SHIFTING INTO HIGH GEAR
HOW BERNIE MORENO OF THE COLLECTION AUTO GROUP CREATED A CULTURE WORTHY OF AN AUTO EMPIRE

ALSO INSIDE:

RISK + INNOVATION EQUALS REWARD
The logic and drive behind the success of the Constantini family businesses

MAN OF STEEL
How Ed Gonzalez took on the steel industry – and succeeded

A MARKET LIKE NO OTHER
Akron’s West Point Market savors the taste of success
<table>
<thead>
<tr>
<th>Page</th>
<th>Section</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>02</td>
<td>CEO PERSPECTIVE</td>
<td>Instinct can be the best compass for navigating change</td>
</tr>
<tr>
<td>03</td>
<td>Q&amp;A: THE GOOD OLD DAYS?</td>
<td>Cohen &amp; Company’s founder puts the income tax (and our dislike of it) in perspective</td>
</tr>
<tr>
<td>05</td>
<td>RISK+INNOVATION EQUALS REWARD</td>
<td>The logic and drive behind the success of the Constantini family businesses</td>
</tr>
<tr>
<td>09</td>
<td>SHIFTING INTO HIGH GEAR</td>
<td>How Bernie Moreno of The Collection Auto Group created a culture worthy of an auto empire</td>
</tr>
<tr>
<td>14</td>
<td>TAX TIPS: DIVIDE AND CONQUER</td>
<td>How repair regs impact your property</td>
</tr>
<tr>
<td>16</td>
<td>MAN OF STEEL</td>
<td>How Ed Gonzalez took on the steel industry – and succeeded</td>
</tr>
<tr>
<td>20</td>
<td>A MARKET LIKE NO OTHER</td>
<td>Akron’s West Point Market savors the taste of success</td>
</tr>
<tr>
<td>22</td>
<td>OPPORTUNITY: CUTTING THROUGH THE NOISE</td>
<td>Firm leaders give national voice to local issues</td>
</tr>
<tr>
<td>23</td>
<td>INSIDE VIEW: LET’S MAKE A DEAL</td>
<td>What to do when you can’t pay your taxes on time</td>
</tr>
<tr>
<td>24</td>
<td>WHAT THE SQIF? SERIOUS FUN</td>
<td>Maintaining a winning culture</td>
</tr>
</tbody>
</table>

Taxonomics: Cohen & Company’s philosophy of rightly interpreting tax law to our clients’ best economic advantage.
“When the world changes around you and when it changes against you – what used to be a tailwind is now a headwind – you have to lean into that and figure out what to do because complaining isn’t a strategy.”

— Jeff Bezos, founder of Amazon
"To thine own self be true" was originally expressed more than 500 years ago by Shakespeare’s Polonius in Hamlet, perhaps the most famous play of all time. Successful entrepreneurs, including those highlighted in this issue of Taxonomics, tend to agree with Shakespeare’s advice, especially when it comes to how they respond to big challenges and opportunities.

In our cover feature, we find out that when Bernie Moreno of The Collection Auto Group faced the distinct possibility of the failure of his budding auto empire during the beginning of the recession in 2008, he stayed true to his vision. While many of his competitors understandably reined in investment, Bernie pushed the pedal harder — becoming even more aggressive in growing his market share.

Our interview with the Constantini family explains how a father and his two sons trusted their instincts to think big. They believed that their regional trucking company, based in Youngstown, could win contracts from large national competitors, even from customers as large as General Motors, and could leverage existing relationships to compete and win in the tech-centric world of logistics. They were right.

Ed Gonzalez has steadily grown Ferragon despite the volatility of the steel industry. Our story shows how, through many down markets, he stuck to his guns about the advantages “toll processors” offered steel service centers, even when those service centers initially refused to see his business as anything but competition.

Rick Vernon and Larry Uhl of West Point Market, following the vision of two generations before them, show that they can evolve based on market changes while staying true to being a “destination location” for those wanting a high-end, unique food experience.

Data and research are important, but will never trump an entrepreneur’s “gut feel.” I hope you enjoy this issue of Taxonomics. As always, call or email me anytime to discuss your business, this publication or anything else: 216.774.1102 or rmyeroff@cohencpa.com.
Cohen & Company Founder and Partner Emeritus Ron Cohen jokes about being around when the federal income tax came into creation … which would make him 101 years old.

A CPA and tax advisor since the 1950s, he has seen a lot of history and has watched our income tax system change with the times. So, we asked Ron to share with Taxonomics his unique perspective on the tax everybody loves to hate.

**Taxonomics: Let's start with the present. Why did many taxpayers see higher 2013 income tax liabilities?**

**Ron Cohen:** In general, those with taxable income in excess of $450,000 were subject to increases in rates and to new taxes altogether. Many of the changes were the result of a compromise between the “Bush tax cuts” being reversed or allowed to expire; the phase out of certain deductions; and negotiated increases (in income tax rates) in Congress. There would have been enormous increases for everybody if the tax cuts simply expired, but the $450,000 floor was installed as a compromise.

Other changes, affecting those with taxable income in excess of $250,000, came as the result of healthcare reform, such as the new 0.9% earned income Medicare tax and 3.8% Medicare surtax on net investment income.

**Taxonomics: In April, everyone feels overtaxed. From a historical perspective, is our current income tax burden lower, the same or higher than average?**

**Ron Cohen:** Keep in mind, rates are not the only determining factor of a tax burden, and, often, they are less important than other elements. The way you arrive at taxable income is generally more important than the rate.

That said, current rates are significantly lower than in the past. When I started in the profession, the tax rate for individuals with taxable income in excess of $200,000 was 91%. (Ron notes there was a time in history, after World War II, when individual income tax rates reached an all-time high of 94%.) But, as the rates went down, the means of calculating taxable income changed for the IRS to
I have seen tax rates and rules change so often, taxpayers must be careful before paying a tax that could be deferred.

