



Department of the Treasury
Internal Revenue Service
Return Preparer Office
1122 Town and Country Commons
Chesterfield, MO 63017

Date:

Contact telephone number:
(636) 255-1598
8 a.m. – 5 p.m. CT

RE: CE Programs on Schedule C

Dear Tax Return Preparer:

We reviewed tax returns you prepared in the past year and found that many have a high percentage of traits we believe typically indicate errors on Form 1040, Schedule C, *Profit or Loss from Business (Sole Proprietorship)*. You may benefit from continuing education (CE) programs on this topic.

As part of your [Year] CE requirement, we recommend you take a **minimum of 4 hours** of programs related to business income and expenses. Information about CE requirements and a list of IRS-approved CE providers is available at www.irs.gov/taxpros/ce.

When you prepare returns during the next filing season, please pay special attention to your work on Schedule C returns to ensure you prepare them accurately. In particular, make sure you are familiar with the following areas:

Due diligence responsibilities

A paid tax return preparer must take multiple steps to prepare accurate tax returns on behalf of clients. These steps are a preparer's due diligence and include reviewing the applicable tax law to establish the relevance and reasonableness of income, credits, expenses, and deductions on a return. In general, you can rely in good faith without verification on information your client provides. However, you can't ignore the implications of the information you have. you must make reasonable inquiries if the information appears to be incorrect, inconsistent, or incomplete.

Schedule C reminders

To prepare an accurate Schedule C, you must ask your clients relevant and probing questions to help you determine if the expenses are allowable. Taxpayers may not fully understand the tax laws and may incorrectly believe they can claim deductions for non-qualifying expenses. You should also ask your clients if they have receipts to support the expenses and instruct them to keep them in case we request supporting documents.

Helpful resources

We provide information about the Schedule C on our website at www.irs.gov, keyword: Recommended Reading for Small Businesses. In addition, we recommend you review:

- Schedule C instructions
- Circular 230, Section 10.22, *Diligence as to accuracy*
- Circular 230, Section 10.34, *Standards with respect to tax returns and documents, affidavits, and other papers*

Potential consequences

In the future, both you and your clients could face negative consequences from inaccurate returns. We will check to see if you complete the continuing education on business income and expenses, and we'll be looking for improvements in future returns you prepare. Inaccurate returns may result in any of the following consequences:

- If we examine your clients' returns and find inaccuracies, your clients may be liable for additional tax, interest, additions to tax, and penalties.
- If you prepare a client return that has an understatement of tax liability due to an unreasonable position, we can assess you a minimum penalty of \$1,000 per return (IRC Section 6694(a)).
- If you prepare a client return that has an understatement of tax liability due to reckless or intentional disregard of rules or regulations by the tax preparer, we can assess a minimum penalty of \$5,000 per return (IRC section 6694(b)).

I hope this letter and your continuing education focus on Schedule C preparation will heighten your awareness of your responsibilities and help ensure you prepare accurate Schedules C for your clients.

Thank you for your cooperation.

Sincerely,

Carol A. Campbell
Director, Return Preparer Office