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A Different Kind of Retirement Planning

Financial planners are vital to helping individuals prepare for the financial challenges of retirement. But, for business owners, there is more to consider—such as how to spend time after retiring from the company. There are two critically important goals to achieve in the process of preparation: build a company that can operate with a new owner and management team in place, and plan for a fulfilling life that encompasses something beyond the role of business owner. Consider the following advice for accomplishing both.

BUILD A SUCCESSION TEAM.

Retirement under favorable terms is only possible when a succession plan is in place well in advance of an owner's retirement. If this critical prerequisite is ignored, then a sale is usually the only option available to transfer ownership in the company. And at that point, timing, price and other conditions will be on someone else's terms.

In order for the owner to dictate the terms of his or her own retirement, planning must begin long before the owner is ready to leave. Building a management team is often a decade or multi-decade process and certainly cannot be adequately explained here. One basic principle, though, is to identify a leader within your company—that one ambitious, creative, entrepreneurial employee who exhibits exemplary character



and solid work habits. Then nurture, groom and do everything possible to retain that individual.

CHOOSE A HARD DATE. Outside of not having a qualified succession team in place, the biggest detriment to a successful retirement is not choosing a date many years in advance. Serious consideration must be given to when the business, and when the owner, will be ready. Too many owners feel they will simply “know” when it is the right time. That's a big mistake. With an end date firmly in place, it will be easier to prepare. The retirement date must be communicated to the succession team and set in stone. It is as important for the

successors to prepare to take over as it is for the owner to start relinquishing duties.

MAKE A PHASED TRANSITION. It also is critical to prepare for retirement gradually. Too many owners work full-time or more until the last day, and then try to adjust to those empty hours and days that are likely to follow. The easiest way to retire gradually is to contractually reduce compensation pro-rata over a meaningful period, for example, over a five-year period. To the extent ownership will be transferred as well, it also should occur over that period. This plan seems to have a great psychological

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PERSONAL

The Personal Page

ACHIEVEMENTS

COHEN & COMPANY was recognized with ERC's NorthCoast 99 award for best workplaces. *Accounting Today* magazine recognized the firm as a Best Accounting Firm to Work For and as one of the top 100 firms in the country.

COHEN & COMPANY and **SEQUOIA FINANCIAL GROUP** were each honored as Cascade Capital Business Growth Award winners. *Accounting Today* named **SEQUOIA FINANCIAL GROUP** as a top CPA financial planning firm in the country.

COHEN FLORIDA was honored as one of the Top 100 Companies for Working Families by *Orlando Sentinel*.

COMMUNITY

DAVE SOBOCHAN testified at an IRS hearing on proposed changes to the New Markets Tax Credit rules.

ROB MACKINLAY joined the Board of Flashes of Hope. **ALANE BOFFA** was named to the Board of Greenleaf Family Center. **ELIZABETH KOZENKO** was named Treasurer of the Greater East Ohio Area Alzheimer's Association.

KIM PALMER joined the Kent State University Accounting Advisory Council. **LAURA KECK** was appointed Treasurer of The Village Foundation.

RON COHEN and **DAVE SOBOCHAN** were quoted in *Crain's Cleveland Business* on the new InvestOhio credit. **TOM HAUGHT** was quoted



MARY ETTA DROST



ROBERT VENABLES



LAURA KECK



MARIA SHINN BOUCK



TOM HAUGHT

in *Accounting Today* on hiring strategies.

PEGGY McCAFFREY was featured in *Crain's Cleveland Business* and **CHRIS BELLAMY** was featured in *Accounting News Report* on Cohen Fund Audit Services.

TONY BAKALE and **ROBERT VENABLES** authored articles in the *Tax Advisor*. **TONY BAKALE** also served as editor for its August edition "Tax Clinic."

MIKE KOLK served as a delegate to Milwaukee for the Greater Akron Chamber of Commerce's first "InterCity Leadership Visit." He also spoke at University of Akron's National Tax Conference.

