Due Diligence Expense Compliance Form

- If you are claiming expenses, deductions or write offs, you are required to provide records, in lieu of records you may provide receipts, invoices and bill payments.
- If you did not keep accurate records of receipts, you are required to provide your financial banking information or statements. You may also fill out a detailed expense report reflecting your reported expenditures.
- All acceptable information is in case you are randomly selected for an audit. This information can be found in the IRS website under expense reporting and accurate record keeping.

Our goal here at Tasha's Taxes is to protect clients and ensure we are in compliance with the rules set forth by the Internal Revenue Services, United States Government rules and regulations set at federal, state and local government levels. Please read over all information carefully as this document will be maintained in your records with Tasha's Taxes for a period of 36 months after the initial signing date.

For 2021, as in 2020, 2019 and 2018, there is no limitation on itemized deductions, as that limitation was eliminated by the Tax Cuts and Jobs Act. Generally, there are four types of deductible nonbusiness taxes:

- State, local, and foreign income taxes
- State and local general sales taxes
- State and local real estate taxes, and
- State and local personal property taxes

To be deductible, the tax must be imposed on you, and you must have paid it during your tax year. Nonbusiness taxes may only be claimed as an itemized deduction. The law limits the deduction of state and local income, sales, and property taxes to a combined, total deduction of $10,000. The amount is $5,000 for married taxpayers filing separate returns. Taxpayers cannot deduct any state and local taxes paid above this amount.

Child Tax Credit doubled, and more people qualify. The maximum credit is now $2,000 for each qualifying child under age 17. The income limit for getting the full credit increased to $400,000 for joint filers and $200,000 for other taxpayers.

Client(s) First and Last Name: ____________________________

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Educator Expenses If you were an eligible educator in 2021, you can deduct on line 11 up to $250 of qualified expenses you paid in 2021.

An ordinary expense is one that is common and accepted in your educational field. A necessary expense is one that is helpful and appropriate for your profession as an educator. An expense doesn't have to be required to be considered necessary. Qualified expenses include amounts paid or incurred in 2021 for personal protective equipment, disinfectant, and other supplies used for the prevention of the spread of coronavirus.

- An ordinary expense is one that is common and accepted in your field of trade, business, or profession.
- A necessary expense is one that is helpful and appropriate for your business
    - You can no longer claim any miscellaneous itemized deductions that are subject to the 2%-of-AGI limitation, including unreimbursed employee expenses.
        - However, you may be able to deduct certain unreimbursed employee business expenses if you fall into one of the following categories of employment listed under Unreimbursed Employee Expenses.
            - You can deduct only unreimbursed employee expenses that are paid or incurred during your tax year, for carrying on your trade or business of being an employee, and ordinary and necessary. An expense is ordinary if it is common and accepted in your trade, business, or profession. An expense is necessary if it is appropriate and helpful to your business. An expense doesn't have to be required to be considered necessary.
        - No deduction is allowed for fines and penalties paid to a government or specified nongovernmental entity for the violation of any law except in the following situations. • Certain amounts that constitute restitution. • Certain amounts paid to come into compliance with the law. • Amounts paid or incurred as the result of certain court orders in which no government or specified nongovernmental agency is a party. • Amounts paid or incurred for taxes due.
- You can deduct the items listed below as itemized deductions.
    - • Amortizable premium on taxable bonds. • Casualty and theft losses from income-producing property. • Excess deductions (including administrative expenses) allowed a beneficiary on termination of an estate or trust. • Federal estate tax on income in respect of a decedent. • Fines or penalties. • Gambling losses up to the amount of gambling winnings. • Impairment-related work expenses of persons with disabilities. • Losses from Ponzi-type investment schemes. • Repayments of more than $3,000 under a claim of right. • Unlawful discrimination claims. • Unrecovered investment in an annuity. • An ordinary loss attributable to a contingent payment debt instrument or an inflation-indexed debt instrument (for example, a Treasury Inflation-Protected Security).

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- List of Deductions

- You can deduct a casualty or theft loss as an itemized deduction, if the damaged or stolen property was income-producing property (property held for investment, such as stocks, notes, bonds, gold, silver, vacant lots, and works of art). First report the loss on Form 4684.

- You may also have to include the loss on Form 4797, Sales of Business Property, if you are otherwise required to file that form

- If an estate or trust has an excess deduction resulting from total deductions being greater than its gross income, in the estate's or trust's last tax year, a beneficiary can deduct the excess deductions, depending on its character. The excess deductions retain their character as an adjustment to arrive at adjusted gross income on Schedule 1.

