

ON POINT

SCHNEIDER DOWNS

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ISSUE 01

PREPARE TO BE HACKED

PROTECT YOUR COMPANY BY BUILDING
AN INCIDENT RESPONSE PLAN

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KEY TAX DATES

4.15.15

INDIVIDUALS. Last day to make a contribution to traditional IRA, Roth IRA, Health Savings Account, SEP-IRA or solo 401(k) for the 2014 tax year, unless an individual extension is filed.

PARTNERSHIPS AND INDIVIDUALS. Last day to file tax returns and self-employment tax returns of individuals for calendar year 2014.

ESTIMATED TAX. Payment of first installment of 2015 estimated income taxes by calendar-year individuals.

TRUSTS AND ESTATES. Last day for calendar-year estates and trusts to file application (Form 7004) for automatic five-month extension of time to file 2014 income tax return.

4.30.2015

EMPLOYERS' TAXES. Employers of nonagricultural and nonhousehold employees must file return on Form 941 to report income tax withholding and FICA taxes for the first quarter of 2015.

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WE WANT TO HEAR FROM YOU

As you may know, Schneider Downs publishes original content on a near-daily basis, sharing our thoughts on topics ranging from all aspects of our service offerings. In 2014, more than 150 of our professionals wrote articles on a broad spectrum of topics. Additionally, we share content through more than a dozen unique newsletters – each focusing on a different niche or industry. (To view the whole list, visit www.schneiderdowns.com/subscribe.) It is our hope that you enjoy these publications and find them helpful and relevant.

In 2015, we'd like to create more of a two-way dialogue with our clients and colleagues. We'd love to hear from you: What topics would you like to see in our newsletters? Do you have suggestions for future publications, or questions that we can address on our website? Or, would you simply like to share your feedback on the ideas we share through our blog and newsletters?

Simply put: I invite you to email me with any thoughts or ideas that will help us better meet your needs. We'd love to hear from you.

Sean P. Smith, Chief Marketing Officer
ssmith@schneiderdowns.com



PREPARE TO BE HACKED

I have a question for you. What do Apple, Home Depot and Sony have in common? If you said that they were all Fortune 500 companies in 2014, you would be right. I

have another question for you. What do

Apple, Home Depot, Sony, Kirkwood Community College, and the Sausalito Yacht Club have in common? If you said that they were all victims of a recent hack, you would also be correct. The point I want to emphasize is hacks can happen to any business regardless of size. No longer are hackers targeting only the largest companies in an effort to gain unauthorized access to data. In fact, an argument can be made that hackers are more likely to attack small to medium-sized companies due to the perceived lack of investment that these companies make in preventive security tools.



BY
PATRICK B. ARMKNECHT
TECHNOLOGY ADVISORS
SENIOR MANAGER

Now that we've established that any sized business is at risk of being hacked, what should we do? I would love to tell you that there is a foolproof plan for protecting your data, but unfortunately, there isn't. As my colleague Eric Wright puts it, "It's not a matter of if you're going to get hacked, it's when." Knowing this, what can you do to prepare for the inevitable data breach?

If you don't already have one, I recommend that you create an Incident Response Plan (IRP). The purpose of an IRP is to develop a course of action to minimize the damage caused by a hack. These plans address the processes for identifying, containing, removing and recovering from a data breach. Additionally, your IRP should:

- Explain the purpose of the Incident Response Plan;
- Define/classify what constitutes an incident;
- Identify the members of the Incident Response Team (including contact information);
- Define the roles and responsibilities of the Incident Response Team members;
- Include documentation of the technology environment (network diagrams, data flow diagrams, etc.);
- Outline the communication and notification procedures; and
- Include an education/training plan for the Incident Response Team members on how to perform their responsibilities.

Keep in mind that it is not uncommon for small to medium-sized businesses to include third-party vendors in their IRP due to lack of internal resources or capabilities. The important thing is that you identify and include these vendors in the IRP planning process and clearly define their roles.

Although there is no foolproof way of preventing a hack, a good Incident Response Plan can limit the damage to your business and help reduce your recovery time and costs. ■

TOP STORY

FINAL REGULATIONS ISSUED FOR TANGIBLE PROPERTY AND REPAIRS

by Evan C. Ogrodnik



In 2014, the Internal Revenue Service (IRS) issued final regulations related to the disposition of property. This guidance completed a series of comprehensive rule changes that modify how taxpayers account for materials and supplies, spare parts, repairs and maintenance and dispositions of property.

