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It is always a pleasure to share some of the great happenings taking place at Katz, Sapper & Miller, none of which would be possible without the combination of talented, dedicated employees and wonderful clients.

Many things have happened in our firm during the last six months, including exciting changes to our Indianapolis office, a fulfilling corporate outreach event, our admission to a new international network of accounting firms and industry recognitions that we believe affirm our company’s mission.

Closest to home, we recently completed renovations to our Indianapolis office space. The renovations – which include a state-of-the-art conference center, new collaborative workstations and a stunning staircase – reflect the firm’s commitment to providing employees with a rewarding place to work, and clients with a welcoming place to visit.

Our firm’s sixth annual Community Day was held this year at Jameson Camp, a United Way agency that uses award-winning camp experiences to enrich the lives of Indiana youth, inspiring them to discover strengths they might not know they have. On Nov. 7, our employees contributed approximately 1,600 work hours to help make improvements and repairs to the camp’s facility.

Additionally, we recently joined PrimeGlobal, the world’s preeminent association of independent accounting firms. This highly regarded affiliation gives our firm the strength, technical depth and geographic reach of a large, worldwide organization, even as we continue to provide the individualized attention we believe separates us from the pack. We look forward to sharing PrimeGlobal’s many benefits with our clients.

We continue to take pride in the awards our firm receives. We were delighted to learn we were named a Best of the Best accounting firm by INSIDE Public Accounting for the 13th year and also recognized as a Best Place to Work in Indiana for the ninth consecutive year.

Lastly, and perhaps most importantly, the results of a recent client survey provided us with responses of which we are very proud. More than 90 percent of respondents said they would recommend KSM to a fellow business owner or friend, which is the ultimate compliment our clients can give us.

Taken together, all of these great happenings underscore KSM’s philosophy of providing you with the expertise of a dedicated team who has an unmatched passion for serving your needs.

Thank you for your continued loyalty to Katz, Sapper & Miller.
Tax-Planning Pitfalls for Developers in Public-Private Partnerships

Public-private partnerships (P3) are a hot topic in real estate development. With many real estate developers and construction companies still experiencing a lack of liquidity coming out of the Great Recession, these cooperative agreements between government and private entities allow the building of many projects that would not happen otherwise.

While most developers recognize the opportunities such partnerships offer, few fully grasp the power that tax planning before striking a deal will have on driving the financial success of the project.

What Are Public-Private Partnerships?
P3 projects commonly involve mixed-use residential/retail redevelopment plans that revitalize downtown areas or unused manufacturing spaces, or spur economic investment in suburban centers. Other instances include projects such as stadiums and other tourist-attracting facilities – and civil projects like bridges.

Lenders also appreciate the P3 model, which encourages their confidence and willingness to invest as projects become less speculative and more secure with the additional equity from public funding. The most common P3 model involves the government entity providing an incentive to the developer, rendering the project financially feasible through financing that becomes available to the well-capitalized project. Incentives may take the form of land or buildings, property tax abatements, tax increment financing or other mechanisms. While this strategy holds great appeal and potential for developers, it carries risk as well.

Tax Considerations of P3s
When assessing the viability of any P3 project, it is critical that developers consider the potential tax effects of the proposed incentives. A careful evaluation of the incentive in terms of future tax liability should be performed early in the process to prevent serious financial problems and ensure that contracts and financing can proceed smoothly. Failure to perform this tax analysis in a timely fashion can result in the project’s cancellation or unanticipated financial implications for the developer.

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See “Public-Private Partnerships.”
2015 Hiring Outlook: The Year of the Contractor

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It would be hard to argue the U.S. economy has not fared better in 2014 than 2013, and it certainly looks like that trend will continue into 2015.

Like the economy, hiring and unemployment trends have also improved. The nation’s unemployment rate fell below six percent in September for the first time in six years. Not surprising, Gallup’s U.S. Job Creation Index also reached a six-year high in September, with 42 percent of respondents stating their employer is hiring.

