Embracing the dynamics of multigenerational family businesses

How the Starks, Selhorsts and Foggs keep it together

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- Carrot Top’s expenses

Why he can expense a kickstand and you (probably) can’t

Ezra Stark of Stark Enterprises and a Menchie’s franchisee
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On never missing an opportunity

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Company maintains more than roofs in its 89 years

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Preparing for the process

WHAT THE SQIF IS GOING ON HERE?
The power of Service, Quality, Innovation and Fun
“This is a question too difficult for a mathematician. It should be asked of a philosopher.”

— Albert Einstein on filling out his income tax form, 1944
Always say never
On never missing an opportunity

The origin of the word tax suggests Benjamin Franklin was not entirely correct when he said taxes are one of only two certain things in life.

Our modern word tax comes from the Latin word taxo — meaning, “I estimate.”

Though taxes have been a certainty in most cultures, the question of how much one should or should not pay in taxes has always been foggy.

*Taxonomics* magazine is not focused on the politics of how much an individual or organization should pay in taxes. Our focus, and our passion, is the business of strategizing how our clients can ultimately pay as little as legally possible.

Simply put, we are passionate about rightly interpreting tax law to our clients’ best economic advantage. We are proud to serve so many fantastic organizations and are adamant about helping them seize opportunities.

In these pages, you’ll find compelling business stories, including depictions of how tax strategies were important to our clients’ success. Our cover story about Ezra Stark of Stark Enterprises and how he’s scooped up quite a few Menchie’s franchises is one in a trio of stories about multigenerational family businesses (page 8).

In the other two stories, you’ll learn more about successful family business dynamics. “Down to the wire,” features the Selhorst family and American Spring Wire (page 5), and “A method to his method” features the Fogg family and Ray Fogg Building Methods (page 11).

As companies mature, there can be even more opportunity for growth with the proper tax strategy. Check out how Roth, a nearly 100-year-old energy management company with roots in roofing, has done just that (page 16).

That’s just a taste of the informative reading you’ll find in this inaugural issue of *Taxonomics*.

I hope throughout these stories you’ll also recognize the passion we have for what we do. As always, please feel free to contact me directly with your thoughts at 216.774.1102 or rmyeroff@cohencpa.com.

“For Cohen & Company, *taxonomics* refers to the discipline and business of rightly interpreting tax law to one’s best economic advantage.”

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*CEOs, don’t say never. Never say never.*

**Randy Myeroff**
President and CEO, Cohen & Company

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“For Cohen & Company, *taxonomics* refers to the discipline and business of rightly interpreting tax law to one’s best economic advantage.”

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“Down to the wire,” features the Selhorst family and American Spring Wire (page 5), and “A method to his method” features the Fogg family and Ray Fogg Building Methods (page 11).
Arguing about taxes is in America’s DNA. It was catalytic to our nation’s founding. But, every four years during presidential campaigning, our ongoing national discussion about taxes goes into overdrive.

This election year has been — to put it gently — no exception. Partisans for each candidate believe that fair versus unfair taxation is a battle for our nation’s character.

But, for strategic tax consultants, the potential impact of presidential elections has little to do with ideology — and everything to do with pragmatic planning strategies. Taxonomics talked with Tracy Monroe, a partner in Cohen & Company’s tax department, about presidential politics relative to taxation issues for entrepreneurs and businesses.

**Taxonomics:** Do we overstate the importance of who holds the office of president when it comes to taxes?

**Tracy Monroe:** It is significant how those in the presidential office historically impact tax rates and the tax code. If you want proof of how seriously people take what a candidate or president says about taxes, consider George H.W. Bush. Six little words — “Read my lips: no new taxes” — sunk his chances for re-election. Because he raised the tax rate from 28 to 31 percent, Bill Clinton was able to ride those six little words into office.

**Taxonomics:** After he was elected, did President Clinton address that tax rate increase?

**Tracy Monroe:** During the Clinton era, tax strategists like me, who represent businesses and individuals with the potential
to pay a significant amount in taxes, were kept on their toes. Instead of raising taxes mid-year, the Clinton administration developed complex new formulas. But, the bottom-line consequence was the tax rate effectively went from 31 to 39.6 percent.

**Taxonomics:** What happened to the tax rate and tax code under George W. Bush?

**Tracy Monroe:** When Bush ran against Vice-President Al Gore, a core of his platform was simply, “I’m going to lower taxes.” In reality, what he did was take the effective rate from 39.6 to 35 percent, still four points higher than his father’s increase.