ANGELINA MILO spoke at the COSE Energy Forum on energy tax incentives. **ALANE BOFFA** spoke at the Conservancy for Cuyahoga Valley National Park on planned giving. **MARIA SHINN BOUCK** spoke at the American Academy of Private Physicians on revenue cycle issues.

STAFF HAPPENINGS

Congratulations to the **COHEN & COMPANY CORPORATE CHALLENGE TEAM** for its performance in this year's northeast Ohio competition. The firm's Ohio offices also

participated in the United Way's Annual Day of Caring.

GERRY KNOTEK, KEVIN TICHNELL, LAUREN BOONE, OLIVIA DONOHOE and **SHAUN KAPUSINSKI** participated in the Akron Marathon. **SHAUN KAPUSINSKI** also participated in a marathon to benefit the Findlay YMCA.

HALLIE SLY took first place in the North Coast Nautilus Lorain Triathlon sprint distance event. **MELLISSA REED** and **MATT WALTERS** participated in the AKRUN & Crawl.

JENNIFER HENTHORN and **ADAM SCHULTZ** participated in the American Heart Association's Cleveland Walk. **ELIZABETH KOZENKO** participated in the Alzheimer's Association's Walk. **BRIAN FIEDLER** participated in the Leukemia and Lymphoma Society's Walk.

DIANE BEATTY was inducted into the Mentor High School Athletic Hall of Fame.

Congratulations to **ANDREANA SHENGELYA** on passing the CPA exam.

ANDREW STURGILL has transferred to the firm's Orlando office.

Welcome to our new hires: **PAM DUNLAP** (Partner, A&A); **MARISSA BECK, BILL BOYER, BRENDAN WALSH** (A&A); **CARMELA BALLONE,**

EMILY KWONG and **ANTHONY SUTTLE** (Tax); **TIMOTHY EACRET** and **HOLLY SCHAUER** (Cohen Florida); **PAM GHEZZI** and **SUE KISH** (Sequoia Financial Group); **TODD PENCE** and **ANDREANA SHENGELYA** (Cohen Fund Audit Services); **JENERA SCOTT** and **SHELYN HUNLEY** (Cohen Healthcare Consulting); **ANDREW KLEK** (Corporate) and **DEREK AUSTIN** (IT).

Welcome to our newest intern **DANIELLE BARNETT** (Cohen Healthcare Consulting).

Best wishes to newlyweds **MARY ETTA & Guy DROST** (nee Wilson); **KRISTAN & Bill PRESTON** (nee Piero), **SCOTT & Marisa LICHTENSTEIN** and **STACY & Jason RODGERS** (nee Dietz).

Welcome to our newest family members: Nicholas James (**DAVE & Kelly MASSARE**), Lila Violet (**SHAUN & Mariana KAPUSKINSKI**), Leigha Catherine (**STEVE & Marlene PIATAK**), William "Liam" Bartlett (**JASON & Heather KETCHUM**) and Roman Elijah (**ADAM & LaShana TIMBLIN**). &

A Different Kind of Retirement Planning

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impact. Nobody wants to work full-time for partial pay, so it results in the owner spending less time at work.

A phased transition also gives an owner time to begin exploring what he or she wants to do after retirement. This is an important time to discover new hobbies or activities, spend time volunteering or use prior business experience in a meaningful, and perhaps even profitable, way. The latter may involve mentoring new businesses, becoming active in trade associations or becoming an angel investor with an advisory role in exciting new business ventures. Regardless of what one may consider the ideal retirement job, it's important to remember that, just like owning a business,

it too will come with certain, and even surprising, pros and cons. Living out the dream of becoming a park ranger or spending five days a week on the golf course may prove less satisfying than expected. Take time to cultivate more than one interest, so if one does not deliver, there are other avenues readily available to pursue.

■ MAINTAIN CONTACT. Even after all compensation has been phased out and at least a significant part of ownership has been transferred, one post-retirement activity can very well be related to the old enterprise. If some activity is retained, it should be enjoyable to the owner and must be truly desired by the successors. Compensation for

any services should be freely negotiated.