However, while key indicators trend in the right direction for the jobs market and overall hiring in America, many employers do not foresee this growth occurring in the full-time employment arena. In 2015, experts anticipate growth in the temporary and contract segment because of uncertainties surrounding ongoing economic growth in the U.S., general turmoil around the globe, and, of course, unanswered questions of what the Affordable Care Act (ACA) will mean to companies.

This demand for contract and temporary staffing has been increasing over the past few years, and 2015 should be no exception. The contract/temporary worker allows companies to meet their immediate hiring needs with a flexible workforce they can adjust accordingly as staffing needs increase or decrease within their specific markets.

It is no wonder that employers are searching for ways to reduce their costs under the ACA. For many companies, the most obvious way to avoid the penalties associated with this Act is to stay below the 50-employee threshold. Some have even suggested they will be cutting hours, instituting hiring freezes or conducting layoffs. But those methods can harm company growth, productivity and profitability. And companies planning to simply lay off workers may find their reputation tarnished as well, which makes future hiring more difficult.

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See “Hiring Outlook.”
Accounting Considerations with Tax Increment Financing

Among economic incentives, tax increment financing (TIF) is a common financial tool of local governments to spur growth. Essentially, TIF provides upfront funding of development efforts, which are repaid by the resulting higher incremental future tax revenues.

Often, municipalities are the government agency sponsoring a TIF district, and they may levy special assessments to fund the construction of infrastructure improvements. Alternatively, a business that intends to develop its own real estate may create a TIF entity to finance such improvements. TIF entities are authorized under various state statutes to issue bonds for infrastructure construction efforts. Overall, the goal of TIF is to bring new business into a local economy.

One important aspect for an entity to consider is the potential accounting ramifications of involvement with TIF. More specifically, when would Generally Accepted Accounting Principles (GAAP) require the recognition of a liability on an entity's financial statements? The answer is, it depends on the circumstances.

The specific TIF liability guidance under GAAP – FASB Accounting Standards Codification (ASC) Topic 970-470 – is designed around whether the special tax assessments used to finance the TIF are fixed or determinable in both amount and duration. If so, a liability should be recognized by the property owners being assessed. Furthermore, the more common guidance offered by GAAP related to Contingencies (ASC Topic 450), Guarantees (ASC Topic 460), and Variable Interest Entities (ASC Topic 810-10) must also be considered.

Some common examples involving the use of municipal bonds and/or a TIF entity for site preparation by a developer include:

1. A municipality issues bonds and levies a special assessment on the property equal to the face amount of the bonds, with similar terms. As the assessment is fixed to both amount and duration, a TIF liability should be recognized by the property owner for the special assessment.

2. A TIF entity issues bonds. Upon completion, the infrastructure assets (including related land) pass to the municipality, which levies an annual tax (in addition to the normal property tax assessment) in an amount to cover the TIF entity’s annual debt service requirements. As the assessment is fixed to amount and duration, a TIF liability should be recognized by the property owner for the TIF entity debt.

3. A TIF entity issues bonds. Upon completion, the infrastructure assets (including related land) pass to the municipality, which will fund the TIF entity’s annual debt service requirements through normal property taxes, as the assessed value of the developed property is expected to increase. As the assessment is not fixed to amount or duration, a TIF liability should not be recognized by the property owner.

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See “Tax Increment Financing.”
Annual Survey Finds Hoosier Manufacturers Poised for Growth

Katz, Sapper & Miller released its annual survey of Indiana manufacturers. Indiana is the most manufacturing-dependent state in the nation, and the industry continues a strong rebound from the Great Recession; however, the survey warns that growth could be derailed by regulatory costs and workforce weaknesses.