The new “tangible property” or “repair” regulations, as they may be commonly referred to, are applicable to most business taxpayers effective for tax years beginning after December 31, 2013, many of whom will be required to change one or more methods of accounting.

Materials and supplies are defined as components acquired to maintain, repair or improve a unit of property, and are expected to be consumed in 12 months or less from date of first use. Materials and supplies are characterized as either incidental (no tracking or record of use), which are deductible in the year paid or incurred, or non-incidental (those that are or should be tracked) which are deductible in the year used or consumed. If taxpayers are not properly accounting for materials and supplies pursuant to the new regulations, a change of accounting method is likely required.

The new regulations also require different tax treatment for various types of parts maintained and used by taxpayers. Rotable (parts or components installed on a unit of property and later removed, repaired, refurbished, etc., and later reinstalled) and temporary (used for a limited time frame until a new part is installed) spare parts are deducted in the year the part is disposed of (not the year placed in service or used). Emergency spare parts (maintained to mitigate downtime or loss of equipment usage) are deducted when installed. Like materials and supplies, if taxpayers are not properly accounting for spare parts under the new regulations, a change of accounting method is likely required.

An election is available to capitalize and depreciate spare parts with a cost in excess of \$200 or a useful/economic life of greater than 12 months. If the election is made, the parts are considered placed in service on the date of acquisition. These capitalized spare parts are depreciated similarly to the equipment they are used for, with the same accelerated depreciation methods that may be available.

Additionally, a de minimis safe harbor election is available whereby taxpayers with an applicable financial statement (“AFS”; generally an

audited statement) may expense up to \$5,000 per item, providing that they have a written capitalization policy in place, and the policy is applied for U.S. Generally Accepted Accounting Principles (GAAP) purposes as well. Taxpayers without an AFS may expense up to \$500 per item.

The new unit-of-property rules require that building property is now comprised of the building, its structural components and eight building systems (HVAC, plumbing, electrical, escalators, elevators, fire protection and alarm, security system, and gas distribution). Repairs and maintenance costs must be capitalized if they are for the betterment, restoration or adaptation of the building, structural components or any of the building systems. The characterization of an expenditure as a repair or a capitalized improvement will depend on the size of the unit of property to which it relates. A routine maintenance safe harbor exists that permits expensing for maintenance that will occur more than once within either a ten-year period for buildings or the asset’s Alternative Depreciation System (ADS) class life for non-building property.

Also included within the regulations is the ability to make a partial disposition of property and remove ghost assets (those no longer in existence) still being depreciated. Historically, the basis of building property could not be deducted (other than from depreciation) until the entire property was disposed of. The partial asset disposition election permits taxpayers to write-off the remaining basis of a component of property replaced, i.e., a building roof.

The tangible property regulations are lengthy and complex, and the impact to taxpayers will vary depending on business activities and current policies. Many taxpayers will be required to review assets previously capitalized and repairs previously expensed to determine if the prior treatment was consistent with the requirements under the new regulations.

The Internal Revenue Service recently issued relief for qualifying small taxpayers (generally those with average revenues or total assets less than \$10 million). Taxpayers opting for the relief provisions pursuant to Revenue Procedure 2015-20 may apply the new Regulations on a prospective (cut-off) basis. ■

FEATURE



BY
CHRISTYL L. SAMEK
BUSINESS ADVISORS MANAGER

What is the current guidance related to goodwill impairment? In an effort to reduce costs and simplify the process, the Financial Accounting Standards Board (FASB) added the qualitative option and later added an accounting alternative election for the subsequent measurement of goodwill. The qualitative test option has been available to private and public companies. Companies saw some cost reduction with this option; however, if a company needed to perform the quantitative test because goodwill was likely to be impaired, then costs were actually greater. Also, private companies provided feedback to the Private Company Council (PCC), noting that many users of the financial statements of private companies are not really concerned about goodwill and goodwill impairment. As a result, the private company accounting alternative election was added.

