CPA Practice Advisor

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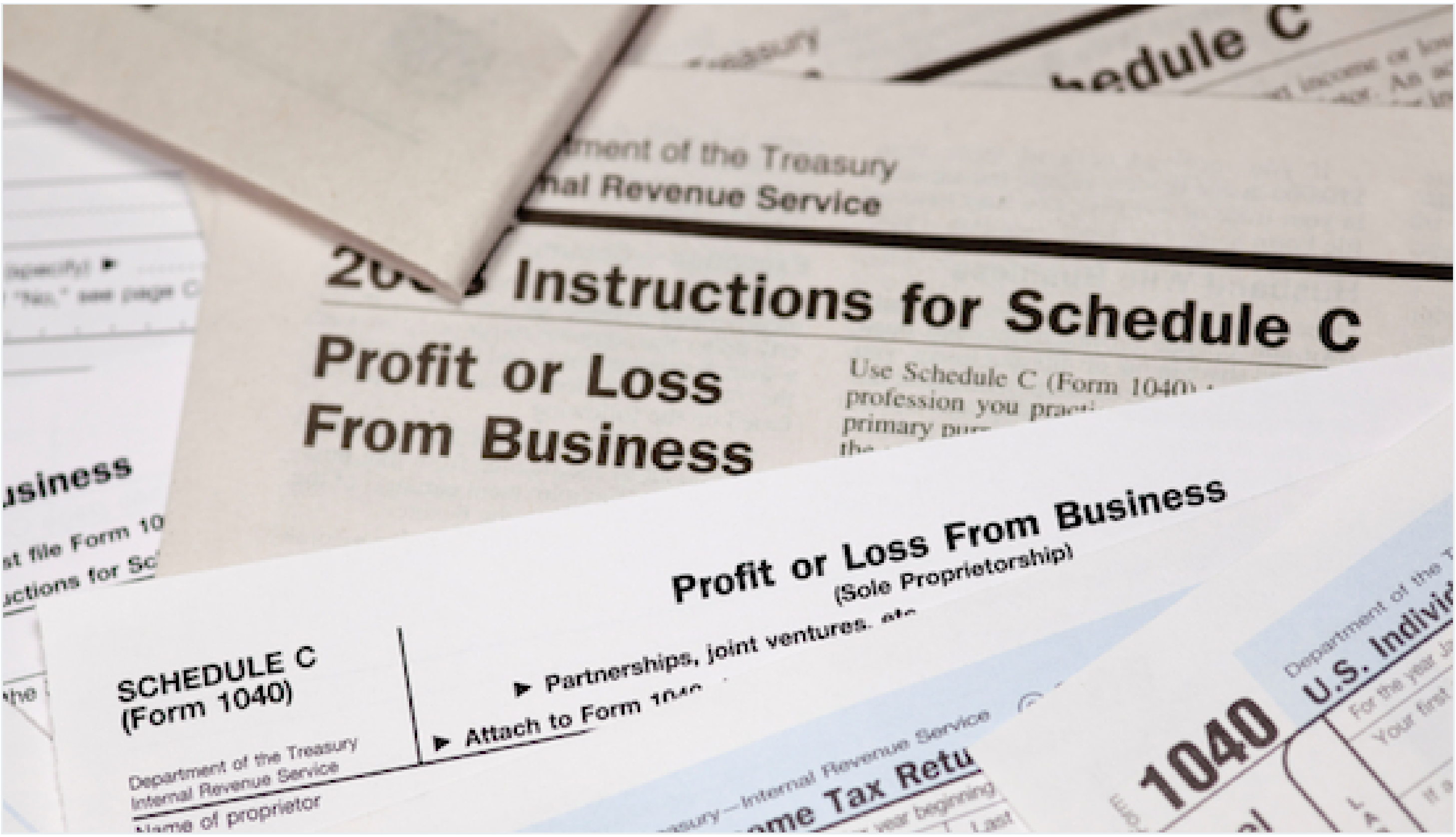

According to a new report in the Kiplinger Tax Letter, the IRS has mailed out more than 2,500 letters this month to tax return preparers who have been guilty of foiling a faulty Schedule C, Profit or Loss from Business (Sole Proprietorship). The gist of the message: Do better next time.

However, while the IRS appears to treating wayward practitioners with kid gloves for the time being, don't expect examiners to be as lenient during the 2015 tax-filing season. Repeat offenders could be slapped with penalties for as much as $5,000 per return.

This isn't the first time the IRS has addressed this issue. After sending out tens of

Due diligence: A paid tax return preparer must take numerous steps to prepare accurate tax returns on behalf of his or her clients. Due diligence and includes reviewing the applicable tax law to establish the relevance and reasonableness of income, credits, expenses and deductions on a return. Generally, you can rely in good faith without verification on information provided by a client, but you can't ignore the implication of the information you have. 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 determine if the expenses are legit. Taxpayers may not fully understand the tax laws and may incorrectly believe that they can deduct expenses that don't qualify. Furthermore, you should ask your clients if they have receipts to support the expenses and instruct them to keep them in case the IRS challenges deductions.

Helpful resources: The IRS provides valuable information about Schedule C on its website at www.irs.gov (Keyword: Recommended Reading for Small Businesses). In addition, its recommends that tax return preparers review the Schedule C instructions; Circular 230, Section 10.22, Diligence as to accuracy; and Circular 230, Section 10.34, Standards with respect to tax returns and documents, affidavits and other papers

Potential consequences: Expect the IRS to get tougher in the future. It warns practitioners that they, as well as their clients, could face negative consequences from inaccurate returns. The IRS will be looking for improvement in future returns prepared by recipients of Letter 5510. Significantly, inaccurate returns may result in any of the following consequences:

- If the IRS examine a client's return and find inaccuracies, the client may be liable

returns. Don't simply accept a client's unsupported opinion or rely on spotty documentation. Remember its your name and reputation – not to mention your wallet – that is on the line.

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