Create, Enhance, and Preserve Wealth

# Cohnnection

Summer 2012 ■ www.jhcohn.com

Summer 2012



## J.H. Cohn LLP, Reznick Group Announce Combination

*A Message from Thomas J. Marino, CPA, Partner and CEO*

Last month, J.H. Cohn and Reznick Group, both top-20 accounting firms in the U.S., announced plans to combine, allowing both firms to significantly expand their geographic presence and provide clients with greater resources and bench strength.

The Partners and Principals of both firms have agreed to the combination and terms. Due diligence is currently underway and pending final approvals, the combination will take effect in September.

The combination of these two great organizations immediately elevates us to a preeminent position on the East Coast with offices from Boston to Atlanta, provides a significant expansion in California, and establishes a national footprint with additional offices in Texas and Chicago. Because there is virtually no overlap geographically, this represents pure growth for both firms with no consolidation.

We are confident that the combination will enable us to even better serve our clients accounting, tax, and business consulting needs now and in the future. We want you to know that:

- Our clients will continue to work with the same J.H. Cohn team, delivering the same quality of service that has been the cornerstone of our success.
- Client service teams will now be able to tap into more resources and access additional technical and industry expertise to help them address your changing needs and goals.
- Our service philosophy does not change. We are committed to providing the same quality service, the same quality control, total accessibility, and even greater resources to our clients.

Strategic combinations have been a part of our growth plan since 1998 and have always been carefully selected and integrated. This has allowed us to become one of the leading firms in the Northeast and Southern California today. In addition to geographic expansion, the combination of peers with Reznick Group provides us with an unprecedented concentration of industry experience in real estate, and highly specialized, combined expertise in areas such as renewable energy, hospitality, manufacturing and distribution, capital markets, government, construction, life sciences and technology, and valuations.

Reznick Group has an outstanding reputation for quality, client service, and depth of industry experience. The professionals of each firm bring a shared commitment to highly personalized client service, deep technical and industry expertise, strategic insight, and dedication to their employees and communities. Both firms have recently garnered recognition by industry and business publications for their excellence and commitment to their people, women's initiatives, and as best places to work. In addition, both firms have recently received major awards for their community involvement and leadership in the cities in which they live and work.

The new firm will become the 11th largest accounting firm in the country with more than 2,000 employees, 280 partners, 25 offices, and combined revenues of more than $450 million.

In the coming months, we will keep you updated as details related to the combination are finalized. We are truly excited about the future of our Firm and what the pending combination with Reznick means to the Firm, our people, and, most importantly, to you—our clients and friends. ■

*Thomas J. Marino, CPA, partner, is CEO of J.H. Cohn.*

# State Tax Considerations in Light of the Constantly Evolving Use of Technology

*by Scott Smith, CPA, Senior Manager, and Kevin Crowley, Senior*

Today, many states are trying to close large budget deficits and are looking for new ways to raise revenue. This is particularly true with respect to the sale or use of technology. Accordingly, many states have enacted rules expanding (1) the definition of "doing business" in their state and/or (2) services that are subject to sales tax. Two areas with significant legislative changes, and we expect there are more to come, are "Amazon"/remote seller nexus and "cloud computing."

### "Amazon"/Remote Seller Nexus

Determining whether an entity was "doing business" within a state was once a seemingly straightforward endeavor, but the significant increase in online sales has created a new and more complex world. So-called "Amazon tax"/remote seller laws have perhaps been the most significant sales/use tax development in recent years. As online/remote sales continue to grow, states are looking for ways to ensure that tax is paid on the sale of taxable products and services made to purchasers in its state.

One of the largest online retailers, Amazon.com, has been at the center of this controversy, as many states have attempted to require that Amazon collect and remit sales tax on the retailer's sales in a specific state. In order for a state to require that a taxpayer collect and remit tax, however, the taxpayer must have a physical presence in the taxing state. These new "remote seller" provisions have often used the remote seller's relationships with local online advertising affiliates to create this taxable presence, also called "affiliate" or "click-through" nexus. This has led to the remote seller's decision to terminate these relationships in many of the states adopting "remote seller/affiliate nexus" rules which, according to the affiliates and their supporters, caused job loss and decreased business revenue.

Another version of "remote seller" nexus is described as "related entity" nexus. A number of states have taken the position that the existence of common ownership between a corporation that has a physical presence in a taxing state (e.g., an in-state "brick-and-mortar" retailer) and an out-of-state corporation that has no physical presence in the state but makes substantial sales into the state (e.g., an out-of-state mail-order vendor) is sufficient to create constitutional nexus for the out-of-state affiliate. For example, a retailer that does not collect Colorado sales tax (the "remote retailer") and is a member of a controlled group of corporations, which also contains a retailer with a physical presence in Colorado (the "in-state retailer"), is presumed to be doing business in-state at a level sufficient to require collection of Colorado sales tax. The remote retailer must register with the department and collect Colorado sales tax.

Currently, 19 states have officially adopted some form of remote seller nexus provision, each with their own effective date and many with state-specific nuances. In some instances, these remote seller laws have been challenged and in two cases have been declared unconstitutional. Significantly, these rules can apply to all remote sellers (e.g., taxpayers simply shipping goods into a jurisdiction), not just those selling over the internet, a point of which many taxpayers are not aware. States with some form of "remote seller" rule include:

| STATE | TYPE OF AFFILIATE NEXUS PROVISION | EFFECTIVE DATE | STATUS/COMMENTS |
|---|---|---|---|
| Arkansas | Related-entity | 07/27/2011 | |
| | Click-through | 10/25/2011 | |
| California | Both | 01/01/2013 | If Federal law is enacted by 7/31/12 |
| | Both | 09/15/2012 | If Federal law is not enacted by 7/31/12 |
| Colorado | Related-entity | 03/01/2010 | Reporting requirements declared unconstitutional by U.S. District Court on 03/31/12 |
| Connecticut | Click-through | 05/04/2011 | |
| Georgia | Click-through | 01/01/2013 | |
| Hawaii | Both | 07/01/2112 | Passed by House. Will take effect if HI does not enact a law based on Federal law by 06/30/2013 |
| Illinois | Click-through | N/A | Declared unconstitutional by Illinois Circuit Court |
| Kansas | Both | 07/01/2012 | Passed by Senate, yet to be signed and enacted |
| New York | Click-through | 06/01/2008 | |
| North Carolina | Click-through | 07/01/2009 | |
| Oklahoma | Related-entity | 07/01/2010 | |
| Pennsylvania | Both | Always | Pennsylvania has always believed that both affiliate nexus provisions have created nexus within the state |
| Rhode Island | Related-entity | 10/01/2011 | |
| | Click-through | 07/01/2009 | |
| South Dakota | Related-entity | 07/01/2011 | |
| | Click-through | 07/01/2011 | Retailers must notify customers that use tax is due from online purchases |
| Tennessee | Related-entity | 03/26/2012 | |
| Texas | Related-entity | 01/01/2012 | |
| Utah | Related-entity | 07/01/2012 | |
| Vermont | Click-through | Open | Effective when 15 or more states adopted same type of click-through nexus provision |
| Virginia | Related-entity | 09/01/2013 | |

The potential tax at risk can be substantial and it is understandable why states are trying to create a sales tax collection obligation for remote sellers. For example, Amazon was issued a $269 million tax bill for sales tax reportedly owed from 2005 to 2009 relating to sales to Texas customers. Also, it is clearly much easier for the states to collect tax from a single vendor as opposed to their millions of customers.

Some states (Nevada and Texas) have come to agreements with Amazon to allow the state to collect sales tax on revenue on Amazon's sales to the purchasers in the state. As part of the Texas agreement, Amazon will create jobs and make capital investments in the state beginning July 1, 2012. The Texas agreement will also void the tax assessment Texas billed to Amazon. In Nevada, where Amazon already has a warehouse and employs residents, Amazon will begin collecting sales tax on and after January 1, 2014. New Jersey is also trying to lure Amazon to its state by giving a sales tax break until June 30, 2013, so long as Amazon makes capital investments and creates full-time jobs in New Jersey.

If states are to have remote seller nexus rules, there must be understandable, equitable guidelines for determining when a taxpayer has a taxable presence in a jurisdiction. Many advocates of remote seller legislation argue that requiring all remote sellers to collect tax will "level the playing field" for all retailers. Their position has some merit, but it is not an accurate statement. For example, while large remote sellers may have the infrastructure to collect and remit tax in the thousands of tax jurisdictions in the United States, we have seen, for other smaller businesses, that the cost of setting up systems to determine taxability, compute the tax due, and remit the tax far outweigh the potential sales, let alone the potential tax. Forcing sellers to not compete in a business because the significant cost of compliance is not "leveling the playing field" for all retailers.

Today, there is a growing push for the passage of Federal legislation, with at least three potential bills introduced in 2011, which would allow the states to require remote sellers to collect and remit sales and use taxes. The enactment of disparate remote seller rules across the United States has a dampening effect on the U.S. economy at a time when we need to encourage, not stifle, business growth. The states and the Federal government must be careful not to so encumber small business with additional regulation that they discourage economic growth. Amazon is now behind this push for a uniform Federal rule, provided the threshold for exempting taxpayers from the collection requirement are kept very low. Significantly, taxpayers with low taxable sales are the ones needing protection.

**If states are to have remote seller nexus rules, there must be understandable, equitable guidelines for determining when a taxpayer has a taxable presence in a jurisdiction.**

## Cloud Computing

Another component of our new complex world encompasses a special type of "outsourcing." Today, many businesses are looking to outsource various functions: payroll processing, HR administration, technology, etc. and we are seeing many states looking to expand their tax to include the outsourcing of certain information technology tasks (commonly referred to as "cloud computing").

Cloud computing involves the delivery of software, infrastructure, and storage over the internet, either as separate components or a complete platform, based on user demand. It allows individuals and businesses access to various programs using a web-based model, thus granting users greater access, mobility, memory, and efficiency. In essence, many taxpayers are reducing their hardware and software expenditures, and are hiring third parties to perform many technology functions.

Accordingly, many states are attempting to revise their tax laws to include some form of cloud computing as a taxable item. This change typically involves the question of whether cloud computing is considered by the taxing jurisdiction to be a software or a service. Software, for example, has historically been taxed as tangible personal property (even though most would agree that software is intangible property), with taxability often depending on whether the software is delivered electronically or via a tangible medium and whether the software is considered to be "canned" or custom.

If a jurisdiction taxes cloud computing, taxpayers must then consider where to source the service (e.g., where is the tax due?). Some states that tax "cloud computing" services source the service to the place from which is it accessed. New York, for example, taxes the sale of a license to use a taxpayer's software to a subscriber in New York based on the location associated with the license. If the subscriber's employees using the software are located both in and out of New York State, the taxpayer should collect tax on the portion of the receipt attributable to the employee users in New York. (*New York Advisory Opinion No. TSB-A-09(33)s, 8/13/2009.*) Also, Vermont has recently suspended its sales tax on cloud computing until January 1, 2014. Vermont will allow refunds for those taxpayers that paid the tax from December 31, 2006. Vermont established a commission to study the issue of cloud computing and its taxability.

Taxpayers looking to use some type of "cloud computing" service must be sure they understand whether such services will be taxable in their state and, if so, how the tax is determined. Tax on these services can be significant and should be part of any "buy" or "build" analysis undertaken by a taxpayer looking to change its technology infrastructure. ■

*Scott Smith, CPA, is a senior manager in J.H. Cohn's State and Local Tax ("SALT") Practice. He can be reached at ssmith@jhcohn.com or 973-364-7720.*

*Kevin Crowley is a senior at J.H. Cohn and also a member of the SALT Practice. He can be reached at kcrowley@jhcohn.com or 973-228-3500 ext. 6794.*

# Economic Update: Happy Anniversary! Sort of...

*by Patrick J. O'Keefe, Director of Economic Research*

According to the National Bureau of Economic Research ("NBER"), the official arbiter of the business cycle, the recession ended and recovery began three years ago (June 2009).