But, the larger issue for many of our clients — then and now — was the huge reduction to capital gains and dividends. So, if you were or are someone with significant capital gain and dividend income, it opened the floodgates in terms of potential opportunities. Under the capital gains cuts, if we are able to convert ordinary income into long-term capital gain, we can potentially save a typical client 20 cents on the dollar. It has to do with the character of income. Ordinary income — wages and interest and royalties and rents — gets taxed at 35 percent. Any long-term capital gain or dividend is taxed at 15 percent.

**Taxonomics:** Can you provide an example of a client that benefitted from this conversion of the character of the income?

**Tracy Monroe:** We have a client who is a successful entrepreneur. He had built some successful media properties, and a potential buyer wanted to buy them largely in exchange for ongoing consulting fees. We showed our client why and how to structure it instead as a selling of his rights to certain assets. So, instead of paying 35 percent in taxes, he paid 15 percent, which on that one transaction saved $400,000 in taxes.

**Taxonomics:** Since President Obama’s inauguration, it seems there has been ongoing discussion about whether Bush’s capital gains tax cuts are going to expire.

**Tracy Monroe:** The reason there is interest in what happens with the capital gains tax is that we are talking about much larger opportunities or burdens for individuals looking at major transactions. Regardless of who gets into office, if through inaction the capital gains tax expires, you are looking at not only a jump from 15 to 20 percent, but also a 3.8-percent surcharge for the healthcare act, meaning an effective increase to 23.8 percent.

That number is driving a number of transactions in the third and fourth quarter of this year, and I expect you will see deals getting done right up until the last minute. For example, we just helped complete a $250 million-plus sale, and when you are looking at a 15-percent tax versus 23.8 percent, that’s a pretty big incentive for getting a deal done.

**Taxonomics:** Coming full circle from our initial question, it seems the outcome of this year’s presidential election potentially holds more tax consequences than even the norm.

**Tracy Monroe:** And we haven’t even discussed the set-to-expire estate tax, child tax credit or lower bracket tax rates.

Keep in mind that Cohen & Company has plenty of clients on both sides of the political aisle. As a firm, we are not driven by politics; we interpret the tax code to the expressed and best interests of our clients. Every four years that means we need to examine the possible outcomes of presidential elections and determine how to best plan for them from a tax standpoint.

Regardless of which party you support, contact Tracy at 330.255.4357 or tmonroe@cohencpa.com for a confidential discussion about your tax opportunities.
listen to enough stories about how and why entrepreneurs got their start, and the scorned salesperson emerges as a classic narrative.

Reneging on sales commissions turns out to be a shortsighted business practice, as well as poor ethics. It’s a proven means of creating new competitors.

Just ask Larry Selhorst, founder of American Spring Wire Corp., with headquarters in Bedford Heights, Ohio. A dispute regarding a bonus that he earned as a steel wire salesman in the mid-1960s was the catalytic jolt that set Larry out on his own.

While various emotional drivers — such as being taken advantage of by an employer — cause people to pursue their own business vision, an appetite for risk is common to many entrepreneurs’ stories.

And in 1968, when Larry and two colleagues opened the doors of American Spring Wire, they did so with $210,000 borrowed from family and friends and several customer contracts in hand. The story of how they grew their venture into a leading steel products manufacturer is remarkable.

But, perhaps more unusual is how American Spring Wire has grown and secured its status as North America’s largest manufacturer of valve and commercial quality spring wire under a second generation of family leadership. Indeed, the success of American Spring Wire is in part about how Larry and his son Tim seamlessly transferred the organization’s leadership baton.

According to the Northeastern University Center for Family Business, fewer than one in three companies survive through a second generation of leadership.

Obviously, some second generations don’t want to lead the family business; they sell it off or close the doors. Other second-generation businesses may indeed survive, but they don’t thrive — they live off what the first generation built. Finally, many earnestly try to move forward, but simply fail.

So, are there key markers for a second-generation business that significantly builds upon the first generation’s success? Looking at three factors of the Selhors’ successful leadership at American Spring Wire over the last 46 years is a constructive place to start.

Continued on next page
CALCULATED RISK

First and foremost, there’s that willingness to take calculated risks that Larry not only modeled, but more importantly was able to impart to his son.

Larry’s willingness to take risks extended well beyond his decision to bet the farm and open the doors of American Spring Wire.

For example, early on Larry and his partners made a decision to hire a few experienced, higher-wage wire makers who had been let go when another mill closed its research laboratory. The decision helped minimize a financial loss in the company’s first year. Those expert workers, along with those they trained, laid the foundation for American Spring Wire’s ability to carry through on its stated intent of being a market leader in innovation.

It may be that a lesser appetite for risk is the greatest factor preventing many second-generation business leaders from approaching or exceeding the success of the first generation. The first generation in a sense starts with nothing — so perhaps risk feels differently for those second-generation owners who feel the weight and fear of losing what someone else fought for and gained.

