SINGING RIVER FEDERAL CREDIT UNION **BUSINESS SERVICES**

Second Quarter 2013

Demand ROI
from business planning

How do you value your business plan? How do you value anything in business? That's where the phrase "return on investment" (ROI) comes in. Technically, ROI is the (return-investment)/investment. Please forget the formal financial definition, and consider this instead: every business expense – time, money, resources, reputation, etc. – is an investment. What you get back is a return.

You don't always get positive value back from what you do. Business meetings often cost more in wasted time than they generate in information or business decisions. Many sales and marketing programs cost more than the dollars they generate.

So what about business planning? Here are some factors to consider:

1. **Some people think business planning simply involves** creating a document to help with raising money from banks or investors. That happens, but it's a small subset of the real business planning that goes on.
2. **The investment in business planning can be measured** as the sum of the management time invested, plus the cost of consultants, writers or other outside help.
3. **The return on business planning investment** is a matter of decisions made, performance improved, increased accountability and other aspects of better management. Proper business planning sets goals, establishes responsibilities, and helps with focusing on and prioritizing key elements of the business.
4. **Sometimes the return on investment is insight.** The people who develop the plan pull the business apart to see what makes the most difference, and what's most important. Sometimes they see threats and flaws. Insight can be very valuable.
5. **When it comes to raising money via banks or investors,** making a business plan document is part of the process. The plan doesn't raise the money, but you can't raise it without the plan. Extra effort in making a plan easy to read and understand often pays off in making the information more readily available for the people who stand as gatekeepers.
6. **Some returns can be estimated as a negative.** For example, the lack of planning can mean expensive surprises, lack of management priorities, lack of accountability, or less-than-optimal reactive response to events, problems, and opportunities.

Taking the above into account, here are tips to optimize the return on investment in business planning:

1. **Do only what you're going to use.** Don't spend business time on a document unless there's a specific business purpose.
2. **Keep the plan streamlined, easy to build, easy to use.**
3. **Understand that the initial plan is just the first step in the process.** It will be obsolete in days or weeks. Set schedules for regular reviews and revisions. Track results. Use plan vs. actual analysis to manage better and optimize business performance.

Ultimately, business planning is about better business – not better documents.

Featured Small Business:

Mugshots
Mobile, AL

"After years of working in the restaurant industry, I jumped at the chance to open my own franchise. SRFCU advised me on the special considerations and risks associated with the project, and found me the perfect funding solution to meet my unique needs. Come see us at Mugshots."

GEORGE HERRING
OWNER

Repair or capital improvement?

The cost of capital improvements has a different tax treatment than the cost of repairs. The challenge in some projects is distinguishing between the two. As a general rule, repairs simply restore or maintain property value. In contrast, capital improvements materially add to the value of property.

Determining whether a cost is an ordinary repair or a capital improvement is based on the facts and circumstances. The following chart can help you distinguish repairs from improvements:

REPAIR	CAPITAL IMPROVEMENT
Fix a leaky roof	Replace a roof
Fill a pothole	Repave
Fix a dripping faucet	Replace old lead pipe with new copper pipe
Apply a new coat of epoxy sealer to a concrete floor	Install a new concrete floor

Usually, the cost of capital improvements must be treated as if you acquired a piece of realty as a separate asset. Since buildings have a 39-year recovery period for depreciation, it can take many years to write-off the cost of capital improvements. The good news: The write-offs for capital improvements can be claimed whether you pay cash or finance the project.

Special rules exist for leasehold, restaurant, and retail improvements. Leasehold improvements are improvements to the interior of a commercial building that was placed in service at least three years prior to the improvements. For restaurant improvements, more than half of the square footage of the property must be devoted to the preparation of meals and seating for on-premises food and beverage consumption. Retail improvements mean improvements to the interior of retail space open to the public.

The special tax rules for leasehold, restaurant, and retail improvements are:

- **First-year expensing** (Sec. 179 deduction). You can write off up to $250,000 of the cost of improvements in the year the improvements are made. This deduction, however, only applies to improvements completed before January 1, 2014, unless Congress extends the law.
- **50% bonus depreciation.** You can deduct half the cost of the qualified improvements if you place them in service this year. This bonus depreciation is set to end this year unless Congress extends it.
- **15-year recovery period.** Instead of deducting the cost of improvements over 39 years, you can deduct them over 15 years. This recovery period will end on December 31, 2013, unless Congress extends it.

These special rules can be combined to permit a write-off of all or most of your costs.

Proposed and temporary regulations from the IRS use new terminology (such as "betterment") for distinguishing repairs from capital improvements. They also adopt a favorable rule that lets you fully deduct the unrecovered costs of certain building components, such as HVAC and roofing, when they are replaced.

These regulations had been set to be effective starting in 2012, but the effective date has been postponed until January 1, 2014. However, they can be used for 2012 and 2013 returns at a taxpayer's election. Work with a knowledgeable tax advisor for this purpose.

Some IRS publications can help you assess whether your expenditures for changing the look or functions of your workplace are repairs or improvements:

- **Audit Technique Guide on Repairs Versus Capital Improvements**
- **Publication 946, How to Depreciate Property**

Before you begin any project to change your workplace, do some research and determine the tax impact of your actions. Upfront deductions can help defray the costs and allow you to expand the scope of your project without a net cost to you.