TRANSFORMING CLEVELAND

HOW IRIS WOLSTEIN IS WRITING HER OWN CHAPTER IN THE FAMILY’S REAL ESTATE LEGACY

ALSO INSIDE:

PASSING THE BATON
How Chuck & Mary Lou VerMerris built and sold an industrial powerhouse

WILD REPUBLIC
Growing a global brand

DOING WELL BY DOING GOOD
Glengary’s investment in Northeast Ohio
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Taxonomics: Cohen & Company’s philosophy of rightly interpreting tax law to our clients’ best economic advantage.
“Change is the law of life and those who look only to the past or present are certain to miss the future.”

— John F. Kennedy
One of my favorite books is *The Tao of Leadership* by John Heider. A common theme throughout is the concept of maintaining center and balance as a leader. Great leaders seem to find that “center” where they can calmly assess any situation and instinctively know when, and how, to act.

The stories highlighted in this issue of *Taxonomics* are all great examples of strong, centered leaders who have assessed challenges and moved their organizations forward with clear vision and determination — even against incredible odds.

Iris Wolstein, matriarch of one of Cleveland’s premier real estate families, boldly laid out a plan to keep Heritage Development Company forging ahead to continue her husband’s real estate legacy. Vishnu Chandra of K&M International balanced the challenges of honoring the past while embracing the future of his family’s third-generation business, assuming leadership in the midst of the international financial crisis.

When Mary Lou VerMerris unexpectedly lost her husband, Chuck, she took the helm at Radix Wire Company to create stability and pursue the “better owner” Chuck had begun to look for. And Steve Haynes of Glengary found a way to center himself around impeccable values while creating a unique niche within the crowded venture capital space.

This issue of *Taxonomics* offers great perspective and inspiration as you find your “center” in the business world. As always, call or email me anytime to discuss your business, this publication or anything else: 216.774.1102 or rmyeroff@cohencpa.com.
From a business perspective, few tax techniques are as impactful in increasing profitability as tax credits. The Wall Street Journal recently reported that Google, which spent $6.8 billion in 2012 on research and development, lowered the company’s effective tax rate from 18.5% to 7.9% with credits — saving it $380 million in income taxes.*

While most companies will never spend anywhere near $7 billion on R&D, Cohen & Company tax partner Dave Sobochan spoke to Taxonomics about how companies of all sizes can get credit when credit is due.

**Taxonomics:** As a tax advisor to private companies, how important are tax credits in the strategies you recommend?

**Dave Sobochan:** They’re game changers, a phenomenal tax strategy. You can save significant tax dollars if you know which credits best apply to your company. I find it helpful to tour a client or prospect’s facility to identify tax credit opportunities.

**Taxonomics:** Could the R&D credit Google used have a considerable impact even on small businesses?

**Dave Sobochan:** Absolutely. The credit is a 20% federal credit against regular income tax. A lot of people may have images of scientists in white lab coats as the only qualifying activity, but the credit is broadly applicable and is intended to capture a range of R&D activities to spur development across industries. In addition to the federal credit, many

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*Wall Street Journal article (“Behind the Big Profits: A Research Tax Break” 6/14/13)
“TAX CREDITS ARE GAME CHANGERS, A PHENOMENAL TAX SAVINGS STRATEGY. YOU CAN SAVE SIGNIFICANT TAX DOLLARS IF YOU KNOW WHICH CREDITS BEST APPLY TO YOUR COMPANY.”

states allow an R&D credit. For example, Ohio allows taxpayers to apply the credit against the Commercial Activity Tax (CAT).

**Taxonomics:** Does a company have to create something unique to the marketplace?

**Dave Sobochan:** No, a company earns the credit by developing something new to them. If the research allows a business to discover technical information or develop new products, services or processes, the credit applies.

**Taxonomics:** What other tax credit opportunities are out there now?

**Dave Sobochan:** There is an abundance of state and federal credits available. One credit in particular that is often overlooked by businesses is the Work Opportunity Tax Credit. It’s designed to provide an incentive for companies to hire individuals within nine specific categories, including veterans, ex-felons, summer-youth employees and those who live in disadvantaged communities.

If the company hires a qualifying employee, they have 60 days to file the necessary paperwork. The company gets a 40% credit on the first $6,000 in wages paid to the employee. If several employees qualify, the savings can add up. And it’s an even larger credit in the case of veterans.

**Taxonomics:** In general, is it difficult to obtain a tax credit?

**Dave Sobochan:** It depends. Some credits are obtained by simply meeting the requirements. Some, however, include an application process and have funding limitations. A good example is the New Markets Tax Credit (NMTC),

**THE WORK OPPORTUNITY TAX CREDIT IS OFTEN OVERLOOKED BY BUSINESSES.**
intended to spur investments in reviving blighted neighborhoods and creating jobs by funding projects that otherwise would not likely move forward. A project in line for the NMTC must meet detailed requirements to be eligible for an allocation. Nonetheless once funds are dispersed, the opportunity for the credit is gone.

Other credits involve approval from a federal government agency and are more complex. The Rehabilitation Tax Credit is available for rehabilitating historic buildings. A 10% credit is available for buildings built before 1936, while a 20% credit applies to properties also on the national register of historic places, or in a historic district and deemed to contribute to that district’s significance. To obtain the full credit, the National Park Service must confirm the rehabilitation is complete and the historic nature of the building preserved.