Ron Cohen, CPA
Cohen & Company Partner Emeritus

capture more dollars. So, taxpayers today are paying a much lower rate, but their taxable income is greater, so their tax burden has not had as much of a reduction as you would think. Also state and local income taxes have risen dramatically over the years. And keep in mind the $200,000 threshold back then. That would be like $1.5 million today. Of course, there were more graduated rates than there are now as well.

Taxonomics: How has the fluctuation of tax rates over the years affected closely held business owners in particular?

Ron Cohen: The major change relative to these entities has not been the fluctuation of tax rates, per se, but has come from the adoption and widespread use of flow-through vehicles, such as S corporations and LLCs. These have allowed taxpayers to make choices that have had the effect of lowering their overall tax burden.

Taxonomics: Do you think it’s time we should consider implementing one low flat tax for everyone?

Ron Cohen: The short answer, in my opinion, is no. What makes taxes different for everyone is not the rates, it’s how you calculate the income. People feel that if you tax everyone at the same rate and eliminate all deductions, expenses and credits, that would be the fairest thing to do. For some, certain tax-deductible expenses are merely tax-saving loopholes; for others, those same expenses are necessary to generate income. I strongly believe that taxing both situations at the same rate is unfair.

I served for 12 years on the American Institute of Public Accountants’ (AICPA) executive committee. During that period, and probably several times since, we made efforts to recommend a simpler way to assess tax. However, since every taxpayer has different circumstances, one size cannot fit all. The more you address those differences to create fairness, the more complexity you add. The bottom line was that we just couldn’t come up with a simple system that was fair. One thing is for sure, though, if a flat tax is implemented, there will be dramatic winners and losers.

Taxonomics: Where do we go from here? Are there some general best practices you suggest for taxpayers?

Ron Cohen: In business and finance, it is usually smart to make decisions that will put you in the best shape in the future. In tax planning, I believe there is too much uncertainty to accurately employ that philosophy. I have seen tax rates and rules change so often, taxpayers must be careful before paying a tax that could be deferred. Naturally, this does not apply to year-to-year decisions, nor to years where recognizing the income will result in little or no tax. Also, it is important in your planning to realize that you may owe taxes later, so use the money you defer wisely.

And a truly critical best practice is to engage in tax planning at the front end of considering any transaction, not when the transaction is almost complete, or even worse — final. There may be a way to accomplish the goal in a more tax-efficient manner that may save lots of taxes over a lifetime.
“In 1980, trucking was deregulated and it created a whole different competitive environment,” says Don Constantini, chairman of Falcon Transport and Comprehensive Logistics, both in Youngstown, Ohio. “Suddenly everyone was in the trucking business. You owned a truck? Hey, you were in the trucking business.”
“But, bigger competitors also emerged. Unlike us, most were non-union. We approached the Teamsters about a new contract so we could remain competitive. But, that was” — Don pauses and says matter-of-factly — “not successful. So, there was a three-year strike.”

A three-year strike? If some other entrepreneur were relaying the story, you might hear violins weeping in the background as he shares his unfortunate circumstances. But, Constantini is given to understatement — certainly in regards to the challenges he has overcome as an entrepreneur. He also is modest when it comes to the outsized business achievements of himself and his sons, Brad and Mark Constantini, who respectively run Comprehensive Logistics and Falcon Transport.

Rick Schiraldi, a tax partner in Cohen & Company’s Youngstown office, has seen the Constantinis in action over more than a 30-year span as their advisor. He’s seen how Don rebounded from the effects of deregulation, how he re-emerged from the strike, how he and his sons successfully moved into the daunting logistics business, and how all three fought and thought their way tooth and nail through the recent economic downturn.

“And now,” says Schiraldi, “I’m watching Mark and Brad lead their organizations through the demands of today’s economy to new successes.” Falcon has more than 750 trucks and 2,000 employees operating in 38 states, while Comprehensive manages more than four million square feet of warehouse and assembly facilities with 1,500 employees.

No Silver Spoons
As the Constantini legacy grows, Cohen & Company is utilizing creative estate and income tax planning techniques to move ownership from the current generation to the next in the most tax-efficient manner possible.

From the outside looking in at successful multi-generational businesses, it can look like a sweet deal for latter generations. Of course, if that were true, there wouldn’t be so few of them. Most often, each generation has to confront its own business headaches and personal heartaches to survive and thrive.

In the specific case of the Constantinis, no silver spoons were ever handed out to the sons. “My dad has a degree in business administration,” says Brad, “but he gained his perspective on management culture at the ‘School of Hard Knocks.’” From their early teens onward, Brad and Mark have worked at virtually every level of the organization, from rotating oversized tires to dispatching calls to fielding operations and only then into senior management.

Whether due to nature or nurture, Mark and Brad are both leaders with the aptitudes and honed skills required to steer growth-oriented organizations.

The beauty of the two related but separate organizations, each created to meet distinct business objectives, is that each son has the opportunity and authority to lead. Even more, those who know them well say while they are not opposites, each is ideally suited for their respective industries: Mark has the mental toughness to protect and advance...
market share in the ultra-competitive trucking world; Brad has the cool analytical temperament suited for success in the process-oriented logistics realm.

An Appetite for Risk
Mark and Brad’s heritage in trucking goes back four generations on their mother’s side to their great-grandfather J.V. McNicholas, who started a cartage and storage business in 1903 with a team of horses and a wagon. Their grandfather and then their father Don ran and grew successor companies, and today Mark competes in a trucking business environment so mature and thick with competition that it’s difficult to differentiate one’s company.

Yet, as one example, he’s had the savvy to identify and penetrate significant niches in the auto industry where Falcon can provide services that smaller carriers can’t, but that larger national carriers don’t want to touch because of the auto industry’s stringent demands.

“What other companies saw as too much risk,” says Mark, “we identified as exactly the right opportunity.” The ability to meet the industry’s stringencies has made Falcon General Motors’ largest single carrier.

