MAKING AN IMPACT

How — and why — Jonathan Lee has built Signature Health into a powerhouse mental health provider

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Entrepreneurs are without a doubt smart, resourceful and possess razor-sharp instincts that lead them to great things.

But life’s unexpected way of delivering broader perspective, whether welcomed or not at the time, often provides the very foundation for defining and achieving success. It’s that perspective — hard earned from all those twists, turns, unique moments and struggles — that helps crystallize the vision of what truly matters.

No one knows this better than the business owners featured throughout this issue. After enduring a tragic and troubled childhood, Jonathan Lee of Signature Health gained the clarity he needed to create what has become one of the largest mental health service providers in Northeast Ohio, offering critical services such as outpatient treatment for the growing opioid crisis.

Ray Formosa gained valuable insights to lead Brooks Lumber by taking to heart lessons learned from a city in economic turmoil and from customers who needed the business to survive. Joe Swiatkowski’s outlook on life and business changed abruptly when he was tapped to fill the shoes of his grandfather and, unexpectedly, of his father at Hickory Harvest Foods. Jon Halpern brought a fresh viewpoint to Pineapple Payments that only an experienced, growth-focused tech entrepreneur with a proven track record could offer.

As these business leaders have clearly demonstrated, entrepreneurial savvy coupled with the right perspective can help sustain a business — and turbocharge it to the next level.

Enjoy reading these incredible stories. As always, call or email me anytime if I can be helpful to you, or if you just want to chat, at 216.774.1102 or rmyeroff@cohencpa.com.
Q&A: BENEATH THE SURFACE OF REFORM
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WHAT THE SQIF? GOING TO GREAT LENGTHS
Cohen & Company makes recruiting top entry-level talent a top priority
Tax planning for high-net-worth individuals has never been one size fits all. But since the signing of the Tax Cuts and Jobs Act (TCJA), those in the higher brackets are concerned that losing key deductions and other changes will leave them worse off. Is that really the case?

While it’s true changes to some coveted tax items stand to make an impact on this class of taxpayers, Sue McGovern, co-chair of Cohen & Company’s Family Wealth Group, says it’s the totality of deductions and changes to the law that has to be considered to know where taxpayers stand. McGovern shares why they shouldn’t assume the worst, and sheds light on a few planning opportunities to help bring out the best in the new law.

**Taxonomics: There has been a lot of talk about the tax benefits to “Middle America” as a result of the TCJA. But what is the overall outlook for high-net-worth individuals?**

**McGovern:** There is some concern and uncertainty, especially regarding lost or reduced deductions like the new cap on state and local tax deductions. However, if you take a closer look at the numbers, there isn’t necessarily cause for concern — and in some instances, many will see positive changes. The key will be evaluating the entire picture of each tax situation through December 31, 2025, when many of these provisions are scheduled to sunset. Maybe you lose a deduction that helped you in the past, but now you are no longer subject to AMT. That, plus the new lower tax brackets alone, could leave you better off. And for those who do stand to see a negative change, there are certainly planning ideas to help mitigate the impact.

**Taxonomics: How are states responding?**

**McGovern:** Tax-aggressive states with a higher percentage of taxpayers in the top brackets are leading the way to find workarounds to mitigate the impact — states like Connecticut, New York and New Jersey. Many are expanding their charitable donation programs to circumvent the limitation, a tactic the IRS has said it will counter with proposed regulations on the horizon. Connecticut, for example, took a different approach, passing a law targeting pass-through entity income to help offset the deduction limitation. Under its law, the individual owner will get the credit, but it will be based on taxes paid at the entity level. It’s going to be interesting to see how the IRS approaches these entity-level workarounds.

**Taxonomics: The TCJA also limits the deduction on mortgage interest. How does this impact high-net-worth individuals?**

**McGovern:** The TCJA imposed a $10,000 cap on state and local tax deductions, and the impact will be significant to most high-earning individuals. For example, if a married couple has $1 million in taxable income and lives in Connecticut, they could pay state taxes of approximately $69,000 on that income. Let’s also say they had $20,000 in real estate taxes. While they used to be able to deduct the full $89,000, assuming they weren’t in AMT, they would now be capped at $10,000. The remaining $79,000 at the highest tax bracket of 37% could result in an increase of about $29,000 in taxes. That’s a big number to anyone.
McGovern: It may not impact them as directly as others, but it certainly is something to be aware of. Before the TCJA, a taxpayer could fully deduct mortgage interest on up to $1 million of debt. Interest is now limited to $750,000 of debt for new mortgage loans incurred after December 15, 2017. Prior loans are grandfathered in and therefore are not affected. Additionally, prior law allowed a taxpayer to deduct mortgage interest on home equity loans up to $100,000 for regular tax purposes, regardless of how the proceeds were used. Now to deduct the interest, a taxpayer must use the loan to buy, build or substantially improve a qualified residence.

Taxonomics: Charitable contributions are often a key element of tax planning. What changed in this area, and what planning options are available?

McGovern: One positive change stemming from the TCJA is that the annual charitable giving deduction increased from 50% of adjusted gross income to 60%. So taxpayers potentially can receive a larger current-year itemized deduction, perhaps minimizing some of the impact of lost state and local tax deductions.

As far as planning, taxpayers may want to consider “bunching” annual donations. For example, let’s say a taxpayer generally gives $100,000 a year to charity. This year the taxpayer has more income than usual, so it may make sense to “bunch” donations and give more this year. That would help reduce the taxpayer’s income and the associated tax liability, while taking advantage of the larger deduction. A donor-advised fund can often help execute the bunching technique.

Taxonomics: How does a donor-advised fund work?

