

---

### **POLICY STATEMENT AND TAX PREPARATION ENGAGEMENT LETTER**

This letter confirms that you, herein after called Client, have requested tax preparation services for your Federal Income and State Income tax return(s) for tax year(s) \_\_\_\_\_, and accepted the terms under which I, Lauren King, E.A., herein after called Practitioner, agree to accept the work engagement.

The Internal Revenue Service imposes penalties on taxpayers and practitioners for failure to observe due care. It is important to both Client and Practitioner that there is clear understanding by Client of the limitations on work performed and the responsibilities of each party.

#### **PRIVACY STATEMENT**

▶ Nonpublic personal information is collected from information received on tax organizers, questionnaires, and other financial documentation provided by Client. Nonpublic information is also collected from personal interviews, telephone conversations, and information about Client's transactions with Practitioner.

▶ Client's privacy rights are protected by Federal law. All nonpublic personal information submitted in the course of practice for both current and former Clients is held in strict confidence and, except as required by operation of law, will not be disclosed to a third party without the Client's prior written consent. Permitted disclosures include providing information to employees who need to know this information in order to complete the work as engaged by Client and, in limited situations, to an unrelated third party who needs to know information to assist Practitioner in providing services as directed by Client.

▶ Access to Client information is restricted. In compliance with Federal standards, a professionally designed and maintained Written Security Plan, incorporating physical security, electronic security safeguards, periodic auditing, and strict procedural measures is in place to protect the confidentiality and integrity of your nonpublic personal information.

▶ In order to facilitate services to Client, Practitioner may communicate by fax or electronic mail over the Internet. Such communications may include information that is confidential. Practitioner will use best efforts to keep such communications secure in accordance with her obligations under applicable laws and professional standards. With recognition that Practitioner has no control over unauthorized interception of these communications once sent, Client accepts and consents to Practitioner's use of these electronic devices.

#### **PRIVILEGED COMMUNICATIONS NOTICE**

▶ Privileged communications can occur only between Client and his/her attorney and attorney's staff. *Confidentiality* privilege is distinguished from Attorney-Client privilege. Confidentiality privileged communications are those which are protected from IRS authority to compel Practitioner's testimony. Client may assert the confidentiality privilege in any non-criminal tax matter before the IRS or any non-criminal proceeding in Federal Court brought by or against the United States. Federal law has extended confidentiality privilege to some communications between a Client and Client's Enrolled Agent. Examples are: tax planning to meet specific objectives, research memos and work papers related to expected outcome of tax decisions, general business or accounting recommendations. Unless Practitioner must disclose communication by law, Practitioner will not disclose until Client has opportunity to argue that communication is privileged. Client agrees to pay any and all expenses, including legal fees, incurred by Practitioner, that result from attempts to protect communication as privileged.

▶ Privilege does not include communications associated with the preparation of tax returns or on tax accrual work papers associated with financial statement compilation and certified audits. This rule applies even when an attorney has prepared returns.

▶ Privilege can be inadvertently waived if Client discusses the contents of privileged communication with a third party, such as a lender, friend, or business associate. If Client feels the nature of any subject matter to be discussed requires protected communications, he/she is advised to raise the issue early. In some complex cases, it is recommended that Practitioner's services be retained through Client's attorney.

#### **CLIENT'S REPRESENTATION AND SUBSTANTIATION**

▶ Practitioner has relied in good faith on client's representation. Client is advised that Practitioner is not permitted to ignore implications of information or facts actually known. Although Practitioner will make reasonable inquiries if information furnished appears to be incorrect, inconsistent or incomplete, returns are prepared from information supplied by Client without verification or audit by Practitioner. Therefore, Client affirmatively states he/she believes data to be correct and accepts responsibility for its accuracy.