For Tim, a significant test of his willingness to take an educated risk came in the early 2000s as the company was in transition from his father’s leadership to his own.

“We needed to retool and refresh our equipment, an expensive proposition,” Tim recounted. “The dollar was very strong and so there was pressure from foreign goods. Our margins were very compressed. I think the elders of the company were understandably wondering, ‘Do we really need to refresh our equipment to be more productive and competitive, or does the kid just not know how to sell our product?’”

In the end, Tim pushed through on the retooling with his father’s support, contributing to American Spring Wire becoming a stronger competitor in the emerging global economy.

WILLINGNESS

Tim was not force-fed his destiny as are some second-generation business owners, nor did he passively assume his leadership role.

He first began working on the plant floor in production at age 15. After college and an MBA, he returned to American Spring Wire and began working in outside sales, then wore many hats before assuming his leadership position.

TAX

APPORTIONMENT

Are you overpaying?

The word apportionment brings to mind the process of political redistricting. But, there is another apportionment — tax apportionment — that can present challenges and opportunities for a company’s overall tax obligation.

“State apportionment is a way that states determine which portion of your overall income is taxable in their state,” said Robert Venables, a senior accountant in Cohen & Company’s tax department.

“Each state has their own rules,” said Venables. “Some states have three factors they weigh: percentage of your property in their state versus everywhere, percent of payroll in their state versus everywhere, percent of sales in their state versus everywhere. Some states weigh more heavily toward one of those factors, usually sales.”

After being hired by American Spring Wire, a team from Cohen & Company began combing through various aspects of the company’s tax picture, including state returns where taxes/minimum fees had been calculated based on the company’s apportionment.

In Minnesota, for example, Cohen & Company identified overpayment of apportionment related minimum fees for both American Spring Wire and a partnership located in Minnesota, of which American Spring Wire is a majority owner.

“We successfully filed three years’ worth of amended returns,” said Venables, “resulting in monies returned to both American Spring Wire and the Minnesota partnership.”
But, the key here is not simply that Tim grew up in the business. Many second-generation owners do, and they resent it.

The key is that working at American Spring Wire and then leading the company is what Tim genuinely wanted for himself. 

“My dad was interested in me joining the company,” Tim said. “But he also wanted me to pursue other things. But, for me, I just always felt my best opportunity would be here.”

**SHARED COMMITMENT**

While Larry and Tim are not mirror images of one another, they share a number of core beliefs that have transferred across their corporate leadership spans.

One such example is their focus on operational and cost efficiencies from the top down. Larry, for example, always sat behind the $100 desk he bought when the firm opened its doors and symbolically passed that desk on to Tim.

The idea is to run as lean as possible to hold down costs, win business and plow as much as they can back into efficient machinery so as to share prosperity with their employees.

“Though we do manufacture specialty engine valve quality wires, we can’t get away from the fact that much of what we do is commodity based,” said Tim. “We have to be operationally efficient, keep costs down and have a process that makes it right the first time.”

This focus on efficiencies led in part to American Spring Wire’s decision to move both its corporate and tax accounting work to Cohen & Company two years ago.

**COMPANY PROFILE**

American Spring Wire is North America’s largest manufacturer of valve and commercial quality spring wire and a major supplier of PC strand. The company’s wire is used in automobiles, agricultural equipment, and appliances, as well as pre-stressed and post-tensioned concrete construction applications. The company maintains more than 1 million square feet of manufacturing and production facilities in Houston, Texas, and owns a majority ownership stake in J&L Wire Cloth LLC of St. Paul, Minn.

“Previously, we had split the corporate work and the tax work, but we wanted to marry up those skill sets and that led to the decision to go with one firm, and that was Cohen & Company,” said Tim. “Cohen & Company did a great job holding our hands, so to speak, through the transition process, which we had some concern about. They’ve been very responsive as they’ve moved us into a new tax-management program.”

“To make the transition process as painless as possible for Tim and his team, we compiled as much information as we could to give us a complete understanding of their complex business and ownership structure,” said Josh Messina, a principal in the firm’s tax department. “We met with the previous accounting firm, multiple family members/shareholders, and our own audit team whose work preceded the tax portion of the engagement. Helping American Spring Wire make a smooth transition meant being as complete as possible without creating a burden on any one party.”

See the adjacent sidebar, “Tax Apportionment” for a slice of what Cohen & Company has brought to the table for American Spring Wire. To find out more about what Cohen & Company can do for your tax situation, contact Josh Messina at 330.255.4342 or jmessina@cohencpa.com.
An appetite for new opportunities

Ezra Stark has real estate in his DNA and retail success in his sights

Ezra Stark is defying the either/or syndrome that can impact the children of successful entrepreneurs.