McGovern: Think of it as a charitable savings account. Individuals can set up a fund, often through public charities or community foundations, into which they can donate cash or even securities and receive the full deduction in the same year — even before deciding which charity it will go to. Once the money is in the fund, the taxpayer can determine where the donation goes.

Taxonomics: Will estate planning feel much of an impact from the TCJA?

McGovern: Absolutely, but in a good way. One of the biggest changes is that now taxpayers can gift significantly more before becoming subject to the gift tax. The TCJA doubled the exemption to an inflation-adjusted $11.2 million for individuals and $22.4 million for married couples. These amounts are available through December 31, 2025, after which exemption levels are scheduled to revert to their 2017 levels of $5,490,000 and $10,980,000, respectively, adjusted for inflation. So the next eight years are a prime opportunity for taxpayers to consider increasing gifts made during their lifetime to minimize tax upon their death. And it’s imperative to make sure older estate planning documents are up to date, especially if they reference the prior exclusion number.

Taxonomics: How can the new Section 199A deduction benefit high-net-worth taxpayers?

McGovern: In its broadest sense, Section 199A allows business owners of pass-through entities, such as LLCs, partnerships and S Corporations, to deduct up to 20% of their qualified business income, pending certain phase outs and limitations. The rules are complex; however, if the business income qualifies, the tax benefit can be impactful. Even if an owner does not qualify one year due to income, he could qualify for the deduction the next year if his income changes.

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Taxonomics: What is the mindset taxpayers should bring to the table during year-end planning?

McGovern: While there are certainly still questions right now from both taxpayers and CPAs, the key is to stay open-minded. It is going to be important to work with advisors to run the numbers, taking into account all of the moving parts, and weigh the benefits versus the ultimate cost.
Founded in 1896, Brooks Lumber & Hardware supplied lumber for a neighborhood that was mostly farms at the time. “We are, in fact, the oldest retailer within the city of Detroit that’s operating in the same location,” says owner Ray Formosa, who began working at the business in 1978 when he was just 15 years old.

“I worked at the store every day right after school, every holiday and during summer break,” says Formosa, who was born and raised two blocks away. He continued to work at Brooks Lumber & Hardware while studying engineering at the University of Michigan Dearborn, and, “I got Mr. Brooks’ attention,” he relates. Formosa displayed a work ethic that third-generation owner Arthur Brooks Jr. recognized as real potential.

So, when the time came to pass on the family business, without a next generation prepared to take on the responsibility, Formosa was selected to become general manager. He eventually purchased the business and became owner in 2004, following the deaths of Mr. and Mrs. Brooks.

A lot had happened in Detroit, and at the store, leading up to that point, Formosa shares. “I started looking at things differently. We needed to continue with our strengths, look at our weaknesses and...
redfine the way we were doing things to attract whatever market we could,” he says of evolving the generations-old business.

Through the years, and no matter what was going on in the economy or Corktown, Formosa knew Brooks Lumber & Hardware had an advantage. “We know our market,” he says. “We can tailor and fine-tune products to what is needed in this area, and we are responsive. We can produce custom products hands-on and people can interact with the person who manufactures it — it’s that personal touch.”

Problem-Solving Through the Punches

Formosa is a working owner, and he takes pride in that, saying “I still do the same things I did when I was hired here. I love interacting with people — I love being the problem-solver.”

And that’s exactly what Brooks Lumber & Hardware has done for its customers and the market for years: solve problems. It had to in order to survive the Great Depression and thrive in the ensuing economic boom.

During Detroit’s postwar population surge, Brooks Lumber & Hardware began running a mill and was one of 200 independent lumber yards in the city limits. “That is amazing if you think about it,” Formosa says, relating that its the last standing.

With an operating mill and more warehouses — Brooks Lumber & Hardware was buying up houses in the neighborhood to grow the business. Then, in 1967, the riots changed the tenor in Detroit and Corktown. “Our business eroded, and the company fell once again on hard times, and we had to adapt just to maintain,” recalls Formosa.

The mill was shut down, and Mr. Brooks re-evaluated the business. He teamed up with Ace Hardware to become more of a complete source for shoppers, expanding from commercial into retail.

Brooks Lumber & Hardware continued to sustain a position in the market through Detroit’s peaks and valleys, including when Tiger Stadium, located across the street from the business since day one, left the neighborhood in 2000. “Everyone ruled out this neighborhood then,” Formosa says. “Articles were written about how this area would be wiped away, and how statistics prove that when a large stadium venue leaves, there is retail death within a few years. Many of these businesses did rely on the seasonal activity of Tiger Stadium, but not us.”

So again, Brooks Lumber & Hardware had an advantage — but that didn’t make it easy. “We got into niche services and we would cut lumber like pallet boards,” Formosa says. The business could cater to the market and was nimble enough to customize. “By virtue of doing things of that nature, we were able to replenish our losses.”

On the Rise

There are certainly challenges with running a 120-year-old business. For example, the access to vendors that the company’s founders had in the 1900s has changed quite a bit, as Detroit is no longer known as a lumber hub of the Midwest. “We have to evaluate very strongly our inventory levels, because where before lumber and building supplies were routinely available to us on the same day, now major vendors pass through Detroit once or twice a week,” says Formosa. “But, somehow, we make it work.”

And, there is competition from box stores and building centers. “So, we have to differentiate ourselves and cater to our market in Detroit,” he says. “There are niche needs, such as historical products, so we reactivated the mill about 10 years ago and diversified.”
Formosa believes in calculated risks. “I would rather see the company succeed on gradual, sustainable, manageable growth versus riding a roller coaster,” he says.