**Taxonomics:** In general, how long is a credit available?

**Dave Sobochan:** Some credits, such as the Rehabilitation Tax Credit, are permanent and do not expire. Some credits, however, are technically temporary but are generally renewed every two to three years. Take the R&D credit. It’s set to expire at the end of 2013, but I suspect we’ll see it back next year.

**Taxonomics:** Once the window for a specific tax credit closes, is it lost forever?

**Dave Sobochan:** It is possible to obtain certain credits retroactively; opportunities often surface upon reviewing a new client’s prior returns. The first step is generally to file amended returns for affected years.

**Taxonomics:** Looking ahead, what should we expect in terms of available tax credits?

**Dave Sobochan:** The fate of tax credits depends largely on the fate of tax reform. In preparation, Congress is currently analyzing the relevance, utilization and impact of all credits to determine which should stay or go, and which may have a place in future broad-based tax reform. The Senate Finance Committee is taking a “blank slate” approach, whereby all credits and deductions are hypothetically eliminated and then will be added back if there is support to do so. The general consensus is that if reform reduces overall tax rates, the balancing measure may be to offer fewer credits and deductions. The next couple years are critical.

Dave Sobochan, CPA, has testified before Congress and has helped draft legislation related to a variety of tax credits. Contact him at dsobochan@cohencpa.com to learn which credits may transform your business.
TRANSFORMING CLEVELAND

How Iris Wolstein is writing her own chapter in the family’s real estate legacy
Less than a week after her husband Bart’s passing in 2004, Iris Wolstein received a call from his business partner insisting he bring lunch to her home.

He showed up with an attorney and a financial advisor. They laid out a blizzard of documents, and, helpfully, also brought a pen.

At 73 years of age, Iris had been part of more business deals than she cared to count (Iris hates numbers). But, if your head is swirling and your heart is broken, and a reassuring voice says it’s all for the best — uncharacteristic passivity can seem the better course.

Especially when you’re missing what seems to you the other half of yourself, the half always watching out for you.

Except, even in death, Bart had not stopped watching out for Iris. “To my shock, in his will Bart said he did not want me to go into business with his partner,” recalls Iris. Instead of signing the papers that would divide the vast real estate holdings and financial assets with no due diligence and to her distinct disadvantage, Iris did something else.

She asked her son Scott Wolstein, her four most trusted associates from Heritage Development and her team from Cohen & Company — including Chairman and CEO Randy Myeroff and then up-and-coming accountant, now partner, Adam Hill — to help her put together a counter proposal. One that would keep her key people employed and continue the company Bart built, Heritage Development Company.

Had Iris signed those papers that day, the $500-million-plus Flats East Bank project now coming to life in Cleveland may not have happened.
The Major Indoor Soccer League was an attempt in the 1970s and 1980s to make the game of soccer more appealing to American audiences by making it faster and turning up the scoring volume. No one in the country came even close to proving it could work except the Wolsteins (Bart, Iris and Scott were all deeply involved in the venture).

When the Wolsteins took over the struggling Cleveland Force franchise in 1979 the team was barely drawing more than a couple of thousand people, at best. But soon, it was the model for all of the other franchises. For example, playoff games regularly packed the Richfield Coliseum in Richfield, Ohio, drawing upwards of 19,000 people. In fact, for a few years average game attendance exceeded that of the Cleveland Cavaliers and Cleveland Indians.

Perhaps most stunningly, the Wolsteins created an audience for the team by jumpstarting youth soccer in Cleveland. At one point, over 38,000 children were involved in Force-sponsored youth leagues and camps. These kids compelled their parents to take them to Cleveland Force games and made local superstars of the players.

The Wolsteins only folded the team in 1988 when they recognized the rest of the league simply couldn’t replicate their team’s success.

Creating a Legacy
Bart and Iris were the children of immigrants, growing up in the shadow of the Great Depression, instilling in each that penchant for hard work and frugality particular to their generation. “Frugal but not cheap,” Iris points out.

This distinction has been amply demonstrated by the couple, and Iris as an individual, via their charitable endeavors, including being ranked among America’s most generous philanthropists in 2002 when they donated more than $28 million.

Today, Iris spends a significant amount of her time on the business of philanthropy. Her recent gifts include $6.25 million to Cleveland State University, $1 million to Kids Kicking Cancer (an initiative she founded), $5 million to The Ohio State University’s entrepreneurial and soccer programs... the list goes on.

But, for Iris, “Philanthropy is difficult. There are many worthy causes. But, no one can tell you how to give away your money. It has to be a gut feeling. But, once I write a check, that creates a responsibility and I stay involved.”

Scott Wolstein clearly remembers a time when his parents were not in a position to be philanthropic. Of course, “Once you’ve ‘made it’, people tend to think you always had it made,” says Scott.

Indeed, his parents’ classic rags-to-riches story was more rags than not in the early days. But, by the time of his death, Bart and Iris together had built over 300 commercial properties representing an astounding 50 million square feet of retail space as well as over 1,000 homes.

Though Bart was the dealmaker, he and Iris were inseparable. “I never gave him my opinion unless it was asked for... although I’m sure I stuck in some innuendos here and there,” Iris says with a laugh. “Yes, okay, I would often tell him my thoughts.”