Sons or daughters either feel compelled to follow in the precise footsteps of their accomplished parents or, wanting to get out of their shadow, children shun the family business.

But Ezra, 29, sees a lack of wisdom in the either/or syndrome.
Ezra works as director of asset management for the family business, Stark Enterprises, a prominent northeast Ohio-based mixed-use real estate development firm. Simultaneously, he is becoming a leading franchisee of the booming Menchie’s Frozen Yogurt chain, with 25 stores opened or in active development throughout northeast Ohio.

His father is Robert Stark, founder of Stark Enterprises and an active participant in Cleveland’s civic scene and Jewish community. But, northeast Ohio shoppers know him by his developments — Crocker Park, ETON Chagrin Boulevard, Shops of Fairlawn and several others.

“I suppose it’s in the blood because I was always fascinated by the real estate business,” said Ezra, “but it was also an intentional decision on my father’s part to expose me to the business. When I was 16, he started taking me to the big annual conferences, and I remember meeting people like the CEO of Barnes & Noble. It exposed me to fresh thinking that 16-year-olds don’t normally get.”

Ezra’s gratitude for the opportunities his father gave him is evident. And, he has a desire to leverage those opportunities in a new direction to forge his own business identity.

“We’ve not been involved in retail ownership and, yes, it’s definitely a kind of generational thing, on both my part and that of my brother, Jacob. We utilized our strengths, which are in real estate, but instead of development looked in a new direction.”

“It was Jacob, who is pursuing screenwriting in California, who first told us about Menchie’s,” Ezra said. “My dad and I first thought, ‘yogurt?’ We were thinking of TCBY stores from the 1980s. But then, we went to California and checked it out. We were impressed by the brilliance of the simplicity of its operations and its branding. We felt we had identified a concept that was coming to this market one way or the other.”

Indeed, Restaurant Magazine named Menchie’s the second-fastest growing franchise in 2011, with 200 stores in operation, another 250 in development and a goal of opening 2,000 stores worldwide.

“We recognize our focus has not been on the restaurant business,” said Ezra, “and so this is the right model for us to move into, with its self-serve concept and lack of a back kitchen.”

Continued on next page
Like any entrepreneur entering a new business realm, Ezra has also found new challenges. “Learning the impact of the cost of food, how to help a 17-to-22-year-old staff create that right atmosphere — that’s been new territory.”

The common denominator for the various business ventures and partnerships in which both generations of the Stark family are engaged is Cohen & Company. Kim Palmer, a partner in the firm’s tax department, has worked closely with the Starks for years. “With everything we do for Stark Enterprises’ various developments and partnerships, we’re looking at, ‘what is the best tax structure to own this? who is going to own and run this? is this something we are going to build up and then sell, or is there a longer-term vision?’”

Cohen & Company never proceeds with any client assuming that one tax strategy fits all, even within a single family. “Financing a real estate deal is much different, for example, than financing an operating business, like a Menchie’s franchise,” said Palmer. “Working with entrepreneurs like the Starks means finding the best tax-structuring opportunities that different transactions represent.”

To discuss the financial and tax implications of your opportunities, contact Kim Palmer at 330.255.4324 or kpalmer@cohencpa.com.

Anyone who carries on a trade or business as a sole proprietor, an independent contractor or member of a partnership is required to pay self-employment tax. Comprised of Social Security and Medicare taxes, self-employment tax can carry a significant burden.

“Self-employment tax can be an unwelcome surprise, especially when taxpayers do not owe income tax,” said Kim Palmer, a partner in Cohen & Company’s tax department. “Self-employment tax is payable on the income of the business venture, irrespective of non-business deductions the taxpayer might have.”

The one exception is partnership income allocated to limited partners; this type of income is excluded from self-employment tax. While that may sound simple, the Tax Code doesn’t clearly define “limited partner” as it relates to limited liability companies. Regulations were proposed in 1997 but never enacted. Still, many tax and legal professionals look to this proposal when helping clients make decisions in this area.

One way Palmer suggests minimizing the potential burden of self-employment tax is to pay particular attention to entity structure when starting a new venture. “Contrary to popular belief, income taxes are not the only factor when choosing an entity structure — self-employment taxes, and various types of state and local income/franchise/gross receipts tax can be greatly impacted by the type of entity selected,” said Palmer.

One final piece of advice? “Based on what we saw from the 1997 proposed regulations, it is important to keep up with the very latest discussions at the state and federal level, as they can be equally important as the final rules when navigating such a complex tax system,” said Palmer.

