

## Worksheet Instructions for Rental (Schd E), Business (Schd C), and Vehicle Expenses

In general, the tax code requires all taxpayers to maintain adequate books and records to substantiate all expenses taken on a return. New preparer regulations and penalties require our firm to take steps to make reasonable inquiries that such records exist before we can prepare a return. While many clients already bring us written documentation of their income and expenses, some do not. But to be fair, we have not, in the past, provided you tools with which to do that. From now on, we need to ask you to give our firm a written summary of your income and expenses from your books, records and receipts, so that we can show that we have made a reasonable effort to determine that those records do exist. In addition, you are also asked to sign our engagement agreement in which you also certify that you have the records, that we are directed to rely on the information that you provide, and what will happen if you do not have such records on an audit. We have created three worksheets to help you organize your information that you should bring with you when we prepare your return. Not only will these help satisfy the regulations for due diligence, but will likely help you be better organized and not miss expenses.

**Businesses-Schedule C Filers:** All income is reportable whether a 1099 form is issued or not. 1099MISC forms will be matched to your return by computer and for 2011, any credit card sales made will be reported to you and the IRS on new form 1099K. List all income by those categories on the worksheet from your records and/or bank deposits, then summarize your expenses into categories as per the worksheet. If you have a qualifying home office, also list those expenses on that section. Inventory is to be valued at your cost (what you paid for it, not what you will sell it for) as of 12-31 of the year. Note that all vehicle expenses and mileage log information should be filled in on that separate worksheet. Equipment, furniture, tools etc. must be listed separately for depreciation in the appropriate section.

**Rental Properties-Schedule E Filers:** Use a separate worksheet for each property or unit in a property. If the property has been rented out for less than 12 months, indicate that. The rental use % box means that portion of the property that is rented. For example, if you own a duplex and live in one half, then the % is 50%. If you rent out all units or if it is a single family rental, then the % is 100%. For the purposes of this worksheet list all expenses at 100% even if the rental use is less. Your preparer will account for that in our software. Use the first column for expenses that were only for the rental portion. If the expense is something that is for the entire property, use the second column. For example, real estate taxes would be listed in the second column. There may be expenses that apply to both, such as repairs. You might have \$250 of repairs to only the rental unit, and then \$750 of repairs to the exterior which benefited the entire property. In that case on the repairs line you would enter \$250 in the first column and \$750 in the second. Do not worry about totals, our software will do that after entries are made. Capital improvements are projects that extend the life of or increase the value of the property. Repairs only bring something back into working order. Examples of Capital Improvements would be; new furnace or air conditioner, complete remodeling of a room, new carpeting, water heaters, adding a garage or other addition, driveway replacement, new windows, doors, siding or roofs. This is as opposed to repairs like service call on a furnace, faucet replaced, window glass repaired, carpets cleaned, locks etc.

**Auto/Truck Expenses-All Filers:** As we have told you for many years, a mileage log book is **required** for **ALL** vehicle expenses whether you are using the standard mileage rate or the actual expense method. We are now required to make reasonable inquiry to see that such a log exists. Statements like "same as last year" or estimated round amounts like 25,000 are no longer acceptable nor reasonable. No one drives that exact same miles from one year to the next and no one slides into their garage on New Years Eve at exactly 25,000 miles for the year. From your log book records please summarize the mileage as shown on the worksheet, also listing the beginning and ending odometer readings so as to give us the total mileage for the year. If you have no log book and do not fill in the worksheet we cannot take a deduction for your vehicle expenses. If you normally use the actual expenses instead of the standard mileage rates, please fill in those expenses in addition to the mileage data.

**For All Filers:** Your failure to maintain adequate books and records will, upon audit, result in disallowance of deductions and resulting additional tax, penalties, interest and negligence penalties. This includes not properly separating business, rental and personal income deposits and expenses. We HIGHLY recommend that separate bank accounts be kept for each business and rental property with income and expenses for each being run through those accounts and not intermingled with your other personal accounts. Under the new preparer rules we are subject to penalties of up to \$5,000 if we fail to make reasonable inquiry as to the existence of adequate books and records, or accept unsubstantiated and/or unreasonable expenses. While we are not required to audit your return as we prepare it nor see every receipt, the new rules elevate our responsibility and exposure. We cannot prepare a return with rental or business activities if we are not provided with a written summary record of income and expenses prepared by you from your records. Without this we need to ask you to go home and compile that summary or we will not be able to prepare or file your return.