Mark has also created a competitive advantage for Falcon through its HR policies. In an industry where annual driver turnover is an astounding 110 to 115%, Falcon’s rate is half that. More remarkably, Mark has retained drivers not necessarily through higher pay (which would slice already razor thin margins) but through better working conditions and loyalty initiatives.

While Mark thrives in a mature industry, Brad operates in the relatively brave new space of logistics that drives the modern supply-chain world. Brad describes Comprehensive Logistics’ warehouse management services as: receive, store, pick, add value (often through assembling or kitting) and ship.

The best way to understand what all of this really means is to visit Comprehensive’s approximately one-million-square-foot facility in Austintown, Ohio, where nearly 95% of the parts for GM’s successful Chevy Cruze arrive before being assembled into modules and then shipped in sequence to the nearby GM Lordstown plant in a just-in-time manner.

Approximately 650 men and women, along with platoons of robots and forklifts (with 75 of these zipping around, alternative fuel tax credits initiated by Cohen & Company for these propane-driven machines adds up), work in a kind of industrial harmony to receive and store 1.3 million parts per day, before they are assembled and shipped in exacting sequence. Comprehensive’s annual defect rate of less than one error per million parts handled exceeds even GM’s world-class supplier standards. In fact, GM suppliers from all over the world are sent to the facility to learn how it’s done.

As extraordinary as the facility is, equally impressive is how the Constantinis gained, and are growing, a substantial footprint in the logistics world.

Don, Brad and Mark all recognized in the mid-1990s that the business discipline called logistics would soon be driving the supply chain world. They focused on leveraging their relationships through Falcon with the auto industry, looking
for an opportunity to prove they could provide value far beyond shipping and storing.

They also recognized that logistics was an IT-driven world, an area that had not been their primary strength, and so set out to find the best IT talent they could recruit into their emerging business.

Their first facility was in Lansing, Michigan, and according to Brad, who led the initiative, “It was a struggle. We made mistakes, tried to put out fires as fast as possible, and it was an all-hands-on-deck kind of scenario.” But, the fruits of that struggle today are seen not only in the superb Austintown facility (for which Mark played a significant role in obtaining state bond funding), but in a proprietary software called STREME that runs their 13 — and counting — world-class facilities.

As both Falcon and Comprehensive Logistics evolve, so does the complexity of their tax-related needs. On their behalf, Cohen & Company is engaged in creative estate planning (in tandem with Sequoia Financial Group, a firm that works with many Cohen & Company clients), taking advantage of available alternative fuel and employee tax credits, state tax planning, entity planning and more.

MARK HAS THE MENTAL TOUGHNESS FOR THE ULTRA-COMPETITIVE TRUCKING WORLD; BRAD HAS THE ANALYTICAL TEMPERAMENT FOR THE LOGISTICS REALM.

Many successful family businesses crash and burn when they try to make the leap from one line of business into another; the combined leadership of Don, Brad and Mark Constantini helped this family business story turn out much differently.

“Business has been a big part of what we are, and who we are,” says Don. “We try to keep a little bit of a balance between personal issues and business. There can be disagreements, but you work your way through them and remember there’s always a better way of doing things.”

How Industry Expertise Can Deliver Unexpected Results

A depth of knowledge across a variety of industries is critical to innovative tax planning. It’s not unusual for entrepreneurs who engage Cohen & Company to discover there are industry-specific or even cross-industry tax-structuring opportunities they weren’t aware of that could make a big difference in their overall tax liability.

“It’s in our culture to not leave any stone unturned,” says Cohen & Company Senior Tax Manager Marc Mazzella.

Leaving no stone unturned often means getting creative, employing both obvious and not-so-obvious tax strategies. In the case of Falcon Transportation, taking advantage of the window for bonus depreciation was clearly an opportunity, due to the company’s large investment in equipment. Likewise, incentives regarding more environmentally friendly fuel equipment were designed specifically for the industry.

However, using their deep understanding of the transportation and other industries, Cohen & Company has been able to uncover additional, less traditional opportunities for Falcon and other transportation clients, such as using the like-kind exchange rules typically used in the real estate industry to defer certain taxes.

“Howthingright”meanshavingthescattered expertise to translate tax opportunities from one industry to another. And that kind of know-how can only come from practitioners who immerse themselves in their clients’ industries on a daily basis — and over the long haul.
How Bernie Moreno of The Collection Auto Group created a culture worthy of an auto empire
Given the rocketing success he had experienced since opening his first auto dealership, Mercedes-Benz of North Olmsted, just three years earlier, the failing economy seemed just a crazy bad dream. But, as the morbid financial news continued to pour out via CNN on the big screen in his office, Bernie felt instinctively that immediate action was preferable to drawn out introspection.

**Option 1: Cut costs to the bone and try to ride it out.**

Still, if the markets did not turn around, the resulting stranglehold on credit meant his growing but financially leveraged Collection Auto Group empire would go belly up in, oh, six months.

**Option 2: Swing for the fences.**

While competitors shifted down and idled their spending, Moreno would put more money into advertising at his then four Greater Cleveland dealerships, staff up with good people let go by other dealers, be even more liberal with loaner cars and other customer perks, and capture all the market share he could. Still, the pace of spending under this scenario gave him only three months if sales were not strong.

To the chagrin perhaps of his bankers, to the concerned but supportive counsel of his CPA firm, Cohen & Company, and to the surprise of absolutely no one who knows Moreno, well, he opted to swing away.

And when he turned off the big screen, he vowed not to turn it on again until the news changed. Who needed that kind of negativity when there were cars to sell?

In a meeting with his key staff, Moreno laid out the scenarios and the case for each option. And then he shared exactly what they were going to do: “We are going to refuse to participate in the recession. We are either coming out of this hole ahead of our competitors, or we’re not coming out.”

Moreno emerged from the recession and then some. In 2009 he experienced a record-breaking year at all of his car dealerships. Since then he has continued to gain swaths of market share through both acquisition and same-store growth at an even faster pace. Five years later, he now has 23 dealerships and counting, including high-end brands like Mercedes, Porsche and Maserati, and more accessible brands like VW, GMC and Buick.