Working alongside the business on that growth path since 1992 has been Tom Beard, a partner at Cohen & Company. “We worked over the years to improve cash flow and minimize tax liability, helping the company take advantage of special federal tax credits to help keep the business in that location,” he says. “If they had to pay more taxes, it would have been one more strike against staying in Detroit.”

“Cohen & Company’s personal attention to our unique business helps with our current and future planning,” Formosa says. “They understand our business and suggest ideas for the changing market we service and tax advantages that can benefit us.”

In 2004 when Formosa was preparing to buy the business, he went to the banks for financing. He recalls, “They all said, ‘We would gladly finance you, but you need to leave that location and go to the suburbs.’” Formosa was not going anywhere.

Undeterred, he persevered, obtained the necessary funding and kept the store right where he believed it needed to be.

“Ray has his finger on the pulse of everything going on in the neighborhood, and if anything starts to move, he knows about it,” Beard says. “In 2012, he could see things starting to change.”

Formosa was right. Things are looking up in Corktown. New restaurants have opened and the Police Athletic League moved its headquarters to the former Tiger Stadium property. Developers have bought into the area, and there are apartments and townhouses, along with retail, in progress. All of this surrounds the longest standing anchor in Corktown, Brooks Lumber & Hardware.

“We were on the upswing, but now we are full throttle,” Formosa says optimistically, noting Ford’s purchase of Michigan Central Station, which will bring 2,500 jobs to Corktown. Ford also bought a building known as The Factory.

As for the future, Formosa says, “What I’m excited about is the additional rooftops and density — the traffic flow.”

Through it all, Brooks Lumber & Hardware continues to be a neighborhood meeting place. “It’s funny how many people come in and say, ‘My grandfather used to shop here, and I remember coming here as a little boy,’” Formosa fondly remembers. “We are an anchor in the community and city, and we have survived. Our plan is to continue on.”

The business will do that by continuing to listen to the market and serve its needs. And, to provide the personal touch that a locally owned business can give. “People come here for a need, and we help them — and they leave here with a smile,” Formosa says. “That’s a reward in itself.”

Are you looking for an accounting firm that will stay by your side throughout the years? Contact Tom Beard, CPA/ABV, CFE, CMPE, MS, at tbeard@cohencpa.com.

Earning Extra Credit

**Challenge**
Help Brooks Lumber & Hardware find additional, ongoing tax-saving opportunities to help the business remain profitable and in its Detroit location.

**Opportunity**
Cohen & Company’s tax team has focused on helping the company take advantage of key tax credits to increase cash flow to the business. One such credit is the Empowerment Zone Employment Credit, offering businesses located in a designated empowerment zone a wage credit of up to $3,000 per eligible employee if the business hires and retains employees who live in that zone. Additionally, the credit for Federal Tax Paid on Fuels has been a key strategy, reducing the gas tax paid per gallon on certain qualifying company vehicles. Taking advantage of these credits has helped the company improve cash flow and realize significant savings over the years.
MAKING AN IMPACT

How — and why — Jonathan Lee has built Signature Health into a powerhouse mental health provider
Jonathan Lee, the 48-year-old CEO of Signature Health, is “wicked smart” in the words of his long-time COO, Ann Mason. But, an attribute less commonly associated with entrepreneurs, empathy, is what Mason and other colleagues see at the heart of Lee’s success in building one of the largest mental and behavioral health providers in the state of Ohio.

It’s not uncommon for Lee to be asked by some of his colleagues to contribute to one of the group therapy sessions taking place at Signature Health’s six locations in Northeast Ohio. “I remember what it feels like to sit in one of those chairs,” says Lee, “I know what it feels like to be lonely, scared and addicted.”

The individuals battling addictions or other mental health issues in the groups Lee addresses may be impressed that the founder of a 700-employee, $50 million organization has walked in their shoes — but they don’t know the half of it.

They don’t know Lee has overcome more than most people could bear. The central tragedy in Lee’s life is a trump card he could pull anytime someone suggests their circumstances justify their hopelessness.

Growing up, as Lee puts it, as “the only minority or biracial kid in school except for my brother” at the time in Lyndhurst, Ohio, was challenging. The sense of being an outsider-looking-in weighed upon Lee, exacerbated by a family tree split into financial haves and have-nots.

Lee was definitively on the have-not side. He and his brother were raised by their grandparents following the tragic murder of their mother when Lee was just four-years-old. Government assistance aided his grandmother as she raised the boys following the death of their grandfather. Holidays, however, were sometimes spent at the large and graceful homes of extended family members.

There is no one path to addiction. But, it seems that Lee’s early-life experiences contributed to him being a troubled teen, becoming an addict, and at the age of 17 being placed in an in-patient drug treatment program for 30 days at St. Luke’s Hospital in Cleveland.

However, some people are not destroyed by evil acts or heartbreak, but instead create in response a life that shines with success and is marked by a spirit that will not bow to hopelessness.

“Success stories like mine are part of the antidote,” Lee says; a counterbalance to the lack of hope individuals with addictions and other severe mental health and behavioral disorders often experience. How Jonathan Lee overcame tragedies and addiction, and built a leading, innovative and growing provider of mental health services is a success story worth celebrating.

The Founding

Mental health and substance abuse clinics in the U.S. represent an approximately $21 billion business, growing at a rate of about 5% annually. The current opioid crisis is fuelling some, but by no means most, of this growth. Signature Health has what is likely the largest single opioid treatment program in Ohio, working with approximately 500 opioid addiction patients out of a total annual census of approximately 20,000 patients.

Mental health is an industry rife with opportunities and significant challenges, including complex government regulations and other barriers to profitability that have prevented most of the largest healthcare providers from investing significantly in mental health services.

