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## **O**ur goal

At Purtil & Company, we believe our best client is a well-informed one, who welcomes ideas and challenges us with ideas. Our strengths are in planning, strategies and actions where we can put our knowhow to work as opposed to the book-and-forms work favored by many accounting firms. This newsletter is part of that process, but not the only part. Besides this, we want you to feel free to ask us anything. If it's a quick email, and doesn't require extensive research or effort on part, our policy is to absorb the cost internally. That will also let us identify bigger opportunities as they emerge.

Do you want us to cover something in this newsletter? [Contact us.](#)

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## **New regulations for U.S. tax preparers**

The IRS has issued new regulations beginning on January 1, 2011 which requires all paid tax preparers to register with the IRS before preparing tax returns. This requirement comes in an attempt to oversee paid preparers and crack down on those responsible for a large number of errors or even fraud. Every tax preparer is now required to obtain a Preparer Tax Identification Number (PTIN) prior to this coming tax season. Tax preparers will also be required to pass a competency test and meet continuing education requirements. Certified Public Accountants, Attorneys and Enrolled Agents are excluded because they are already subject to education and licensing requirements.

Our clients can rest assured that as Certified Public Accountants, we already meet extensive requirements. We take pride that clients can always trust our knowledge and professionalism, trust that we can navigate through complex tax laws and solve their tax problems.

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## **R**ecord your vehicle mileage

If you use your car or truck for business, go out right now (or New Year's Eve if you think of it) and write down the odometer reading. Do it for yourself. Do it for us.

Why? If there's an IRS audit, when the examiner gets to the automobile expense, he or she first asks if there's a record of the number of miles driven in total and then, the number of miles driven for business. If we can readily prove the total miles, the inquiry might stop there, because if the business percentage claimed sounds reasonable, the IRS rarely goes further.

If there's no record, we can use other methods to prove the mileage. Sometimes it's to find service station records from different times of the year and project the mileage from there.

However, an odometer reading is the best. Better yet, use your cell phone to take a picture of the mileage reading on the odometer.

And if you make a record of the mileage, send an email of it to us. We'll put it into your master file so it'll be available in case of need.

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## **R**oth IRA options in 2012

There are minor changes between 2011 and 2012 when it comes to Roth IRA contributing and converting. Income limits allowing Roth contributions rose slightly, which means more people become eligible to open or contribute to a Roth. You can find the contribution and income limits by clicking [here](#).

The rules for converting funds from a standard IRA to a Roth IRA in 2012 are identical to the 2011 rules in that there is no income limitation. This means anyone can convert regardless of their income level. The conversion is subject to income tax, but not the 10% early withdrawal penalty. Unlike tax year 2010 however, there is no option for splitting the tax payment over two years.

The key benefit in a Roth IRA is the potential for tax-free income and withdrawals for you and your heirs. A reason to consider converting some or all of a traditional IRA to a Roth in 2012 is that tax rates are scheduled to increase on January 1, 2013 as the Bush-era tax cuts are set to expire.

So what can you do? As we have recommended in past newsletters, a partial conversion can be the most tax-efficient plan. For one, it reduces the tax burden of a full conversion and secondly, it gives you the ability to convert an amount that doesn't push you into a higher tax rate.

### **Recharacterization**

But what if your income is higher than you expected and you convert too much? What if the market and your retirement portfolio tanks in 2012 after you convert? Not to mention the uncertainty of the tax code. The solution: recharacterization. This allows you to “undo” some or all of your conversion. You have until October 15 of 2013 to recharacterize a 2012 conversion. Once a conversion is reversed, you have to wait at least 30 days before being able to reconvert to a Roth.

We'll be happy to help you decide. Contact us for more information.

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## Roth IRA limit comparisons

2011 vs. 2012 Roth IRA Contribution Limits and Income Ranges			
FILING STATUS	AND your modified AGI in 2011 was....	AND your modified AGI in 2012 is....	CONTRIBUTION LIMITS <i>(unchanged between 2011 and 2012)</i>
Married filing jointly or qualifying widow(er)	less than \$169,000	less than \$173,000	you can contribute up to \$5,000 or \$6,000 (if you are age 50 or older)
	at least \$169,000 but less than \$179,000	at least \$173,000 but less than \$183,000	the amount you can contribute is reduced (phased-out) per IRS guidelines
	\$179,000 or more	\$183,000 or more	You cannot contribute to a Roth IRA
Married filing separately in an active participant in an employer-sponsored retirement plan (e.g. 401k) and lived with your spouse at anytime during the year	zero	zero	you can contribute up to \$5,000 (\$6,000 if you are age 50 or older)
	more than zero but less than \$10,000	more than zero but less than \$10,000	the amount you can contribute is reduced (phased-out) per IRS guidelines
	\$10,000 or more	\$10,000 or more	You cannot contribute to a Roth IRA.
Single, head of household, or married filing separately and you did not live with your spouse at any time during the year	less than \$107,000	less than \$110,000	you can contribute up to \$5,000 (\$6,000 if you are age 50 or older)
	at least \$107,000 but less than \$122,000	at least \$110,000 but less than \$125,000	the amount you can contribute is reduced (phased out) per IRS guidelines
	\$122,000 or more	\$125,000 or more	you cannot contribute to a Roth IRA

