



Taxes solved.

Schedule C Engagement Letter

Thank you for using Tucson Tax Team for your tax preparation needs. Clear communication is key to a successful business relationship. The purpose of this letter is to make sure we both have the same understanding of the services we are providing.

Our Responsibilities: Tucson Tax Team will prepare your business income tax return. We do not prepare and are not responsible for preparation of other business taxes such as state use tax, payroll tax, etc.

Your Responsibilities: The IRS requires you to keep records for all deductions for a minimum of 4 years; we recommend 7 years. These records include income statements, bank and credit card statements, travel expenses, business mileage, business utilities, home utilities and other home expenses if you have an office in home. Payroll records must be kept forever. You may be asked to prove that your expenses were reasonable and necessary; excessive or inappropriate expenses may be disallowed.

Business Information: The IRS requires you to separate business funds from personal funds; personal expenses should not be paid from the business account and vice versa. You must report all income received in a trade or business including bartering, cancelled debt, cash, etc. You are permitted to expense any item under \$2,500 each.

Commuting mileage is not deductible; miles driven in the course of business is deductible if you maintain a log of mileage stating date, destination, purpose of trip, and miles driven. 50% of the cost of business-related meals is deductible. 50% of meals just for yourself are deductible only if you are away from your tax home. Meal expenses must be documented with the date, the client or associate, and the purpose of the meal. Travel is deductible if you can demonstrate a substantial business purpose. These expenses may include ground/air transportation, lodging, meals as described above, incidental expenses. If your travel is mixed business and personal, you may deduct 100% of the travel to and from the destination, but lodging, meals and incidentals only for those days when the primary purpose was business.

Primary home phone lines are not deductible; second home lines used for business may be deducted. The business portion of your cell and internet costs are deductible; you may need to show a log to prove your business percentage. An office in home expense may be deducted if there is an area that is used regularly and exclusively for business; this area cannot also be used as a living area, guest bedroom, etc. The office must be used regularly in your trade or business to meet with clients, store inventory, or to prepare business paperwork.

Employees must be paid with paychecks; payroll taxes must be withheld and paid to the Treasury Dept. W-2s must be provided to employees by January 31st of the following year. Independent contractors need not have payroll taxes withheld; you must file forms 1099/1099-MISC by February 1st of the following year. Owners should not receive paychecks.

If you have had losses for 3 of the last 5 years, you may need to demonstrate that you have a profit motive. If you cannot prove a profit motive, the IRS may reclassify your business as a hobby and tax all income without regard to expenses.

Signing below acknowledges receipt of this information:

Signature

Date