But Lee knew all about challenges and opportunities from his own life experiences. His in-patient treatment program experience at St. Luke’s, during what would have been his senior year, set his young life back on course. Redoing his senior year, he did a six-week internship back at St. Luke’s as his senior project.

“Later that summer,” Lee recalls, “St. Luke’s called me and asked if I wanted a job. I’d had a year and a half sober, and I just got a phone call from the place that saved my life asking if I wanted to help other kids. Life took a turn. In fact, while I was at St. Luke’s Hospital the idea for Signature Health was hatched.”

While attending Cleveland State University and working as an administrator at St. Luke’s, Lee impressed Paul Brickman, the co-founder of another mental health hospital, when he visited
there to speak about the experiences of a young, recovering adult. He so impressed Brickman that after graduating, he convinced Brickman to get involved in his first iteration of Signature Health in 1993. Brickman is still working with Lee as Signature’s director of marketing.

Lee saw both a human need and business opportunity in providing public schools with on-site drug and alcohol intervention counselling. “We started small in Glenville and Cleveland and began to build and grow,” says Brickman. “There were a lot of mental health issues beyond drugs and alcohol, and Jon put together more mental and behavioral health programming.”

Seed money — initially in small amounts — came from a retired businessman whose son’s life had been derailed by substance abuse. The man helped Lee forge a business plan through the Council of Smaller Enterprises (COSE). Members of the wealthier side of Lee’s family also stepped up and brought their friends into the fold as Lee’s vision took shape and became a reality.

“Jonathan has built a large medical delivery business from the ground up without the benefit of being a physician, which is unique unto itself,” says Chris Madison, a partner in the Tax Department at Cohen & Company who leads the team assigned to Signature Health. “He also has strategically taken it from a thriving for-profit enterprise to an even larger nonprofit organization.” Lee hired Cohen & Company seven years ago on the advice of his banker, who recognized the need for a CPA firm that could meet the increasingly complex needs of a growing enterprise.

“Chris and his team at Cohen really stepped in and got their arms around our financials, our tax situation and what we were facing day to day,” says Lee. “That put them in a great position to make suggestions and modifications to really improve what we’re doing. I was looking for a truly longstanding partner. My number one job as CEO is thinking strategically, and having someone to partner with me on that is important. I don’t need you to save me money in the next

“ST. LUKE’S CALLED ME AND ASKED IF I WANTED A JOB. I’D HAD A YEAR AND A HALF SOBER, AND I JUST GOT A PHONE CALL FROM THE PLACE THAT SAVED MY LIFE ASKING IF I WANTED TO HELP OTHER KIDS. LIFE TOOK A TURN.”

Dr. Richard DeFranco, director of addictive medicine, and Jonathan Lee
five minutes; I need you to understand where I’m going so I can minimize taxes five years from now.”

Gauging Growth Opportunities

Eventually, Lee and Brickman saw the limitations of having only school-based programming and opened an out-patient facility for adults as well as kids. Of Lee’s penchant for making savvy business decisions and solving problems, Brickman says, “Jon has the ability to cut through to the core issue. Usually he can do that in 30 seconds or less. He does it in a way that I think, ‘How did you already figure that out?’”

Brickman adds, “He’s got to be one of the few people who read and understands the entire Obamacare act. He is a guiding source of information for the state of Ohio. The director of mental health and the director of Medicaid often seek out his advice and input on issues.”

As Lee recalls, “We were doing prevention work in schools, and then started traditional outpatient counselling services as the drug and alcohol programming expanded to general mental health services. Right around 2000 or so, we recruited our first physicians. From there the practice just exploded.”

Growth is not that simple when there are about 300 mental health providers in Ohio vying for patients. Lee’s ability to gauge opportunity, measure risk and innovate is cited repeatedly by his colleagues as an important competitive advantage.

As Ann Mason recalls, “In the behavioral health field there was always a waiting list for services. When you are feeling suicidal, an appointment in seven weeks is not good enough. We asked ourselves, how do we get you in today? Under Jonathan’s leadership, we took the risk of hiring people knowing they might just sit there, and we could have lost a lot of money. But, now, it has transformed the business: appointments aren’t scheduled; they are all walk-in.”

More recently, Signature Health has been at the vanguard of the early adoption of medically assisted treatment for opioid addiction. Initially controversial, the use of drugs such as Suboxone, used to reduce cravings and withdrawal symptoms, is now generally recognized as often the only way to get and keep those addicted to heroin in treatment programs.

“We know very clearly that medication works in reducing the risk of death by overdose,” says Dr. Libbie Stansifer, Signature’s chief medical officer. “We’re challenged, like other agencies, to find what will help people obtain long-term sobriety. But, Jonathan is devoting significant resources to help us determine what works best and measure outcomes.”

Jonathan Lee and Debbie Martin, nurse
Once again identifying an opportunity at the nexus of human need and business realities, Lee has positioned Signature Health for growth, as well as clinical leadership.

“It seems counter-intuitive that a company that has experienced such growth and with prospects for more would convert to a not-for-profit,” says Cohen & Company’s Chris Madison. “But, lower reimbursements for for-profit enterprises in this space, and the benefits of being eligible to qualify as a nonprofit Federally Qualified Health Center — which provides funding for services like opioid treatment in less affluent and often rural areas where the crisis is acute — helped drive the decision.” Cohen & Company was integral to the legal and financial team Lee relied upon to oversee the complex transactions and shareholder conversion in 2016.

“I started getting a bunch of phone calls from private equity guys,” Lee says. “I spent a lot of time thinking about it; maybe this is the time to cash in the chips. If they’re calling, you know the price is high. But, what I couldn’t get over is A) I wouldn’t want anyone taking my baby and screwing it up, and B) I didn’t want to work for anybody else.”