“Manufacturing is Indiana’s economic engine,” said Steve Jones, an associate professor of finance and chair of the IU Kelley School of Business Indianapolis Evening MBA Program, who co-authored the survey. “So we’re pleased to report that the mood of our manufacturing employers is upbeat and bullish on investment – but they also have real worries about rising energy and regulatory costs, and about Indiana’s workforce.”

KSM’s Indiana Manufacturing Survey is authored by IU Kelley School of Business experts in partnership with Conexus Indiana and the Indiana Manufacturers Association.

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Amortization of Goodwill Is Back on the Table

Companies are finding opportunities for growth through acquisitions. Upon completing an acquisition, any unallocated acquisition price is presented on the balance sheet as “goodwill.”

If companies are subject to a financial statement audit or review, the first thought may be, “Time and money!” While accounting considerations surrounding the most significant accounts – accounts receivable and inventory, for example – can be burdensome enough, goodwill has only added another layer of complexity in recent years. ASU 2014-02, Intangibles – Goodwill and Other (Topic 350): Accounting for Goodwill may provide some relief if elected by the company.

Prior to ASU 2014-02, amortization of goodwill was not permitted. Any goodwill resulting from an acquisition was tested for impairment at least annually. In the event the fair value of an entity (or reporting unit) was deemed to be below its carrying amount, a second step was required to determine the amount of goodwill impairment loss. This second step in many cases can be costly in terms of not only dollars spent to assess and support fair value, but also time spent by accounting professionals that could otherwise be spent with opportunities to add greater value to the company.

ASU 2014-02 allows a privately held company to amortize goodwill on a straight-line basis over 10 years, or less than 10 years if the entity demonstrates another useful life is more appropriate. A company electing this accounting alternative is required to make an accounting policy election to test goodwill for impairment at the entity level or the reporting unit level.

Under this alternative, goodwill should be tested for impairment when an event or changes in circumstances occur (a triggering event) that indicates the fair value of the entity (or reporting unit) may be below its carrying amount. Upon such an event or changes in circumstances, a company may assess qualitative factors to determine whether it is more likely than not that the fair value is less than the carrying amount. Further testing is unnecessary when the qualitative assessment indicates it is not more likely than not that goodwill is impaired. Otherwise, a quantitative assessment is required. A company may elect to skip the qualitative assessment and perform the quantitative calculation. A goodwill impairment loss, if any, is recognized for the amount that the carrying amount of the entity (or reporting unit) exceeds the fair value.

By allowing for the amortization of goodwill, ASU 2014-02 is expected to reduce the likelihood of impairments. Additionally, the expectation is that privately held companies will have to test goodwill for impairment less frequently, saving both time and money. While the alternative is expected to be a popular election by many companies, careful consideration should be given to the impact on the financial statements and the users of the financial statements.

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See “Goodwill.”
Weighing the Decision to Move to the Cloud

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By now, everyone has heard about cloud computing and, likely, has at least considered use of the cloud for professional or personal needs. Early on, though, organizations were hesitant to adopt the cloud, out of concerns about security, data accessibility, integrity, confidentiality and portability. Also, just a few small cloud-based applications piqued interest for on-demand, automated computing resources for businesses.

Eventually the benefits of cloud-computing, including agility, scalability and economies of scale, sustainability, reliability, and increased efficiency, started helping companies overcome their concerns. Additionally there are the economic benefits – organizations only pay for the resources they are using when they use them. Of course, this new consumption and delivery model brought a shift from capital expenditure to operating expenditure, which companies had to consider in their decision-making.

Still, moving to the cloud was not a quick or easy decision. Then along came Office 365, the cloud-based service hosted by Microsoft. Office 365 is now one of the most commonly implemented cloud solutions for businesses. It combines the familiar Microsoft Office desktop applications with cloud-based e-mail, shared calendars, instant messaging, video conferencing, file sharing and file storage. Multiple plans are available to fit different company sizes and needs. Subscription services allow for incremental investment based on what fulfills an organization’s needs at any given time.