Lighten the tax burden of self-employment

To discuss the financial and tax implications of your opportunities, contact Kim Palmer at 330.255.4324 or kpalmer@cohencpa.com.
From building B-52 bomber hangars as a young engineer, to rebuilding disaster-ravaged villages, to creating a northeast Ohio company spanning 53 years and 4,000 construction projects, Ray Fogg Sr. has been there and done that. The construction and real estate entrepreneur fits the problem-solver-savant profile to a tee.

Add in his ingenuity for structuring financial matters with an eye toward optimal tax outcomes, and Ray Sr.’s story is worth a close look for anyone wanting to maximize the impact of both their lives and net worth.

Working for a Chicago firm, Ray Sr.’s father, Frank Fogg II, oversaw the construction of the foundation of Cleveland’s iconic Terminal Tower, and other northeast Ohio landmarks such as the Inner Belt bridges. By the time Ray Sr. was 18, Frank made a practice of bringing his son to job sites across the country every weekend while Ray Sr. studied engineering at Ohio University.
“I was doing construction troubleshooting,” Ray Sr. recalled. “My professors loved to have me show the class how we solved the problems we faced.”

When military duty called in 1953, his cultivated talent for solving problems served Ray Sr. well as a base engineer for the Air Force. And never more so than when Gen. Curtis LeMay — father of the Strategic Air Command and the inspiration for the Dr. Strangelove film character, Gen. Jack D. Ripper — arrived at Turner Air Base to eyeball a collapsed runway.

As LeMay wondered aloud how many days it would take for the (expletive deleted) runway to be viable again, a certain 23-year-old skinny engineer spoke up: “Sir, I can have this runway operational by tomorrow morning.”

Keep in mind that the general was known as “Iron Ass” LeMay. And that once when a guard suggested LeMay extinguish his trademark cigar out of fear the fully fueled bomber the general was approaching would blow up, LeMay retorted, “it wouldn’t dare.”

The general slowly turned to look at Ray Sr. “Son, I will call you tomorrow, at 9 a.m., and if I don’t hear planes taking off in the background you don’t want to know what is going to happen.”

The runway was operational the next morning, and LeMay asked Ray Sr. to join his staff. But, with a preference for business, he declined and after discharge took a job overseeing the building of B-52 hangars around the world.

“If I don’t hear planes taking off,” Gen. LeMay said, “You don’t want to know what is going to happen.”

At the age of 29 and equipped with real-world engineering experience, Ray Sr. settled in Cleveland and founded Ray Fogg Building Methods, joking that initially the name had people “thinking for some reason that I fumigated buildings.”

In retrospect, the name describes his career-long manner of systematically solving one essential business and wealth-building challenge after another, ascending an entrepreneurial version of Maslow’s hierarchy of needs.

“I saw engineers come up with great ideas, but nothing would come of them. I learned that if you can’t sell, you have nothing. And once you sell, you need to master both production quality control and the intricacies of banking and finance. In later years the latter became my primary focus.”

At one point, Ray Fogg Building Methods, on average, was constructing a new project somewhere in northeast Ohio every three days. Projects primarily included industrial, warehouse and office buildings and developments, and still do today.

Though now common, limited liability companies, or LLCs, have only been around in the United States since 1977. Ray Sr. was an early adopter of this flexible form of enterprise that blends tax and legal elements of partnership and corporate entity structures. He is a partner in more than 40 construction or commercial real estate property LLCs.

But, beyond the number of investments and entities, another fact stands out — Ray Sr.’s three children, and now one of his grandchildren, have been partners in many of those deals.

“Ray Sr. has always planned one step ahead,” said Angelina Milo, a partner in Cohen & Company’s tax department. Milo leads the firm’s advisory team that works with Frank Kubicki, Ray Fogg Building Methods’ CFO, and the tax attorneys of Jones Day, on the financial and tax aspects of the Fogg companies’ projects.
“One vehicle we’ve used,” said Milo, “is a Defective Grantor Trust, which allows Ray Sr. to transfer appreciation to future generations, free of gift and estate tax. Since we’re transferring future appreciation, not today’s value, this technique is often called an estate freeze.”

“I don’t know where to begin in describing what my dad taught me about business,” Ray Jr. said, “because he taught me everything.”

Over the span of years, Ray Fogg Building Methods became nearly as active in its own real estate acquisition, development and management as in building for others. In 1997, Ray Sr.’s son, Ray Fogg Jr., assumed primary responsibility for running the real estate business. Today, Ray Fogg Corporate Properties’ portfolio includes about 2.5 million feet of building and flex space in Ohio and Michigan (excluding real estate properties and assets it manages for other owners).

Ray Jr. also does 60 gigs a year as a musical comedian in New Orleans, Key West and Put-in-Bay, so at first glance you might assume the apple fell far from the tree. But his fluency in the complexities of construction, real estate and finance dispels that notion.