▶ Client confirms Practitioner has made appropriate inquiry to determine that documents to substantiate return issues exist and remain in Client's possession. Client affirms that receipts (or cancelled checks) and the § 501(c) charity's written acknowledgment have been obtained for all contributions. Client affirms retention of adequate records for business auto, meal, travel and entertainment deductions as set forth in § 274(d). Code Sec. 274(d) limits deduction for business gifts to \$25 per person and, further, requires record keeping for other listed property such as cellular phones and computers. Client is advised that he/she cannot be entitled to these deductions without proper substantiation.

#### **RECORDS RETENTION**

▶ Client acknowledges, agrees, and understands that Practitioner will not be retaining any supporting documentation for returns, other than documents supporting federal and state withholding taxes. Document retention is Client's sole responsibility. All original source documents are returned to client at conclusion of engagement. Client is advised to keep documents used to prepare returns for as long as possible. Client should retain tax returns with W-2's and 1099's indefinitely.

- ▶ Client agrees to maintain records pertaining to the purchase, refinance, improvement, and sale or exchange of all real estate for at least four (4) years after disposition. If possible, a longer retention period is recommended. Confirmation of security trades need be kept no less than (4) years from disposition. IRA and self-employment retirement plan contributions need to be kept at least 4 years after all accounts have been depleted.
- ▶ Copies of tax returns will be warehoused by Practitioner for 4 years, after which they will be destroyed without further notice or communication to Client.

### **BUSINESS BOOKEEPING AND FIDUCIARY ACCOUNTING**

- ▶ Compilation of receipts, balance sheet and cash-T analysis, adjusting entries, and analysis of Client's financial presentation may be necessary for accurate tax preparation. Business entities merit double entry accounting systems be maintained by Client's bookkeeping staff. Procedures used by Practitioner in preparing tax returns are neither designed nor intended to uncover errors, irregularities, or defalcation. In a tax preparation engagement, Practitioner does not examine internal controls, reconcile bank statements, review or supervise the work of Client's staff. Client is advised to anticipate remedial accounting issues before year end and prior to tax preparation engagement. Because rates vary seasonally, remedial action during the busy tax season will add to Practitioner's time and Client's tax preparation fee.
- ▶ Client is advised that a detailed Fiduciary Accounting be prepared for each Trust. While IRS regulations determine calculation of taxable income, this unique format focuses on activity of assets, income, and expense of the Trust as it relates to the parties of the Trust. It determines the respective economic interests of current and remainder beneficiaries. Fiduciary Accounting, even in the rare case that it is not required by law, is deemed necessary to protect Trustee against actions brought by beneficiaries. And in the case where beneficiaries have waived accounting, it can serve to protect Trustee from future tax liabilities.

### **CLIENT REVIEW OF RETURNS**

- ▶ Documents which client has been asked to sign are complete and do not contain blank spaces which are to be filled in later. In order to ensure that nothing has been added or deleted which would result in an understatement of tax liability, Client affirmatively agrees to review completed tax returns prior to filing with Federal and State Governments. To allow Client adequate time to review, in the case of Electronic Filing, a 24-hour delay will occur before transmitting returns. Client review affirms that all income has been properly reported on the tax returns, including any illegal income or income from barter and exchange of services and income not otherwise reported on an information return (1099, K-1, etc.).
- ▶ Client is obliged to inform Practitioner of any known or suspected error(s) as soon as possible. In the case of Practitioner error, rerun of original returns [prior to filing] or amended returns, which may be required due to Practitioner error, are provided at no charge. A rerun fee is imposed on completed returns requiring reprinting due to additional information furnished after processing.