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## **E**stimated payment reminder

We're pleased to send this friendly reminder that your quarterly estimated tax payments must be postmarked on or before January 16<sup>th</sup>. The IRS and your state both want you to make regular quarterly "estimated" tax payments based on the amount you'll owe on April 16<sup>th</sup> in 2012.

What if you miss this date by a few days? Not that big a deal. In the first place, the IRS doesn't track this aspect of its cash flow carefully, so the most that happens is that a fee is charged for the additional day or two. Normally, it's not much. However, you shouldn't fail to have paid in all your taxes in advance by the due date next year.

*When we prepared your tax return for 2010, we included the necessary coupons, including our recommendation for the amount to pay every quarter for 2011. This was our decision based on the information we had and on an assessment of your present tax situation and past history. If you think we should revisit this decision, please let us know.*

*This may not apply to you.* Generally, taxpayers whose tax balance due next April 16<sup>th</sup> is expected to be greater than \$1,000 have to make quarterly estimated payments to tax authorities. If the payment isn't enough, the IRS and your state assess a small penalty. The idea is to encourage you to prepay your tax obligations before April 15<sup>th</sup> so there's no tax balance due.

Also, if you have of at least 100% of your prior year's income tax, you don't have to make these payments. Don't hesitate to contact us if you need further assistance, want new coupons sent, have any change in your financial situation, such as security sales, bonuses, IRA distributions, stock losses or business gains and losses, that would affect your estimates or if you have any questions or suggestions.

[Call](#) or [email](#) us if you need a new coupon.

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## **C**T requires paid sick leave

Effective January 1, 2012, CT becomes the first state in the nation to require paid sick leave. With this new requirement, Connecticut Employers with more than 50 employees must provide paid sick leave to service workers who are paid hourly. In order to be entitled to paid sick leave, covered employees must have at least 680 service hours with the employer and have worked an average of at least 10 hours per week in the most recent calendar quarter. These service employees are entitled to accrue paid sick leave at a rate of one hour for every 40 hours worked, up to a maximum of 40 hours per calendar year.

Paid sick leave includes absence for:

- # Their own illness, injury or health condition.
- # Their child's or spouse's illness, injury or health condition.
- # Medical care, counseling or other services from being a victim of family violence or assault.

The law defines service workers as an employee primarily engaged in an occupation defined by specific occupation code numbers and titles, as found on section (7) of the Public Act itself at the following link:

<http://www.cga.ct.gov/2011/ACT/PA/2011PA-00052-R00SB-00913-PA.htm>

The following is a poster which satisfies employers' notice obligation under the Paid Sick Leave Law:

<http://www.ctdol.state.ct.us/wgwkstnd/SickLeavePoster2012.pdf>

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## Contact list

You can contact any Purtil & Company employee by using the employee's first name and our company email location. Or, just click the employee's name below. So, for John, the email address would be [john@purtil.com](mailto:john@purtil.com).

Or just call us on the phone: 203-272-2844. We love hearing from clients and our rule is that we answer any phone calls before we can go home for the day!

### [John Purtil](#)

Financial and tax planning, business software, business planning, IRS problems, family businesses.

### [Edwin Monteiro](#)

Business software, financial and tax planning, financial statements, tax returns, client accounting.

### [Olga Bubnova](#)

Tax returns, financial statements, tax planning.

### [Ardiana Adili](#)

Financial and tax planning, financial statements, business planning, IRS problems, restaurants, client accounting, family businesses.

### [Gretchen Fredericks](#)

Administration, workflow management, client accounts, collections.

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## **Circular 230 disclosure**

Under U.S. Treasury Department Regulations, we are required to inform you that, unless otherwise expressly indicated, any federal tax advice contained in this communication, including attachments, enclosures and links is not intended or written to be used, and may not be used, for the purpose of (i) avoiding tax-related penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any tax-related matters addressed herein.

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