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Leslie A. Cesario, Ltd. Monthly Newsletter

October 15 Extension Due Date Rapidly Approaching

Article Highlights:

- October 15 is the extended due date for filing 2014 federal individual tax returns.
- Late-filing penalty for individual federal returns is 5% of the tax due for each month, or part of a month, for which a return is not filed, up to a maximum of 25% of the tax due. A separate penalty applies for filing a state return late.
- Interest on tax due.
- Final opportunity for business or rental property owners to adopt the new repair and improvement regulations retroactively.

If you could not complete your 2014 tax return by the normal April filing due date, and are now on extension, that extension expires on October 15, 2015, and there are no additional extensions. Failure to file before the extension period runs out can subject you to late-filing penalties.

There are no additional extensions, so if you still do not or will not have all of the information needed to complete your return by the extended due date, please call the office so that we can explore your options for meeting your October 15 filing deadline.

If you are waiting for a K-1 from a partnership, S-corporation, or fiduciary return, the extended deadline for those returns was September 15. So, if you have not received that information yet, you should probably make inquiries.

Late-filed individual federal returns are subject to a penalty of 5% of the tax due for each month, or part of a month, for which a return is not filed, up to a maximum of 25% of the tax due. If you are required to file a state return and do not do so, the state will also charge a late-file penalty. The filing extension deadline for individual returns for most states is also October 15.

If you operate a business or have rental properties, October 15 is also the final deadline for adopting new capitalization and repair regulations retroactively by filing IRS Form 3115, Application for Change in Accounting Method, which will allow you to expense items on your 2014 return that were capitalized (depreciated) in prior open years that are now allowed to be expensed under the new regulations. If you've already filed your 2014 return, it can be amended to adopt the new capitalization and repair regulations, but the amended 2014 return will need to be filed by October 15. If the new regulations are not adopted retroactively, they will only apply prospectively.

If this office is waiting for some missing information to complete your return, we will need that information at least a week before the October 15 due date. Please call this office immediately if you anticipate complications related to providing the needed information, so that a course of action may be determined for avoiding the potential penalties.

Should You Itemize Your Deductions for Taxes?

Article Highlights:

- Who Qualifies for the Standard Deduction
- Who Is Not Allowed to Use the Standard Deduction
- Income Limitations for Itemized Deductions
- Phase-out of Itemized Deductions

Looking ahead to the filing season for this year's tax returns, a frequent question is whether you should keep track of tax-deductible expenditures or simply settle for the standard deduction amount.

Whether you can itemize deductions on your tax return depends on how much you spent on certain expenses during the year. Money paid for medical care, mortgage interest, taxes, charitable contributions, casualty losses and miscellaneous deductions (usually job or investment related) can reduce your taxes. If the total amount spent on those categories is more than the standard deduction, you can usually benefit by itemizing.

The standard deduction amounts are based on your filing status, your age and whether or not you or your spouse is blind. The standard amounts are adjusted for inflation annually and for 2015 are:

Single	$ 6,300
Married filing jointly[1]	$12,600
Head of household	$ 9,250
Married filing separately	$ 6,300

Additional amounts if age 65 or older and for those who are blind [2] (each taxpayer):

Married taxpayers filing jointly	$ 1,250
Others	$ 1,550

[1] *Also applies to qualifying widows and widowers (have a dependent child and spouse died in 2013 or 2014)*

[2] *If a taxpayer (or spouse) is both age 65 or over and blind the taxpayer (or spouse) gets two extra amounts. The extra allowance is not available for dependents.*

But, as with most aspects of taxes, it's not that simple. There are certain taxpayers who are precluded from taking the standard amount because of special circumstances, and they include:

- **Taxpayers subject to the alternative minimum tax (AMT)** – The standard deduction is only used when computing your tax in the normal manner. You receive no benefit from the standard deduction to the extent you are taxed by the AMT.
- **Married taxpayers filing separately –** There is a rule that prevents one spouse from filing separately and claiming all of the couple's deductions while the other takes the standard deduction. Simply stated, if one spouse itemizes deductions, the other spouse must also itemize and cannot claim the standard deduction.