A good example of this formula for retirement planning is our own retired founder, Ron Cohen. Ron announced in 1983 that he would give up management of the firm in 1990. From 1990 until 1994, he remained a full-time partner, at which time he began a five-year phase out of both his compensation and ownership interest. The plan concluded with his retirement in 1999. Since that time, he has worked mostly on his own activities but helps the firm with projects that he enjoys (one of which is this newsletter).

If you're ready to discuss putting some of the above ideas into action, contact Ron—he has lots of time. &



from the Desk of the CEO

Diamonds in the Rough

Cynics, contrarians and "squeaky wheels" are generally difficult to digest. But don't be too quick to turn your back. Those who take the time to question, prod and drive us crazy are often valuable to the organization and worthy of our time and attention.

In working with headstrong clients and partners over the years, I've learned that you have to separate the delivery from the content. One of my favorite clients used to get so impassioned that I was certain there was spit coming through the phone. He was a man of integrity; so I kept my emotions intact, and I always found that his message was valuable—even if I didn't care for the tone or approach.

None of us should have time for those who lack honesty or have abusive intentions. But don't disregard those who are resistant to jump on board quickly or who seem to play the devil's advocate as a recurring role. There is value in the communication if you seek out the gems amidst the "rough." &

Randy Myeroff

TAXES

Business Without Borders: Strategies for Overseas Success

Conducting business internationally is an exciting step in a company's growth. It holds the promise of increased market share, a diversified customer base and an expanded brand. However, it also adds complex tax implications. Strategic planning before taking that next step can make a world of difference.

FOREIGN TAXATION

One of the first issues for a company to consider is whether it will create a taxable presence in the local country. Generally, if a company reaches a certain level of activity in a foreign country, it may be considered to have a "permanent establishment" and may become subject to foreign income, foreign value-added (VAT), or goods and services (GST) taxes.

Most tax treaties the U.S. has with other countries provide that a company has a permanent establishment if it has a fixed place of business in a foreign country. However, there are other situations that give rise to a permanent establishment. For example, Canada provides that a business creates a permanent establishment if the U.S. company's employees spend a certain number of days performing services in Canada (e.g., performing repairs or other services).

The level of foreign activity also may require that



a U.S. company collect and remit local VAT/GST. Most countries impose VAT, which is comparable to the U.S. sales tax regime. However, unlike sales tax, which is only collected and remitted once at the ultimate consumer level, VAT is charged and collected on a product each time it changes title during the production supply chain. A surprising number of companies doing business in Canada and elsewhere are unaware of VAT/GST obligations.

U.S. TAXATION

Overseas business also calls for a heightened awareness of U.S. tax obligations. Properly structuring the operation can serve as an effective strategy to maximize foreign tax credit utilization and ultimately minimize the U.S. tax burden.

There are multiple ways to enter international markets, and not all of them involve setting up an actual office or


operation in a foreign country. In fact, most companies begin their international activities simply by selling U.S. manufactured products to foreign customers. This level of activity does not necessarily require the creation of a separate foreign entity, but setting up a domestic international sales corporation (DISC) can create significant tax savings for exporters. The structure allows a portion of export profits to be taxed as qualified dividends, which currently enjoy more favorable tax treatment than ordinary income.

Profits earned overseas also will be taxed in the U.S., either at the time they are earned or upon repatriation to the U.S. To help mitigate potential double taxation, the U.S. allows multinational taxpayers a credit that reduces U.S. income tax by the amount of foreign taxes paid, subject to

certain limitations. The ability to claim the credit depends on the structure of the U.S. parent company and also on how the foreign operation is organized.

If a company decides to create a taxable presence in a foreign country, it can do so either by setting up an unincorporated branch operation or by forming a separate foreign legal entity. Branch operations may not provide all of the liability protection of a foreign legal entity, but they allow for a potentially greater tax credit. And while separate foreign legal entities organized as corporations offer more legal protection to the U.S. parent, they also potentially can create foreign tax credit limitations.

KNOW THE ROAD AHEAD

The tax implications of doing business overseas can be complex and vary widely. Become familiar with the rules of the target country and how they may impact U.S. taxes. Proactive tax planning—before extending beyond U.S. borders—can lower a company's global effective tax rate and directly enhance the bottom line. 