GOODWILL IMPAIRMENT - WHAT IS THE CURRENT GUIDANCE?

by Christy L. Samek

In summary, for private companies, there are currently two options and one election available for accounting for goodwill subsequent to combination:

Option 1 - Qualitative test option;
Option 2 - Quantitative two-step test; or private company accounting alternative election.

If selected, the qualitative test option is performed annually. The company will fail this test only if there is greater than 50% likelihood that the fair value of the reporting unit is less than the carrying value based on qualitative criteria. Some examples of qualitative factors to consider include macroeconomic conditions, industry and market conditions, increasing costs, financial performance, other entity-specific or reporting-unit-specific events and/or a sustained decrease in share price. If this test is failed, then the company must do the two-step quantitative test discussed below.

If a company chooses, the qualitative test can be skipped, and the company can perform the quantitative test. The quantitative test values the reporting unit and compares the carrying value of equity to the fair value of equity. If the fair value of equity is less than its carrying value, then the company must proceed to Step 2 in order to determine the value of goodwill. In Step 2 of the impairment test, goodwill is determined as the residual value after the value of the reporting unit is allocated to all the other assets and liabilities as in an acquisition. This can be a lengthy and costly effort, since often experts are needed to value the assets such as trade names, backlog, customer lists and possibly even real estate.

A private company may make an election to apply alternative accounting to the subsequent measurement of goodwill that is still under generally accepted accounting principles (GAAP). Private companies had been spending significant time and resources on annual impairment testing that seemed to provide little benefit. As a result, this alternative accounting election was made available to private companies for periods after December 15, 2014; however, early application is permitted.

This election simplifies the testing of goodwill for impairment for a private company in the following ways:



- Goodwill is tested for impairment only upon a triggering event.
- Goodwill can either be tested at the reporting unit level or at the entity level.
- If a company determines that goodwill is impaired, then the amount of impairment is no longer determined through the Step 2 process. Rather, the impairment amount is calculated as the excess of the entity's (or reporting unit's) carrying amount over the its fair value. However, the amount of impairment may not exceed the goodwill balance.
- Goodwill can be amortized over a period of 10 years. If a private company can demonstrate that it is appropriate, a period of less than 10 years may be used.

Once a triggering event has occurred, the qualitative test can still be used under this election. If there is greater than 50% likelihood that the fair value of the reporting unit is less than the carrying value, then Step 1 of the quantitative test is performed at either the reporting unit or entity level.

Public companies have only the option to do either the qualitative test or the quantitative test. The alternative accounting election is not available to public companies; however, FASB is considering whether or not this election might make sense for public companies.

In summary, if your private company is facing the challenge of testing for goodwill impairment, early adoption of the accounting alternative for the subsequent measurement of goodwill might simplify the process. ■

NEWS YOU NEED

ERIC WRIGHT JOINS REGIONAL EXPERTS DURING THE WHITE HOUSE SUMMIT ON CYBERSECURITY AND CONSUMER PROTECTION

By Rachael Frye, Marketing Coordinator

Eric Wright, Schneider Downs Technology Advisors Shareholder, was recently selected by the FBI as a panelist for the Pittsburgh Cybersecurity Forum. The forum, held in conjunction with The White House Summit on Cybersecurity and Consumer Protection, brought together the region's experts for a panel discussion on industry trends and the cybersecurity posture of organizations within Pittsburgh and the surrounding area.



"It's important to understand your current security profile and address the gaps that currently exist. Your IT risk assessment is a living, breathing document that needs to be monitored and adjusted as your organization changes," said Eric Wright. "Human nature is typically the weakest link in an organization's security profile, and to combat this weakness, companies should implement security training and awareness programs for all employees."

Coinciding with the forum, President Barack Obama addressed the issues surrounding information sharing between the federal government and private sector at The White House Summit on Cybersecurity and Consumer Protection at Stanford University in California. The summit was livestreamed in 18 cities across the U.S., including Pittsburgh, where it was broadcast during the forum.