- You can deduct the federal estate tax attributable to income in respect of a decedent that you as a beneficiary include in your gross income. Income in respect of the decedent is gross income that the decedent would have received had death not occurred and that wasn't properly includible in the decedent's final income tax return.

- Home Office If you use a part of your home regularly and exclusively to conduct business, you may be able to deduct a part of the operating expenses and depreciation of your home. You can claim this deduction for the business use of a part of your home only if you use that part of your home regularly and exclusively: • As your principal place of business for any trade or business; • As a place to meet or deal with your patients, clients, or customers in the normal course of your trade or business; or • In the case of a separate structure not attached to your home, in connection with your trade or business. Principal place of business. If you have more than one place of business, the business part of your home is your principal place of business if: • You use it regularly and exclusively for administrative or management activities of your trade or business, and • You have no other fixed location where you conduct substantial administrative or management activities of your trade or business. Otherwise, the location of your principal place of business generally depends on the relative importance of the activities performed at each location and the time spent at each location.

- You should keep records that will give the information needed to figure the deduction according to these rules. Also keep canceled checks, substitute checks, or account statements and receipts of the expenses paid to prove the deductions you claim. You must keep records to verify your deductions. You should keep receipts, financial account statements, and other documentary evidence.

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- A system of books and records may be as simple as a calendar showing business income earned each day and business expenses paid each day or they may be a detailed accounting system. The system of records should include enough information to correctly determine gross receipts, business expenses incurred, and the purchase price of assets acquired for use in the business. These records should also include inventory purchases, payroll, and other transactions occurring while operating. The taxpayer's books and records should include supporting documents. Supporting documents include sales slips, paid bills, invoices, receipts, deposit slips, and canceled checks. These documents are important to support the entries in the books and the tax return. These records will also help the taxpayer determine the value of inventory and (to include home office), expenses incurred at the end of the year.

What are examples of supporting documents?

- **Gross receipts.** Gross receipts are the income received by the business. The taxpayer should keep supporting documents that show the amounts and sources of gross receipts. Documents that show gross receipts include the following.
  - Cash register receipts
  - Bank statement and deposit slips
  - Receipt books
  - Invoices
  - Credit card charge slips
  - Forms 1099-MISC
  - Any format (calendar, income ledger, etc.) that the taxpayer consistently uses to record receipts of the business
- **Purchases.** Purchases are the items bought to resell to customers. Supporting documents should show the amount paid and that the amount was for purchases. Documents for purchases include the following.
- Canceled checks
- Cash register tape receipts
- Credit card sales slips
- **Expenses.** Expenses are the costs incurred (other than purchases) to carry on the business. The supporting documents should show the amount paid and that the amount was for a business expense. Documents for expenses include the following.
  - Canceled checks
  - Cash register receipts
  - Account statements
  - Credit card sales slips
  - Invoices
  - Petty cash slips for small cash payments

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- **Assets.** Assets are the property, such as machinery and furniture owned and used in the business. Taxpayers must keep records to verify certain information about business assets. They need records to figure the annual depreciation and the gain or loss when assets are sold. The records should show the following information.
  - When and how an asset was acquired
  - Purchase price including purchase invoice, real estate closing statements, cancelled checks, etc.
  - Cost of any improvements including invoices and cancelled checks
  - Deductions taken for depreciation
  - Deductions taken for casualty losses, such as losses resulting from fires or storms
  - How the asset was used
  - When and how the asset was disposed of, including sales invoice or closing statement
  - Selling price
  - Expenses of sale

Record Reconstruction

In the event of a loss of client records or due to poor recordkeeping, a paid preparer may need to help his client reconstruct the records. The reconstruction will demonstrate that the paid preparer exercised due diligence and it will also teach the client about recordkeeping.

The goal of record reconstruction is to use available documentation to develop a sound and reasonable estimate of the taxpayer's itemized expense reporting, as well as business income and expenses to reported and reflected accurately on either an individual tax return, business tax return, S-Corp or C-Corp tax filing, Non-profit organization (charity, church or support of human welfare), shareholder or partnership tax filing. Although the taxpayer may not have formal books and records with supporting documentation, they may have partial records that can be used as a basis for reconstruction. **However, if the tax preparer is not satisfied with the accuracy of the reconstructed records, he/she has the right to refuse to prepare the return.**

After you have completed this form, you will be given additional paperwork, these forms are so that all IRS, Federal, State, and Local compliance laws, rules and regulations are being met. If you have any questions about the forms, you are filling out, please do not hesitate to ask Tasha's Taxes about them as it, is her due diligence to ensure that you understand the necessary steps and procedures that are being taken on your behalf in order to work for you. As you are submitting very sensitive data and as such you are required to know and understand what isnot only required of you but of Tasha's Taxes.

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