- **Taxpayers ineligible for the standard deduction –** Certain taxpayers, by law, are not eligible for the standard deduction. They include nonresident aliens, dual-status aliens and individuals who file returns for periods of less than 12 months.

When it comes to itemizing your deductions there are still more complications. First of all, not all of your deductions will be included in the final total that you compare against the standard deduction to decide whether you itemize or not. Certain ones are adjusted as follows:

- **Medical deductions** - They are only included to the extent that they exceed 10% (7.5% for taxpayers age 65 and over) of your adjusted gross income (AGI).
- **Taxes** - Deductions for state income or sales taxes and real property tax are not limited by income, but they are not deductible at all for AMT purposes. Thus large tax deductions can result in the addition of an alternative minimum tax.
- **Interest** - Deductible interest includes home mortgage interest and investment interest. However, home mortgage interest is limited just to the interest on up to $1 million of acquisition debt and $100,000 of equity debt. For AMT purposes, only acquisition debt interest is deductible, so the interest paid on equity debt to buy a motor home, boat, car, etc., is not deductible for the AMT.
- **Charitable contribution deductions** – They are the same for both regular tax and AMT, and the total in any year is generally limited to 50% of your income (AGI). There are lower income limits for certain non-cash contributions.
- **Miscellaneous deductions** - They are where most employee business and investment expenses are deducted. Generally these deductions are only deductible to the extent that they exceed 2% your income (AGI).

As if those complications were not enough, some of the itemized deductions for higher-income taxpayers are further limited by a formula if adjusted gross income is more than $309,900 for a married couple filing jointly or qualifying widow(er), $258,250 for single taxpayers, $284,050 for taxpayers filing as head of household, and $154,950 for married-filing-separate taxpayers. This limit applies to all itemized deductions except medical and dental expenses, casualty and theft losses, gambling losses, and investment interest.

As you can see, the choice of whether to itemize or claim the standard deduction is not always clear, and that is essentially why it is necessary to save the documentation for itemized deductions throughout the year so the two options can be compared and the better one selected. If you took the standard deduction last year and think you might have been able to itemize your deductions, an amended tax return can be prepared for a refund. Please call this office for assistance.

October 15: Last Chance to Take Advantage of Retroactive Business Expensing

Article Highlights

- Adopting Capitalization and Repair Regulations Retroactively
- October 15 Deadline
- Retroactive Expensing
- Partial Dispositions

If you are a small business owner, October 15, 2015, is your last chance to retroactively adopt the new tangible property regulations that took effect in 2014.

Why is adopting these new regulations important? They give you the opportunity to expense items that you had capitalized (depreciated) in years for which the three-year statute of limitations has not yet expired. As an example, say you are a landlord, and you replaced the roof on your rental at a cost $6,000 in 2012. Prior to the new regulations, that expense would have been treated as a capital expense, and you would have had to depreciate it (deduct it slowly), over 27½ or 39 years. However, under the new regulations, the expense of replacing the roofing membrane is fully deductible in the year the cost was incurred.

Another benefit of adopting the regulations retroactively is the treatment of what is termed a partial disposition. This refers to the replacement of a portion of an existing capital asset, such as the roof in the prior example. In the past, the remaining undepreciated value of the replaced roof would have continued to be depreciated along with the rest of the building for the remainder of the building's life. Under the new regulations, the undepreciated value of the existing roof can be expensed in the replacement year under the partial disposition rules.

Although we used a building and roof to illustrate these new provisions, these rules don't just apply to buildings; they apply to all tangible business assets.

However, adopting the regulations retroactively requires affirmative action on your part by the extended due date of your 2014 return, which is October 15, 2015. Failing to adopt the regulations by the October date is not the end of the world; it just means that you default to adopting the regulation prospectively and cannot take advantage of any retroactive adjustments.

To adopt the regulation retroactively, you must file an appropriately completed IRS Form 3115 with your 2014 return.