### **AUDITS AND GOVERNMENT NOTICES**

- ▶ Returns may be selected for audit through computer (DIF) scoring, at random, or otherwise. Audit consultation or representation is not included in tax preparation engagement. Adjustments by the examining agent are subject to appeal.
- ▶ Correspondence audits can result from a mismatch of the payer information on file with IRS and the tax return. Client can lose important rights to defend his/her position if response is delayed or ignored.
- ▶ When Client has lost W-2's and 1099's (or is unsure if an item has been reported to IRS), transcripts of Client's account can be obtained by Practitioner with a proper Power of Attorney. IRS posts this information after tax season. Due to the delay, an Extension Request is required. Extension Request fee does not include fee to order income transcripts.
- ▶ Client agrees to promptly provide Practitioner with copy of any and all correspondence received from IRS. Since California FTB and other State governments do not send Practitioner notices, Client must provide Practitioner with correspondence from State. There is no charge for Practitioner to review government correspondence. It is imperative that Client keep Practitioner updated when Client address and contact information changes.

### **EXTRA COPIES OF RETURNS AND LETTERS TO THIRD PARTIES**

- ▶ Practitioner's policy is to furnish client with full and complete copy of tax returns. Upon request, extra copies of completed tax returns will be provided at no charge. After the close of the tax preparation engagement, an additional copying charge will apply. Copying fee is payable in advance, prior to releasing, e-mailing, faxing or mailing return copies.
- ▶ Practitioner cannot be engaged to perform procedures to certify credit worthiness. With written permission and at no charge, Practitioner can confirm with lender that tax returns in lender's possession are the same as returns prepared by this office. For an additional fee and at Practitioner's discretion, Practitioner may provide a letter to Client regarding Client's Schedule C, Schedule SE, or Schedule E activity. Client is required to indemnify Practitioner for any negative consequence of third party reliance. Fee is payable in advance, prior to releasing, faxing or mailing letter to Client.

### **K-1'S, W-2'S, 1099'S & OTHER TYPES OF RETURNS**

- ▶ Practitioner has not made any audit, opinion, or recommendation regarding K-1's and related records from Client's partnerships, corporations, or trusts prepared by practitioners other than this office.
- ▶ Client is advised to treat everyone on the payroll as employees subject to withholding and to provide timely W-2's. Practitioner is not responsible for consequences of reclassification of independent contractors by taxing authorities or for disallowance of deductions due to failure to timely file required W-2 and 1099 forms. Client affirms that any unreported payroll tax on all domestic workers, if applicable, is reported on his/her Individual Tax Return (Form 1040). Client is advised that additional domestic payroll reporting and/or remittance of taxes may be required by the State.

- ▶ If Client wants other types of returns (i.e. 1099's, gift, sales, payroll, business property) prepared, Client will list additional returns at the end of this engagement letter.

### **PENALTIES AND DISCLOSURE OF AGGRESSIVE POSITIONS**

- ▶ Code Sections 6662, 6663 and 6664 provide a 20% penalty for any substantial understatement of income tax or negligent failure to keep records. A 75% fraud penalty can be assessed if the IRS establishes by convincing evidence that the underpayment is due to intent to commit fraud. Practitioner is not responsible for consequences resulting from incorrect, incomplete, or misleading information presented by Client. Further, Practitioner is not responsible for consequences of Client's inability to obtain sufficient records to support deductions, credits and other items. Client will indemnify and hold Practitioner harmless from any and all claims, including attorney fees, resulting directly or indirectly from failure to retain any supporting documentation. Penalties of up to \$100,000 can be imposed for failing to disclose participation in "reportable transactions". These are arrangements that the IRS has identified as potentially abusive. Such transactions must be and will be disclosed to Federal and State taxing authorities.
- ▶ Practitioner's professional obligation is to exercise due diligence in applying the body of tax law (code, revenue rulings, regulations, tax court opinions) to information provided by Client so as to not understate the Client's tax liability. Practitioner will apprise Client if there is controversy concerning how to report an item or transaction. She will use her judgment in resolving questions where the tax law is unclear or where there may be conflict between taxing authorities' interpretations of the law and what seem to be other supportable positions. Practitioner will apply the "more than 50% chance of being sustained on its merits" standard. In the case where a position has substantial authority, yet does not attain the "more than likely confidence level," penalties can be avoided or mitigated by adequate disclosure to IRS. Client agrees to honor Practitioner's decisions regarding disclosure of aggressive return positions.