*Happy anniversary!*

The NBER determined the 2008-2009 contraction had been "the longest of any recession since World War II," exceeding those of the mid-1970s and early-1980s.

*Happy anniversary! Sort of…*

But in marking the beginning of the recovery, the NBER offered the caveat: "Economic activity is typically below normal in the early stages of an expansion, and it sometimes remains so well into the expansion."

Although the Bureau's comment regarding slow growth described the early quarters of the recovery (NBER's statement issued some 15 months after it began), it was prescient. The current recovery not only started lower, it has proceeded slower than the two durational also-rans.

## Output

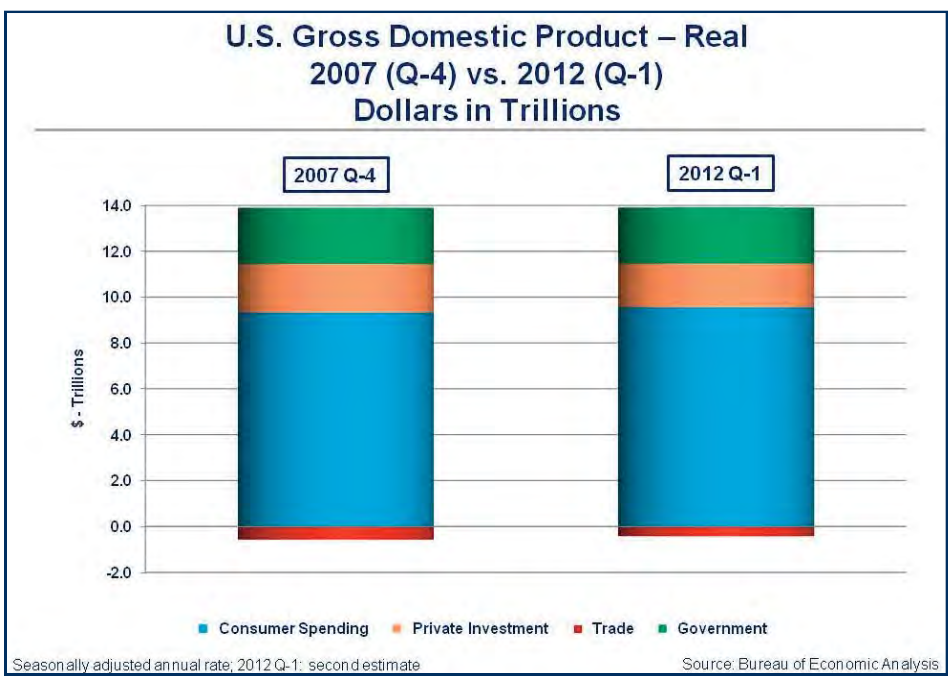
As measured by real Gross Domestic Product ("GDP")—that is total output of goods and services adjusted for inflation—the economy had recovered fully from the two earlier downturns within three quarters of their "official" ends.

But the 2008-2009 decline was more severe than its durational also-rans, and was exacerbated by meltdowns in financial and property markets. As a consequence of the downturn's depth and the recovery's laggardly pace, it took nine quarters for real GDP to return to its pre-recession level.

In the first quarter of 2012, after eleven consecutive quarters of growth, real GDP is 1.2% larger than at the end of 2007.

## Employment

The jobs recovery began in March 2010, when private sector employment rose for the first time in more than two years. Since then, private employers have added jobs for 27 consecutive months; over that period, adjusting for 2010's Census-related spike, public sector employment has trended downward.



On net, the jobs recovery has resulted in an increase in total employment of 3.8 million (2.9%)—with private employment gains of 4.3 million partially offset by a loss of 500,000 public sector jobs.

Despite the net improvement, there were 5.0 million fewer jobs in May 2012 than at the end of 2007; private counts are down 3.9% and government jobs off 1.8%.

The jobs recovery's gains have been concentrated in the private sector, but unevenly distributed within it. Compared to their pre-recession shares of private employment, three industries which comprised less than one-tenth of all private jobs—professional/technical services (6.3%), temporary help (2.2%), and resource extraction (0.6%)—accounted for more than one-quarter of the rebound (respectively: 11.5%, 12.2%, and 3.8%).

Conversely, retail and construction (pre-recession shares of 13.6% and 6.5%) have significantly underperformed (8.5% and -0.3%).

### Incomes

After slumping during the downturn, total and after-tax incomes are substantially above pre-recession levels.

Indeed, compared to immediately before the downturn (December 2007), nominal after-tax incomes have increased $1.1 trillion (10.6%). But the impact of the weakness of the jobs recovery is readily apparent in the composition of the after-tax net. Wage and salary disbursements (i.e., dollars in paychecks) comprise less than one-quarter (23.7%) of the net gain, while income transfers account for one-half (51.1%).