If you believe you can benefit from adopting the regulations retroactively, please give this office a call as soon as possible so that there will still be time to adopt the regulations on your extended 2014 tax return (or on an amended return if you have already filed your 2014 return).

Get Credit for Generating Your Own Home Power

Article Highlights
Solar Heating System

- Solar Electric System
- Fuel Cell Plant

- Wind Energy
- Geothermal Heat Pump

Through 2016, taxpayers can get a tax credit on their federal tax return equal to 30% of the costs for installing certain power-generating systems on their homes. The credit is non-refundable, which means it can only be used to offset a taxpayer's current tax liability, but any excess can be carried forward to offset tax through 2016.

Systems that qualify for the credit include the following:

- **Solar water heating system –** Qualifies if used in a dwelling unit used by the taxpayer as a main or second residence where at least half of the energy used by the property for such purposes is derived from the sun. Heating water for swimming pools or hot tubs does not qualify for the credit. The property must be certified for performance by the Solar Rating Certification Corporation or a comparable entity endorsed by the state government where the property is installed.
- **Solar electric system –** This is a qualified system that uses solar energy to generate electricity for use in a dwelling unit located in the U.S. and used as a main or second residence by the taxpayer.
- **Fuel cell plant –**A fuel cell power plant is a system installed in the taxpayer's principal residence that converts a fuel into electricity using electrochemical means. It must have an electricity-only generation efficiency of greater than 30% and generate at least 0.5 kilowatt of electricity. The credit is 30% of qualified fuel cell expenditures but is limited to $500 for each 0.5 kilowatt of the fuel cell property's capacity to produce electricity.
- **Qualified small wind energy –** A wind turbine used to generate electricity for use in connection with a dwelling unit used as a main or second residence by the taxpayer is eligible for the credit.
- **Qualified geothermal heat pump –**This is a system in which a pump uses the ground or ground water as a thermal energy source to heat the dwelling unit used as a main or second residence by the taxpayer or as a thermal energy sink to cool the dwelling unit. The system must meet the Energy Star program requirements in effect when the expenditure is made.

Other aspects of the credit include the following:

- **Limited carryover –** The credit is a non-refundable personal credit that limits the credit to the taxpayer's tax liability for the year. However, the portion of the credit that is not allowed because of this limitation may be carried to the next tax year and added to the credit allowable for that year.
- **Installation costs –** Expenditures for labor costs allocable to onsite preparation, assembly, or original installation of property eligible for the credit, and for piping or wiring connecting the property to the residence, are expenditures that qualify for the credit.

- **Swimming pool –** Expenditures that are for heating a swimming pool or hot tub are not taken into account for purposes of the credit.
- **Newly constructed homes** – The credit can be taken for newly constructed homes if the costs of the residential energy efficient property can be separated from the other home construction expenses and the required certification documents are available.
- ***Certification*** - A taxpayer may rely on a manufacturer's certification that a product is Qualified Energy Property. A taxpayer is not required to attach the certification statement to the return on which the credit is claimed. However, taxpayers are required to retain the certification statement as part of their records. The certification statement provided by the manufacturer may be a written copy of the statement with the packaging of the product, in printable form on the manufacturer's website, or in any other manner that will permit the taxpayer to retain the certification statement for tax recordkeeping purposes.
- ***Installation costs*** – Costs for labor allocable to onsite preparation, assembly, or original installation of the qualified residential energy property may be included.

If you have questions about how you can benefit from this credit, please give this office a call.

Sole Proprietorship – Is The Risk Worth It?

Article Highlights:

- Reporting Sole Proprietorships On Your 1040
- Business Checking Account
- Local Business Licenses
- Resale Permits & Payroll Reporting
- Personal Liability

If you are considering starting a business, the simplest and least expensive form of business is a sole proprietorship. A sole proprietorship is a one-person business that reports its income directly on the individual's personal tax return (Form 1040) using a Schedule C. There is no need to file a separate tax return as is required by a partnership or corporation (if the business is set up as an LLC with just one member, filing is still done on Schedule C, although an LLC return may also be required by the state). Generally, there are very few bureaucratic hoops to jump through to get started.