Today, when asked about her business decisions in her CEO role at Heritage Development these last nine years since Bart’s death, Iris says, “Most of my decisions are based on what I believe Bart would
“Bart began acquiring property in the Flats in the early ’80s. I thought he was crazy. But, he had vision,” says Iris. (The Flats is the flat lands area just west of downtown Cleveland, along the twisting banks of the Cuyahoga River as it spills into Lake Erie). By this time, Scott had begun to work on projects with his father. Together they generated the Flats first revival in the ’80s to mid-’90s, recognizing even before that era of clubs and restaurants fizzled that there was more potential than they had tapped into.

In his autobiography, Bart writes of his dashed hopes for redevelopment of the riverfront. He acknowledged the passing of that baton to Scott. In time, however, Iris would prove indispensable. There’s a different relational dynamic within an entrepreneurial family that lives and breathes business. “Business is personal,” as Bart would say. The close but at times competitive relationship between Bart and Scott defied easy deciphering. Iris always wanted the two to work together, while Scott wanted to first establish his own credibility. However, when interest rates spiked in the early 1990s, radically changing the nature of Bart’s leveraged debt, it was Scott who formed one of the nation’s first REITs (Real Estate Investment Trusts) for the Wolsteins. Developers Diversified Realty Corporation (DDR) went public in an IPO that raised over $202 million in early 1993 and another $111 million in a second offering. For the first time, Bart and Iris were free of debt and cash rich.

But, Bart soured on the duties of being the chairman of a publicly traded company, in which the CEO – Scott – held the authority for most of the decision-making. First on his own and then with the partnership with which Iris eventually parted ways, Bart ran Heritage Development Company. He developed various retail properties, as well as the Bertram Inn

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(with Iris taking the lead in design and décor, as usual). He also pursued in earnest the Flats East Bank project with Scott.

Bart passed away in May of 2004 at the age of 77, believing he had much left to accomplish. What he did accomplish absolutely warrants a reading of his autobiography (*Crossing the Road to Entrepreneurship*) for anyone interested in a candid look at entrepreneurship.

**Iris Takes Charge…**

By 2006, Iris was in full control of Heritage Development, surrounded by her husband’s trusted team of George Kimson, Steve Marton, Robert Benjamin and Myron Vernis. Also on board was key advisor Adam Hill of Cohen & Company. (The Wolsteins had chosen Cohen & Company as their accounting firm in 2000, and Adam had proven his value to Iris when he helped analyze and negotiate the allocation of Bart’s assets. He has been a trusted member of the team ever since).

Scott was still leading DDR, but in a separate venture with Iris called The Wolstein Group, he was pursuing the long-dreamed Flats East Bank project. Assembling the parcels of land, dealing with government bodies and especially piecing together the financing were daunting — but Scott kept everything moving forward.

And then in late 2008, the bottom drops out of the world’s financial markets.

When a real estate project of this size is hit by a major financial crisis, it’s like a game of freeze tag in that all the primary investors want things to come to a sudden stop. Do we wait it out? Do we back out? We certainly don’t want to put another nickel into it until we know more.

Except some of the other players don’t freeze. The banks want out all together. Maybe they’ll come back if things turn around. Maybe they won’t. And the vendors — architects, law firms, contractors, union laborers — they want to get paid now, in case the whole thing goes down the tubes.

Enter Iris. “First, I had to cough up $10 million. It wasn’t really a question,” she says. “This was my husband’s dream.” Then as things dragged on, it was another $20 million cash infusion. “Well,” she says philosophically, “I also see this as a kind of philanthropic project on behalf of the city. Instead of the mistake-on-the-lake, I want Cleveland to be the legend-on-the-lake.”

But, even beyond the cash, Iris still had to collateralize the deal with the full force of her balance sheet once it was put back together again, essentially risking everything.

Scott did an outstanding job in putting together the $280 million capital stack — in this case 34 layers of public/private partnership financing categorized into Equity Financing, Mezzanine Financing and Senior Debt.

Remarkably, Phase 1 of the Flats East Bank development opened in May of this year. It included an 18 story office tower (480,000 square feet), a 550 car parking deck, the 150 room Aloft Hotel, plus three restaurants and a health club. More remarkably, it opened with signed leases that will put it at 90 percent occupancy.

Nothing is guaranteed in real estate development, but the prospects of Phase 1 being a financial success and Phase 2 ($175 million in apartments, office and retail space) moving forward are excellent.
While having lunch in the new Ken Stewart’s East Bank restaurant on the ground floor of the Aloft Hotel, Iris is clearly proud of the progress to date. But while she is pleased, she is not elated. It is, of course, that she feels like she’s living without half of herself.

Bart’s book begins with a dedication to Iris and ends with a statement of his love for her. In fact, rarely do more than two or three pages go by without a mention of Iris.

And each time Bart does so, the tough, no-holds-barred tone of the book changes to something far sweeter. It’s not exactly that Bart seems to be making excuses to bring Iris up in the book, it’s clear that he can’t stop thinking about her. And after all these years, neither can Iris stop thinking of Bart. ■

Whether your vision involves real estate or more philanthropic ambitions, contact Adam Hill, CPA, at abill@cohencpa.com to begin writing your next transformational chapter.

The Philanthropic (and Tax) Benefits of Private Foundations

Noted nearly as much for their philanthropy as for their business endeavors, the Wolsteins have directed much of their giving through The Bertram L. and Iris S. Wolstein Foundation.