“And there’s a million sources of grant dollars in the healthcare space that we always had to walk away from as a for-profit. I realized that [converting to a nonprofit] was an interesting way to cash out, stay intimately involved, and position ourselves for grants to serve underserved markets and expand our services.”

Fatherhood and the Next Lee

It’s almost a maxim that many entrepreneurs pay more attention to their business than to their loved ones, but not Lee. According to Brickman, “Despite his work ethic, Jonathan goes to his daughters’ track meets, takes them to dances and loves spending time with them; they don’t know how lucky they are to have him as a father.”

Given the tragic reality of Lee’s early years, this represents a beautiful redemption.

As for the future, Lee is always looking for the next Lee. Sometimes that means the next person who needs help, just as he did. Sometimes that means the next rock star team member. But one thing is for certain, Lee is always looking to make an impact.
Today, Hickory Harvest is a $30 million operation based in Akron, Ohio, and is a key regional player supplying packaged nuts, fruits and coated goodies to a range of customers, from grocery stores to food manufacturers and distributors.

“Back in the day, getting into the food business wasn’t a tough thing to do,” says Joe Swiatkowski, president and grandson of the founders. “You could package it in your basement and sell it at the store,” he quips. “Now, the barrier to entry into this business is huge with regard to labeling laws, quality controls and manufacturing practices.”

Adding to the complexity, Hickory Harvest produces foods with five out of the “Big 8” allergens. But increasing regulatory requirements over the years is only part of the Hickory Harvest story. Joe and his family met with a succession plan — interrupted — that would abruptly tap Joe to lead the company much earlier than ever expected.

An Unforeseen Path

When Joe came into the operation 18 years ago to help the family, there was a team of approximately 20 employees generating $5 million in revenue.

Two years after he joined the company, his grandfather, the founder, passed away. Then, within four years, his father, George, died unexpectedly. “It was never supposed to be like that, but suddenly it was put on my mom’s shoulders because she was the surviving spouse, and it was early in the succession planning because my dad was just 51,” Joe says. “My dad and my grandpa were truly my mentors and the people I looked up to the most.”

Darlene Swiatkowski agrees that the succession had to be put into fast-forward. “Joe was in the business...
and basically had to step in and fill his father’s shoes,” she says. Joe’s brother, Mike, also joined the business after their dad passed and spent 14 years there before moving on to other ventures. Darlene still works three days a week, after 31 years. “The business will always be a part of my life and something I feel proud of and responsible for because the name represents our family, and we have employees who depend on us.”

Joe came up to speed quickly in the business, and, when the time was right, made acquisitions a big part of the company’s growth strategy. In 2006, Hickory Harvest Foods acquired I.M. Good Snacks in Canton, Ohio. “That got us into similar items but in smaller packages,” Joe explains of how the move expanded the company’s overall product line and got it into the doors of convenience stores.

“That is also the time when private label started to grow in popularity at convenience stores and supermarkets,” Joe shares. “We began calling on individual companies and obtaining their private labels so they could take national brands off the shelf and promote their own brands.”

Today, 35 to 40% of Hickory Harvest’s business is private label.

The company continued its growth mission, and in 2014 the Swiatkowski family became the majority stakeholder in a Columbus, Ohio-based chocolate coating company called American Confections. Hickory Harvest was previously the coating company’s largest customer. By buying in, the family of companies realized cost and operational efficiencies and opened up a sales avenue to other manufacturers (would-be competitors, actually). “This has been a good venture for us, and we have grown the business well and now sell to businesses that are taking care of some of the biggest supermarkets in the U.S.,” Joe says.

It’s all about vertical integration. “We can control the input costs inside our house, and we got to the point where we are manufacturing or processing more than 90% of the products we package,” Joe says. To compare, 10 years ago, the company was processing closer to 60% of its products, which consisted of nuts and trail mixes at that time.

The Quality Difference

Food safety and quality are a tradition at Hickory Harvest Foods, which has always separated itself from the competition because of its high-quality products. Now, processes are perhaps more regulated and the focus more measured, but that’s a matter of doing smart, safe business. Joe and his team recognize this, which is why they invest heavily in compliance related to the FDA, Food Safety Modernization Act (FSMA) and Safe Quality Food (SQF) certification system.

“Safe quality food initiatives impact everything we do,” explains Joe.

Joe estimates that 15 years ago Hickory Harvest earmarked around $10,000 toward food safety/quality regulation. Now, the company dedicates upwards of $500,000 annually to ensuring its facility is compliant and meets, or exceeds, regulatory requirements.

“We have people on the floor in the manufacturing facility and offices doing tracking, tracing and purchasing from vendors who will give us the best quality supply,” Joe relates.

Not to mention, Hickory Harvest Foods’ reputation as a high-quality provider with facilities that are SQF Level 2 certified — one of the highest safe quality foods ratings in the country — give the company a market advantage. The company carefully vets vendors and has an HACCP plan in place. That stands for Hazard Analysis and Critical Control Points, and is a systemic approach to identifying and controlling potential food safety hazards. The company is also a member of Ohio Proud, which promotes food and products from Ohio, and is fully Kosher and USDA organic compliant.

Joe knows to stay in compliance and continue growing a successful business, he must rely on experts who can provide critical insight into issues ranging from safe quality food to manufacturing practices to finance.
“Consultants are very worth our while,” he says. “I’ve been in this ‘box’ for a long time, and I see what we do internally, but I don’t get to see enough of what goes on in other industries. We rely on people we hire or consult with to help make a difference.”