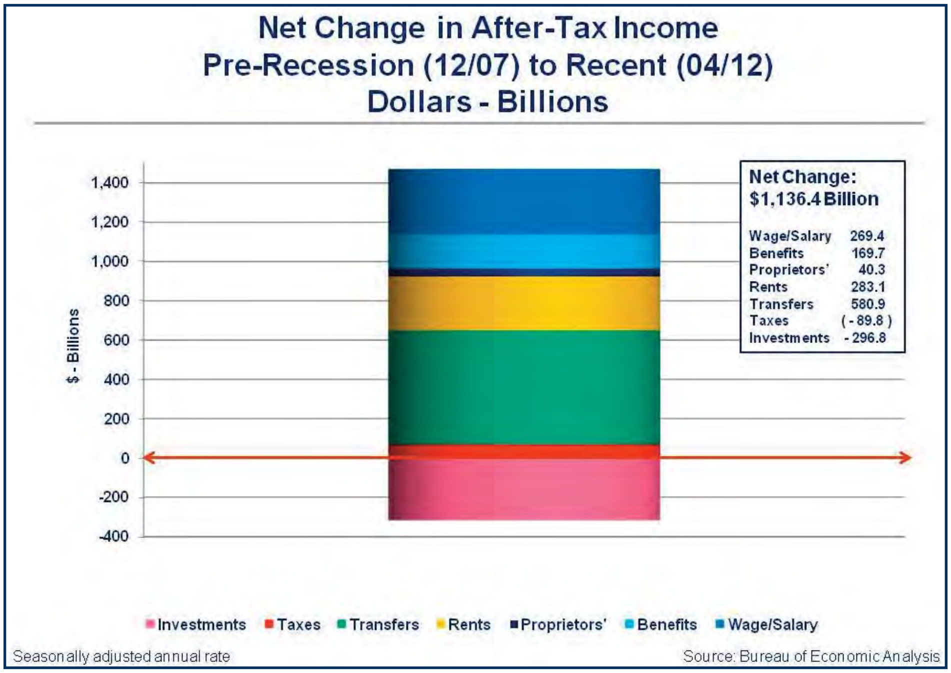
It is unsurprising that earnings would contribute a diminished proportion of after-tax incomes during a downturn and early in a recovery. Of concern, however, is that earnings' share has been bottom-bouncing despite more than two years of jobs growth.

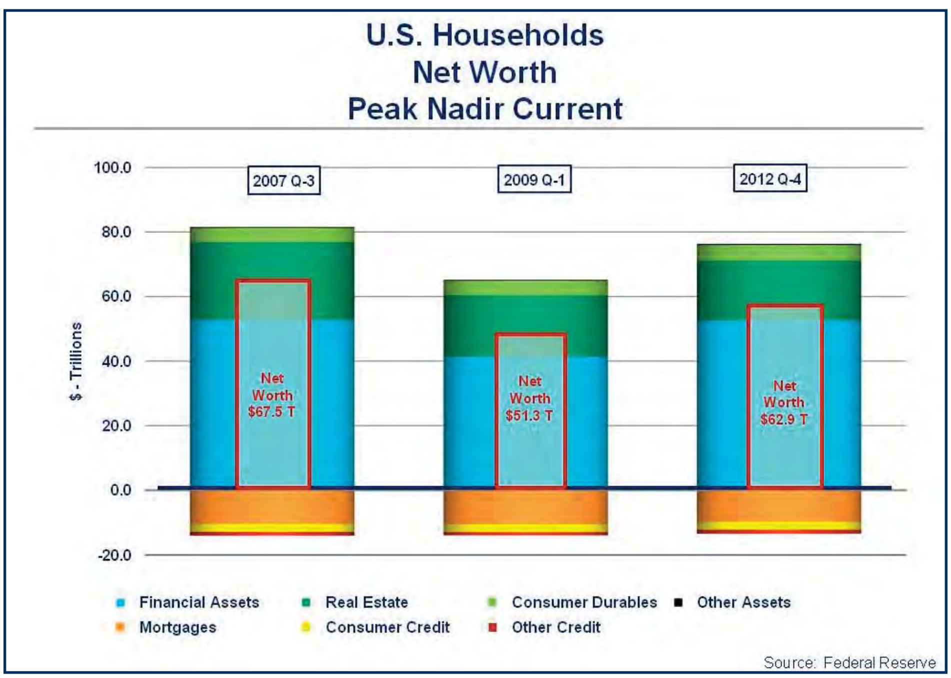
### Consumer Spending

Real household incomes are near 2008's stimulus-augmented peak. As a result, consumer spending—adjusted for inflation—has trended upward since mid-2009.

Retail sales, which account for almost 45% of total consumer spending, have also been rising steadily.

Prior to May, consumer sentiment had been improving robustly, recording the largest nine-month increase since 1983. And as households gained confidence, they bolstered spending by reducing savings.



### Net Worth

In the first quarter of this year, household net worth was $62.9 trillion. Although down 6.8% from the mid-2007 peak, it was substantially higher (22.6%) than its post-meltdown nadir, when it was down 24.0%.

Much of the yo-yoing of household sector's bottom-line reflected the swing in financial asset values, which plummeted more than one-fifth (21.5%) during 2008's panic. In the ensuing rebound, they recouped all but a sliver (1.8%) of those losses.

Although households' financial assets have recovered, their tangible assets—more specifically, owner occupied homes, the primary asset of most households — remain more than one-fifth (22.8%) below the mid-2007 peak. Consequently, homeowner equity is at an all time low.

The recovery in financial asset values has certainly contributed to the sustained rise in consumer spending. But it has been largely offset by the drag of homeowner equity.

*Happy anniversary! ...Sort of*

As noted earlier, the recovery from the 2008-2009 contraction started lower and has proceeded slower than earlier protracted downturns. Its sub-par pace has produced uneven results, most evidently in the labor market.

On most indicators, the U.S. economy has decelerated during the most recent quarter (April-June); but it appears that the economy is slowing, not contracting. And while there are any number of fiscal and credit-related issues—in the U.S. and abroad—with the potential to derail the recovery, they have been contained (at least thus far).

So let's celebrate (sort of) three years of economic expansion and look forward to continued (but slow) growth for the remainder of 2012. As to 2013 and beyond, let's see what the autumn brings. ■

*View all charts associated with this article.*

*Patrick J. O'Keefe is director of economic research at J.H. Cohn. He can be reached at pokeefe@jhcohn.com or 1-877-704-3500. For more insight from Mr. O'Keefe, please visit our website, www.jhcohn.com.*

# Royalty Audits Can Help Companies Realize Additional Revenue

*by George Gallinger, Principal, and Chandrasekar Venkataraman, Director*

Many companies, especially those in the apparel, entertainment, and technology industries, but companies across a range of other industries as well, may be missing an opportunity to recognize the additional revenue due to them through royalty payments. For businesses with intellectual property such as patents, copyrights, and trademarks, revenue can be realized by executing the "right to audit" clauses contained within the licensing agreements with licensees.