### **TAX ADVICE AND WRITTEN OPINION**

- ▶ Client may not rely on any advice that has not been fully reviewed and put in writing by Practitioner (either on tax returns or in a separate Advisory Letter).
- ▶ Rules of practice dictate that most written opinion or advice (including electronic communications) on Federal tax issues is not permitted without a heightened standard of care exercised by Practitioner. A summary of this standard follows: (1) determining scope of engagement, purpose and specificity of advice sought, (2) establishing facts and their relevancy, (3) evaluating the reasonableness of assumptions or representations, (4) evaluation of the chances of success on its merits, (5) applying the law [including judicial doctrines] to the facts, (6) arriving at a conclusion supported by the law and the facts, and (6) advising the client regarding the import of the conclusions reached.
- ▶ Due to the time required to comply with these rules, all written tax advice or opinion can only be provided under a separate Tax Consultation Engagement for an additional fee. In the event that an opinion fails to reach a conclusion favorable to Client at the "more than 50% confidence level or the position has substantial authority and is disclosed to the IRS", Client will not be permitted to use such opinion for the purpose of avoiding penalties that may be later imposed.

### **LIMITED LIABILITY**

- ▶ Audit outcomes can never be guaranteed. Should Client receive an adverse decision by taxing authorities, except in the case of Practitioner error, Client affirmatively agrees to assume all liability for additional tax, penalty and interest. In the event that Practitioner error results in additional taxes due, although Practitioner does not under any circumstances assume liability for additional tax, Practitioner will be obliged to pay penalty, subject to the limitation stated below. Interest is not part of Practitioner liability because Client has the benefit from the use of funds.
- ▶ Practitioner makes a good faith attempt to stay abreast of tax law changes. However, it is Client's responsibility to periodically review his/her documents and circumstances for law changes and events that may affect his/her transactions. Client will inform Practitioner when Client's situation requires an update to tax projections or when re-calculation of estimated tax payments is needed. Adjustment of estimated tax payments and tax planning are subject to an additional fee. In all cases Client (alone) assumes liability for any interest and penalty assessed due to underpayment of estimated tax payments and/or inaccurate tax projections.
- ▶ In recognition of the relative risks and benefits of this agreement to Client and Practitioner, Client and Practitioner have discussed and have agreed on the fair allocation of risk between them. As such, Client understands and agrees, to the fullest extent permitted by law, to limit liability of Practitioner to Client for any and all claims, losses, costs, and damages of any nature whatsoever, so that the total aggregate liability of Practitioner to Client shall not exceed Practitioner's total fee for services rendered under this agreement.

### **JURISDICTION**

- ▶ Client and Practitioner agree that the Courts of San Diego County, California, have jurisdiction over all disputes between Client and Practitioner. Client and Practitioner agree to submit disputes to the Federal or State Courts resident in San Diego County, California. They also agree that the laws of the State of California shall govern all such disputes. In the event that any portion of this Policy Statement and Tax Engagement Letter is deemed invalid or unenforceable, said finding shall not operate to invalidate the remainder of this Engagement letter. In the event any claim is made against Practitioner by any third party in connection with Client-Practitioner relationship, Client agrees to indemnify and hold Practitioner harmless for any and all costs, expenses, interest, penalties or other damages that Practitioner may incur by reason of such claim including, but not limited to, court costs and attorney fees.

### **EXTENSIONS**

- ▶ In order to ensure that returns will be completed by the filing deadline, Practitioner must receive all information to prepare returns no later than 15 days before that deadline. If Practitioner has not received complete information within 15 days of filing deadline and returns are not filed timely, Client will be subject to late filing and late paying sanctions. Practitioner will not file Client's Extension