“I’ve always told my people, ‘My job is to know a little about a lot, and hire people who know a lot about a little,’” he continues. “That way, you have people on board who are very in tune with their specific set of skills and they can help you move forward.”

That approach has included retaining Cohen & Company for accounting, tax planning and advisory. Nevin Nussbaum, a partner at Cohen & Company, began working with the Swiatkowski family in 2015.

“Hickory Harvest was in a high-growth mode when we came on board to work with Joe and his family,” says Nussbaum. “They know who they are and where they want to go, which allows us to help them plan proactively.”

The firm has guided Hickory Harvest Foods on ways to maximize depreciation and tax credits, especially with the continued expansion of its facilities; and help evolve internal reporting to assist with future planning.

“The consultation that Cohen & Company offers is huge,” Joe says. “They also took a good look at our business in the beginning and asked, ‘Why? Why were we doing some things a certain way, and why weren’t we doing other things? This made us look at our business in a different way.”

Rooted in Family
Joe has learned to embrace change, leverage opportunities and focus on people, which is the core of this family business. “We have people here who are very passionate about what they do, so teamwork and collaboration is critical,” he says.

Joe is proud of the longtime team Hickory Harvest Foods has in place, and the fact that employees feel managers relate to them — they feel empathy, he says. “Our longest-term employee just retired after being here for 31 years,” he says. “We know our employees’ spouses and kids’ names and are willing to listen. Another factor to consider is that many of the individuals we hired in the last two years have come from companies that were originally family owned and sold, so they get used to feeling important — and that’s how we treat our team members.”

Darlene reflects on her 31 years in the business and how far it has come. She says, “I think about how proud Joe’s father would have been that we worked hard and succeeded in the business on his behalf.”

Finding Value in the Sum of the Parts

Challenge
Help Hickory Harvest maximize depreciation deductions, sooner than the standard 39-year depreciation schedule, on the costs associated with the new 17,000-square-foot addition to their building.

Opportunity
Cohen & Company’s team rolled up its sleeves to begin splitting up key areas of the addition into separate components, reclassifying the longer-lived property to shorter-lived property to obtain more immediate tax benefits. The process included walking through the new space to evaluate it in-person, and closely reviewing building plans and contractor invoices to identify reclassification opportunities. Section 179 expensing and bonus depreciation provisions enabled the team to breakout and deduct approximately 30% of the building’s costs in the year of construction — giving Hickory Harvest immediate tax benefits on a substantial portion of their addition.
The answer for some owners of LLCs, partnerships and S Corporations may be Section 199A — a provision likely added as an “answer” to the new rate afforded to C Corporations.

“From my perspective, it was sort of a ‘tit for tat’ situation,” says Mike Kolk, a partner in Cohen & Company’s Tax Department who has been closely following developments surrounding Section 199A. “After giving corporations their enticing new rate, Congress gave pass-through entities a little something extra as an offset.”

Far more than a tweak to existing law, Section 199A comes with many conditions and terms. However, generally speaking, partners and shareholders of pass-through entities could potentially realize significant benefits by incorporating the new code section into their overall tax strategy.

What’s at Stake?

Section 199A provides business owners of pass-through entities a 20% deduction on their U.S. qualified business income (QBI). According to Kolk, there are essentially three pools of taxpayers to consider. Looking at married filing jointly taxpayers, the groups include those with annual taxable income under $315,000; those above $415,000; and those who fall in the $100,000 range in between.

“If your annual income comes in under the $315,000 mark, it’s pretty straightforward,” explains Kolk. “You take the 20% deduction of your qualified income. The only thing you really have to worry about is a limit on long-term capital gain income. It was included to prevent ‘double dipping’ so you can’t get the new deduction on top of other preferred tax rates.”

For those who fall in between $315,000 and $415,000 in taxable income, the focus shifts to keeping an eye on intricate phase-out rules and then doing the math accordingly. But it’s beyond that threshold where the stakes are higher in terms of rewards and potential hurdles.

“Once you go beyond the $415,000 threshold, you find more roadblocks to reach the full tax deduction potential. That’s also when accurately interpreting the regulations becomes difficult and critical,” say Kolk.

For those who find themselves in the higher-income tier, limitations come into play. The 20% QBI deduction is limited to the higher of 50% of W-2 wages paid by the business or 25% of those wages plus 2.5% of the cost of the business’s depreciable property.

At these higher-income levels, professional service businesses are left out of this tax-savings opportunity altogether. Owners making more than $415,000 a year in a specified service business, such as law, health or accounting, do not qualify for the deduction at all. Professions that require unique skill sets, such as performing arts or athletes, or businesses in which the principal asset is the skill or reputation of its employees, are shut out as well.
The only exclusion is for architects and engineers, both of whom are eligible.

“It was likely too expensive to let everyone take the new deduction, so professional services is the area losing out,” says Kolk.

Making Sense Out of Pandora’s Box
Section 199A opened up a host of questions and ambiguities about taking the deduction. In response, the IRS released proposed regulations in August 2018, which, at the time this publication went to print, are expected to become final in October.

“The guidance is complex and lengthy,” says Kolk. “But most importantly it answered some of the big questions that will allow us to better plan with our clients.”

Particularly, the IRS focused on narrowly defining what qualifies as professional services — termed specified service trade or businesses (SSTBs) — drawing a fairly bright line between the core of these professions and ancillary areas. Take healthcare for example. Doctors, dentists, nurses and such are clearly specified service providers ineligible for the deduction; however, health clubs, research testing labs and medical billing companies are eligible. Others key groups eligible for the deduction include real estate and insurance brokers, and real property management companies.