The primary objectives of a royalty audit are to ensure that (1) all royalty payments due to a licensor related to the contracted use of the licensor's intellectual property by a licensee are completely and accurately reported and remitted to the licensor in a timely manner, and (2) the licensee is in overall compliance with the licensing contract.

When a company decides not to perform a royalty audit, it is forced to rely upon the controls and periodic reporting of the licensee, which could ultimately result in a misrepresentation of net sales. Many factors could result in a licensee underreporting sales to a licensor. Some examples include:

- Lack of proper and timely communication among the sales/service departments and the accounting groups charged with royalty calculations
- An overall poor control environment relating to royalty calculations and reporting
- Misinterpretation of specific terms such as gross sales, net sales, product, or territory as defined in the agreement on the part of the licensee
- Non-reporting of sub-license revenues or sales by affiliates
- Inaccurate reporting of product launches and sales in new markets, geographies, or countries
- Unwarranted deductions from the gross sales in the areas of quantity discounts, returns, allowances, charge backs, and/or price reductions
- Improper accounting and reporting of samples or donations
- Calculation of royalty amounts not in accordance with the schedule in the agreement
- Improper foreign currency conversions

An independent firm can assist in completing the royalty audit for the licensor. At J.H. Cohn, professionals in our consulting division assist licensors in securing and enforcing their rights under their licensing agreements with licensees. This includes helping licensors develop appropriate royalty compliance and oversight programs. Where such compliance programs already exist, we can review and suggest recommendations for their improvement.

Typically, a royalty audit includes:

- Reviewing the licensing agreements to gain an understanding of how royalty payments due to the licensor should be calculated;

**In many instances, cost benefits will be immediately realized through identification and recovery of underreported royalties, especially for first-time audits.**

- Understanding and reviewing the licensee's process for recording sales of the "in scope" products with proper cut-off procedures;
- Verifying exchange rates and foreign currency conversion calculations;
- Determining trends and identifying outliers relating to volumes, product mix, and price;
- Validating the accuracy and completeness of royalty calculations, reporting, and payments; and
- Verifying appropriate evidence that withholding taxes, if any, are properly deducted and held for and on account of the licensor and paid timely to the taxing authority.

While there are costs associated with performing royalty audits, it is likely that the short- and/or long-term benefits of regularly performing royalty audits will far outweigh the costs.

In many instances, cost benefits will be immediately realized through identification and recovery of underreported royalties, especially for first-time audits. Additional cost benefits will be realized when the licensee implements process improvements that ensure that future payments to the licensor are accurate. Further, a heightened awareness on the part of the licensee that future reviews will be performed may strengthen their overall control and reporting environment.

At J.H. Cohn, our approach to royalty audits also includes reviewing the terms of the licensing agreement and preparing related checklists so we can conduct a thorough, focused examination of the licensee's royalty process with the goal of ensuring complete and accurate reporting of royalties and their timely payment. Where there is no conflict of interest, we also have the ability to create dashboards to help licensees report gross sales, deductions and allowances, net sales, and royalty income streams, and for licensors to monitor compliance of the licensing agreement.

The results of our review can be used as a springboard to facilitate better understanding among the parties about the efficacy of the existing licensing arrangement and/or to make improvements. Our vast process knowledge across a broad spectrum of industries enhances the value of the recommendations we make to licensors that, when implemented by licensees, strengthens their underlying business relationships. ■

*George Gallinger, is a principal in J.H. Cohn's consulting division. He can be reached at ggallinger@jhcohn.com or 973-871-4060.*

*Chandrasekar Venkataraman is a director in J.H. Cohn's consulting division. He can be reached at cvenkataraman@jhcohn.com or 973-871-4057.*

# IRS Warns of Identity Theft and Online Fraud

The Internal Revenue Service ("IRS") recently prepared a presentation that outlines its efforts to protect taxpayers from identity theft, which is the top consumer complaint reported to the Federal Trade Commission.


### Tax-Related Identity Theft

Identity theft incidents related to government benefits are often the most common and complex and take more time and money to detect and resolve than other incidents.

There are two primary ways identity theft can affect taxes:

1. **Refund-related crime:** The identity thief uses a stolen Social Security number to file a forged tax return and obtain a refund early in the filing season.
2. **Employment-related crime:** The identity thief uses a stolen Social Security number to obtain employment.

To combat tax-related identity theft, the IRS has enhanced fraud protection processes for the 2012 filing season and developed a comprehensive identity theft strategy focused on: detection and prevention; protection; and victim assistance.

The IRS's actions include:

- **Placing identity theft indicators on taxpayer accounts to track and manage identity theft.** The indicators primarily identify different types of identity theft to a specific account, including refund-related identity theft, employment-related identity theft, accounts with no filing information, and lost information (i.e., a lost wallet.)
- **Using business filters to ensure the IRS accepts legitimate returns and rejects false returns.** The business filters allow the IRS to identify identity theft, ensure only legitimate returns are processed, flag questionable returns for manual review to validate legitimacy, and reject fraudulent returns.
- **Issuing victims Identity Protection ("IP") PINs.** An IP PIN is a six-digit number assigned to taxpayers who were identified as identity theft victims, submitted required documentation, had their account issues resolved, and filed a tax return for tax year 2010. The PIN allows legitimate returns to bypass identity theft filters, prevents processing of fraudulent returns, and allows taxpayers to avoid delays in their Federal tax return processing. It is important to note that the PIN is specific to the tax year, a new PIN is issued every year, and the PIN should not be confused with the electronic signature "self-select" PIN.

### Online Identity Theft

The IRS does NOT initiate contact with taxpayers by email to request personal or financial information. This includes any type of electronic communication, including text messages and social media channels.