A key component of his success is that he has routinely been able to acquire dealerships where he can quickly and substantially increase the number of cars sold on a monthly basis, improving cash flow and helping to justify funding the next acquisition.
For good reason, Moreno’s startling success story has been recounted in numerous business articles and he’s been honored at multiple business award events. As remarkable as the facts of his success are, more puzzling is — how has he done it? After all, Moreno is not an entrepreneur who has discovered a new technology, nor is he offering a different product than his competitors.

He barely had sufficient financing in place to buy his first dealership, so he has not simply bought his way into prominence out of great personal wealth. And let’s not forget that the auto dealership business is a mature industry, with most dealers selling cars in the same tried and true manner as everyone else. For all the criticism sometimes aimed its way, the standard dealer approach generally works and creates substantial wealth for dealership owners.

“But it’s a large purchase,” Moreno says, “so, yes, there is still some negotiation, but today’s buyers are armed with data and information about what they should pay. So, why should we start with an inflated number?”

But, in eight short years Moreno has gone from one fledgling dealership to multiple dealerships nearing $500 million a year in sales and ranking as one of the top 10 largest dealers in Ohio. He’s also recently expanded into Kentucky and was handpicked by Mercedes to open a new dealership in Boston. The North Olmsted Mercedes store has become the perennial number one dealership in Mercedes’ Central Region, comprised of 12 states.

Neil Kaback, an accounting and auditing partner who, along with tax partner Mike Kolk, leads the Cohen & Company team assigned to Moreno’s business, has more than 20 years of auto dealership experience and has never seen a dealer grow as quickly or successfully.

How has Moreno done it?
1. Passion
2. Charisma
3. Culture

Passion

Moreno, who emigrated with his family from Colombia, South America to Fort Lauderdale when he was five years old, grew up loving cars. At age 14 he wrote a letter to Roger Smith, informing the then-CEO of GM that he wanted to have his job someday. Smith responded wryly in a letter to Moreno that he usually didn’t answer letters from people who wanted his job, yet he provided three pages of advice and years later helped Moreno get an internship at Saturn corporate headquarters. Cars were Moreno’s first passion. But he came to disdain, with nearly equal passion, car dealerships.

“I loved cars but learned to hate car dealerships,” recalls Moreno. “They turned the most exciting purchase you make into a painful process, a kind of torture. Why?”

Moreno’s experience at the now defunct Saturn company, where he cut his teeth in the business as general manager of a Saturn dealership in Rhode Island, convinced him there was a different way to sell cars outside the “start high and begrudgingly negotiate downward at knifepoint” sales process.

It’s fair to say that you can trace much of Moreno’s impressive and accelerated success in the car business to the passion he has for changing the car buying process — both for the customer and the dealer. “When we first opened our Mercedes dealership in North Olmsted, we wanted to cut the actual negotiation process from three hours to 30 minutes,” says Moreno, recognizing that it is during this process that customer resentment toward dealerships begins to build even if a deal is struck. “Now, we want to cut it to two minutes, and eventually to zero.”
“It’s a large purchase,” Moreno says, “so, yes, there is still some negotiation, but today’s buyers are armed with data and information about what they should pay. So, why should we start with an inflated number?”

Charisma
It is hard to overstate Moreno’s charisma, which helps him convey his own passion into inspiration that drives others around him to higher standards.

Moreno’s self-effacing manner softens the sharp edges that often come with self-confidence, and he carries an aura of buoyant determination that makes people believe, as his Vice President and Managing Partner Joe Arno says, “This guy is going to succeed no matter what. Plus, he works so hard that the people around him say, ‘I just don’t want to let this guy down.’”

Organizations driven by a charismatic leader can be tricky — as goes the leader’s mood or level of involvement, so goes the organization.

But, Helder Rosa, general manager of the Mercedes dealership, says Moreno uses his charisma to drive home the value of process, not the power of his personality. “Bernie is about everything we do here having a specific process,” Rosa says, “how people are greeted, how the sales process unfolds, how delivery of the car is staged.” But, this mindset would have little ability to impact salespeople looking to make the highest commission they can, if Moreno was not able to convince the people that work for him that they can succeed via his sales process model.

Moreno also has rules that guide not only his actions but those of all of his staff: No one screens their calls; everyone has an open door; and every interaction with a customer, prospect or vendor is an opportunity to improve the perception of The Collection Auto Group brand. And, Moreno does his best to know the names of all of his 500-plus employees.

Culture
Few people know better than Arno and Rosa that Moreno believes more strongly in culture than in charisma, or even strategy. “Culture,” Moreno says, “eats strategy for lunch every day.”

Arno and Rosa were two of 12 employees who moved from Boston to Cleveland with Moreno in 2005, when Mercedes-Benz recruited Moreno from the six-store dealership group he was running on behalf of another owner. Mercedes gave Moreno the opportunity to buy the severely underperforming North Olmsted store. “I scraped together all of my assets and every bit of funding I could secure and barely was able to do it,” says Moreno.

Interestingly, Arno and Rosa, like many of the other 12, were not particularly close with Moreno and were more self-recruited to move to Cleveland than recruited by Moreno. They had witnessed the
way he had turned around the six stores he ran and wanted to be part of what he could accomplish when calling his own shots.

“When I first visited the Mercedes store in North Olmsted,” Moreno recalls, “the salesman I talked to told me there was no money in Cleveland, and that regardless no one wanted to buy an expensive Mercedes, and I was crazy,” recalls Moreno. The store was selling a paltry 10 new cars a month.

Accompanied by his crew from Boston, Moreno officially took over the dealership on May 12, 2005, and by the end of the month the dealership had sold 64 new cars. “It would have been a gigantic burden to change the culture of that dealership on my own,” says Moreno. So he brought the new culture with him as embodied by the Boston-turned-Cleveland sales team.