However, we strongly recommend that you open a checking account that is used solely for depositing business income and paying business expenses. You will also need to check and see if there is a need to register for a local government business license and permit (if required for your business).

If you are conducting a retail business, you will need to obtain a resale permit and collect and remit local and state sales taxes.

If you hire employees, you will need to set up payroll withholding and remit payroll taxes to the government. Before you can do that, however, you'll need to apply to the IRS for an employer identification number (EIN) because you can't just use your Social Security number for payroll tax purposes. An EIN can be obtained online at the IRS web site or by completing a paper Form SS-4 and submitting it to the IRS.

As a sole proprietor, you can also very simply set aside tax-deductible contributions for your retirement.

Example: *Paul has been working for a computer firm as an installation specialist but has decided to go out on his own. Unless he sets up a partnership, LLC or corporation, Paul is automatically classified as a sole proprietor. He does not need to file any legal paperwork. His business is automatically classified and treated as a sole proprietorship in the eyes of the IRS and his state government.*

However, there is a big downside to conducting business as a sole proprietor, and that drawback is liability. Sole proprietors are 100% personally liable for all business debts and legal claims. As an example, in the case that a customer or vendor has an accident and is injured on your business property and then sues, you the owner are responsible for paying any resulting court award. Thus, all your assets, both business and personal, can be taken by a court order and sold to repay business debts and judgments. That would include your car, home, bank accounts and other personal assets.

Other forms of business, such as LLCs and corporations, can protect your personal assets from business liabilities. If you feel that your business is susceptible to lawsuits and would like to explore alternative forms of business, please give this office a call so we can discuss the tax ramifications of the various business entities with you. If you decide on something other than a sole proprietorship, you'll need legal assistance to formally set up your new business.

Marketplace Insurance Checkup

Article Highlights:

- Advance Premium Tax Credit
- Family Income
- Family Size
- Reporting Changes to the Marketplace
- Repayment of Credit
- Married Filing Separately

If you are one of the many individuals or families who purchase their health insurance through the federal or a state government health insurance marketplace and are receiving an advance premium tax credit (subsidy of premium available to those with low to moderate income) to help you pay the cost of that insurance, you should make sure you report changes in family income and family size, as they occur, to the marketplace through which you purchased your insurance.

Changes in either family income or family size can have a significant impact on the amount of the advance premium tax credit (APTC) to which you are entitled.

Reporting the changes as they occur allows the marketplace to adjust the APTC to the amount to which you are entitled.

Here are some changes in circumstances that you should report to the marketplace:

- An increase or decrease in your income
- Marriage or divorce
- The birth or adoption of a child
- Starting a job that provides you with or access to health insurance
- Gaining or losing your eligibility for other health care coverage
- Changing your residence

You can estimate (using the IRS estimator) the effect that changes in your family circumstances and income may have upon the amount of premium tax credit that you can claim.

Reporting these changes to the marketplace will help you avoid getting too much or too little advance payment of the premium tax credit. Getting too much APTC means you may owe additional money or get a smaller refund when you file your taxes for this year. Getting too little APTC could mean missing out on premium assistance to reduce your monthly premiums.

Repayments of excess premium assistance may be limited to an amount between $300 and $2,500, depending on your income and filing status. However, if advance payments of the premium tax credit were made, but your income for the year turns out to be too high to receive any amount of premium tax credit, you will have to repay all of the premium subsidies that were made on your behalf—with no limitation. Therefore, it is important that you report changes in circumstances that may have occurred since you signed up for your plan.

You should also be aware that married individuals filing separate returns are generally not allowed a premium tax credit and that any advance credit will have to be fully repaid. There are exceptions for abused or abandoned spouses and for those who meet the requirements to file as head of household.

If you have questions related to the APTC or how it may affect your particular circumstances, please give this office a call.

