

2021 TAX RETURN ENGAGEMENT LETTER

NAME: _____
ADDRESS: _____
CITY, STATE ZIP: _____

Dear Client:

This letter confirms the terms of our engagement with you and the nature and extent of the services we will provide.

We will prepare your 2021 federal and all state income tax returns using the information you provide to us. We may ask for clarification of some items, but we will not audit the data you submit. In an effort to help you gather the information required for a complete return, we can provide you with an organizer. The organizer is intended to help you avoid overlooking important information and contribute to efficient preparation of your returns.

It is your responsibility to provide all information required for preparation of complete and accurate returns. You should keep all documents, canceled checks and other data that support your reported income and deductions for at least seven (7) years after the return is filed. They may be necessary to prove accuracy and completeness of the returns to a taxing authority. You are responsible for the returns, so you should review them carefully. Your return will be transmitted 24 hours after you have picked it up unless you 1) notify us of an error, or 2) advise us of immediate approval to e-file the return as prepared.

Our fees for this work will be based on the complexity of your tax return, the amount of time required to complete the return, plus any out-of-pocket expenses. If you require an estimate, we will give you a non-binding estimate based upon your representations about the complexity of your returns.

Your returns may be selected for review by the taxing authorities. Any proposed adjustments by the examining agent are subject to certain rights of appeal. If the government selects your returns for review, we can arrange to represent you. Such representation will be a separate engagement. Fees and expenses for defending the returns will be invoiced in accordance with terms we agree on for that engagement.

In the unlikely event of a calculation error in the preparation of your tax return, we will reimburse you for any interest and penalty for which we made you liable, provided the information that you supplied us was correct. You will always be liable for any additional tax.

We are committed to the safeguarding of your confidential information and we maintain physical and electronic safeguards to protect your information within our office. Unless required by law, we will not disclose any information about you unless we have your written approval as required under Reg. §301.7216-3(a)(1), even if you are no longer a client.

To affirm that this letter correctly summarizes your understanding of the arrangements for this work, please sign this letter in the space indicated below. We will retain the signed original and provide a copy to you in your file.

Again, we want to express our appreciation for the opportunity to work with you and hope that you will bring any questions or concerns to our attention.

Sincerely,
THE ACCOUNTANT'S OFFICE/ JIFFY TAX SHOP

Preparer

Date: _____

Client Signature

Date: _____

Client Signature

Date: _____

Paid Preparer Due Diligence Requirements

The IRS is making the tax preparation community responsible for ‘proving’ that a taxpayer is entitled to any of the following tax benefits. We are not allowed to rely on ‘pre-existing knowledge’ but must make reasonable inquiries to determine eligibility, compute the correct amount of credit, maintain documentation used to determine credit eligibility, and file Form 8867 with any return containing one of these tax benefits.

The taxpayer is the first contact when the IRS is questioning eligibility for one of these tax benefits. The following is an overview of what will satisfy the IRS’ “need to know”. The IRS is expected to be extra diligent this filing season because, for 2021 ONLY, the Day Care Credit AND all of the calculated Child Tax Credit is fully refundable.

Dependency Exemption

Although the Tax Cuts and Jobs Act eliminated dependency exemptions, the rules for being eligible for other credits relies upon having a qualifying dependent or a qualifying relative.

- 1) Relationship test: The IRS will want to see a birth certificate to verify your relationship to the child. Placement letters satisfy this for foster or adopted children.
- 2) Member of Household test: The IRS will ask for school, medical, or daycare records to show that the child lived with you at the same address for more than half the year and/or an official letter from a school, medical provider, etc., showing names, common addresses, and dates
- 3) Age test: A birth certificate or letter from an adoption agency or placement agency. This also satisfies the Citizen or Resident test.
- 4) Support test: The child cannot have provided over half of their own support. The IRS has a detailed worksheet to assist in this calculation. Additionally, the custodial parent – the person with whom the child resides for more than half the year – must, along with the child’s other parent, have provided over half the child’s support for the year. Documents that may prove support to the IRS might be child support statements, rental agreements showing housing costs, utility bills, daycare, school or medical records, and clothing bills.

Earned Income Credit

This credit is only available to the custodial parent. Documents showing residency with you in the US can be the same as that for Member of Household test. To prove the child is related to you, the documents used for the Relationship test will qualify. A child over age 18 but under age 24 must be a full time student for any part of 5 calendar months. School records and form 1098-T can prove this.

American Opportunity Credit

This is the education credit. The IRS, even though they get a copy, will request copies of any Form 1098-T, Tuition Statements and copies of proof of payment of tuition, related fees, books and supplies. Also, copies of distributions from 529 plans or scholarship/grant awards to offset deductible tuition paid.

Head of Household

1 of 3 tests must be met – Marriage Test, Qualifying person Test, Cost of Keeping up a Home Test
Marriage Test – if Divorced or separated for last 6 months of year – provide entire divorce decree and whatever documents that show your spouse did not reside with you during the last 6 months (lease agreements, utility bills)

Qualifying Person Test – the dependency rules and support documents satisfy this test

Cost of Keeping up a Home Test – rent receipts, utility bills, grocery receipts, property tax bills, mortgage interest statements, homeowners or renters insurance statements.