What about resentment between the existing employees (only one of whom was let go) and the new group? Success accelerates culture change. “We came in and told the staff how many cars we would sell,” says Arno. “And when we delivered at the end of that first short month, they were all on board.”

Gaining Momentum

If you try to find the wellspring of Moreno’s drive, look to his family. Moreno’s father was a successful surgeon, and included amongst Bernie’s siblings is Luis Moreno, the former Colombian ambassador to the United States. But, Moreno and others point to his diminutive mother, Marta, as the one who gave him his entrepreneurial drive and taught him to believe in turning virtually anything negative into something positive.

So, Moreno tells the story of how shortly after immigrating with his family to the United States as a young boy, one of his grade school classmates called him a *spic*. “I had no idea what that was,” recalls Moreno, laughing and not wincing at the memory: “So, I asked my mom. She said, ‘Oh, Bernie, that stands for Smart People In Colombia.’ And I thought that was really something, that my new classmates realized I was smart.”

A few years removed now from the epicenter of the financial meltdown, the growth trajectory of The Collection Auto Group is gathering momentum. Moreno knows that his goals of becoming objectively the largest dealership group in Ohio and subjectively the best dealership group in America won’t be easy. But, then, his whole modus operandi is turning something ordinary into something extraordinary.

The Collection Auto Group
www.thecag.com

Ready to kick your business into high gear? Contact Neil Kaback at nkaback@cohencpa.com or Mike Kolk at mkolk@cohencpa.com.
The IRS has adopted new regulations for business deductions on tangible property. It’s a sweeping category covering everything from the purchase of computers to the repair and maintenance of buildings.

The process for adopting the new regulations was arduous, consisting of 10 years of hearings and public comments before final adoption this past September. As a result, the new regulations are complex. However, taxpayers may need to take a close look and assess the new rules to determine the potential impact.

The Parts are More than the Sum

While known in the industry as “repair regulations,” Cohen & Company Tax Partner Angelina Milo says, “these regulations really apply to the acquisition, production and improvement of tangible property.” Milo adds that although the regulations will impact all industries, they are significant to the real estate industry and to those who own real estate.

Prior to the new regulations, if your company owned a building and made substantial repairs or replaced parts of the facility, the decision to capitalize or deduct the cost was made primarily by comparing the cost of the improvements to that of the entire building. Other factors also came into play, such as the expected life of the property, overall value of the improvement, etc.

While other factors are still part of the equation under the new rules, the biggest change is that a building is no longer considered one unit of property, but is instead subdivided into separate “units of property.” Therefore, when a repair occurs, the cost of the improvement must be compared as it relates to the specific unit to which it belongs.

The regulations identify nine building systems, each as a separate unit of property: HVAC, plumbing,
electrical, escalators, elevators, security systems, fire protection and alarms, gas systems and other structural components.

For example, a company owns an office building with a HVAC system that consists of 10 roof-mounted units. The company pays $75,000 for labor and materials to repair those units. The HVAC system, including the roof-mounted units and their components, comprise a unit of property under the new repair regulations. If the $75,000 in work done on the roof-mounted units is considered a significant improvement to the HVAC system, the $75,000 repair is treated as an improvement that should be capitalized. Whereas before these new regulations, the $75,000 compared to the cost of the entire building may have been insignificant enough to merely deduct the expense in the same year.

Safe Harbor Options

The regulations provide for a routine maintenance safe harbor, which looks at the frequency of the repair and maintenance. For a building, if the taxpayer reasonably expects to perform routine maintenance on a unit of property at least twice within 10 years, then the costs may be expensed.

Milo says, additionally, taxpayers may now deduct the cost of acquiring an item under another new safe harbor provision; this safe harbor allows a taxpayer, with an applicable financial statement, to expense items costing $5,000 or less per invoice or item. (An applicable financial statement is one that is required to be filed with the SEC, is a certified audited financial statement that is accompanied by the report of an independent CPA, or is required to be provided to a federal or state government or agency other than the SEC or the IRS.)

The expense threshold changes to $500 per invoice or item for taxpayers without an applicable financial statement. So, if the cost to acquire a new HVAC unit was $5,000, then the cost could be expensed. Although unlikely for the purchase of HVAC units, this provision may be very helpful for less expensive items purchased.

Milo says to take advantage of the safe harbor provision for acquisitions, the taxpayer must have a written financial policy at the beginning of the tax year and must make an election with the taxpayer's timely filed tax return. In addition, taxpayers may choose to have capitalization policies in place in excess of the safe harbor amounts. However, should the return be audited, the taxpayer will have to show that the amount in excess of the safe harbor is appropriate and clearly reflects income.

Out With the Old

In conjunction with the final repair regulations, regulations have also been proposed regarding the disposal of tangible property. Under the proposed rules, a taxpayer may elect to recognize a loss upon a partial disposition of tangible property. For example if the taxpayer replaced five of the 10 mounted HVAC units, a taxpayer will no longer need to dispose of an entire building to recognize a loss. The taxpayer would capitalize the costs of the new units while electing to deduct the remaining costs of the units replaced.

Looking Ahead

While compliance with repair regulations will be mandatory on 2014 returns, which by then could also include final regulations regarding the disposition of property, taxpayers have the option to voluntarily comply with both the repair and disposition regulations on their 2013 tax returns.

“Considering the expansive nature of these regulations, we have been meeting with clients so they understand the technical and practical application,” says Milo. “The ultimate impact will vary depending on each taxpayer’s existing policies and procedures.”

Angelina Milo, CPA is a tax partner focused on partnerships and the real estate industry. To maximize your planning options, contact Angelina at amilo@cohencpa.com.

Although the regulations will impact all industries, they are significant to the real estate industry and to those who own real estate.
MAN OF STEEL

How Ed Gonzalez took on the steel industry – and succeeded
To see Gonzalez walk through Ferrous Metals Processing plant, one of the four divisions of Ferragon, in Brooklyn, Ohio, is to see a man in his element — the heat, the wham-bang industrial noise, the overhead cranes moving 50,000-pound steel coils, all of it might as well be an idyllic nature reserve. The man loves it.