CONTACT INFO

For more information on international tax issues, contact Ray Polantz at rpolantz@cohen CPA.com.

Get to Know Pam Dunlap

Pam recently joined the firm as a Partner in the Accounting and Auditing Services Department. Brought on board for her strong technical expertise, passion for client service and commitment to staff development, she also serves as an integral driver of the firm's Employee Benefits Plan Audit Department. Pam's specialized areas of focus include audits and internal control consulting, International Financial Reporting Standards (IFRS), and consulting and agreed upon procedures related to M&A. She serves

many industries, including manufacturing, distribution, service, healthcare and not-for-profit.

Pam is actively involved in the AICPA Employee Benefit Plan Audit Quality Center and the Ohio Society of CPAs—including its Financial Literacy Outreach Program. She is also a member of the American Institute of CPAs. Pam serves as treasurer of a local Toastmasters chapter and as treasurer of a fundraising organization for Westlake High School.

A graduate of The Ohio State University, Pam resides in



Westlake with her husband, Jon, and their three girls. When not attending her daughters' athletic events, Pam enjoys volunteering in the community, OSU football games and gardening. &



& news notes

The IRS has rolled out its Voluntary Classification Settlement Program, allowing employers to reclassify independent contractors or other "nonemployees" as employees for future federal tax purposes. The program limits the liability employers may face for past erroneous classifications. Certain eligibility requirements apply, and the IRS retains discretion over acceptance into the program. &

Reminder: Ohio's Use Tax Amnesty Program runs from October 1, 2011-May 1, 2013. Eligible businesses that owe use tax and apply for the program can utilize the state's payment plan of interest-free payments of \$1,000/month for up to 84 months. &

Cohen Fund Audit Services Expands to Milwaukee

Cohen Fund Audit Services, which focuses exclusively on the investment industry, has landed in Milwaukee, Wisconsin—launching the firm's first office outside of Ohio.

Ranked by *MutualFundWire* as one of the top CPA firms in the country to service multiple mutual fund complexes, the firm truly has built a nationally-recognized practice. A significant part of that practice has focused on gaining traction in the Milwaukee area, a major hub of mutual fund activity. Recent and projected growth of the firm, as well as the need to provide more personal service to



existing clients in that area, were driving forces in the decision to establish roots in the city.

A Milwaukee team is already on the ground; the office is led by Marcy Conklin with support from Jeff Haneline and Brad Jones. Cleveland-based partners Chris Bellamy, Mark

Schikowski and Peggy McCaffrey also will be key to the office's success. &

CONTACT INFO

To learn more about the new office or about Cohen Fund Audit Services, contact Marcy Conklin at mconklin@cohenfund.com.

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Stop Fraud Before It Starts

There's a sound strategic plan and definitive reporting lines in place. Routine background checks are performed and quality personnel are hired in each department. Your company is seemingly secure. But, every so often, the nightly news broadcast airs another business fraud story. And you wonder: could this happen to me? Have I done all I can to prevent or detect fraud at my company?

Any mindful business owner or executive has had this thought cross their mind. And rightfully so. The 2010 Report to the Nations published by the Association of Certified Fraud Examiners (AFCE report) revealed that a typical organization loses 5% of its annual revenues to occupational fraud and abuse. The median loss was \$160,000, and small organizations were disproportionately victimized.

Fraud is often difficult to detect, and, according to the AFCE report, an occurrence lasts an average of 18 months. The current state of the economy coupled with rising medical costs create a climate ripe for an employee who otherwise might never consider committing a criminal act. The following are a few key tactics to help protect against fraud before it starts.

Create a culture of honesty from the top down. Preaching honesty with customers and vendors creates an atmosphere

of behavior at the company as a whole. Educate employees about preventing and detecting fraud. Help them understand what fraud is, how it hurts everyone at the company and how to report any questionable activity. Help educate about the red flags to watch out for, such as an employee living beyond his or her means, never taking vacation or displaying an unwillingness to cross-train others on their job duties.