“There were a couple surprises,” says Kolk. “The regulations give a pass to banks organized as pass-throughs, stating that taking deposits and loaning money don’t fit the definition of financial services.”

The regulations also clarified the definition of a business whose principal asset is the reputation or skills of its owner or employees. To meet this definition, income must be derived from endorsements, personal appearances or from using their likeness, name, voice or other symbols with which they are associated.

The regulations also address the issue of businesses with both specified service income as well as income from other sources, creating clear rules that ignore the specified service treatment of the business if such income is less than 10% of gross receipts for businesses with $25 million or less in revenue or 5% for larger companies.

There also was initial confusion surrounding companies that sell goods but add ancillary consulting services at “no cost,” such as a bike shop that consults with a customer on buying the right bike. If the “consulting” is embedded within the cost of the goods, the business is not an SSTB and is still eligible for the deduction.

Not all of the guidance revolves around ways to maximize the deduction. The IRS also delivered some “warning shots” to prevent taxpayers from abusing the rules.

The View Ahead
With the main areas of Section 199A now crystallizing, there are a few key planning techniques to consider, according to Kolk.

For taxpayers with multiple entities, the regulations address the concept of aggregation, combining businesses for purposes of this deduction, so attributes like W-2 wages or property from one business can help minimize limitations another business might be facing.

“As long as the same group of people, inclusive of their families, owns 50% or more of multiple businesses, aggregation may be a viable planning option,” says Kolk.

To aggregate, entities must have the same fiscal year, and none of the aggregated businesses can be SSTBs. Also, the businesses must meet two of three tests. They must:

1) offer products or services customarily offered together, like a restaurant or catering company;
2) share significant centralized business elements, like HR, accounting and employees; and/or
3) be operated in reliance on or coordinated with other group members, like supply chain dependencies.

Aggregation isn’t the only planning option on the table, according to Kolk.

“There is a lot we can do. High-income owners of SSTBs, who would otherwise be denied the deduction, could benefit from planning to lower taxable income so they come under the phase out amount and qualify for a portion of the deduction.”

“Regardless of the path you end up taking, or not taking, with Section 199A, we have far more certainty to work with now, including what the IRS will or will not allow,” says Kolk. Now is the time for higher-income taxpayers to solidify their plans so they don’t miss out.

Contact Mike Kolk, CPA, JD, MS, at mkolk@cohencpa.com to discuss Section 199A and its impact on your tax situation.
Plastic is the modern currency. It’s how businesses pay vendors, how consumers pay merchants — and today, payment processing is even more sophisticated with a growing demand for richer technology. What does this all mean? If you ask Pineapple Payments’ President Jon Halpern, the simple answer is: opportunity.

“When you look at the payment space as a whole, it’s one of the fastest-growing market segments, and it’s continuing to evolve rapidly,” says Halpern.

In the last five years, the fintech buzz has been getting louder. “Customers want to have certain value-added tools, and business owners want to improve their processes for accepting payments.”

That can include mobile apps for collecting payments in the field or adding a branded payment page to a website. “People are accepting payments in an omnichannel setting, and their needs are expanding,” says Halpern.

Omnichannel is a multifaceted approach to sales so customers can have a seamless experience whether they’re shopping in a store, online, by mobile device or from a desktop. It’s about integrating all these touchpoints and giving people access to products and services when, where and how they want. That’s the direction the payment space is moving, which introduces a demand for technology to support it.
That’s where Pittsburgh, Pennsylvania-based Pineapple Payments comes in. It helps businesses better manage collections and improve accounts receivables with tools to pay instantly and remotely, and a platform to track and monitor payment flow.

Founded by CEO Brian Shanahan in 2016, Pineapple Payments launched as a startup and today has more than 10,000 merchants and processes north of $2 billion annually. Following the August acquisition of Chicago-based Transax, the company expects to expand its universe to 14,000 merchants and a couple billion dollars more in processing.

**Powered by Smart Tech and Experience**

Halpern came to Pineapple Payments as a minted tech entrepreneur, interested in pushing more into the payment space. He successfully started AthleteTrax in 2012 with Brian Gross, now EVP at Pineapple Payments. Their company provided web services, software and payment tools to sports facilities. It was through a mutual connection at AthleteTrax that Halpern and Gross met Shanahan and soon recognized a synergy.

“We began talking strategically about how we could work together,” Halpern says. A significant part of AthleteTrax had focused on payments, and Shanahan had already launched four payment processing companies in the last 27 years. Together, the team focused on the opportunity they saw in payment processing and designed Pineapple Payments to provide payment processing technology for brick-and-mortar and online businesses with a focus on mid-market e-commerce, SaaS (software as a service) and enterprise technology integration.

Their hunch about opportunity in payment processing was certainly on target.

**Delivering Customer Experience**

As businesses evaluate their existing payment systems, security and omnichannel capabilities are crucial. When a payment processing vendor is not updating technology, a business can suffer. Pineapple Payments sees an opportunity for growth in the small- to medium-sized business market. Halpern adds, “We are also interested in the B2B market segment because we believe that space, in particular, has the biggest opportunity to convert from paper to plastic.”

“From a competitive landscape, Pineapple Payments is able to offer not just better pricing to companies that have a need for merchant processing of credit cards and payments systems, but they provide services around cyber security and fraud detection, which is incredibly meaningful in today’s world,” says Jeff Kovacs, the Cohen & Company partner who works closely with Halpern and his team.

In fact, Cohen & Company uses the Pineapple Payments platform for its own payment processing. At the same time, Pineapple Payments appreciates its partnership with Cohen & Company for a number of reasons, including assisting in an accounting capacity with the complex due diligence that M&A transactions demand.