Often, in cases of online identity theft, victims respond to online scams and unwittingly provide personal and financial information to phishers. To mitigate online fraud, the IRS works closely with registrars, hosting providers, and telecommunications providers to de-register malicious domains, remove malicious/fraudulent content, suspend email accounts, disable fax numbers, and report unregistered securities entities.

### Avoiding Identity Theft

The IRS recommends that taxpayers:

- Safeguard personal information; and
- Regularly check credit reports and other financial records.

To prevent online identity theft, taxpayers should:

- Watch out for phishing scams;
- Ensure their computers and other electronic devices are secure;

- Always use strong passwords; and
- Limit the amount of personal information accessible by others.

### Actions to Take When a Taxpayer Experiences Identity Theft

Taxpayers should:

- Contact their financial institutions and take appropriate action;
- Contact the three credit bureaus to place a fraud alert and get free copies of credit reports;
- File a police report with local law enforcement; and
- Contact the Federal Trade Commission. (www.consumer.gov/idtheft/index.html)

If the identity theft is tax-related, taxpayers should:

- Contact the Identity Protection Specialized Unit ("IPSU") at 800-908-4490; and
- Submit Form 14039, Identity Theft Affidavit, available at www.irs.gov, and all the required documentation to the IPSU.

If a taxpayer receives a suspicious IRS-related communication:

- Report the unsolicited email claiming to be from the IRS to phishing@irs.gov; and
- Go to www.irs.gov, scroll to the bottom of the homepage, and click "Report Phishing."

In addition, taxpayers who suspect that they are a victim of identity theft should immediately contact their accountant to discuss the treatment of future IRS tax filings.

Additional information on identity theft is available at www.irs.gov. If you would like to discuss these issues further, please contact your J.H. Cohn engagement partner at 877-704-3500. ■

# The Value of Values

*How Creating a Culture of Actionable Values Impacts Employee Effectiveness and Business Success*

*by John Turgeon, CPA, HCS, Partner*

As a teenager, I remember coming home after a night out with my friends at a local amusement park. It was very uncharacteristic of me to do so but, before I went to bed, I left a note for my mother asking her to call in sick for me in the morning at the grocery store where I worked. The next morning, about an hour before my shift was to begin, she woke me up and asked how I was feeling. I told her I was fine, but that I just didn't feel like going in because I had arrived home late. Needless to say, she wouldn't stand for that excuse. She told me we didn't do things like that in our family, and said in no uncertain terms: go to work.

Nearly 40 years later, the experience remains a vivid memory. I remember exactly how I felt when asked if I was truly sick. And, I distinctly remember the ultimate lesson I learned about what was right and what was wrong. More importantly, I realized at that moment how I wanted people to think of me going forward. I could feel one of my values—*integrity*—stirring inside of me.

Every day, each one of us makes hundreds of decisions, if not more, about our families, our work, or other activities. And while we likely won't be able to explain exactly how we came to each of those decisions, there is a good chance every one of them was impacted by the personal values we carry around inside us.

As one might expect, our values are developed over many years and across many experiences. It's not as if someone hands us a set of values when we're young and says, "hang on to these—you'll need them someday." Instead, our values—the core of who we are—tend to be the result of not only what our parents pass along to us, but also the principles for which our employers, colleagues, and friends all stand. Furthermore, the sentiment and meaning behind each value is not something that gets pulled from a dictionary. Rather, each definition is slowly shaped through trial and error—from experiencing success to dealing with failure and from watching the actions of others to dealing with the affects of our own decisions, such as asking someone to call in "sick" for us.

Sound personal? It is personal, but it also has a lot to do with business. Unfortunately, some leaders overlook that fact. They might consider the core values of a business to be part of its marketing strategy rather than an action that an organization needs to demonstrate each and every day. That viewpoint could not be further from the truth. If, as leaders, we want to change the results of our business, we need to do more than talk; we need to "walk the walk." We need to change the experiences we are creating for our people and do so by modeling the values and behaviors we seek from them.

One of the first questions we often ask individuals and teams when assisting them with improving their effectiveness is, "What can you tell me about your company's core values?" Most are not able to articulate them. They might say they remember seeing them on the company's website when they were interviewing for the position, but never discussed them. Others have said they learned nothing about them at all. What a shame. One of the many benefits of actually having—and helping your teams understand—the core values of your organization is that you will be providing them with a compass which they can use to navigate through the challenges of today's business. When the business focuses on the core values, from the top down, everything employees do—from how they treat each other to how they work with your customers or vendors and approach their responsibilities—will all be aligned with what your business needs for continued success. Without them, there is no clarity and it becomes strictly guesswork. Few organizations have winning percentages following that approach.

So where do you start? Perhaps it's a cliché, but the tone needs to be set at the top—the top of your organization or at least at the top of your team. Think of the span of control or, better yet, the span of influence a leader will have with any size group. If he or she "lives and breathes" the values of that organization, and then holds those around them accountable to the same, it will only be a matter of time before the waves of that value-based culture ripple through the rest of organization. Simply put:

***Culture =***
***Values + Consistency in Action.***

Companies with established values will realize tangible results: from the ability of employees to make better customer service decisions to improved team dynamics. For example, if your business has established excellence, innovation, and teamwork as its core values, then those hundred or so decisions your employees will make everyday can be made knowing full well that they must place great importance on going beyond the minimum and striving to distinguish the business by what it delivers to others. They will know that the organization not only embraces new ideas, it expects and encourages its employees to spend time creatively thinking outside of the box. They will also fully understand that the organization strongly supports an environment of collaboration and cooperation. That learning experience alone will positively impact their daily decisions.

Steve Jobs told his employees shortly after returning to Apple in 1997, "Marketing is not about touting features and speeds and megabytes or comparing yourself to the other guys. It's about identifying your own story, your own core, and being very, very clear about what you are all about and what you stand for…and then being able to communicate that clearly, simply and consistently."