Given the rise of cheap foreign steel and steel dumping, off-shore manufacturing, and the brutal margins required to be competitive in a global commodities industry, it’s no wonder the obituary of American steel has been written more than once.

But, in Ferragon you’ll see in microcosm two key reasons why American steel continues to make a comeback: relentless strides in productivity and quality, and a growth in steel-hungry domestic manufacturing, especially in the energy sector.

Still, for a private company to have prospered over the course of 31 years in a volatile, capital-intensive industry tells you more about the man who leads it than about global trends. Gonzalez knows how to be calculatingly patient, and when to go full throttle and seize opportunity.

Gonzalez fled Cuba at the age of seven with his mother and siblings in the immediate aftermath of Fidel Castro’s revolution, and remembers the gunfire, chaos and bodies in the streets. His father, a lawyer like his mother, had been arrested and was delayed in joining the family. The Gonzalez family eventually settled in Cincinnati, where Ed’s parents taught Spanish, literature and history.

Gonzalez downplays the role his immigrant experience had in shaping his hunger for entrepreneurial capitalism. “None of my siblings are in business,” he says. “I just remember that in the seventh grade when I had to recover for 10 weeks from a broken femur, all I wanted was to read books on business. No one really knows where it comes from — you have it in you, or you don’t.”

Still, when Gonzalez talks about the future he speaks of bringing the steel industry to Cuba, which he believes is in the process of opening to a market economy. This has a kind of personal, missionary appeal because as he says, “Hey, I’m still the only Cuban I’ve ever met in the steel industry.”

Gonzalez received a scholarship to play football at the University of Michigan, where he was the roommate of Les Miles, the now national championship winning coach at Louisiana State University. It was an offer from Miles’ father to work at the family’s steel processing business in Lorain, Ohio, that started Gonzalez on the path to entrepreneurialism.

He lived with the Miles family for three years, putting away his money before moving to Cleveland to work at Metropolitan Metals Corp. where he stayed for another three years, saving and waiting for his entrepreneurial shot. That shot came in 1982, when Gonzalez put together the financing to take over the assets of a bankrupted, Michigan-based steel processing company.

The circumstances of that company’s downfall were like tea leaves that Gonzalez read to foresee his niche in the marketplace.

Here’s how he explains it: Steel mills are like bakeries that make whole pies and sell them in bulk. Steel services centers are like the restaurants that buy pies and then sell individual pies or slices.

A Brilliant Solution

The problem for steel service centers is that they have to pay out big dollars not only for steel inventory, but for very expensive equipment necessary to cut, slit, flatten or treat that steel in a multitude of specific manners required for end users such as automobile manufacturers or energy pipeline makers. If those machines are idle too long and if inventory isn’t moving, service centers can quickly go under.

Gonzalez was in on the ground floor of steel toll processing centers. Ferragon doesn’t ever buy or sell steel, but rather processes it on behalf of service centers. (The term toll refers to paying a toll for the processing,) Gonzalez takes on all the capital,
but none of the inventory, risk of the equipment, which ranges from $5 million to $50 million per production line.

While he was reasonably successful early on, to Gonzalez it was slow going initially because service centers could not grasp the fact that controlling everything was not in their financial interest. Then about 20 years into the business, he had an experience that proved the power of his idea had long-term value.

Gonzalez had a meeting with the leadership of Samuel Steel, the largest privately owned steel company in Canada at the time. “I remember I was almost pounding on the table, trying to get them to see the value of toll processing. All of a sudden the CEO gets up, picks up the phone, calls one of his guys into the room and tells him to shut down one of their processing centers tomorrow.” Samuel Steel signed a long-term contract with Ferragon. And the rest, as they say, is history. Today, Ferragon has grown to employ 240 people and is on track to process about 1.7 million tons of steel in 2014.

Cohen & Company served as Gonzalez’s CPA firm early on in Ferragon’s history, and in the early 1990s, one of the firm’s founding partners, Reed McGivney, came on board as Ferragon’s executive vice president. “Our strategy,” says McGivney, “is to go into a marketplace and provide a service for a lesser cost. But, it can’t come out of our hide. It has to come out of inefficiencies in the marketplace.”

“I’ve been gone from Cohen for years now,” says McGivney, “but they continue to be our go-to firm, always proactive but never pushy. Creative tax solutions are just something in their corporate DNA. When laws and regulations change, they’re always prepared.”

And so are Gonzalez and McGivney. They perform major due diligence before making equipment purchases, which often represent millions in expenditures. “You have to be conservative, but know when to pull the trigger and invest,” says Gonzalez.

Part of knowing when to pull the trigger is knowing what tax incentives may be available.
Incentives to Grow

“When a company is investing millions of dollars in capital for equipment, you have to consider all the angles that may help reduce the financial burden,” says Cohen & Company Tax Partner and Technical Director Tony Bakale, who is an integral part of Ferragon’s tax team. “There are tons of incentives out there for capital investments, at all levels of government. The crazy thing is, these ‘incentives’ are always in a state of flux.” He goes on to say that it is important to be on top of the changing tax laws when advising a client in a volatile industry with high-stakes investments. Lowering or raising their effective tax rates on profits by only a couple of points can make or break a business with tight margins.

In 2009, Ferragon took advantage of a federal incentive offered to help companies recover from the recession — bonus depreciation for major equipment purchases.

“Ferragon was looking to add about $5 million in equipment to their plant,” says Bakale. “We worked to make sure that the equipment qualified for immediate expensing, versus depreciating over a five-to-seven year span, by meeting the specific standards of when it would be made available for use and placed in service.”

There are additional major equipment purchases in Ferragon’s future, because Gonzalez foresees significant opportunities and at age 60 his hunger for growth remains sharp. Interestingly, for a man who loves the steel industry, he forbade his children to become involved. “Reed and I agreed years ago that a lot of good businesses get ruined by partners or family complications,” says Gonzalez. “It is just what we feel is best for our business.”