Many families and entities establish their own private foundations as an effective way to maximize charitable contributions and manage the tax implications of capital gains. Specifically, “contributing unrealized gains in securities held over one year can create a double benefit, since the charitable contribution is allowed at fair market value and the gain is picked up when sold inside the private foundation at what is generally a 1% or 2% excise tax,” says Adam Hill, a Cohen & Company partner and close advisor to the Wolsteins.

There are approximately 80,000 of these tax-exempt, nonprofit entities in existence; most are unstaffed, and two-thirds of them have less than $1 million in assets — so you don’t have to be a Rockefeller (or a Wolstein) to set one up.

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There are, of course, restrictions and requirements to adhere to, including rules on self-dealing, holding private business interests and minimum annual charitable distributions (which equate to approximately 5% of total assets). Contributions to private foundations also have more stringent limitations than contributions to public charities, and private foundations must annually file a Return of Private Foundation, which is subject to public disclosure.
American business culture prizes the entrepreneur who conceives a business idea and hammers away at it — ignoring threats of risk and ruin — until a strong, profitable company is forged out of near-failures and self-sacrifice.

So, naturally we admire the likes of G.B. Pillai, who emigrated from India to America in 1964, paid his dues as a mechanical engineer, had a seemingly crazy idea about making toys for zoos, museums and aquariums across the globe, and traveled America selling them out of the trunk of his car. We rightly acknowledge that the now globally respected, family owned business he founded, K&M International, Inc., exists because he fiercely believed in his vision.

BUILDING UPON HIS GRANDFATHER’S VISION, VISHNU CHANDRAN IS GROWING A GLOBAL BRAND
What isn’t celebrated nearly as much as the pioneering entrepreneur are the subsequent generations of family leaders who take on the task of growing and evolving a company. After all, they have the proverbial head start, an easier road to travel, right? Not by a long shot.

The statistical improbability is that only about 5% of companies successfully grow a business into its third generation of family ownership. Vishnu Chandran, the 29-year-old grandson of G.B. Pillai and president of K&M International, whose products are sold under the Wild Republic brand, is determined to beat those odds. A third-generation leader of the company, Vishnu is building upon his grandfather’s success and growing the brand by expanding its customer base, product and service offerings.

This requires a deft touch. Anyone can look at a business practice or product line that has been unsuccessful and decide to terminate it. Fewer can identify a practice or product that has been successful in the past and project that it will no longer serve the company in the future.

As Lew Platt, former CEO and chairman of Hewlett-Packard, once noted: “Whatever made you successful in the past, won’t in the future.”

Generational Roles
Vishnu joined K&M International in 2006 and became president in 2009, but the company has been a part of his life since birth. He knows the lore of how his grandfather, who remains chairman of the company, got his start. “My grandfather had a passion for children and for animals,” says Vishnu. “When he went to zoos and museums he saw there was no product relevant to the actual experience. “He saw an opportunity. His first sale was to the old Cleveland Aquarium. They agreed to carry a dolphin key chain. It sold out, and it was a monumental moment for him. He and my grandmother, Kamala, started the business out of their house. He did the selling and she did the packing and invoicing.”

As museums, zoos and aquariums began to realize that selling relevant products could be a strong profit center, K&M International was there to provide them with that product, especially higher quality plush toys that were more realistic than what was then available. The company’s customer base grew under the Wild Republic brand from regional to national to global.

When the recession hit, “We were definitely affected by it. But, we worked through it and used it as an opportunity to become more efficient and lean.” Vishnu also came to terms with the reality that though times were not easy, “We really had to refresh our core plush line. It had gotten stale.” Retooling a product line when dealing with revenue pressures is a tough call, but it’s also a mark of mature leadership.

Building Processes and Building the Brand
Product differentiation is at the heart of K&M International’s success. “We produce products that are realistic,” says Vishnu, “but that hit the perfect balance — a child wants it because they

Reflecting on his first few years in the company before becoming president, Vishnu recalls: “I learned a lot about who I was as a person. I learned not to blame others for my own failures, while also identifying my strengths. I went with the flow of the business for the first few years, then tried to make more of an impact. I also discovered we were a bunch of different departments making up one company, and wanted to change that.” Vishnu became president of the company just in time to greet the backlash from the international financial meltdown.
are attracted by the face or other features, and don’t want to let it go because of how it feels. Design plays a big part in attracting the child, and the parents need to agree with the price point. We see ourselves in that regard as the Honda of the industry — not the highest price, but strong in design and quality.”

About a year and a half ago, Vishnu made the strategic decision to bring in a chief operating officer with proven skills in helping family owned enterprises grow to the next level. Joe Onderko’s resume includes playing a key role in helping Cleveland-based MTD become a worldwide leader in outdoor power equipment.

“They don’t have the time to develop all of these products, but we can do it for them.”

Vishnu isn’t traveling across America selling unknown products out of the trunk of his car like his grandfather. Yet, what he is doing requires its own measure of business courage: honoring and building upon the success of the previous generation by embracing new risks to forge even greater profitability and legacy.

Discuss how Cohen & Company can find the best tax advantage to help grow your global brand. Contact Ray Polantz, CPA, MT, at rpolantz@cohencpa.com.

