



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: Schedule C preparation

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)*. This letter reminds you of your responsibilities in this area and provides educational assistance. As a paid preparer, you are responsible for ensuring your clients' returns are accurate. We ask that you pay special attention to these schedules next filing season.

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 implication 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 documentation.

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”, respectively*

Potential consequences

In the future, both you and your clients could face negative consequences from inaccurate returns. We'll be looking for improvement 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, and penalties.
- If you prepare a client return that has an understatement of tax liability due to an unreasonable position, we can assess 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 has increased your awareness of your responsibilities as a paid tax return preparer and provided you with information on preparing accurate Schedules C for your clients.

Thank you for your attention to this matter.

Sincerely,

Carol Campbell
Director, Return Preparer Office