Gifting Money or Property Can Have Serious Tax Consequences

Article Highlights:

- Gift and Inheritance Tax
- Lifetime Exclusion
- Annual Exclusion
- Gift and Inheritance Basis Issues
- Additional Tuition & Medical Exclusion

Gift and inheritance taxes were created long ago to prevent an individual’s assets from being passed on to future generations free of tax. Congress has frequently tinkered with these taxes, and currently the gift and inheritance taxes are unified with a top tax rate of 40%. However, the law does provide the following two exclusions from the tax:

Lifetime exclusion – For 2015, $5.43 million per person is excluded from gift and inheritance tax. This amount is annually adjusted for inflation and applies separately to each spouse of a married couple. Where one of the couple dies and does not use the entire exclusion amount, the unused portion of the exclusion can be passed on to the surviving spouse by filing an estate tax return for the decedent, even if one is otherwise not required.

Annual exclusion - The exclusion amount is periodically adjusted for inflation. For 2015 the annual gift exclusion is $14,000 per recipient. Thus, an individual can give up to $14,000 to as many recipients as he or she would like without creating a requirement to file a gift tax return. The $14,000 applies to each individual giver, so each spouse of a married couple can give $14,000, for a total per couple of $28,000 to any one person.

If a person gives more than $14,000 for the year to any single individual, then a gift tax return is required, and the excess of the gifts over $14,000 reduces the lifetime exclusion. Once the annual limit and the lifetime limit have been exceeded, the excess becomes taxable.

Gifts can take the form of cash or property. When property is given, the dollar value placed on the gift for gift tax purposes is the property's fair market value (FMV) at the time of the gift. However, the gift recipient assumes the giver's tax basis in the property, which means that if the giver's property had built-in gains, the recipient becomes responsible for those gains when the recipient subsequently disposes of the property in a taxable event.

> ***Example****: Earl gives his son, Jack, stock worth $14,000 that originally cost Earl $5,000. Later, Jack sells the stock for $16,000. Jack's taxable gain from selling the stock will be $11,000 ($16,000 - $5,000).*

However, if Jack had inherited the stock from his father, Jack's basis would have been the FMV of the stock at the date of his father's death instead of what Earl had paid for the stock. Assuming the FMV was $14,000 at the time of Earl's death and Jack subsequently sold the stock for $16,000, he would only have a taxable gain of $2,000 ($16,000 - $14,000).

This example points to a mistake often made by elderly taxpayers. They will frequently sign over their assets, most commonly their home, to their heirs while they are still alive rather than waiting and allowing the heirs to inherit the property. By doing this, they create a large tax liability for the heirs since the basis of the gift is the giver's basis, thus the heirs become responsible for the giver's built-in gain rather than inheriting the property with the basis equal to the FMV at the time of the decedent's death.

> ***Example****: Mary signs over her home worth $500,000 to her son, John. Mary originally paid $100,000 for the home. If John immediately sells the home for $500,000 after Mary's passing, he will have a taxable gain of $400,000. However, if John had inherited the property after Mary's passing, his basis would be the FMV at date of death, or $500,000, and if he sold it for $500,000, he would have no taxable gain at all.*

Additional Exclusions For Gift Tax - In addition, certain medical and education expenses are also excludable over and above the $14,000 annual exclusion cap.

Tuition Expenses – Tuition expenses paid directly to the qualifying educational institution are permitted without gift tax consequences. For example, a grandparent who wants to help out a college-bound grandchild can pay the student's tuition directly to the college. Even if the amount is over $14,000, no gift tax reporting is required, and the grandparent's annual gift exclusion with respect to the child and his or her lifetime exclusion are not affected.

Medical Expenses – Medical expenses paid directly to the qualifying medical institution or individual providing the care or to the insurance company providing the medical coverage are also exempt from the gift tax and don't affect the gift tax exclusions. The payments cannot go through the hands of the individual who incurred the medical expenses, but must go directly to the medical provider or insurance company.

As you can see, gifting can be complicated and requires advance planning to fully take advantage of tax benefits. Please call this office if you need assistance planning your gifts.