Following the summit, President Obama signed Executive Order 13636, "Improving Critical Infrastructure Cybersecurity." ■

SCHNEIDER DOWNS WEALTH MANAGEMENT ADVISORS, LP QUARTERLY COLUMN

COLLEGE MATTERS: YOU MAY NEED A 529 PLAN

In 2013, my last child graduated from college. Our lives had been consumed with planning and funding college. What lessons have I learned? You need a 529 plan. College matters. Even in the challenging job market of the past few years, those with college degrees were able to attain employment at a higher salary and tend to remain employed, as compared to those without a degree. Tuition has inflated 688% since 1983 and is expected to continue to rise. With the looming crisis in student debt, we need a better way to fund college.

The 529 plan is the only tax-advantaged savings plan that is open to all income levels. When you establish the account, you choose a beneficiary. This can be any United States resident (including yourself) as long as that person has a social security number. You may also change beneficiaries at any time.

- A 529 plan grows tax-free for federal and state tax purposes and will never be taxed when used for eligible higher education expenses.
- Each state is different, but if you are a PA resident, contributions to any 529 plan provide you a tax deduction up to \$14,000 per year (equal to the federal annual gift exclusion).
 - o \$14,000 per beneficiary per donor with at least that much state taxable income.
 - o You can stack for joint returns and multiple beneficiaries.
 - o You may not claim a refund if the credit is more than tax paid.
- A PA 529 plan is also free from Pennsylvania Inheritance Tax.
 - o A PA plan only allows this benefit to a PA resident account owner.
- Five-year gift tax election allows contribution up to \$70,000 per donor in the first year.
 - o Election against the annual exclusion will be spread ratably over the five-year period.
- A 529 plan is a completed gift for federal gift tax purposes.



BY
VICTORIA A. ROGERS, CFP®
SCHNEIDER DOWNS WEALTH
MANAGEMENT ADVISORS, LP

o Contributions are removed from your estate, even though you still control the assets. This is the only asset that allows this type of control. You control the investments, and you control the beneficiaries.

Most state plans have low minimum investments, especially if you are willing to set up an automatic investment program. As little as \$25 will allow you to open an account.

You do not have to invest in your state plan. 529 plans are offered by most states and all provide the same federal benefits. Choose your state plan wisely. Asset managers, investment selection, underlying fees and state tax treatment vary greatly between plans. Some states also offer a prepaid tuition plan that allows you to save credits toward tuition. You may also want to look for a plan that offers Upromise, a rewards program that you can link to your 529 plan.

Just consider the possibilities. The students in your life will thank you.

I've discussed other aspects of 529 planning in an "Our Thoughts" article on Schneider Downs' website, "Free Money? – Less Taxes – College Funding!"

To compare 529 plans, visit www.savingforcollege.com. ■

Material discussed is meant for general illustration and/or informational purposes only and it is not to be construed as investment, tax or legal advice. Although the information has been gathered from sources believed to be reliable, please note that individual situations can vary. Therefore, the information should be relied upon when coordinated with individual professional advice.

ADDITIONAL TAX DATES

CONTINUED FROM PAGE 2

BENEFIT PLAN DUE DATES

Forms 5500, Annual Return/Report of Employee Benefit Plan:

Year-End	Due Date	With 5558 Extension
8/31	3/31/15	6/15/15
9/30	4/30/15	7/15/15
10/31	6/1/15	8/17/15

Processing of corrective distributions relative to failed 401(k) ADP/401(m) ACP discrimination testing, so as to avoid a 10% employer-imposed excise tax:

Year-End	Due Date
12/31	3/16/15
1/31	4/15/15
2/28	5/15/15

PRIMEGLOBAL COMING TO PITTSBURGH

By Sean P. Smith, Chief Marketing Officer

Pittsburgh – and Schneider Downs – will be at the center of the 2015 PrimeGlobal Partner Leadership Conference this summer.

As one of the world's largest associations of independent accounting firms, PrimeGlobal annually presents the Leadership Conference, attracting senior leadership from accounting firms from throughout North America and the world. PrimeGlobal selected Pittsburgh for the 2015 conference and expects as many as 150 delegates to attend the conference.

"As a charter member of PrimeGlobal, dating back to its origin in the 1970s, I've attended just about every one of these conferences over the past 31 years," stated Raymond W. Buehler, Jr., Chairman of Schneider Downs. "Our entire firm has a tremendous amount of civic pride that PrimeGlobal has selected our town as the host city for such an important conference. Schneider Downs is working with PrimeGlobal to make this event a huge success."

