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Our service 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 a future edition of this newsletter? Or even to have an answer to right now, without waiting? [Click here to contact John.](#)

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Start thinking about 2013 income taxes

We vaguely remember that Congress and the Administration went through a contentious period last winter to deal with the *fiscal cliff*. This was the time that many tax breaks expired and many taxpayers would be faced with big tax hikes. Rather than face an angry electorate, Congress passed a mixed bag of provisions, many of which kick in for 2013.

If you wait until April 15th 2014 or even the end of 2013 to deal with these, it'll be too late, so we plan to pass along some thoughts now and more as the year progresses. *This is one year you cannot afford to wait until the usual December-January planning articles.* Here goes. In this edition, we discuss two items:

- [The new 3.8% investment income tax.](#) For higher income people and those who inherit money.
- [The reduction in Medical Itemized Deductions.](#) For all incomes.

Stay tuned! We have another newsletter coming up soon and we'll cover more items.

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The 3.8% investment income surtax When we first read this, we thought it meant interest and dividends. Nope! It also applies to rents, royalties, limited partnerships, capital gains and annuities. It covers anyone whose income is over \$125,000 (\$250,000 married couple), *including the investment income*. This is the equivalent of increasing your tax rate by 25% (from 15% to 18.8%) on these items.

Knowing this was coming, we counseled many of our clients to pull capital gains, dividends and similar items out of their businesses in 2012 instead of 2013, saving the surtax. We don't know if Congress will back off from this but don't want to take a chance.

The effect is even worse if you have a trust or estate that generates investment income. The tax kicks in at only \$12,000, making even middle income people vulnerable.

What to do if this affects you

Strategy #1. Stay below the \$125,000/\$250,000 threshold by postponing income, recognizing business losses, installment sales and charitable contributions.

Strategy #2. Reduce investment income by investing in tax-free municipal bonds, transferring investment income to a business entity where it can be withdrawn at a later date.

Strategy #3. Until there's a change, if you have the flexibility avoid capital gains.

Strategy #4. If you're the executor or beneficiary, and the trust or estate generated sizeable investment income, consider closing it out quickly.

Strategy #5. Be sure to make the estimated tax payments we calculated for you. Don't hesitate to ask for us to revisit them.

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The reduction in Medical Itemized Deductions

Starting in 2013, whereas you could receive an itemized deduction for medical expenses over 7½% of your adjusted gross income, that excluded number is now 10%.

Because a family's typical uninsured medical expense is 10% to 12% of adjusted gross income, that change effectively wipes out the tax deduction for many people, such as those who don't have employer-provided medical insurance, who have big unexpected medical expenses or the usual run of childhood expenses for their children.

What to do if this affects you

Strategy #1. Negotiate for an early start to employer-provided insurance, sometimes by accepting a small pay reduction in order to get it.

Strategy #2. Consider using an health savings account (HSA) to cover medical costs.

Strategy #3. If you have a flexible employer and it can be arranged, provide for some of your pay to be on a self-employed basis.

Strategy #4. If possible, defer elective medical costs until 2014 when universal health care kicks in.

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Startup book 8th edition just released

Way back in 1992, John Purtill was asked to help a nonprofit organization that exists to help disadvantaged people and businesses with their financial difficulties. He created a workbook for entrepreneurs on business startups, published by the organization, Community Accounting Aid and Services, Inc (CAAS), and sponsored by business support organizations such as SCORE, CEDF, CSBDC and CTCPA. All income from book sales goes to support CAAS.

In March, we released the 8th edition which now consists of 15 chapters totaling 300 pages. Topics covered in the earlier editions include business planning, marketing, record-keeping, payroll, employment regulations, business formation, insurance, income taxes, sales and property taxes, purchasing a business, real estate leasing and starting a not-for-profit organization.

The 8th edition includes a brand new chapter, *Web Commerce for Entrepreneurs*, a 36-page how-to handbook about the ways an entrepreneur can use the Internet to improve business sales and market impact. Like the rest of the book, it was written by authors who are experienced in the topic. We have nine authors on our team, all working for free, representing the richest roster of talent available. **Want to read this chapter for free?** Visit the book Web site communityaccountingaid.org/publications and click on *View our Web commerce chapter*.

