

## **BE AWARE OF YOUR RIGHTS BEFORE THE IRS**

### **RETAIN THIS DOCUMENT**

As part of IRS' new program to step up enforcement, they are going to start contacting taxpayers directly via telephone calls if they have a question, are preparing to audit the taxpayer, or are engaging in collection activity against the taxpayer. Like the cop show where the cops are hoping that the suspect doesn't "lawyer up," the IRS also hopes that a taxpayer whom they wish to speak to does not have representation. Unfortunately, they are not required to give an equivalent of the Miranda warning like the cops on TV. Be aware that you are **never** required to speak to any employee of IRS in the absence of an administrative summons (more below). There is no law or statute which requires you to do so. Please be aware of the following rights you have.

#### **Internal Revenue Code Section 7521**

- If a Taxpayer clearly states to an employee of the IRS at any time during any interview that the taxpayer wishes to consult a person permitted to represent the taxpayer before the IRS, such IRS employee shall suspend such interview.
- An employee of the IRS may not require a taxpayer to accompany the representative in the absence of an administrative summons.

#### **Taxpayer's Right to Representation**

- If contacted by an IRS employee, taxpayers should clearly state that they want to consult with an EA, CPA, or Attorney before speaking as contemplated by the safeguards contained in Section 7521 of the Internal Revenue Code.
- No law requires a taxpayer to speak voluntarily to an IRS employee. Section 7602 of the Internal Revenue Code does authorize certain IRS employees to summon proper persons to appear at a certain time and place to give material or certain relevant testimony under oath (this does not happen often). Note the fact that "certain time and place" does not mean right at that moment. The date fixed for appearance before the IRS official may not be any less than 10 days from the date of the summons. To actually enforce an administrative summons, it must be signed by a US District Court Judge.

#### **Please remember...**

If approached by any IRS personnel, either in person or via telephone, immediately tell them that you wish to speak with your representative, and that you will have your representative contact them. Acquire their contact information. Do not engage in casual conversation with them. Call me immediately if this happens.

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# How long should I keep my records?

## BUSINESS

### Accounting Records

Accounts payable & receivable.....	7 years
Audit reports.....	Permanent
Chart of accounts, general ledger.....	Permanent
Depreciation schedules.....	Permanent
Expense records.....	7 years
Financial statements (annual).....	Permanent
Fixed asset purchases.....	Permanent
Inventory records.....	7 years <sup>1</sup>
Loan payment schedules.....	7 years
Purchase orders & sales records.....	7 years
Tax returns.....	Permanent

### Bank Records

Bank reconciliations.....	2 years
Bank statements, cancelled checks.....	7 years
Electronic payment records.....	7 years

### Corporate Records

Board minutes, Bylaws.....	Permanent
Business licenses.....	Permanent
Contracts—major.....	Permanent
Contracts—minor.....	Life + 4 years
Insurance policies.....	Life + 3 years <sup>2</sup>
Leases/mortgages.....	Permanent
Patents/trademarks.....	Permanent
Shareholder & stock records.....	Permanent

### Employee Records

Benefit, pension/profit sharing plans.....	Permanent
Employee files (ex-employees).....	7 years <sup>3</sup>
Employment applications.....	3 years
Employment taxes, payroll records.....	7 years

### Real Property Records

Purchase and construction records.....	Permanent
Leasehold improvements.....	Permanent
Lease payment records.....	Life + 4 years

Tax returns can generally be audited for up to three years after filing and up to six years if the IRS suspects underreported income. California statutes are 4 years and 7 years, respectively. It is wise to keep tax records at least seven years after a return is filed. Requirements for records kept electronically are the same as for paper records.