Anytime a company operates in foreign countries, like K&M International (whose products are sold under the Wild Republic brand), there are critical factors to consider. “When doing business overseas, proper planning upfront can help ensure you don’t pay more tax than you are obligated to,” says Ray Polantz, a tax principal at Cohen & Company who works closely with K&M International and many of the firm’s clients with international tax needs.

When doing business abroad, a U.S. company may become subject to tax in the local jurisdiction, making it imperative to consider both foreign and U.S. tax consequences. “The focus becomes lowering the company’s worldwide effective tax rate,” says Polantz. “The IRS allows some flexibility in choosing how an entity’s foreign profits are treated on a U.S. tax return. Analyzing the different options, such as whether to make certain elections, may help reduce the overall tax burden.”

There are also planning opportunities available to companies whose only international activity is exporting U.S.-manufactured products. An Interest Charge Domestic International Sales Corporation (IC-DISC) allows a portion of the profits from export sales to be taxed as qualified dividends, which are currently taxed at a preferential rate. “Benefits from an IC-DISC often represent permanent tax savings, meaning dollars saved today are not required to be paid back later,” says Polantz.

He adds that, “No matter what your level of international activity, there are a number of issues and opportunities to explore early on with your advisors.”
Long ago, the Greek philosopher Heraclitus wrote “the only constant is change”... and so it is with our federal tax code. The latest case in point: at the beginning of this year, the top income tax rate escalated to 39.6%, and a new 3.8% surtax on investment income went into effect. These latest changes in our ever-evolving tax code may significantly impact your Roth IRA tax strategy.

Building a Better Nest
“The general rule has always been that traditional retirement vehicles, which allow tax-deferred contributions, may be better if you expect to be in a lower tax bracket during retirement,” says Natalie Takacs, a senior tax manager at Cohen & Company. “Based on the recent tax increases, if you are in your working years, it is more attractive than ever to make the maximum contributions (up to $17,500) to your employer’s 401(k). This strategy can mitigate — or even avoid — the impact of our current tax regime.”

But Takacs cautions that a nest egg built with traditional contributions is generally smaller than one built with Roth contributions. “In order to accumulate an equivalent savings using a traditional strategy, you need to invest the tax savings generated by contributing to a traditional IRA or 401(k).” The required discipline is often hard to achieve, so the “forced savings” from a Roth IRA remains a powerful tool to help ensure a fully funded retirement.

Conversion Strategy
If you have already accumulated retirement funds in a traditional account, you can still convert to a Roth IRA. It will require paying the new, higher tax rates on the lump sum being converted, which may be costly for larger accounts. But Takacs explains that a conversion strategy can still make sense in the right situation. “To the extent that you can do a series of smaller conversions over time at a tax rate of 28% or lower, you may be able to smooth out your income to avoid higher tax rates in the future.”

And even if you are subject to the highest tax rates, converting a traditional IRA to a Roth and handing it down to a child or grandchild can also be a strategy to consider. “The power of the Roth IRA is fueled by time, so a lifetime, tax-free inheritance in the form of a Roth IRA can be a phenomenal gift to heirs,” says Takacs.

Charitable Aspirations
If you have charitable causes close to your heart, a traditional IRA may be a way to leverage your planned giving strategy. “Since charities can receive retirement funds tax-free, you would never want to convert funds that will ultimately be left to a charity,” says Takacs. She also recommends naming a charity or family foundation as a contingent beneficiary of a traditional IRA. “This gives the primary beneficiary, usually a spouse, the flexibility to decide whether to claim the IRA funds or to disclaim them in favor of charity.

A NEST EGG BUILT WITH TRADITIONAL CONTRIBUTIONS IS GENERALLY SMALLER THAN ONE BUILT WITH ROTH CONTRIBUTIONS

Takacs mentions that there are many other IRA tax-saving techniques, but it takes careful planning with your accounting and legal advisors, well before the end of December, to create and execute an effective strategy.

Natalie Takacs, CPA, MT has devoted her career to developing technical depth in the area of wealth and estate planning. To maximize your best planning options, contact Natalie at ntakacs@cohencpa.com.
PASSING THE BATON

How Chuck and Mary Lou VerMerris held the same CEO role at different times, built an industrial powerhouse and sold it their way
In the early 1970s, Chuck VerMerris was working in sales for Dow Corning in Cleveland, Ohio, when he was asked to transfer to New Jersey. Chuck and Mary Lou VerMerris, college sweethearts from Michigan and recently wed, knew that a large company like Dow offered long-term stability.

“But, for us, taking risks and being more in control of our destiny was always more appealing,” recalls Mary Lou, articulating a life theme familiar to most entrepreneurs.

“Chuck said the job he really wanted was the sales manager of a company he sold products to, called Radix Wire Company,” says Mary Lou. “But that position was filled. I said, ‘Honey, anything can happen in life. Maybe the position will open up.’”

To the couple’s utter shock, a week later the sales manager passed away.

As if on cue, Walter Barney, then president of Radix, a manufacturer of high-temperature and high-performance wire and cable, called Chuck. “But, he only called to ask if Chuck knew of anyone qualified to be their new sales manager,” says Mary Lou. “When Chuck said, ‘Yes – I’m qualified,’ Barney said, ‘Well, I wasn’t really thinking about you.’”

But, whether he knew it or not, the wheels of destiny were set in motion. Chuck not only landed an interview and the position with Radix, he soon became one of six executives involved in a leveraged buyout of the company’s former ownership.