Want your own copy - at a discount? When you purchase online, under *payment methods*, select *redeem* and enter the appropriate code:

1. If you're reading this newsletter, enter PURTILL for a 15% discount.
2. If you already own an earlier edition, enter UPGRADE for a 25% discount.

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Community Accounting Aid Website now online

Speaking of CAAS, it has a brand new Web site. We created it here at Purtil & Company in order to help the organization receive book orders and to showcase Web commerce techniques. Check it out: www.communityaccountingaid.org

Should you do this for your company? Definitely, yes! From our experience with our own Web site, we already knew that having one enhances credibility, improves recognition and generates customers. However, CAAS has had great results. Since launching this site, the organization's book orders have increased more than ten times and the referrals of new cases increased more than five times! A minor down side: we wanted the site to generate new donations, and that hasn't panned out yet.

Design. We're business people, not designers, and we didn't have much time to do the job, so we used a *stock* approach, that is, we used only off-the-shelf elements. We started by signing up for Intuit's Web site design machine at www.homestead.com. Once signed up, we picked a design template, which provides a menu system, a standard page layout and a half-dozen starter pages for different topics. We made some minor changes to the page template, so when we add a new page, it automatically includes those changes.

Content. We dug through existing material about the organization from its charter, advertising and other sources. Cutting and pasting, we had the *home*, *about us*, *services*, and *clients* pages written in no time. We added a few more pages and buttons for contact, donations and a map and we were in operation!

Selling. Taking money was crucial, so we setup a PayPal account: www.paypal.com. This is the service that handles sales on eBay, the online auction giant and you pay them a fee comparable to the discount for accepting a credit card: about 3%. They had buttons available for selling products, accepting donation and a shopping cart, so we picked one of each, finishing out the site.

Was it worth doing? In the end the total cost was a \$60 annual fee plus our labor, so, yes! If you're in business to be a Web site, like Amazon.com or eBay.com, you need to spend big money on a Web site, but not if you're supporting a small business. The price - \$60 - was just right.

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How long to keep records

Recently, we reported that we store active client documents for seven years, which is more than twice the three years the IRS requires. In addition, there are selected records, such as the electronic version of tax returns, that we store as far back as the year 2000, though that's not a firm promise. We don't have to, but we do get requests for old data and want to be accommodating.

Seeing this, some readers asked, *If you keep things seven years, how long should we, your clients, keep them?* To answer the question, we realized that we can mainly speak for financial records that support tax returns, financial statements and similar things. Others, such as employment and medical records, property improvements and customer correspondence are covered in a chart at the end of chapter 9 in our business start-up book.

Start with IRS rules. They say that businesses should keep all financial and employment information for **four** years after tax season. That also applies to individual taxpayer records of itemized deductions. However, since the IRS normally *closes* a tax year after three years, that fourth year may not be entirely necessary.

Got employees? If so, keep employment and payroll records for ten years, because employees have a longer time to make claims for discrimination and unfair wage practices.

Own assets? Like land, buildings, equipment? Keep the record of purchase and improvements for four years *after* you sell or dispose of the assets.

No file cabinet space? Authorities now allow you to store images instead of paper. You can also store them online. [Click here for services](#). You can store a lifetime of records on a 64 GB USB memory stick costing about \$20. Better yet, for each year's records, use a 4 GB stick costing about \$2 Recycle it after the time expires. [Click here for resources](#).

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Data storage resources

Service	Web site	Cost
Box	www.box.com	Free up to 5 GB Personal and business plans available
Dropbox	www.dropbox.com	Free up to 2.5 GB Get additional space for referring friends \$99 yearly for 100 GB
Mozy	www.mozy.com/home	Free up to 2 GB Get additional space for referring friends Personal and business plans available
Sky Drive	www.windows.microsoft.com/en-us/skydrive	Free up to 7GB Additional storage levels available

USB memory stick sources

Store	Web site	Product and cost
Tiger Direct	www.TigerDirect.com	\$8.50 - Sandisk 4 GB \$32.99 - Centon 64 GB
Amazon	www.amazon.com	\$17.90 - Toshiba 64 GB \$5.98 - Lexar 4 GB

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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@purtill.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!

Do you need help with bookkeeping? We normally don't do it ourselves but we maintain contacts with a number of free-lance bookkeepers and we can either refer you to a good one or help you hire one.

[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.

[Ardiana Adili](#)

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

[Gretchen Fredericks](#)

Administration, 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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