

**Department of the Treasury
Internal Revenue Service**
P.O. BOX 145574 STOP 8201G
CINCINNATI OH 45250-5574

FIRST M & FIRST M LAST
STREET ADDRESS
THORNTON CO 80602-9233

Letter Date:
November 26, 2012
Taxpayer Identification Number:
XXX-XX-XXXX
Form: 1040 **Tax Year(s):** December 31, 2010
Person to Contact:
Tax Examiner
Contact Identification Number:
XXXXXXXX
Contact Telephone Number:
X-XXX-XXX-XXXX
Contact Fax Number:
X-XXX-XXX-XXXX
Contact Hours:
7:00AM-7:00PM Local Time

Dear Taxpayer:

We are examining your 2010 federal income tax return. We need you to provide us with additional information to substantiate the items checked below that you claimed on your return.

- | | | |
|---|--|---|
| <input type="checkbox"/> Filing Status and Exemptions | <input type="checkbox"/> Schedule A - Itemized Deduction | <input type="checkbox"/> Tax Credits |
| <input type="checkbox"/> Head of Household | <input type="checkbox"/> Medical & Dental Expense | <input type="checkbox"/> Foreign Tax Credit |
| <input type="checkbox"/> Exemptions | <input type="checkbox"/> Interest You Paid | <input type="checkbox"/> Earned Income Credit |
| <input type="checkbox"/> Adjustments to Income | <input type="checkbox"/> Gifts to Charity | <input type="checkbox"/> Child Care Credit |
| <input type="checkbox"/> Alimony Paid | <input type="checkbox"/> Casualty & Theft Losses | <input type="checkbox"/> Education Credit |
| <input type="checkbox"/> Moving Expense | <input type="checkbox"/> Unreimbursed Employee Expense | <input type="checkbox"/> Adoption Credit |
| <input checked="" type="checkbox"/> Schedule E | <input type="checkbox"/> Other Miscellaneous Deductions | <input type="checkbox"/> Credit for the Elderly or Disabled |
| <input checked="" type="checkbox"/> Passive Activity Loss Limited | <input type="checkbox"/> Schedule C - Gross Receipts | <input type="checkbox"/> |
| | <input type="checkbox"/> Schedule C - Expenses | |
| | <input type="checkbox"/> | |

Please see the enclosed explanation of the documentation you need to provide, and send it to us within 30 days from the date of this letter. Send copies of your supporting records and/or information to the contact person whose name and address are shown in the letter heading. This information could include receipts, canceled checks, or other explanatory material. It is important that we receive all requested information and it is readable. Please also complete and return any enclosed questionnaire(s). We have enclosed an envelope for your use.

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We will review the information that you send us and take one of the following actions:

1. If the information you send fully addresses our questions, we will make no changes to the tax you reported on your return. You will not need to take any further action.
2. If the information does not fully address our questions, we will send you a letter with an examination report explaining the proposed changes to your tax. If you agree with the changes, sign and return the examination report.

If you have any questions about this letter you can call the contact person at the telephone number shown in the letter heading who will be able to assist you. If this number is outside your local calling area or is not a toll-free number, there will be a long-distance charge to you.

It is important that you reply by mail or by fax within 30 days from the date of this letter. If you reply by mail, please use the enclosed envelope or address your reply envelope to the Internal Revenue Service at the address shown in the heading of this letter. If you reply by fax, please use the number shown in the heading of this letter. Whether responding by mail or fax, please be sure to identify the contact person whose name is shown in the heading of this letter and include a copy of this letter.

If you do not reply, we will disallow the questioned items and will send you a letter and examination report showing our proposed changes to your tax.

Use the spaces below to indicate a telephone number, including area code, and the best time for us to call you should we need more information. You may want to keep a copy of the letter and any information you send to us for your records.

Home Telephone Number: () _____ - _____ Best time to call: _____

Work Telephone Number: () _____ - _____ Best time to call: _____

We've also enclosed Publication 3498-A, *The Examination Process*, for your information.

Thank you for your cooperation.

Sincerely,

IRS Contact Name
Operations Manager, Examination

Enclosures:

- Copy of this letter
- Publication 3498-A
- Envelope
- Questionnaire(s)
- Form 886
- Form 886-H
- Form 8582
-

Form **886-H**
(Rev. January 1994)

Explanation of Items

Passive Activity Loss Limitation

The Law regarding Passive Activity Loss (PAL) limitations is as follows: For single or Married Filing Joint taxpayers, for every dollar of Modified Adjusted Gross Income (MAGI) exceeding \$100,000, the \$25,000 offset for rental real estate is reduced by 50 cents. If MAGI exceeds \$150,000, then you are allowed none of the \$25,000 offset. See IRC section 469(I)(3).

For Married Filing Separate taxpayers, if the taxpayers lived with their spouse during the year they do not get any deduction. If they lived apart the special allowance is \$12,500. If MAGI exceeds \$50,000, the \$12,500 offset for rental real estate is reduced by 50 cents for every dollar of MAGI. The entire allowance is phased out at \$75,000.

By definition in Code Section 469(c), all rentals are passive activities and subject to Passive Activity Loss Limitations.

If you disagree with a PAL adjustment, please provide your reason for the disagreement, citing any exceptions that you feel you meet, and provide documentation to support your exception. Also, please complete the included Form 8582.

**Department of the Treasury
Internal Revenue Service
Submission Processing Center
Cincinnati, OH 45999**

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