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| 2018

Representing the Taxpayer without
Records, How and When Can a Preparer
Use Taxpayer Estimates &
Reconstructions to Prepare a Return



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A Taxpayer's General Obligations

- File Accurate and Timely Tax Returns
- Pay Taxes



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Schedule C Pitfalls

- Netting COGS in Gross Receipts; Combining Businesses on one Schedule C
- Contract Labor - Is it deductible? Were 1099s issued?
- Home Office Deduction – Exclusive and regular use?
- Meals and Entertainment - Were you in travel status for meals? What was the business purpose?
- Gifts
- Other Expenses - Do they fit elsewhere on Schedule C? Are they ordinary and necessary?

Schedule C EITC Red Flags

- Schedule C income in round numbers
- Little or no expenses
- Limited records
- Income that provides the taxpayer with the maximum EITC
- No Form 1099



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EITC Tax Preparer Obligations

Demonstrate Due Diligence

- Determine accurate net self-employment income for EITC purposes. Apply a consistent and reasonable standard.
- Ask questions when information appears inconsistent, incorrect or incomplete.
- Document the taxpayer's responses.



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EITC Tax Preparer Obligations (con't)

Demonstrate Due Diligence

- Believe your client conducts a real business;
- Believe your client has the requisite records to support income and expenses, or can reconstruct the records; and
- Believe your client has included all income and expenses related to Schedule C.

Questioning your Client

Demonstrate Due Diligence

- Review IRS Form 11652 (Questionnaire and Supporting Documentation Form 1040 Schedule C) with your client.
- Educate your client regarding recordkeeping and the consequences of having inadequate records and request records for your review.
- Interview your client about the business operations including daily and weekly activities, how sales are generated, and how expenses are approved and paid.



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Records the Taxpayer Should Keep

Books and Records

- Sufficient to support income and expenses:

Sales slips, paid bills, invoices, receipts, deposit slips, cancelled checks, inventory records, cash register receipts, credit card receipts, bank statements.

- Details concerning asset acquisition and disposition:

Date and price paid, proof of payment and improvements to assets, section 179 and depreciation deduction details, date of disposal or sale, and sale details.



The Dreaded Mileage Log

- Required to record the mileage, date, place and business purpose.
- Required to provide total miles for the year as business, commuting, and other personal driving.
- Understand non-deductible commuter miles.
- Don't estimate miles per week x 52 = miles to deduct. Consider periods of no travel.
- Check bank records to confirm accuracy.



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Record Reconstruction and Estimates

- Review bank statements and credit card statements.
- Vendors and suppliers may have duplicate records.
- Photographs may prove use of machinery or inventory.
- Appointment books can substantiate travel, number of clients and frequency of service.
- Cell phone records can help establish dates of service or assist in determining expenses.
- Reconstruct mileage with online map tools.
- Create and sign declaration, under penalty of perjury.



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Changes to Schedule C due to the Bipartisan Budget Act of 2018

Public Law 115-123

- Line 26 – Salaries and wages reduced by credit for affected disaster area employers (Form 5884-A)
- Part V. Other Expenses – may include certain costs of making commercial buildings energy efficient
- Page C-16 – Election to deduct certain qualified film, television, and live theatrical productions that commenced in 2017



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Help is Available

IRS EITC Central Toolkit: www.eitc.irs.gov

Publications:

- 334 Travel Guide for Small Businesses
- 463 Travel, Entertainment, Gift & Car Expenses
- 583 Starting a Business and Keeping Records
- 587 Business Use of your Home



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Questions?