“I don’t know where to begin in describing what my dad taught me about business,” Ray Jr. said, “because he taught me everything. I don’t know if being a partner in deals as a kid had anything to do with me being in the business today. I just know that when I hit my late 20s, I wanted to work with my dad.”

In 1974, a collection plate was passed around Ray Fogg Sr.’s church for the victims of Hurricane Fifi in Honduras. “That’s too easy of an answer,” he thought. A few days later, Ray Sr. was piloting his personal plane loaded with food to a Honduran village. Upon unloading, he was recruited to fly injured children to the nearest hospital.

“Well,” Ray Sr. thought, “maybe we need to build some houses.” He and the villagers made cement from the available sand and gravel, building cement walls for the new homes, Ray Sr. engineered a clever pulley system that allowed them to make the walls lying flat on the ground and tip them up into place.

While Ray Sr. was still in Honduras, an earthquake struck Guatemala. He and 100 of the Honduran villagers traveled to Guatemala, using available materials to build more earthquake-resistant homes in some of the devastated villages.

By instantly rejecting an easy answer to a complex problem, Ray Sr. sparked a lifetime passion. Through the years, his labor of love has helped rebuild villages throughout Central America and Africa.

Man on a mission
Ray Fogg Sr.’s labors of love

Continued on next page
At 82, Ray Sr. is still involved in the business, and while the company is no longer averaging 100 new projects a year, today’s projects are substantially larger. But, of more significance than any project, said Ray Sr., “my dad taught me about the value of doing things right. He used to say, ‘Isn’t it great when your customers are your friends?’ I like to think we’ve made a lot of friends over the years.”

The value of doing the right thing extends to who you choose as your most trusted service partner. Here’s what Frank Kubicki, CFO of the Fogg companies, says about Cohen & Company:

“We were with one of the national CPA firms, but service started to lag. We researched which firms had the expertise we wanted. Cohen & Company had a reputation for proactive tax advice and outstanding creativity in structuring transactions in a tax-efficient way. Since partnering with the firm, we bring them to the table before initiating any major transaction. We want to ensure we don’t miss out on any unique tax opportunities. And their fixed-price agreement structure allows us to call and bounce ideas off them without fear of running up large fees. Six years later, our relationship remains a great fit.”

Oddly enough, an Intentionally Defective Grantor Trust is an intentionally effective tax-structuring tool

Cohen & Company built a comprehensive team for the Fogg companies that focuses on all areas of impact, including income tax, tax incentives, financing and more. Estate planning is one of those critical areas, and for Ray Fogg Sr., setting up Intentionally Defective Grantor Trusts made business, tax and family sense.

It seems counterintuitive that something termed “defective” can be intentional and productive, but the objective is to freeze the value of an asset by replacing an appreciating asset with a fixed income investment, such as a note.

The purpose of a defect in the grantor trust is that the grantor (in this case, Ray Sr.) retains the ability to take assets out of the trust in exchange for other assets of equal value. As a result of this provision, the trust is disregarded for income tax purposes but not for estate purposes. Therefore, the income tax code does not recognize assets have been transferred.

For estate tax purposes, the trust has the ability to appreciate and grow free of income tax during Ray Sr.’s lifetime for the benefit of the children and grandchildren. So, for Ray Sr. and the children and grandchildren who are or will be the recipients of the trust, the estate tax implications are substantial.

“Tax strategies are obviously not one-size-fits-all,” said Angelina Milo, the lead Cohen & Company partner working with the Fogg companies. “But, that’s why we regularly engage our clients to create a comprehensive strategy that addresses their unique situation and preferences.”

For a confidential discussion with Angelina Milo regarding your estate planning opportunities, contact her at 330.255.4320 or amilo@cohencpa.com.
Strictly business?

When you start analyzing your own business expenses, it’s important to be certain that the items in question aren’t just personal expenses that can be used for work as well.

Take the case of a TV news anchor who wanted to deduct her on-air wardrobe, claiming the clothes she purchased were a part of her image and were a legitimate business deduction. However, for her, the clothing could easily be worn in public for personal reasons and in the end she couldn’t prove her case.

Unlike the wardrobe of a TV news anchor, uniforms can be deducted. These are items that are typically worn only in the course of work and therefore could qualify as a deduction.

Not sure?

In order to keep things straight between personal and business expenses, remember to ask yourself if each item is ordinary, necessary and current for your work — and for work alone.

When you’re uncertain, a trusted tax adviser can also help you determine what qualifies as a business deduction. The area is much more facts and circumstances driven, and it’s helpful to research the successes and failures of other taxpayers in court cases and rulings.

Finally, as with every item on your tax return, Kolk advises clients to always take the position they can best support.

What do a cookbook, feather boa and cowboy boots have in common?