But, haven’t any of his offspring, now that they’re grown, asked to be given an opportunity at Ferragon?

“Oh, I took care of that ever happening years ago,” Gonzalez explains, nodding with a smile at the memory. “In the summers when they were kids I gave them the dirtiest, hottest, most God-awful jobs at the plant you could imagine. They couldn’t wait to get out of here.”

And with that, Gonzalez walked off toward one of his shop foremen, looking exactly like a man in his most natural habitat.

Ferragon Corporation
www.ferragon.com

Could tax incentives help your business increase margins in a tough market? Find out by contacting Tony Bakale at tbakale@cohencpa.com.
In 1936, near the end of the great depression, Harold “Slim” Vernon and his partners created a small butcher shop on Akron’s West Market Street. Fast forward 78 years, two generations, one move and several expansions later, CEO Rick Vernon (Slim’s grandson) and Uhl manage one of the largest independent specialty food stores in the country.

But it’s not just large in size; it is also an institution — one that Matt Cunningham, a director in Cohen & Company’s accounting and auditing department, knew well before he worked on the account. “I’ve been going there since I was a kid,” Cunningham remembers. “My family and I were regulars, and of course we bought our holiday food there too. And their South of the Border Dip… I grew up on that.”

Today, Cunningham is among the legion of West Point Market customers who regularly stroll through displays of high-end wine, cheese and chocolate. True to tradition, West Point Market continues to hand-cut meats for customers who appreciate the difference. And, understanding the hectic lives of today’s customers, the market also offers a wide array of prepared foods, soups, baked goods and expertly designed gift baskets. What you won’t find are a wide variety of the ordinary grocery store items. “We only have one type of Bounty paper towels and one selection of Heinz ketchup. Our dedication is to specialty foods,” says Uhl.

Managing Change
West Point Market began its relationship with Cohen & Company in 2003 as the business was transitioning from second-generation owner Russ Vernon to his son, Rick, and to Uhl. There were many challenges. Cohen & Company was helping in the transfer of real estate, making operations

No one would drive an hour and a half to the grocery store. Why would they? Most people live within a few miles of at least one supermarket. But West Point Market in Akron is not your typical grocer. “It’s a lifestyle store,” explains President and Co-owner Larry Uhl. “We’re a destination location. It’s not unusual for people from Pittsburgh to come here for a day excursion.”
recommendations and conducting tax planning to structure matters in a way that would keep the bank and the owners happy. And, all this was happening at a time when the specialty food business was changing.

But Uhl knew he had hired the right firm for the job. “Cohen’s talent runs very deep. They’re able to help you in most any area, and they are especially strong in tax.” Noting that the market’s tax issues are complicated, Uhl goes on to say, “You can’t be a novice and do taxes as a business owner. To do it correctly, you really need good, smart people. That’s what Cohen has. And a lot of what we (West Point Market) do means following tax strategy based on their recommendations.”

Ten years later, Cohen & Company continues to provide tax as well as other services, such as helping the team with accounting issues related to supporting an unusually large payroll. “Grocery stores focus on effectively distributing food. We focus on how interesting the food is. It’s an experience. And that requires a lot of staff,” Vernon explains. “A grocery store our size might have only 25 or 30 employees. But, because we make much of our product on the premises, we employ 110 people year round, and more at Christmastime. We approach staffing much like a restaurant would.”

A Recipe for Success

West Point Market plans to continue focusing on high-end, quality products for its loyal customers. But it will also continue to evolve as it searches to attract a new crowd of followers. “They have home brew beer contests, wine tastings and other great, fun events,” says Cunningham. Just last month, the store hosted the 8th annual “Chowder Challenge,” where local cooks got the chance to compete for nearly $1,000 in cash prizes. All of West Point Market’s events reinforce the store’s commitment to ultra-high-quality food.

As for their relationship with Cohen & Company, Uhl notes that the added value he receives through the firm’s seminars and other resources is just another reason he sees a long future with the firm.

Cunningham has a bright outlook as well. He sees continued prosperity for his client and his favorite market. “They have great products, like their Killer Brownies, and a great brand. I can’t wait to see how they expand both in the future.”

Experience a West Point Market tasting for yourself. Get 50% off two or more tickets to a May beer or wine event. Enter COHEN during checkout as the discount code and click “apply.”

Contact Matt Cunningham at mcunningham@cohencpa.com to experience a taste of what it’s like to have a Cohen & Company advisor on your team.
The challenge, however, becomes how to identify opportunities, on behalf of our clients, to have our voice heard in a way that will make a lasting impact. So, the firm’s leaders take it to the top — of the profession, that is — placing private company issues and concerns in the national spotlight at the American Institute of Certified Public Accountants (AICPA).

The AICPA is the world’s largest member association representing the accounting profession, with more than 394,000 members in 128 countries. In addition to setting ethical standards for the profession, the AICPA sets U.S. auditing standards for private companies and nonprofits, among others, and has significant political reach and clout.

The relevance of actively participating in this organization is obvious to the leaders at Cohen & Company. “Having visibility at this level is paramount for our clients and their success,” says CEO Randy Myeroff, who serves on the AICPA’s prestigious Governing Council and Major Firms Group. “Our involvement allows us to bring our clients’ collective concerns directly to the body that has the power to change them, or to reach those who can.”

The Governing Council Myeroff serves on is the primary oversight body to the AICPA, setting standards and promoting quality among industry professionals. While most Council members are either elected or appointed by state CPA societies or boards of accountancy, Myeroff was one of a handful of members-at-large chosen by the AICPA to serve a three-year term. As a member of the Major Firms Group, Myeroff and the leaders of approximately 70 of the largest firms in the country meet to discuss a variety of issues, ranging from the profession itself to the concerns of private companies. Members of the Major Firms Group also have the opportunity to interact with important regulators such as the chairmen of the PCAOB and SEC, and the IRS commissioner.