Over the next several years, Chuck and Mary Lou strategically used a variety of techniques to redeem the other owners upon their retirement until Chuck and Mary Lou assumed sole ownership. Cohen & Company’s founding partner Ron Cohen, former partner Reed McGivney, chairman and CEO Randy Myeroff, and tax partner Tracy Monroe were integral in the planning and execution of the transactions. Over a span of more than 30 years, Chuck built Radix into a global supplier of innovative solutions for high-temperature cable and wire applications used in a range of industries including aerospace, automotive, metallurgy and consumer appliances.

Mary Lou did not work in the business on a day-to-day basis, but kept abreast of key company issues and was Chuck’s number one strategic sounding board. “I might encourage risk in a specific matter, while he might check against it ... we made for a good balance for one another.”

The Best Owner for this Company

Randy knew Chuck and Mary Lou since his start on the Radix account in 1985, near the beginning of Myeroff’s accounting career. He recalls that those who knew Chuck often point to two of his core leadership attributes:

1) A leadership style focused on positioning and trusting others to function at their highest capacity. “Chuck did not use fear or intimidation to ‘inspire’ people,” says Dave Leonard, vice president of sales for Radix. “He was the reinforcing type. He would always bring out the best in everyone — and then thank them for it.”

Leonard says Chuck had a disarming way of getting employees to re-examine their own thinking by being open to his own potential blind spots on a matter. “If you proposed something and Chuck wasn’t immediately embracing it, he’d say ‘Why should I agree with you? Should I be comfortable with it? Maybe I should look at it again?’”

2) A passion for constant innovation so as to position Radix products as more than commodities in the highly competitive cable and wire market. His goal was to render their products obsolete every three years through innovative research and the development of new products.

But even with his strong leadership abilities, Myeroff witnessed Chuck saying to his team a number of times, “There will come a time when I’m not the best owner for this company. And I’m going to help you find that better owner.”

Around 2007, Mary Lou saw her husband’s belief that he was the right long-term leader begin to wane. “He began talking about selling. He fully involved me in the discussion. But, I found myself asking, ‘Why are we selling? This company has so much potential it has not reached,’” recalls Mary Lou.

As a result, Mary Lou started getting more directly involved in the business. “The new products we
MARY LOU STARTED GETTING MORE DIRECTLY INVOLVED IN THE BUSINESS.

“The new products we were developing stirred me. So I began attending office meetings, learning everything I could from the great team Chuck had put together.”

Their unique succession plan became that, when the time was right and with Mary Lou’s deeper understanding of the business, the couple would together decide when and how to exit the company. As Mary Lou spent more time focusing on Radix, the couple seemed to be preparing, unknowingly, for things to come. And then on a crisp December day in 2010, Chuck’s life suddenly ended when he collapsed while the two were cross country skiing near their Gates Mills, Ohio, home. An aneurism felled the long-time and widely respected community leader and CEO.

As Mary Lou began to emerge from the blur of grief that entered her life, she began to realize that the past two years had prepared her to lead Radix in a way few — including herself — would have foreseen a short time ago.

“So, it wasn’t as though I appeared at Radix for the first time after Chuck died,” says Mary Lou of her decision to take on the CEO role. And while there were potential purchase offers waiting to be explored, “I felt that selling at that point would not have been fair to the team, and I was not yet ready to make such a big decision.”

So Mary Lou spent two years at the helm actively leading the company through two of the most profitable years in its history. Intimately involved with the business, she demonstrated she was her own person and a strong leader in her own right, making many key decisions.

The Elusive Right Fit

With some time and experience under her belt, Mary Lou was ready in late 2011 to entertain the overtures of potential buyers. Dave Leonard witnessed how serious Mary Lou was about staying true to Chuck’s vision for a sale, which focused on two things: keeping the core leadership team intact and keeping the company’s two manufacturing plants located in Greater Cleveland.

“We had one potential buying group come in and they were pretty well screened to meet the criteria we had set,” says Leonard. “We went out to dinner and their leader talked a lot about his successes.”

But those successes included the story of a fast re-sell of a company he had only recently acquired. And Mary Lou understood any agreement she reached with this group about the terms of the purchase would mean nothing if they immediately turned around and sold Radix.
“Mary Lou became visibly upset,” recalls Leonard. “She excused herself from the table. After a few moments she came back and said, ‘I’m very sorry, but apparently we have wasted your time.’ The meeting quickly ended.”

Fast forward to late 2012: Mary Lou senses it truly is time for her to move on. After working with her advisors to explore many interested buyers, the “perfect” buyer emerged in late November. Owen Colligan and J.J. Scaravilli of Cleveland-based holding companies Hunter Valley Company and The Vitruvian Group, as well as other local investors, wanted to purchase Radix at the right price and keep both the leadership group and local plants intact. To make the sale a reality, Tracy Monroe knew she had her work cut out for her, especially with a significant capital gains increase set to take effect in less than two months. Completing the complex transaction without incurring the tax increase was no small feat, but Monroe and her team delivered.

As for Mary Lou — who at the age of 66 became a CEO for the first time, honored her husband’s legacy and protected the jobs of her employees — she’s back to enjoying life with her children and friends, knowing that Radix Wire ultimately found that “better owner” Chuck had hoped for.