### INDIVIDUAL Records

Tax returns (uncomplicated).....	7 years
Tax returns (all others).....	Permanent
W-2s, 1099s, etc.....	7 years
Tax deduction documentation.....	7 years
Bank statements, deposit slips.....	7 years
Credit card statements.....	7 years
Investment purchase and dividend reinvestment records.....	Ownership period + 7 years
Year-end brokerage and mutual fund annual statements.....	Ownership period + 7 years
Home and investment property purchase documents.....	Ownership period + 7 years
Home improvement receipts and cancelled checks.....	Ownership period + 7 years
Home repair receipts and cancelled checks.....	Warranty period for item
Retirement plan annual reports.....	Permanent
IRA annual reports, Forms 8606.....	Permanent
Insurance policies.....	Life of policy + 3 years <sup>2</sup>
Divorce documents.....	Permanent
Loans.....	Term of loan + 7 years
Estate planning documents.....	Permanent

<sup>1</sup>Permanent for LIFO system.

<sup>2</sup>Check with your agent. Prior years liability varies.

<sup>3</sup>Or statute of limitations for employee lawsuits.

These are suggested guidelines, and your individual needs may vary. In general, records which are not required for a tax return, such as utility bills and non-deductible receipts, can be disposed of after one year. Documents without identifying or confidential information can be placed in a recycle bin. Any record with any form of identifying information should be shredded (crosscut, not strip) before disposal. All old credit cards should be cut up and any credit solicitations should be shredded before disposal. Commercial services are available for disposal of large amounts of records. If you have any questions about disposing of a record, please call our office.

**Engagement Letter:**

**FEE AGREEMENT**

You have hired this firm to assist with the preparation of your [year] Federal and State income tax returns. You will be charged an appropriate fee based on the complexity of your tax return. The fee is due and payable at the time you pick up your completed returns. In addition to the original returns, (we)I will supply you with one copy of each return and the necessary envelopes for mailing to the Federal and State tax agencies.

As your tax professional(s), I will prepare the returns using information you supply in the organizer provided by this office and applying the tax law to the best of my ability. It is not my responsibility to verify your deductions or exemptions or audit your tax return. Should you be audited, the tax agency will require you to support your deductions.

You agree that you have provided me with all requested documents and will answer all of (our) my questions fully so that I can properly prepare your returns. If you are claiming a deduction for un-reimbursed auto, travel, or other business expenses, you need to have written records to substantiate these deductions.

Anything you tell me to prepare your tax return is confidential, but not protected by any accountant-client privilege. If at any time I feel that you require legal advice, I will advise you to consult with an attorney.

Tax law is sometimes unclear and subject to different interpretation. A position taken on your tax return may be disputed by the tax authorities even though it meets the standards for tax return positions described in the Federal Regulations. I will take a position favorable to your interests whenever the facts and circumstances justify it, but not without your prior consultation. I am not responsible for any tax, interest or penalties that may be assessed as result of a position taken which is successfully challenged by the tax authorities. I require that aggressive positions be disclosed on Form 8275.

This agreement covers only the preparation of your income tax returns. I am not hired to represent you in an audit of this return or for the collection of any tax that might be due. If you wish representation before any of the tax agencies, a separate agreement will be prepared and a separate fee will be quoted.

If you do not pay the fee or your check is returned for insufficient funds and I have to take collection action to collect my fees, any and all costs of collection, including any attorneys' fees that I incur, will be added to the final amount to be collected.

We (I) have read and agree to the terms of this fee agreement.

\_\_\_\_\_ DATED \_\_\_\_\_  
Client  
\_\_\_\_\_ DATED \_\_\_\_\_  
Client  
\_\_\_\_\_ DATED \_\_\_\_\_  
Enrolled Agent

*Circular 230 Disclosure Pursuant to June 2005 enacted US Treasury Department Regulations, we are now required to advise you that, unless otherwise expressly indicated, any federal tax advice contained in this communication, including attachments and enclosures, is not intended or written to be used, and may not be used, for the purpose of (i) avoiding tax-related penalties under the internal revenue Code or (ii) promoting, marketing or recommending to another party any tax-related matters addressed herein.*

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