Family Courts Don't Always Pay Attention to Federal Tax Law

Article Highlights:

- Family Court Errors
- Property Settlements
- Children
- Alimony
- Conflicts of Interest

All too often, family law courts make rulings that are contradictory to federal tax law, causing confusion and inequity in divorce actions since family court rulings cannot trump federal tax law.

An issue for divorced parents is who gets to claim the children for tax purposes. Federal tax law provides that the parent with physical custody claims the child unless that parent releases the exemption to the other parent. Frequently, family courts award physical custody to one parent and the tax exemption to the other. To make matters worse, the courts assume that the exemption deduction will provide a financial benefit to the non-custodial parent. Then the court adjusts child support accordingly, leaving the non-custodial parent with two unpleasant surprises when filing his or her tax return: the child support is not deductible and the child cannot be claimed as a dependent without a release from the custodial parent.

Who is to blame? At first glance, one would tend to blame the court. However, it is not the job of the court, but the duty of the attorney to bring the judge's attention to federal tax law so that he or she is aware of what applies in order to make a correct judgment. Few family law judges know tax law.

Avoid mistakes – Consult with your tax advisor. Go over the proposed settlement and determine what the tax implications will be before the divorce is finalized. Here are some of the tax issues that need to be considered as part of a divorce:

Property settlements – When property is divided in a divorce, the spouse who keeps the property assumes the community basis. This, in effect, means that spouse assumes any tax liability when the property is sold.

Example: A couple has a home worth $450,000 and a mortgage of $50,000, which provides a net equity of $400,000. They also have a bank savings account worth $400,000. They divorce, and agree that the wife will keep the home and the husband will keep the bank account. On the surface, this sounds equitable, but, after taxes are considered, it may not be. Let's assume the couple purchased the home for $100,000 several years ago. The wife assumes the community basis of $100,000. If the wife sells it for $450,000, she will net only $373,000 from the sale after paying the selling costs of approximately $27,000 and paying off the $50,000 loan. In addition, she has a taxable profit from the sale that is computed as follows:

Sales Price:	*$450,000*	
Community Basis:	*<100,000>*	
Sales Costs:	*< 27,000>*	
Home Sale Exclusion	*<250,000>*	
Taxable Gain	*$ 73,000*	
Federal Tax @ 15%	*10,950*	*(there may also be a state tax, and Federal tax could be as high as 20%)*

So, in our example, the wife nets $362,050 ($373,000 less taxes of $10,950), while her spouse nets a full $400,000 from the savings account. Not exactly even after taking into account the tax liability.

Issues involving Children – There are substantial tax issues related to the children. Here are some of them:

- *Dependency* – Federal tax law gives the dependency to the custodial parent unless the custodial parent releases, in writing, the dependency to the non-custodial parent. There is a tax deduction of $4,000 (2015) for each dependency exemption.
- *Child Credit* – The 2015 child tax credit, $1,000 for each child under age 17, goes to the parent who claims the child as a dependent.
- *Joint Custody* – Some courts award joint custody to the parents. In this situation, the IRS does not split the benefits of claiming the child as a dependent. Instead, the parent with physical custody the greater part of the year receives all of the benefits.
- *Education Credits* – The education tax credits for college tuition expenses go to the one who claims the exemption for the child, regardless of who paid the tuition.
- *Child Care Credit* – The parent who claims the child's exemption is the only one who can claim a tax credit for child care expenses This can cause issues where both parents work and share custody.
- *Child Support*– is not deductible by the parent who pays the support and is not taxable to the one who receives it.

Alimony - is deductible by the spouse who pays it and includable in income by the spouse who receives it. To be treated as alimony, payments must be in cash, required by the divorce instrument, and end upon the death of the payee. In addition, alimony payments cannot be contingent on the status of a child and are valid only while the taxpayers live apart.

Conflict of Interest – Rules of Practice do not allow a tax practitioner to represent clients where there is a conflict of interest. This is an issue for divorcing couples since the divorce creates a conflict of interest and a practitioner may not be able to provide services to both clients and, in some cases, may not be allowed to provide services to either.
As you can see, there are a number of complications related to divorce and the status of the children of divorced parents. If you have questions, please give this office a call.