As for serving clients, Pineapple Payments’ most recent acquisition means including a full billing and invoicing presentation, so companies can invoice through the solution, and clients can pay through a billing portal (and manage payments).

Basically, it comes down to choices — and how technology can give businesses more tools and consumers greater flexibility and access.

“We are taking an approach where we want to improve clients’ processes,” Halpern says. “We look at how we can better understand a business and the tools it needs.”

Pineapple Payments tells its clients they can grow their commerce with confidence. Its offerings can be used by small, entrepreneurial startups or Fortune 500 corporations. For every business, the key is simplicity: making all of this complex back-end technology totally seamless so all businesses have to think about is the transaction itself, and not what happens behind the scenes to complete it.

That’s what makes Pineapple Payments an attractive value proposition for businesses.
M&A Strategy
Most startups don’t begin doing acquisitions soon after launching, but M&A is an important part of this company’s growth strategy.

“We have a strong team with an experienced business partner who has a track record in the payments space, coupled with a strategic private equity partner and our ability to focus on acquisitions and integrating those into our company,” Halpern says. “From an M&A standpoint, we are constantly looking in the marketplace and considering how other assets could be valuable.”

Acquisitions have helped fuel Pineapple Payment’s merchant base. For example, one acquisition resulted in signing on about 8,000 merchants, representing the bulk of Pineapple Payments’ merchant base.

“We are lucky to be in a great position where we were able to attract money from a private equity/growth equity fund at a much earlier stage than most startups,” Halpern says.

The company also has been investing in independent sales organizations. “We saw opportunities to take advantage of fragmented distribution and to buy these ISOs,” Halpern says. And their newest acquisition builds on their technology platform, which means clients can receive funds faster with less overhead or burden on their staff and team.

“We are making things happen — we are executing on this path, and we have done a good job so far at growing the team, growing the business and working collaboratively,” Halpern says.

A challenge for any fast-growing business is managing time, he adds. “One of the things we talk about a lot is quality of time. How are you spending your time, and is that creating quality results? Are we going after quality merchants? Are we spending our time in the right places, because there is only so much time in the day to accomplish what we are trying to do.”

This challenge is also a point of pride for the Pineapple Payments team. In a few years’ time, the company already has made strategic decisions and spent time in a way that it has grown exponentially and is continuing on that trajectory.

“We’ve accomplished a lot in this space, and we have maintained an entrepreneurial, collaborative environment,” Halpern says. “We’re excited to see what’s next.”

TAX TAKEAWAY

Challenge
Pineapple Payments needed a tax and accounting advisory team to be as nimble, flexible and responsive as their rapidly growing company.

Opportunity
Cohen & Company dove in, even before the engagement began, to better understand the company, its goals and the M&A activity already in play. The team immediately collaborated with the owners on issues such as equity compensation options for partners, specifically profits interests; employee fringe benefits; and ways to help owners reduce their individual tax burdens in light of recent tax reform, including the use of special purpose entities and related charitable contributions. Importantly, Cohen & Company has also become a resource for Pineapple Payments in the area of acquisitions, a critical component of the company’s growth strategy. The team’s consultation has included everything from the related tax consequences, to the deductibility of transaction costs, to minimizing the consequences of an S corporation termination.
Every business owner wants the “A” team to handle their tax, accounting and advisory work. And why not? They deserve only the best when it comes to helping their business succeed. But what does it take to find the superstars that will keep that dream team in place?

A lot more than what meets the eye. Just ask Abbey Seman, human resources specialist at Cohen & Company and head of the firm’s campus recruitment program. “To make sure the best and the brightest are choosing Cohen & Company, we need the right infrastructure in place,” Seman explains. “That includes a comprehensive program focusing on candidates as early as their sophomore year in college.”

The process begins with the firm’s full-time recruiters and select accounting staff scouting approximately 35 colleges and universities each spring and fall across the firm’s markets. The team focuses on cultivating relationships with students and professors and creating a strong on-campus presence — including attending key events like “Meet the Accountants” night and engaging with organizations such as Beta Alpha Psi (the honor organization for accounting students) and Women in Business.

Looking for ways to creatively engage with future candidates, Cohen & Company often takes its talents to the classroom, teaching and offering real-life experiences. Hosting on-campus business etiquette events and helping career service departments conduct mock interviews and review resumes also makes an impact.

“The more we can network, the more we can build relationships early and find more qualified candidates,” says Seman. “Even if we don’t end up working with some of the students we meet, they often remember us down the road.”

Campus involvement and burgeoning relationships also serve as the coveted pathway to what comes next: on-campus interviews for firm-hosted events such Leadership Day, reserved for college sophomores and juniors in three of the firm’s largest markets. The day involves learning more about the firm and allows students to interact with staff and partners. For rising-star juniors, the next step could mean being invited to one of the firm’s in-office “round robin” events, each of which hosts 30 to 70 top-shelf candidates who interview with various Cohen & Company professionals.

“Round robins give us a chance to explain what we have to offer and give the firm and candidates an opportunity to evaluate the potential fit,” says Chris Bellamy, co-president of the firm’s Investment Industry Services Division. “We make offers that day for internship and entry-level positions with an eye toward building future leadership.”

While the recruitment program has been in place for nearly 20 years, the firm continues to evolve and grow exponentially. So how has that growth impacted recruiting goals and the overall process?

“The caliber of individuals we demand will never change,” says Seman. “Now we are just looking for more. This year we hope to interview more than 250 candidates across all of our markets. That means growing our relationships in new markets, and with new schools and professors. We’ve seen a lot of interest so far and are excited about the additional talent we will be able to bring on board.”

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