Office 365 provides access, mobility and flexibility. All necessary documentation, tools, e-mails, contacts and calendars are delivered from the same access point. And these are readily accessible across an individual’s multiple devices (PC, Mac, tablet, smartphone), using just one license. Office 365 also provides greater reliability and security. Office 365 includes gate-checks for security and compliance, enabling easy application installation and usage. With a 99.9% scheduled uptime, there is almost no interruption to service. In addition, the storage of files in a cloud-based environment versus on a singular device reduces security risks for organizations and loss risks for employees.

It may be time to consider Office 365 when renewing Microsoft licenses. Implementation of Office 365 can be complicated, though.

The Cloud
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Organizations must be thoughtful in their migration approach, considering the people-focused aspects, as well as the technical ones.

Successful migrations include the development of practices and processes for employees as well as in-depth training for employees to understand the tools and the standardized manner in which they are to be used. Following these steps increases adoption of the full suite of tools and, ultimately, the benefits of the solution.

Public-Private Partnerships
(Continued from page 3)

The key issue is often the taxability of incentives. Absent upfront tax planning, the full value of the incentive is taxed at ordinary rates in the year it is received. However, with effective tax planning, this deal-killing result can be avoided.

Plan of Attack
To maximize the value of project incentives, developers must take a two-pronged approach:

1. Negotiating to receive the incentive that brings the highest tax value
2. Establishing an entity structure to support optimal tax treatment

Negotiating the Deal
Not every incentive is created equal. For example, land, buildings and upfront cash can be structured so they are received tax-free and thus retain their full value. Credits or tax abatements, however, result in a tax-expense reduction that increases taxable income. Therefore, $100 of land typically has a greater tax value than $100 in property tax abatement.

Establishing Structure
Form matters. While partnerships and LLCs are ineligible to receive tax-free incentives, S and C corporations are eligible, provided certain criteria are met. And since real estate projects tend to be formed as LLCs, it is imperative that upfront tax planning creates a structure that contemplates either an S or C corporation in order to receive those incentives. Furthermore, this step needs to occur before negotiating with municipalities and before financing is sought. All too often, taxpayers wait until documents are executed only to find they must undo them in order to receive incentives without a deal-killing tax hit.

P3 projects offer great opportunity for profitable, beneficial development. It is important that developers understand the different tax treatment that accompanies varying types of incentives in order to succeed with public-private partnerships. Developers are strongly encouraged to seek early guidance from tax professionals who understand P3 tax concerns and their impact on the ultimate success and profitability of the deal.

“Few fully grasp the power that tax planning before striking a deal will have on driving the financial success of the project.”
Hiring Outlook  
(Continued from page 4)

Companies should be extremely wary of believing they can simply convert W-2 employees to 1099 independent contractors (ICs). According to the Wall Street Journal, the Internal Revenue Service (IRS) has already vowed to be on the lookout for employers who incorrectly classify workers as ICs to get around the 50-employee threshold. The IRS will be looking at an employer’s level of control over a worker, the duration of the relationship and the payment structure to determine whether a worker is truly an IC. In addition to the traditional fines, penalties and back wages employers face for misclassification, employers may also find themselves paying additional fines for failing to offer insurance to these misclassified employees.

Recruiting firms that offer contract staffing solutions can help companies legally stay below the 50-employee threshold without reducing their productivity. Companies can use contractors to complete projects, meet goals or respond to business surges without having to worry about the employer mandate because the contractors are employees of the staffing provider. Therefore, the provider, or “back-office,” must provide the healthcare insurance, taking on that additional cost and administrative burden.

If a company has more than 50 employees, they may not be able to avoid the ACA, but they can still possibly reduce costs associated with it through contract staffing. For example, many companies often have projects running 12 to 18 months. Rather than taking on the cost and burden of a full-time employee, providing those workers with benefits, companies can outsource that responsibility by staffing the project with contractors. While they still have to comply with the law, the number of direct hires they have to cover, and therefore their costs, will be reduced.

