welcome!*

