

Table of Contents

| | |
|--|-----------|
| Representation | 1 |
| Laws and regulations governing practice before the IRS..... | 2 |
| 31 U.S.C. §330, practice before the department..... | 2 |
| Circular 230, Regulations Governing Practice Before the Internal Revenue Service..... | 2 |
| Rules governing authority to practice..... | 3 |
| Enrolled agents | 4 |
| Limited practice | 4 |
| Return preparation..... | 5 |
| Furnishing information..... | 5 |
| Non-credentialed practitioners | 5 |
| Duties and restrictions on practice..... | 5 |
| Information to be furnished to the IRS | 5 |
| Notaries | 8 |
| Practitioner Fees..... | 8 |
| Best practices..... | 9 |
| Conflicts of interest..... | 9 |
| Fee information..... | 10 |
| Communicating fee information..... | 10 |
| Advertising and limitations on soliciting clients..... | 11 |
| Documenting representation | 11 |
| Client engagement letters..... | 11 |
| Tax information authorization..... | 14 |
| Negotiating taxpayer checks | 17 |
| Substitute Form 2848 | 18 |
| Revoking or withdrawing from POA..... | 18 |
| Information authorization for non-representatives | 18 |

| | |
|---|-----------|
| Practitioner sanctions | 21 |
| Penalty amount | 21 |
| Incompetence and disreputable conduct | 22 |
| Reporting of practitioner violations | 23 |
| Rules for disciplinary proceedings | 23 |
| IRS taxpayer notices | 23 |
| IRS Notice CP2000 | 23 |
| Verification of taxpayer identity | 24 |
| Missing information notice..... | 24 |
| Notice CP24 | 24 |
| Penalty relief..... | 25 |
| Form 843 | 25 |
| Taxpayer penalties eligible for relief | 27 |
| Administrative waiver and first-time penalty abatement..... | 27 |
| IRS examinations | 28 |
| Possible audit outcomes | 31 |
| IRS appeals | 31 |
| Fast-track settlement | 31 |
| Audit reconsideration | 32 |
| Appeals conferences..... | 34 |
| Settlement agreements | 37 |
| Closing agreements | 40 |
| Litigation | 40 |
| U.S. Tax Court..... | 40 |
| Other federal courts | 41 |
| IRS collections | 41 |
| IRS billing and payment..... | 41 |
| Collection appeals..... | 46 |
| Fringe Benefits Overview | 58 |
| Fringe benefit taxation | 58 |

| | |
|--|-----------|
| Valuation | 59 |
| Reporting | 60 |
| Sole proprietor | 60 |
| Partnership | 60 |
| S corporation | 62 |
| C corporation | 63 |
| Summary chart | 63 |
| Withholdings | 64 |
| Accountable vs. nonaccountable plan | 64 |
| Accountable plan – nontaxable benefits | 64 |
| Nonaccountable plan – taxable benefits | 65 |
| Form W-2 reporting..... | 66 |
| Summary | 66 |
| Common benefits | 66 |
| Accident and health insurance | 67 |
| Achievement awards | 68 |
| Awards and prizes..... | 69 |
| Adoption assistance | 69 |
| De minimis fringe benefits | 70 |
| Dependent care assistance | 71 |
| Educational assistance | 72 |
| Group-term life insurance | 73 |
| Health reimbursement arrangements | 75 |
| Health savings accounts | 78 |
| No-additional-cost services..... | 79 |
| Transportation (commuting)..... | 80 |
| Working condition fringe benefits | 82 |
| Summary chart | 83 |
| Unique Rental Activities | 96 |
| Dual-use property | 97 |

| | |
|---|------------|
| Tax Treatment of Home with Rental and Personal Use diagram | 98 |
| Personal residence | 98 |
| Vacation home | 99 |
| IRS position..... | 107 |
| Rental property with limited personal use | 113 |
| Other rental uses..... | 115 |
| Rental of a room in the taxpayer's residence | 115 |
| Self-rentals..... | 115 |
| Rental activity | 117 |
| Exceptions..... | 117 |
| Passive activity | 120 |
| Types of activity..... | 120 |
| Limitations..... | 121 |
| Recharacterization | 121 |
| Participation..... | 122 |
| \$25,000 limitation | 123 |
| Deduction | 123 |
| MAGI | 123 |
| Eligibility | 124 |
| Red flags..... | 124 |
| Suspended passive activity loss..... | 130 |
| Selling a Business Interest – Partnership LLC to an SMLLC Sole Proprietor..... | 148 |
| Partnerships – Overview | 148 |
| Limited liability company | 148 |
| What is a partnership interest? | 149 |
| Change in partners..... | 150 |
| Partnership LLC changes to SMLLC | 159 |
| Internal sale..... | 159 |

| | |
|--|------------|
| External sale | 160 |
| Terminating a partnership | 162 |
| Form 8832 | 163 |
| Preparing a Final Form 1065 | 164 |
| Selling Corporations (C and S)..... | 171 |
| Sale of stock | 172 |
| Advantages and disadvantages..... | 172 |
| Tax consequences | 173 |
| Reporting requirements..... | 178 |
| Special tax provisions..... | 184 |
| Sale of assets | 190 |
| Advantages and disadvantages..... | 190 |
| Asset classification | 191 |
| Tax treatment | 197 |
| Installment sales..... | 209 |
| Group of assets constitutes a trade or business..... | 210 |
| Liquidation | 214 |
| Plan of liquidation | 214 |
| Forms required to be filed..... | 215 |
| Corporation's tax consequences | 218 |
| Shareholder's tax consequences..... | 220 |
| Summary and potential suggestion | 242 |
| Net Investment Income Tax | 247 |
| Who is subject to NIIT?..... | 252 |
| Residency status..... | 252 |
| Calculating NIIT | 253 |
| NII defined..... | 253 |
| Category 1 income..... | 254 |
| Category 2 income..... | 257 |
| Category 3 income..... | 261 |

| | |
|---|------------|
| Properly allocable deductions..... | 264 |
| Recoveries of prior year deductions | 268 |
| Reporting NIIT..... | 268 |
| Appendix | 276 |
| Appendix A: Example Form 4549..... | 276 |
| Appendix B: Example IDR Form 4564 | 278 |
| Closing a corporation checklist | 284 |
| Terminating a partnership checklist..... | 285 |
| Index..... | 286 |