Pat Piteo, audit partner and co-technical director of Cohen & Company, has spent 30-plus years advocating nationally for private company clients as well. Sought after for numerous esteemed, policy-forming groups, Piteo has served on the AICPA’s Auditing Standards Board, Technical Issues Committee and Task Force on Private Company Financial Reporting, to name a few. The need for new, more relevant financial reporting guidelines for privately held companies has always remained a primary focus of Cohen & Company’s leadership.

“Traditional generally accepted accounting principles, or GAAP, requirements can be overly burdensome and costly for most private companies to comply with,” says Piteo. “Yet, until recently, there was no other choice that met the needs of private companies and their owners.”

The recent change Piteo refers to is the choice private companies now have in how they report their financial information to banks and other stakeholders. The new Financial Reporting Framework for Small- and Medium-Sized Entities was developed in 2013 by an AICPA task force on which Piteo served as an appointed member.

“It’s not about how many committees you can put on your resume,” says Piteo. “It’s about doing what it takes to have an impact locally and around the country so private companies can continue to run their businesses efficiently and effectively.”
It can happen to the best of us. Business cycles change, cash reserves run low and suddenly (or so it seems) your taxes come due when cash is short. According to Tony Micheli, a director in Cohen & Company’s tax department, ignoring the problem isn’t an option.

File First
“The first thing you must do is file your tax returns by the appropriate deadline” Micheli says. “Even if you can’t pay the tax, you’ll avoid the 4.5 percent monthly late filing fee, a fee that can increase the taxes due by up to 22.5 percent,” says Micheli.

Even by filing on time, taxpayers will accrue a 0.5 percent monthly late payment penalty, which will max out at 25 percent of the total taxes due. Taxpayers will likely also owe interest on top of this amount.

And the IRS will keep you abreast of the mounting consequences. When a return is filed without a payment, the IRS begins sending out “friendly reminder notices.” Take them seriously; eventually these notices will warn of levies on assets, seizure of IRS refunds, federal tax liens, and wage and social security garnishment.

Making a Deal
Accountants can work with their clients and the IRS to make the best payment deal possible. A strategic move to consider early on is giving your accountant power of attorney so he or she can talk to the IRS on your behalf. Having an intermediary can always be helpful in a difficult negotiation.

This action will also put collection activity on hold while your accountant and the IRS attempt to work out payment arrangements.

Micheli says while a payment plan doesn’t prevent interest from building on the debt, it does prevent the IRS from seeking any levies on assets. “If you make your payments according to the agreed-upon schedule, you’re in good shape. But, if you miss a payment you’re in default, and the IRS can come after you for everything you owe all at once.”

In more severe cases, the taxpayer can try to offer an asset as collateral, such as a second home, in lieu of cash payment. Or, when the IRS believes it cannot collect the full tax obligation, your accountant may be able to negotiate a lesser amount.

Wrapping Up and Moving On
Micheli notes that while the IRS has earned a reputation for being tough on delinquent taxpayers, agents today have more discretion in considering taxpayers’ special circumstances when negotiating payment scenarios. So, with the right strategy, planning and tax advisor, chances of achieving a fair settlement are better than ever.

“If you’ve been upfront and honest with all parties from the start, your tax advisor should be able to negotiate effectively and make a compelling case to help reach an acceptable agreement.”
Known for an award-winning culture, the firm does everything in its power to ensure employees enjoy their work environment and have plenty of opportunities to create meaningful relationships with their colleagues. Take, for example, the firm’s growing fascination with the game of ping pong. Quickly becoming a firm favorite since it was added to the Cleveland office in 2012, the table hosts daily games (and even a few grudge matches) between all levels of employees and departments. For those not into ping pong, the firm added X-Box Kinect gaming systems to the offices in 2014. Staff can enjoy a dance break, play interactive sports or even wage a competitive, albeit friendly, war.

“These types of activities actually increase productivity,” says HR representative Allison Allan, who is in charge of many of the firm’s employee programs. “Our employees work hard for clients every day. Giving our team an outlet to take a break and re-charge actually makes them more focused and effective when they return to their work.”

As stress levels rise around filing deadlines, so does the bar for providing busy accountants and admin staff with encouragement. Cohen & Company adds on “extras” such as buying lunch for the firm; forming intramural sports teams; in-office cornhole and putt-putt competitions; and hosting social hours at the office each Friday afternoon. And every year April 15th marks not only the end of the high-profile tax deadline, but also the much anticipated end-of-tax-season celebrations throughout each office.

Cohen & Company also knows how much its success depends on supportive families, so it includes them in the fun whenever possible. The firm holds a variety of activities, changing the line-up each year to rotate between golf outings, picnics, zoo trips and the like. Last year Cohen & Company hosted a special “VIP-all-star” event at Progressive Field. Families were invited to experience the Cleveland Indians’ home turf like never before, including stadium tours, full-field access, appearances by Slider and the Hot Dogs, and all the ballpark food favorites.

Regardless of whether it’s a day at the park with the family, or just sharing lunch or a game of ping pong with a colleague, it’s clear Cohen & Company believes a firm that plays together, stays together. And a firm that stays together, and has fun doing it, translates into an energetic, passionate and dedicated team for its clients and communities. Definitely a win-win.

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

Phone
Call 800.229.1099 to discuss your opportunities.

Online
Visit cohencpa.com and connect to our “Never Miss” blog from our home page.

Social Media

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

Taxonomics is published by Cohen & Company for our clients and professional associates. Notwithstanding that these materials do not constitute legal, accounting or other professional advice, as may be required by United States Treasury Regulations and IRS Circular 230, you should be advised that these materials are not intended or written to be used, and cannot be used by you or any other person, for the purpose of avoiding penalties that may be imposed under federal tax laws. No written statement contained in these materials may be used by any person to support the promotion or marketing of or to recommend any federal tax transaction(s) or matter(s) addressed in these materials, and any taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor with respect to any such federal tax transaction matter. © 2014 Cohen & Company, Ltd. All rights reserved.