To navigate a complex transaction, contact Tracy Monroe, CPA, MT, at tmonroe@cohencpa.com.
In 2002, early-stage venture capital firm Glengary LLC was just a notion. Managing Director Steve Haynes and his partners knew there were plenty of good business ideas in greater Cleveland, but they needed business-savvy professionals with financial backing to turn the ideas into reality.

Eleven years later, Glengary can claim credit for staking and growing 25 companies, many of which do important work in the medical life sciences and contribute significantly to our regional and national healthcare systems.

Since its founding, Glengary has focused on identifying start-ups that have the potential to make a significant impact, particularly those in industries such as pharmaceutical, biotechnology, medical device, and software and information technology. A few of the companies currently benefitting from Glengary’s backing include Neuros Medical, Cleveland HeartLab, SironRX Therapeutics and OnShift.

But the firm is unique in its investment approach, in that the timing of its investments really does matter. “We bridge a gap in the capital continuum,” says Haynes. “Startup companies often get off the ground with the financial help of family, friends or, more frequently, professional angel investor groups. But that only gets them so far. Glengary is able to step in, after companies have used their initial capital, to further validate their ideas. Since the companies have generally not matured to the point where they can attract capital from larger institutional venture firms, we identify the most promising companies at this stage and make our initial cash investment.”

After making that initial investment, Glengary’s partner group offers valuable advice and counsel relative to a breadth of business challenges, including: business strategy, talent recruitment, capital formation, sales and marketing, product roadmap development, intellectual property, licensing and introductions to customers, among others. “Since early stage companies are resource constrained, all vested parties, including
investors, need to invest significant time to enable the companies to continue to grow and progress. With our breadth of experience, we are in a unique position to add value when our companies need it.”

Committed to providing more than what is expected, it’s fair to say that Glengary expects the same from its external advisors. Haynes notes that Cohen & Company has been there from the beginning. Members of the firm worked side-by-side with Glengary’s management team to get the fund up and running. And Randy Myeroff, chairman and CEO of Cohen & Company, has served on the board of the venture capital firm ever since.

“Cohen & Company was committed to northeast Ohio, and they saw the same opportunities in the market (that we did),” says Haynes, adding “They understand what makes business work.”

Cohen & Company tax partner Maura Corrigan has advised Glengary since 2007. While she has learned a lot from Haynes and his team about the industry over the years, Corrigan’s technical expertise was right on target for the limited liability company (LLC) that is taxed as a partnership. Corrigan explains that partnership tax issues are complex. Sometimes there is a simple situation consisting of a few partners with a similar class of units in the business, but, often — as in the case of Glengary — there are varying levels of partnership interests among many players, and everyone’s interests must be accounted for properly.

Not intimidated easily, the Cohen & Company team is fully committed to finding tax opportunities that help Glengary continue its success. That commitment to excellence is not lost on Haynes, who calls his advisors “insightful.”

“They bring more than just tax and accounting expertise. They bring an understanding of business. I don’t even consider them the folks who do our compliance work; they are our true partners.”

Haynes shares that same “client first” mentality, which has also helped him make Glengary the success it is. Unlike other private equity firms, which refer to companies they help as “portfolio companies,” Haynes uses the phrase “client companies.” It’s a subtle but powerful distinction. “In the past several years, we’ve developed a good reputation as value-added investors, because it’s all about them, the companies, not us.”

Partners can make all the difference in business. They often bring different experiences, competencies and connections that help a business grow. However, as Cohen & Company tax partner Maura Corrigan warns, “Partnership tax law is extremely complex; it’s one of the most complex parts of the entire tax code.”

And since the Limited Liability Company (LLC), one of the most common business entities today, is taxed as a partnership, these complicated rules impact many businesses.

To allow her clients to enjoy the benefits of their business partnerships, Corrigan begins with a thorough understanding of a company’s operating agreement. In the case of Glengary, that document is 180 pages of legalese. “But, it’s the ‘bible’ of the business,” says Corrigan. “We (Cohen & Company) need to understand all aspects of the agreement so we can properly advise our clients, which sometimes means working with a company’s legal team to really understand the partners’ intentions.”

Corrigan then works to ensure all losses and profits from the business are allocated properly, although not necessarily evenly. Different types of investment mean different allocations among the partners, and it falls on Corrigan to sort it all out. For Glengary, Corrigan must ensure proper tax and accounting allocations are made between founding partners — or those who funded the creation of the LLC — and other important classes of partners who invest in the fund’s client companies. Expertise and vigilance are required to ensure all partners are treated fairly in compliance with their agreement and the law.

“PARTNERSHIP TAX LAW IS EXTREMELY COMPLEX; IT’S ONE OF THE MOST COMPLEX PARTS OF THE ENTIRE TAX CODE.”
While a traditional master of accountancy program includes the study of tax but also focuses on other accounting issues, such as risk and controls, an MTax degree provides extraordinary depth in the technical areas of taxation,” according to Thomas Calderon, chair of the school of accountancy at The University of Akron. Generally an MTax curriculum includes courses in niche areas such as Internal Revenue Code and Treasury regulations; state, federal and international taxation; estate planning; tax research and tax planning.

In addition to teaching the ins and outs of tax law and planning techniques to post-graduate students and career professionals, the greatest benefit of the MTax is its practical focus.