**Companies with established values will realize tangible results. From the ability of employees to make better customer service decisions to improved team dynamics.**

The exercise of establishing your values does not have to be difficult, but it does require some organizational self-reflection, facilitation, and discussion. In many cases, the core values already exist in the feelings and actions of your people, but need to be extracted, formally declared, and then defined for clarity. In other cases, such as with a relatively new entrepreneurial venture, it might be slightly more challenging because you are truly setting the organization's values for the first time and then driving a stake in the ground around those values as you decide which new employees should come aboard and join you on your journey. In either case, the resulting core values need to be shared, discussed at team meetings, embedded in the organization's performance management system, and modeled by its leaders day in and day out in order to really have meaning. It is about more than adding it on the back of your business card.

Regularly sharing and demonstrating your core values is also important because people want to be connected to organizations that they know are "good" businesses; ones that place a premium on such things as ethics and trust as well as those that "do good" by focusing on their communities and helping those less fortunate. In fact, we believe employees in those organizations are likely to become more loyal and, as a result, be more productive. This sentiment also holds true for an organization's clients and customers; they want to do business with companies that they know have strong values that resemble their own.

Is there a cost associated with all of this effort? Sure there is. Just as there is a cost with sitting idle and letting whatever happens happen. The latter is likely to be much more expensive to your business in the long run.

The difference between the two approaches is the "Value of Values." ■

*John Turgeon, CPA, HCS, partner, leads Human Capital Consulting at J.H. Cohn. He can be reached at jturgeon@jhcohn.com or 860-678-6014.*

# Give Back, Success Will Follow

While corporate philanthropic initiatives can make a significant and lasting impact on charitable causes, businesses that uphold philanthropic responsibilities also benefit by enhancing the company's external reputation and internal culture.

At J.H. Cohn, our legacy of community service dates back to 1919 when Julius H. Cohn founded the Firm on this business philosophy: "If you do your best to serve faithfully your community, your clients, and your associates, success will most surely follow."

More than 90 years later, this approach continues to be the cornerstone of the Firm. We value our employees as our most important asset; are committed to the success of our clients; and care about the communities in which we live and work.

Today, J.H. Cohn's charitable activities revolve around assisting children through the J.H. Cohn Foundation's Cohn for Kids℠ campaign. Organizing an umbrella campaign for key supported charities allowed the Firm to combine activities into one collective effort.

In addition, with countless worthy non-profit organizations and causes, establishing a theme for philanthropy can help a business organize its approach and decide where its efforts will be concentrated. It also helps build a brand, allowing, over time, the company to build a reputation not just for its product or services, but its commitment to the community. In choosing the theme, Michael Cohen, CPA, partner and director of the J.H. Cohn Foundation, recommends selecting a cause for which you can build broad support.

Michael explains, "We chose to focus on charities that support children to make a measurable impact on children of all ages, from young kids to college students. Our employees, clients, and friends of the Firm all share in our passion for helping kids."

In fact, at J.H. Cohn, giving back truly permeates the Firm culture. Employees embrace the notion, rolling up their sleeves and getting personally involved. This is exemplified in many initiatives, including the annual employee Bowl-A-Thon benefiting the Make-A-Wish Foundation of New Jersey. Each bowler raises donations and sponsorships from friends, family, and clients, while other employees volunteer to plan the event and help in other ways. Over the past ten years, employee Bowl-A-Thons have raised over $1.1 million for the Make-A-Wish Foundation of New Jersey, making the Firm the top corporate donor in the state. The New York offices of J.H. Cohn have also held Bowl-A-Thons in recent years benefiting the Metro New York and Hudson Valley chapters of the Make-A-Wish Foundation.

Giving back among employees goes beyond Cohn for Kids. For instance, California offices held networking events benefiting local Dress for Success chapters and an employee go-kart race that raised $10,000 for Children's Hospital Los Angeles. In Connecticut, employees spent a day preparing for the next group of campers at the Hole in the Wall Gang Camp, which provides seriously ill children with an empowering away-experience. These are just examples of the many ways offices give back to their communities throughout the year via collections, fundraisers, and events.

When a company hosts fundraising events or group outings, the community work brings employees together, building stronger teams with which to serve customers. Michael points out, "As everyone takes a step back from their busy schedules to rally behind an important cause, it makes each of us feel good about ourselves, and the company we work for."

"Create a strategy that allows your business to make the greatest impact with philanthropy by focusing on charities that fit a common theme, and consider the role giving back plays in the company culture."

He advises, "To see success with your fundraising, do not undermine the significance of having well-organized events. I'm proud of our signature events—our annual golf invitational and Bowl-A-Thons—and our commitment to the quality of these events."

Companies can establish a foundation, as J.H. Cohn has, to manage its charitable efforts. Michael recommends doing so for the tax-advantaged benefits, but notes that there is an additional administrative cost to take into consideration yet emphasizes that businesses do not have wait to have a charitable foundation established to do good.