Use a fraud hotline service or other reporting mechanism to ensure tips can be reported confidentially, without the fear of it affecting the caller's own employment. This is a critical component in deterring irregular activities; 40% of the frauds in the AFCE report were discovered by tips, while only 15% were discovered by management review. Hotline services are offered by some vendors at a nominal base

annual fee with additional charges if a call is actually placed.

Do not rely on an annual financial statement audit as your sole fraud detection method. External audits are widely used by management as a control mechanism and, while they are important and can be used as a preventative measure, the audit procedures are not designed with the purpose of detecting fraud. The use of a surprise audit can be an effective tool because, generally speaking, perpetrators only commit fraud if they believe they won't get caught. A surprise audit of inventory or cash disbursements, for example, can help determine the effectiveness of internal controls. It also sends a message that "management is watching."

Finally, review the structure of internal controls. Most

companies attempt to segregate duties and controls around routine transactions, such as taking in money, recording transactions, and performing regular and timely bank reconciliations. But it's also important to look at the controls in instances of non-routine events as well.

No one method works alone. But, collectively, the above actions—and company-wide communication of such—can assist in deterring employees from even considering defrauding the company. &



CONTACT INFO

For more information on fraud or internal controls, contact Pam Dunlap at pdunlap@cohencpa.com.

Faster than a Speeding ... iPhone?

I can't tell you how thrilling it is to be getting older in these times. When I was growing up, very few people lived past 60. My goal was to live until the year 2000. Now my goal is to live to see the Indians win the World Series. As Warren Buffett said: "I don't want to be the richest man in history; I want to be the oldest."

The most amazing thing about this era is the technology explosion. I lived through automatic transmissions, television, color television, jet airplanes, electric typewriters, copy machines, fax machines, computers and finally cell phones. I know I left out a few things along the way, but what you really want to know is why I stopped at cell phones.

With all those innovations, there was a pattern. First, I would hear a rumor that they were being developed; then I would hear that there was a working model and the public would be using it soon; then someone I knew actually had one; and, finally, I had one (except for the jet plane, of course). That process normally would take 10 years or more. Today, by the time I hear that something new is being developed, people at Cohen & Company are replacing theirs with newer models.

I just got an iPhone 4, after missing 1, 2 and 3. Frankly, they should not be allowed to sell smart phones to dumb people. It is amazing

how many things it can do. However, every time I try to have a telephone conversation, I really miss my old flip phone. I couldn't believe it when my phone called people totally on its own. What is more surprising is that this is a common thing, and they have a name for it: pocket calls. My friends have a different, less polite but more appropriate name for it.

The thing that boggles my mind the most is the proportion of everything. Hewlett Packard recently discontinued its TouchPad electronic tablet. Analysts said that it was because they only had 360 applications, while the iPad has over 90,000! I can't fathom 360. I heard of someone developing a method of transmitting data at 1/100,000th of a second, making the then current standard of 1/10,000th of a second obsolete. I guess that must have made a lot of impatient people happy.

I am really thrilled that cloud computing finally has arrived. I don't know much about it, but it sounds like for the first time there is an invention that is made for Cleveland's climate. Anyhow, the big boys of the technology world are now boasting how they can use cloud technology to download their music libraries. One company claims its technology can download 18 million songs onto an

iPod, while its competitors are down around 10 million. Now for someone who has trouble thinking of any songs beyond "The Star Spangled Banner," "Take Me Out to the Ballgame" and "Happy Birthday," I feel like I am in an alien universe.

Another instance of my amazement over technology came when I was listening to an entrepreneur extolling the benefits of his product that used nano fibers. He showed a slide that looked like a few strands of spaghetti randomly spread on a black background. Someone asked him just how small those fibers were. He took out a pencil and said: "If one of those nano fibers was enlarged so that it was the size of this pencil; then, to maintain the same proportion, the pencil would have to be 16 miles wide!"

All kidding aside, I have the greatest amount of respect and admiration for the people who are creating these miracles—and a lot of envy for those young enough to absorb it all. ☺



CONTACT INFO

Let me know what you think. Email me at rcohen@cohencpa.com.

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Related Companies & Services

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