“These programs prepare accountants to think differently about solving real-world, tough client problems,” says Phil Baptiste, partner-in-charge of Cohen & Company’s Tax Department and a graduate of The University of Akron’s MTax program. “Most of our staff earning their degree work part-time for our firm, which enriches the experience exponentially. They come away not only with a degree, but with a different, more meaningful set of questions to ask, which ultimately leads to more opportunities for our clients.”

There are relatively few MTax programs available throughout the U.S., including those at The University of Akron, University of Cincinnati and University of Denver. Ray Polantz, a 1998 graduate of the University of Denver program and principal at Cohen & Company, recognizes the impact of his post-graduate degree.

“The in-depth knowledge I gained in a variety of specialty tax areas prepared me to analyze complicated tax situations and identify opportunities for my clients.”

In addition to teaching the ins and outs of tax law and planning techniques to post-graduate students and career professionals, the greatest benefit of the MTax is its practical focus.

More than one-third of Cohen & Company’s Tax Department has earned their master of taxation degree, and eight more are currently enrolled in an MTax program. Many of the firm’s accountants have also paired their MTax with additional post-graduate degrees, such as a master of accountancy or a law degree, to obtain both technical depth in and a broader understanding of accounting issues.
Tax courts are set up in each state. Ohio, for example, has three — Cleveland, Columbus and Cincinnati. Each court is presided over by federal judges, and, in most cases, the taxpayer is the defendant and the IRS is the plaintiff. And only in tax court do you have the opportunity to argue the merits of your case before paying your tax bill.

But the dispute process for a case to actually make it to tax court is a long one, one that often provides ample opportunities for tax practitioners to work on behalf of clients to achieve positive outcomes before beginning a court proceeding. The IRS must first examine the tax return in question. If the taxpayer is not satisfied with the outcome of the examination, the return can move to a manager’s review. If the taxpayer is unhappy with these findings, the decision can be appealed internally with the IRS. Finally, if the ruling at the appeals level is unsatisfactory, tax court is available.

Throughout each stage of the process, from initial examination of a return to presenting defense arguments in front of a federal judge, having the right representation is critical. At the examination level, the tax practitioners at Cohen & Company work on behalf of clients. If a matter heads to tax court, we recommend working together with a licensed attorney specializing in such matters.

“We do not recommend that taxpayers deal with the IRS directly. Strategically, you are taking away a layer of defense if you represent yourself,” says Rick Schiraldi, a tax partner at Cohen & Company who also holds a law degree. “Typically when clients deal directly with the IRS, they may not be aware of ancillary issues that can arise when answering inquiries in seemingly unrelated areas.”

The entirety of the IRS examination process can be time-consuming and frustrating, but understanding how it works makes it far less intimidating.

“Not that many cases end up at the level of tax court,” Schiraldi says, “but I think knowing that it’s there as an option is important.”

You’ve heard of trial court, family court and even bankruptcy court. But tax court? It’s a place less familiar than the rest, yet it can be a necessary step for those looking to reconcile their tax returns with the IRS.
Cohen & Company’s internal information technology team is on a mission to engineer the next-generation workplace. Their objective: to create office transparency and an exceptional client experience.

“One of our goals, and our challenges, is to manage client relationships from anywhere, anytime,” says Mark Danczak, chief information officer and winner of Crain’s Cleveland Business magazine’s 2013 CIO of the Year award. “Developing the right technology infrastructure can add volumes to our ability to communicate effectively with clients and provide great value.”

Cohen & Company’s nine-person IT team helps the firm leverage technology from a client’s first day with the firm. For example, a Customer Relationship Management (CRM) solution provides staff with advanced tools offering a 360-degree view of each client — from noting birthdays, to generating data and analytics that help manage relationships. CRM allows our service team to better understand and interact with clients about their preferences and needs. And since knowledge is shared across a secure firm platform, critical information stays with the firm regardless of personnel changes.

IT’s advanced project management solution has also created efficiencies. The firm’s internally developed system, often called “pink or green sheet,” tracks appropriate staffing, timing and delivery for each job.

“Many firms manage their workflow and teams manually,” says Danczak. “We’ve automated and refined the process so our advisors can spend their time working on opportunities for clients. Additionally, our secure remote access capabilities allow staff to work in any location, at any time, to maintain the scheduled workflow on their own terms.”

Technology has also played a role in strengthening the firm’s overall value proposition to clients as it relates to fees.

“There is nothing more frustrating as a consumer than receiving an invoice long after a service is provided. So it’s hard to even remember the nature of the service or where the amount is higher than expected,” says Randy Myeroff, Cohen & Company chairman and CEO. “Our automated processes and internal discipline have reduced the billing cycle by two thirds in the past 24 months. This allows immediate transparency and communication which leads to increased overall client satisfaction.”

With visionaries at the helm of what’s ahead in efficiency and client service, Danczak and his team are in the process of implementing collaboration tools that include an integrated online client portal and secure email delivery system. “This will take us well beyond e-filing tax returns,” says Danczak. “We will be able to deliver tax returns and financial statements, share documents and collaborate more with our clients through streamlined technology that is more secure than ever.”

Cohen & Company’s culture revolves around the notion of “SQIF” — Service, Quality, Innovation, and Fun.
Engage with us

We wish to thank all of our clients featured throughout this issue of *Taxonomics* for allowing us to tell their stories of success and achievement.

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