They’re all items prop-comic and Cohen & Company client Scott “Carrot Top” Thompson can write off on his taxes as a business expense. And while your job may be a bit — or a lot — more serious, you can still make sure there’s no funny business when it comes to your occupational tax deductions.

Ordinary, necessary and current?

Mike Kolk, partner-in-charge of Cohen & Company’s tax department, explains that while there is a fine line between what can and can’t be deducted, one simple rule of thumb can guide you through the process.

“If you can demonstrate and justify why whatever expense you’re writing off is ordinary and necessary in the course of your business, then it ought to be deductible,” he said.

Carrot Top is a great example of how this works. As the star of his own Las Vegas comedy act, Carrot Top can write off props used in his show because, in his line of work, they are considered ordinary and necessary.

“For you and me to buy a cowboy boot and kickstand is a personal expense. But for him, they were combined and used in his show as a way for drunk cowboys to remain upright, which is in the course of his trade or business,” Kolk said.

The definition of business deductions can also change over time.

“Back in the day, I could argue that a VCR used primarily for recording upcoming opponents’ games might be needed for a professional football player,” Kolk said. And while today the VCR probably won’t pass as a deduction, the additional cost of the NFL package for TV could qualify.

Don’t write it off just yet

Why Carrot Top can expense a kickstand and you (probably) cannot
Staying on top of business through transitions

Company maintains more than roofs in its 89 years

Can a nearly century-old business be bought and sold three times and still maintain what makes it great?

Roth, a Sodexo company, can tell you a few things about how to survive and thrive through many years and a few transitions.

The Youngstown-based business got its start 89 years ago as Roth Bros. — a family that locally installed roofing and spouting for a living. Since then, the company — now known as Roth — has been through three acquisitions while growing a national presence in roof management, HVAC service, energy management and total facility maintenance.

Founded by the Roth family in 1923 and sold to FirstEnergy in 1999, Roth was bought by five of its long-time employees in 2006, then sold in 2011 to Sodexo, a French company with an international footprint.
Today, Roth is still managed by one of the five employees who owned and grew the business prior to the Sodexo sale, President Paul Belair. And if you asked him what has helped Roth experience steady growth since its start — and exponential growth more recently — he’d say one factor is excellent tax advice.

“When we bought Roth in 2006, we were able to almost double the company in almost five years — and that type of growth requires good tax advisors to stay on track,” Belair said.

“With that type of growth, internal control is very important and tax compliance is very important,” said Belair. “And, the management of expectations, if you will, between the partners for distribution policy and for tax planning, is also very important — not only from a business standpoint, but from a personal net worth standpoint.”

So, Roth and Belair looked to Cohen & Company for advice on how to plan for tax payments and ensure they had the necessary cash at the time of such payments.

Frank Dixon, a partner in Cohen & Company’s tax department, advised Roth on tax matters for almost one-third of Roth’s existence — a total of 27 years: 1977 to 1983 while working at another accounting firm, at Cohen & Company from 1983 to 1999 before Roth’s sale to FirstEnergy, and again at Cohen & Company from 2006 to 2011 before Roth’s sale to Sodexo. Today, Dixon and Cohen & Company still advise Belair and others from Roth with their individual taxes and other business ventures.

“Roth was always in acquisition or development mode and we assisted them with those transactions,” said Dixon. “As they and their opportunities grew, it presented us with the chance to come up with more tax-saving ideas.”

This included cash-flow planning for tax payments and shareholder distributions to make sure company profitability was allocated appropriately.

“Frank is a very good business advisor. And, I would say, a trusted business advisor,” said Belair. “He and Cohen & Company understand not only tax law, but take the time to understand our business, so they can bring tax-related ideas, as well as business-related ideas, to us for our consideration.”

Like with any client, Dixon said he’d throw out about 10 ideas to Roth every year. Seven of them may not have been implemented, but maybe two of them were singles and one was a home run. If you’d like the opportunity for your growing business to thrive even more thanks to excellent tax advice, contact Frank Dixon at 330.480.4620 or fdixon@cohencpa.com.
A recent article on renewable energy tax credits in *The Tax Adviser* by Mike McGivney, a senior manager in Cohen & Company’s tax department, drew attention from CPAs across the country and from quite possibly the biggest name in the tax industry — the IRS. “I probably received five or six phone calls from people around the country about the article. An IRS agent even referred another CPA to me on the topic,” McGivney said. “The agent read the article and said, ‘that sounds right.’”

*The Tax Adviser* is a monthly magazine created by the American Institute of CPAs, read by CPAs across the country. The publication serves as a tool for practitioners to shore up their expertise in the tax field and stay up to date on the latest industry issues.

