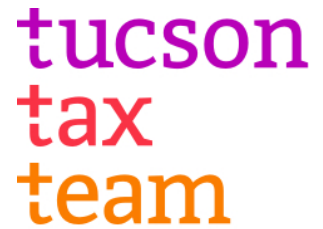


# Schedule C Engagement Letter: Tax Year 2019



Taxes solved.

*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 ensure we share an understanding of the services we provide.*

**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:** We recommend that you keep records for 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. Receipts for depreciable assets or improvements should be kept for 7 years after the asset has been disposed of or fully depreciated. Expenses must be reasonable and necessary; excessive or inappropriate expenses may be disallowed.

**Business Information:** It is advisable 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.

**Income:** The IRS requires you to report all income received in the course of operating your business. This includes "non-income" sources such as bartering. Note that unreported income is subject to significant penalties.

**Expenses:** All deductible expenses should be ordinary and necessary. Commuting mileage is not deductible; miles driven in the course of business are 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, your deduction may be limited.

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 in your trade or business to meet with clients, store inventory, or to prepare business paperwork. This area cannot also be used as a living area, guest bedroom, etc.

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 31<sup>st</sup> of the following year. Owners should not receive paychecks. Independent contractors need not have payroll taxes withheld; you must file Forms 1096/1099-MISC by February 1<sup>st</sup> of the following year for any contractor you paid \$600 or more during the calendar year.

**Profit Motive:** 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:

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Signature

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Date