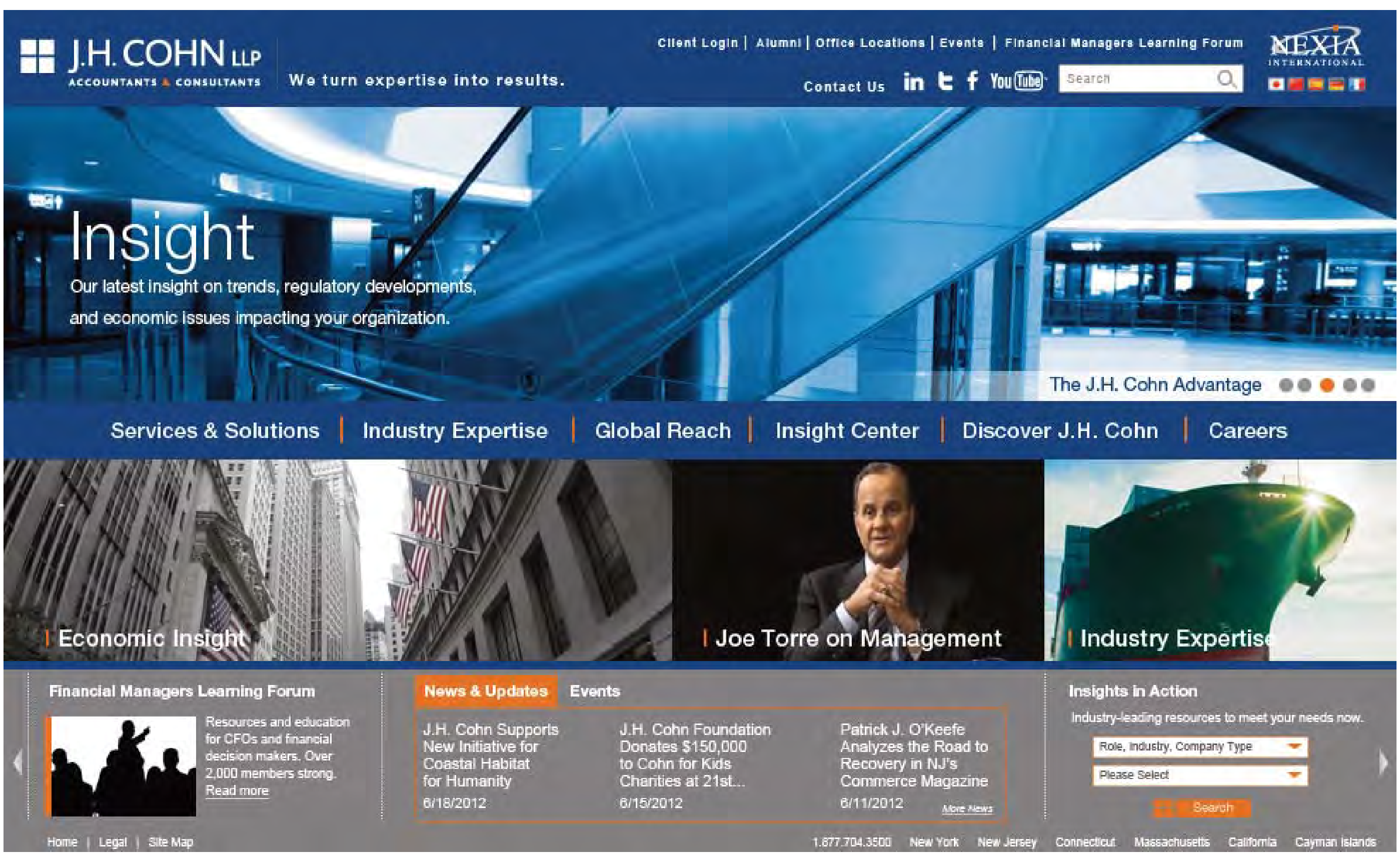
Michael's key advice: "Create a strategy that allows your business to make the greatest impact with philanthropy by focusing on charities that fit a common theme, and consider the role giving back plays in the company culture." ■

*Michael Cohen, CPA, partner, is director of the J.H. Cohn Foundation. He can be reached at mcohen@jhcohn.com or 973-403-6933.*

## Discover the New www.jhcohn.com

J.H. Cohn recently launched an updated website, with new features and enhanced functionality. The site is intended to be a resource for our clients and contacts to find dynamic content that is relevant to their industries, roles, and company types.

Visit our Insight Center for alerts and newsletters, and to learn about "what's happening" at J.H. Cohn. The Insights in Action function helps you find the content tailored to your interests. You will find timely information on the Insight on the Economy page, and you may also be interested in new sections, such as Joe Torre on Management.



## CALIFORNIA

**Los Angeles**
11755 Wilshire Boulevard
17th Floor
Los Angeles, CA 90025
310-477-3722

**San Diego**
9255 Towne Centre Drive
Suite 250
San Diego, CA 92121
858-535-2000

**Warner Center**
21700 Oxnard Street
7th Floor
Woodland Hills, CA 91367
818-205-2600

## CAYMAN ISLANDS

P.O. Box 1748 GT
27 Hospital Road
George Town, Grand Cayman
877-704-3500 x7839

## CONNECTICUT

**Farmington**
76 Batterson Park Road
Farmington, CT 06032
860-678-6000

**Glastonbury**
180 Glastonbury Blvd.
Glastonbury, CT 06033
860-633-3000

**New London**
125 Eugene O'Neill Drive
Suite 120
New London, CT 06320
860-442-4373

**Stamford**
1177 Summer Street
Stamford, CT 06905
203-399-1900

## MASSACHUSETTS

**Springfield**
One Monarch Place
Suite 2020
Springfield, MA 01144
413-233-2300

## NEW JERSEY

**Roseland**
4 Becker Farm Road
Roseland, NJ 07068
973-228-3500

**Eatontown**
27 Christopher Way
Eatontown, NJ 07724
732-578-0700

**Metro Park**
333 Thornall Street
Edison, NJ 08837
732-549-0700

**Princeton**
103 Carnegie Center
Suite 311
Princeton, NJ 08540
609-896-1221

## NEW YORK

**Manhattan**
1212 Avenue of the Americas
New York, NY 10036
212-297-0400

**Long Island**
100 Jericho Quadrangle
Suite 223
Jericho, NY 11753
516-482-4200

**White Plains**
1311 Mamaroneck Avenue
White Plains, NY 10605
914-684-2700

J.H. COHN LLP
ACCOUNTANTS & CONSULTANTS

**877-704-3500**
**www.jhcohn.com**

Circular 230: In compliance with U.S. Treasury Regulations, the information included herein (or in any attachment) is not intended or written to be used, and it cannot be used by any taxpayer for the purpose of i) avoiding penalties the IRS and others may impose on the taxpayer or ii) promoting, marketing or recommending to another party any tax related matters.