Sessions at this year's conference will include a focus on Best Practice Roundtables, Mergers and Acquisitions, Budgeting for IT Initiatives and a review of PrimeGlobal's Annual Practice Management Survey. ■

AROUND SCHNEIDER DOWNS



In January, the Fall 2014 class of new hires from both offices convened in Pittsburgh for training sessions. Quite an impressive bunch!

On February 6, all Schneider Downs Pittsburgh employees wearing red for the annual *Go Red for Women* day gathered in the lobby for a group photo. *Go Red for Women* day benefits the American Heart Association.



Back in December, volunteers from our Columbus office braved the cold and took turns ringing bells outside Kroger's grocery store to help raise money for the Salvation Army. Pictured here are Sarah Hoagland and Justine Cannatti (with antlers).



In December, both the Columbus and Pittsburgh offices held educational sessions for our clients and friends. Attendees were educated on topics ranging from audit and tax updates to technology updates. Pittsburgh's event featured a guest speaker from Google Pittsburgh and Columbus included an economic update. Pictured to the left, Eric Wright explains the anatomy of a hack to a full house at the Westin Convention Center and Hotel (below, left). Below, right, Mike Renzelman and Tom Robertson mingle with guests after their event at the Boathouse at Confluence Park.



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PROFESSIONAL NEWS

TODD J. LUCAS, Audit Senior Manager, wrote the article, "What Do These Financial Statements Mean?" which appeared in the January/February 2015 issue of *Breaking Ground*.

DONALD B. APPEGARTH, Audit Shareholder, was quoted in the February 20-26, 2015 *Pittsburgh Business Times*' article "What to look for in a Form S-1, also known as an IPO filing."

DONALD R. OWENS, Internal Audit and Risk Advisory Services Shareholder, presented at two OSCP conferences; Fraud and Forensic Conference in December and the Columbus Accounting Show in November. Don also presented, along with **CHRISTOPHER DEBO**, IT Audit Senior Manager, "Fraud and Cyber-security Threats Facing Organizations" to the local chapter of Financial Executives International (FEI).

TIMOTHY D. ADAMS, State and Local Tax Shareholder, and **MARK E. COBETTO**, Tax Shareholder, attended the PrimeGlobal tax conference in Newport Beach, CA. Tim presented the state tax update, while Mark presented the federal tax update.

MARC P. BRDAR, Business Advisors Senior Manager, was accepted to be a participant of the FBI Pittsburgh Citizens Academy, an eight-week program that enlists various community leaders and executives to learn about the FBI and then serve as ongoing Outreach Ambassadors for the FBI upon graduation.

THEODORE M. PETTKO, Audit Shareholder, joined the Board of Directors of Every Child.

JAMES B. YARD, Internal Audit and Risk Advisory Services Shareholder, was appointed Chairman of the Board for Junior Achievement of Western Pennsylvania. Also, Jim's recent speaking engagements include the Pennsylvania Association of Community Bankers' national convention and the Columbus International Business Seminar.

MICHAEL A. RENZELMAN, Audit Shareholder, was appointed to the Columbus ACG Board of Directors.

NATALIE K. DONOVAN, Human Resources Manager, was recognized as one of 20 People to Know in Columbus by *Columbus Business First*.

NANCY L. SKEANS, Partner/Managing Director, Schneider Downs Wealth Management Advisors, LP, **IMRAN MOHIUDDIN**, Corporate Finance Vice President, and **LAURA A. DELFRATTE**, Tax Senior, participated in a panel of financial professionals during "Business Week" at Robert Morris University.

THOMAS G. CLAASSEN, Business Advisors Shareholder, **SEAN P. BLEIBTREY**, Audit Manager, **JASON M. DROSKE**, Tax Manager, and **SCOTT P. SEAPKER**, Audit Manager, attended the national AICPA Oil and Gas Conference in Denver, CO.

MARIA D. STROMPLE, Director of Private Client Tax Advisory Services, presented the Individual Tax Update at the annual Western Pennsylvania Tax Conference for the PICPA. Maria also attended the AICPA National Conference for "Sophisticated Tax Planning for Wealthy Clients" in Philadelphia, PA and the AICPA National Tax Online Conference in Washington, D.C.