

January 3, 2016

Dear Client: (LABEL HERE)

The Internal Revenue Service (IRS) extended three (3) mandates after 2011 that applies to taxpayers engaged in business, taxpayers claiming dependents, and due diligence for tax preparers.

**FIRST:** The IRS requires the filing of Form 1099s for certain business expenses paid over \$600. Six (6) tax forms with two (2) boxes must be answered relating to Schedule C (business), Schedule E (rentals), Schedule F (farming), Corporations, Sub Chapter "S" Corporations, and Partnerships. The questions read:

"Did you make any payments in 2015 that would require you to file Form(s) 1099?" "Yes\_\_\_No\_\_\_." and

"If 'Yes,' did you or will you file all required Forms 1099?" "Yes\_\_\_No\_\_\_."

The typical expenses paid over \$600 are listed on the enclosed 1099 letter/worksheet. IRS penalties for failure to file the business 1099 forms are severe. Our natural tendency is "it will not happen to us," but a colleague's client audited in June 2012 was assessed over \$4,000 in penalties for failure to file **ALL** of their 1099 informational forms. There can be a \$250 penalty imposed for each omission.

**PLEASE MARK YOUR ANSWER TO THE TWO (2) QUESTIONS ABOVE WITH YOUR SIGNATURE AND DATE AND RETURN A COPY OF THIS PAGE IN THE ENCLOSED ENVELOPE BY JANUARY 26, 2016. IF A RESPONSE IS NOT RECEIVED, THE FIRST QUESTION WILL BE MARKED "YES" IF INFORMATION ON YOUR RETURN INDICATES THE FILING OF FORM 1099 MAY BE NECESSARY. THE SECOND QUESTION WILL BE MARKED "NO" PROVIDING THE FIRST QUESTION IS "YES." THE ANSWERS FILED WITH YOUR RETURN MAY TRIGGER AN AUDIT IN THE FUTURE. SO PLEASE UNDERSTAND THE IMPORTANCE OF THESE TWO QUESTIONS AND YOUR ANSWERS. THE TAXPAYER BEARS THE LIABILITY RISK ASSOCIATED WITH NON-COMPLIANCE.**

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

If you prefer, we can prepare your 1099s. Please read the enclosed letter and complete the information on the back of the letter and return in the enclosed envelope along with a copy of this page.

**SECOND:** The IRS extended its due diligence for tax preparers. The first due diligence relates to Schedule C business under-reporting of income and the deduction of non-business expenses. Added to the due diligence mandate is auto vehicle expenses and mileage log documentation for Sch. C (business) and E (rental) taxpayers. The IRS states that if a tax preparer "**has reason to believe**" a taxpayer is under-reporting income or taking an illegal deduction, he/she must investigate the taxpayer's books and records. The IRS calls this process "due diligence." In essence, the IRS continues to hold a tax preparer accountable for client behavior and classifying us as IRS auditors.

The second "due diligence" requirement relates to claiming a **DEPENDENT**. The IRS states there is rampant fraud being committed by taxpayers claiming a DEPENDENT erroneously. When claiming a child, a deduction, earned income credit, and possibly tuition credit may apply. Again this year, a tax preparer must obtain documentation to certify that the child is a qualified child by completing IRS Form 8867. If the preparer "**has reason to believe**" the child is not qualified, the tax preparer is REQUIRED to investigate the child's dependent status. The form becomes more intrusive when there is a child of divorced, separated, or single parents. The form comprises of four (4) pages, twenty-five (25) Yes/No questions, and a tax preparer affidavit page for a dependent child when a Schedule "C" business return is filed. If a taxpayer is required to file Form 8867 with the IRS, an extra cost of \$25 entitled "IRS Mandate Fee" will be charged.

**THIRD:** As with last year, all 1099's and W-2's should be software-generated. If a taxpayer fails to use a software program the IRS will classify the return as "altered, typed, or handwritten." If this condition exists, I am mandated to mark your return as a "Nonstandard W-2 or 1099." Under this condition, your return may be subject to audit as the IRS considers it possible fraud. If we are not already preparing your W-2s, we would be glad to prepare them for you to avoid a possible audit.

Tax preparers can be reprimanded or lose their license to practice for failure to comply with these strict IRS mandates.

Sincerely,

Richard E. Ayres, EA, ATA