Tax Increment Financing  
(Continued from page 5)

In addition to examples 1 and 2, the special assessment of the TIF entity debt remains with the property, respectively. Therefore, upon a sale or partial sale of the development, either the entity must pay the remaining assessment or the pro rata portion of the TIF entity debt, or the purchaser must assume the respective obligation.

The accounting considerations with TIF could have a significant impact on an entity’s balance sheet. Within GAAP, there are often exceptions to the general rules as well as further considerations that should be made related to specific agreements and the municipality involved; therefore, questions may arise on whether liabilities are created with involvement in TIF.

Goodwill  
(Continued from page 7)

For example, while a lender may typically ignore any value in goodwill as an intangible, the election to amortize goodwill could have a significant impact on financial covenants and the general “feel” of the financial statements.

ASU 2014-02 applies to privately held companies, as defined, and is effective for annual periods beginning after Dec. 15, 2014, with early adoption permitted. If elected, the accounting alternative should be applied prospectively to goodwill existing as of the beginning of the year of adoption, and any new goodwill recognized in periods beginning after Dec. 15, 2014.

This article originally appeared in KSM’s Manufacturing Advisor.
From the KSM Blog

Investors are “Hopped Up” on Craft Beer

Hoosiers cannot seem to get enough craft beer these days. With popularity increasing, breweries are popping up all over the state and are topping the tech and manufacturing markets in terms of growing capital. With craft beer sales growing 20% in 2013 ($14.3 billion), breweries and distilleries have drawn considerable attention across the nation.

Continued Growth and Popularity of Accountable Care Organizations

Accountable Care Organizations (ACOs) began formation in 2012 as part of the Affordable Care Act. Even with their growing popularity, many providers are remaining cautious due to the significant investments that need to be made to develop the structure required for an ACO.

‘Grow Your Restaurant’ Podcast: Patrick Tamm of the Indiana Restaurant Association

Patrick Tamm, president and CEO of the Indiana Restaurant & Lodging Association, joins Jim White of Katz, Sapper & Miller’s Restaurant Services Group to discuss a variety of issues affecting restaurant profitability, and he explains how restaurant associations are working to impact these issues.

KSM & McLeod Software Release Key Findings from Trucking Operations Performance Benchmarking Survey

The results from the inaugural Katz, Sapper & Miller and McLeod Software trucking industry benchmarking survey are available. The key findings reveal how carriers compare to each other in terms of such vital metrics as operating ratio (OR), average MPG and dispatched miles per truck.
Our People: Your Success

In the Firm News

Welcome to the following new staff members:
Brett Behrens, Jaimie Bertsch, Libby Bozarth, Andrew Browning, Stephanie Dunn, Jennifer Erner, Andrew Fuchs, Lindsay Hammond, Na'Tashia Henderson, Kari Huang, Sarah Kelly, Kate Kelly, Marc Kemen, Daniel Mohr, Matt Parker, Daniel Perry, Jordan Pfister, Jason Plake, Amy Sawyer, Stephen Short, Megan Slager, Ellen Smith, Ashley Standifer, Morgan Wade

Congratulations to the following staff members on their exam/certification accomplishments:
Bar exam – Kate Kelly
Certified Construction Industry Financial Professional – Zeeshan Malik
Certified QuickBooks ProAdvisor – Angela Stephenson
CPA Exam – Andrew Browning, Cameron Gentry, Lindsay Hammond, Kari Huang, Jordan Pfister, Jamie Schutz, Logan Stamps, Morgan Wade
Enrolled Retirement Plan Agent – Ginger Henry

The Advisor Editorial Committee:
Mark Flinchum, Christopher Bradburn, Christopher Djonlich, Aimee Reavling, Ron Smith

For more information about Katz, Sapper & Miller, please visit ksmcpa.com.