Are Charity Auction Purchases Deductible Contributions?

Article Highlights:

- Purchase of Items At Charity Auction
- Auction Donor
- Appreciated Property
- Fair Market Value (FMV)
- Unrelated Use

It is common practice for charities to hold auction events where attendees will bid upon and purchase items. The question often arises whether the money spent on the items purchased constitutes a charitable donation.

The answer to that question is some, but not all, of what's paid for the item may be deductible. So if you purchase items at a charity auction, you may claim a charitable contribution deduction for the excess of the purchase price paid for the item over its fair market value you must be able to show, however, that you knew that the value of the item was less than the amount you paid for it. For example, a charity may publish a catalog, given to each person who attends an auction, providing a good faith estimate of items that will be available for bidding. Assuming you have no reason to doubt the accuracy of the published estimate, if you pay more than the published value, the difference between the amount you paid and the published value may constitute a charitable contribution deduction.

In addition, if you provide goods for charities to sell at an auction, you may wonder if you are entitled to claim a fair market value charitable deduction for your contribution of appreciated property to the charity that will later be sold. Under these circumstances, the law limits your charitable deduction to your tax basis in the contributed property and does not permit you to claim a fair market value charitable deduction for the contribution. Specifically, the Treasury Regulations (Sec 170) provide that if a donor contributes tangible personal property to a charity that is put to an unrelated use, the donor's contribution is limited to the donor's tax basis in the contributed property. The term unrelated use means a use that is unrelated to the charity's exempt purposes or function. The sale of an item is considered unrelated, even if the sale raises money for the charity to use in its programs.

Please contact this office for additional information.

Key Performance Indicators (KPIs) Are Valuable Tools for Small Business Owners

If you’re a small business owner, then you know that gauging the performance of your business is one of the most difficult tasks you face. The indicators and measures that you work with on a day-to-day level are not necessarily reflected in the criteria and metrics that are provided on paper, and it’s hard to know what to trust and which information is best to use. It is essential that business owners have a reliable, understandable way to tell whether things or going well or need improvement, and that’s why using and understanding your Key Performance Indicators (KPIs) is so vitally important.

The value of Key Performance Indicators cannot be overstated. They are objective, black and white measures of all of your business processes and performance, and provide you with a clear and straightforward way of seeing what is working and what needs more work. Many business owners find the idea of implementing the use of Key Performance Indicators a bit intimidating – they don’t understand exactly what they mean or how to use them – but with a small investment of time, you will quickly find them extremely accessible and useful. Key Performance Indicators will likely become your go-to method of “taking your business’ temperature” and determining whether it is healthy or not.

Though at first glance your Key Performance Indicators may seem like a lot of numbers without meaning, once you have learned what each one means and how it relates to your business’ performance you will find that reviewing them will give you a much greater sense of control over your short-term and long-term outlook. Every single number that your business generates has some value, and once you begin using them and understanding you will quickly be able to determine which are most important for your individual purposes. You will be able to use Key Performance Indicators not only to compare current performance to past performance or goals, but also to look at how you fare when compared to others within your industry. You will quickly be able to see what may have been previously hidden, such as that a specific area of your business is doing particularly well, or that another area is lagging. Looking at Key Performance Indicators can provide you with a clear path to improvement.

Every business relies upon different Key Performance Indicators, so it is important for you to familiarize yourself with each in order to determine which have the most value for you. The KPIs that are most frequently used by small businesses include:

- Length of Average Employee Tenure
- Value of Average Customer Purchase Order
- Cash Conversion Cycle
- Lifetime Value of Individual Customers
- Return on Investment
- Gross Profit Margin
- Net Profit
- Net Profit Margin
- Debt-to-Equity Ratio

- Operating Expense Ratio
- Price Earnings Ratio
- Operating Profit Margin
- Average Order Fulfillment Time
- Working Capital Ratio
- Time to Market
- Return on Assets
- Return on Capital Employed
- Return on Equity
- EBITDA
- Revenue Growth Rate
- Individual Sales Rep Revenue
- Total Shareholder Return