And every August, Cohen & Company is asked to write the Tax Clinic column, a collection of articles that represents emerging issues in the tax industry. With topics ranging from life settlements and customer reward programs to depreciating artwork and renewable energy tax credits, the staff at Cohen & Company is able to share their deep understanding of various tax issues with fellow CPAs.

Tony Bakale, partner and technical director in Cohen & Company’s tax department, serves as the editor and leads the annual project. “*The Tax Adviser* is the AICPA’s way of communicating with the membership, so it’s a pretty important journal and being on the forefront as an editor gives our firm good representation,” Bakale said.

McGivney is one of many firm employees who has taken advantage of the opportunity to work on this project. “at Cohen & Company, we bill ourselves as very focused tax technicians, and publishing really backs that up,” McGivney said.

Bakale and McGivney agree that their participation in the magazine has also enhanced their skills as CPAs. “The magazine gives me a chance to learn some new things and keep up my technical skills. If you’re writing an article, you really have to jump in it from a technical standpoint,” Bakale said.

To view Cohen & Company’s most recent Tax Clinic columns and other valuable articles, visit cohencpa.com/articles.
There’s a certain piece of mail that can strike fear into the heart of any taxpayer … an IRS notice of tax examination. But Mike Kolk, partner-in-charge of Cohen & Company’s tax department, says the process shouldn’t be so scary.

“Often, people get their first notice and freak out. They hear stories of people going to jail or ending up in the poor house,” he said, but that’s not the case.

Before the notice

“Our view has always been to evaluate what is black and white, and where the different shades of gray are. Once you know your options, you can make an informed decision,” he said.

When the IRS receives tax returns, they generally go through a scoring system, and returns with high scores are flagged for follow up by a classifier. The classifier then reviews the return and decides whether the return will be audited or not.

After the notice

If a tax return does elicit the examination process, either through scoring or random selection, an advocate like Cohen & Company can help ease the burden of that process.

“Our role is to represent our client throughout the exam,” Kolk said. And it’s the work that Cohen & Company puts in up front that makes the difference. “We make sure we pre-identify areas of exposure and what our responses will be if something does trigger questions. We also work closely with our clients to gather the needed source documents,” he said.

Eyebrow-raisers

There are also trends in the types of returns being examined that could trigger your return to fall under the microscope. “Right now, the IRS has a belief that partnerships may be one of the ways that people are abusing the tax system,” Kolk said for example. As one of the more flexible and least-codified areas of tax law, partnerships and LLCs have become a recent target for the IRS.

Understanding the law

Kolk recommends the same strategy for individuals and businesses preparing their return — to take the most appropriate legal position that suits your risk tolerance. And even if it does come under review, going through the process with a trusted advocate can make all the difference.

Taking the ‘aahhh!’ out of ta-ahhh-x exams

Preparing for the process
The power of Service, Quality, Innovation and Fun

There are many things that define a company’s culture. For Cohen & Company, one of the driving forces behind the organization has been SQIF — Service, Quality, Innovation and Fun. From day one, those four words are embedded into how employees approach their work.

But what does SQIF really mean to employees, and ultimately to clients? Each employee has his or her own interpretation, to be sure, and the explanations below represent some of those thoughts.

Often times, exceptional service means responsiveness, such as an employee carving out time for an early morning or after-business-hours client meeting to make sure the job stays on track. Cohen & Company employees don’t try to just meet expectations; they want to beat them.

Quality means keeping up on the latest technical developments and then spending that extra hour reviewing a tax return to help ensure clients’ opportunities are maximized. Employees have a true passion for delivering the absolute best that they can.

Innovation is a determination to develop great ideas — even when the answer isn’t immediately apparent. The weekly brainstorming efforts of more than 65 tax practitioners focusing intently on specific client issues can often bring to light surprising results.

Fun comes naturally when you love what you do. Employees at Cohen & Company find a way to make each client interaction memorable. That could mean discussing tax-planning strategies, catching up on the family’s latest fishing trip, or heading out to a baseball game. It’s certainly seeing the smile on a client’s face when presented with a new opportunity.

But, living up to the standards of SQIF sometimes results in demanding schedules and loooong hours. So the firm does everything in its power to help its employees succeed. Annual SQIF awards recognize employees’ great efforts for client service that go above and beyond; the SQIF Warriors promote camaraderie (and stress-relief) through a variety of firm sports teams; training, leadership and mentoring programs via Cohen University offer opportunities to remain sharp on the latest technical and business developments; and the list goes on.

Regardless of the individual definition, everyone at Cohen & Company agrees that the power of SQIF is undeniable. The synergy of these four attributes provides clients with an outstanding experience and high-quality advice.
We wish to thank each of our clients featured throughout this issue of Taxonomics for allowing us to tell their stories of success and achievement.