

**NEW CLIENT WELCOME LETTER**

(Date) \_\_\_\_\_

(Taxpayer) \_\_\_\_\_

(Address) \_\_\_\_\_

\_\_\_\_\_

Dear \_\_\_\_\_ (Taxpayer) \_\_\_\_\_:

Thank you for choosing our/my firm. We/I will work on your behalf to maintain the confidence you have in us/me by selecting our/my firm.

Enclosed is a copy of our/my firm's "PRIVACY POLICY" for your consideration in complying with our request.

In order to compile a complete file, please provide copies of the following documents:

Select Items To Be Requested
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- \_\_\_\_\_ From your corporate record book:
  - Articles of Incorporation and Bylaws
  - Minutes
  - Stock register
- \_\_\_\_\_ Partnership agreement
- \_\_\_\_\_ Depreciation schedules
- \_\_\_\_\_ Tax returns for \_\_\_\_\_, \_\_\_\_\_, and \_\_\_\_\_/the years ended \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_
- \_\_\_\_\_ Financial statements for the year(s) ended \_\_\_\_\_, \_\_\_\_\_, and \_\_\_\_\_
- \_\_\_\_\_ Buy/sell agreement(s)
- \_\_\_\_\_ Employment agreement(s)
- \_\_\_\_\_ Lease agreement(s)
- \_\_\_\_\_ Loan agreement(s)
- \_\_\_\_\_ Tax elections and related approvals
- \_\_\_\_\_ Copies of taxing authority audit reports
- \_\_\_\_\_ Will
- \_\_\_\_\_ Trust agreement
- \_\_\_\_\_ \_\_\_\_\_
- \_\_\_\_\_ \_\_\_\_\_

Thanks again for choosing us/me to service your accounting, tax and related needs. We/I look forward to a long and mutually satisfying relationship. Should you have any questions or concerns regarding your account or our/my services, please contact us/me.

Sincerely,

(Preparer) \_\_\_\_\_

**Encl: PRIVACY POLICY**

**(insert your firm name) PRIVACY POLICY**

CPAs, like all providers of personal financial services, are now required by law to inform their clients of their policies regarding privacy of client information. CPAs have been and continue to be bound by professional standards of confidentiality that are even more stringent than those required by law. Therefore, we have always protected your right to privacy.

**Types of Nonpublic Personal Information We Collect**

We collect nonpublic personal information about you that is either provided to us by you or obtained by us with your authorization.

**Parties to Whom We Disclose Information**

For current and former clients, we do not disclose any nonpublic personal information obtained in the course of our practice except as required or permitted by law. Permitted disclosures include, for instance, providing information to our employees and, in limited situations, to unrelated third parties who need to know that information to assist us in providing services to you. In all such situations, we stress the confidential nature of information being shared.

**Protecting the Confidentiality and Security of Current and Former Clients' Information**

We retain records relating to professional services that we provide so that we are better able to assist you with your professional needs and, in some cases, to comply with professional guidelines. In order to guard your nonpublic personal information, we maintain physical, electronic, and procedural safeguards that comply with our professional standards.

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Please call if you have any questions, because your privacy, our professional ethics, and the ability to provide you with quality financial services are very important to us.

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**The above notice must be provided to all new clients before acceptance of engagements and to continuing clients annually.  
Annual notification may be included with other materials such as engagement letters, newsletters, tax organizers, etc.**

**TAX PERMANENT FILE CONTENTS - INDIVIDUAL**

- \_\_\_ Amended return schedule
- \_\_\_ Basis for mortgage interest computations
- \_\_\_ Buy/sell agreements
- \_\_\_ Client background data
- \_\_\_ Closing documents for purchase/sale of a residence
- \_\_\_ Contracts
- \_\_\_ Copies of gift/estate tax returns
- \_\_\_ Divorce decree(s)/Separation agreement(s)
- \_\_\_ Estate planning documents
- \_\_\_ Forms 2119 (gain on sale of a personal residence)
- \_\_\_ Powers of Attorney
- \_\_\_ Record of taxing authority audits
- \_\_\_ Trust documents
- \_\_\_ Wills
- \_\_\_ Qualified plan documents, if applicable
- \_\_\_ Form 8606 - nondeductible IRA contributions
- \_\_\_ \_\_\_\_\_
- \_\_\_ \_\_\_\_\_
- \_\_\_ \_\_\_\_\_

**TAX PERMANENT FILE CONTENTS - BUSINESS ENTITIES**

- \_\_\_ Amended return schedule
- \_\_\_ Annual minutes-continuing matters
- \_\_\_ Approval of fiscal year election
- \_\_\_ Approved S elections (Form 2553,QSSS,QSST,ESBT)/termination letter
  
- \_\_\_ Articles of incorporation/Partnership agreement
- \_\_\_ Automobile policies
- \_\_\_ Buy/sell agreements
- \_\_\_ By-laws
- \_\_\_ Client background data
- \_\_\_ Earnings and profits calculation
- \_\_\_ Employment/independent contractor agreements
- \_\_\_ Federal and state taxpayer identification numbers
- \_\_\_ Form 966 liquidation form
- \_\_\_ Fringe benefit information (i.e., medical reimbursement, education, deferred compensation, etc.)
- \_\_\_ Officer life insurance information
- \_\_\_ Qualified plan IRS determination letter and Summary Plan Description
- \_\_\_ Record of taxing authority audits
- \_\_\_ Statement of assets transferred (§ 351/§ 751)
- \_\_\_ Inventory information (i.e., LIFO layers, constant unit values, § 263A formulas, etc.)
- \_\_\_ Basis information (i.e., long-term investments, land, etc.)
- \_\_\_ Accounting methods and elections
- \_\_\_ Partnership 754 elections
- \_\_\_ Consolidation and elimination history
  
- \_\_\_ \_\_\_\_\_
- \_\_\_ \_\_\_\_\_

**TAX PERMANENT FILE CONTENTS CARRYFORWARD SCHEDULES**

- \_\_\_ Alternative minimum tax credit carryforwards
- \_\_\_ At-risk computations for S corporations/partnerships
- \_\_\_ Basis computation for S corporations/partnerships
- \_\_\_ Basis of investments (including dividend reinvestments/stock dividends)
- \_\_\_ “Built-in gain” valuation workpapers
- \_\_\_ Business credits
- \_\_\_ Capital losses
- \_\_\_ Contributions
- \_\_\_ Data diskettes
- \_\_\_ Depletion
- \_\_\_ Depreciation schedules
- \_\_\_ Excess home office expense
- \_\_\_ Excess § 179 deduction
- \_\_\_ Installment sales schedules
- \_\_\_ Loan amortization schedules and related notes
- \_\_\_ Net operating loss and AMT net operating loss carryforwards
- \_\_\_ Non-deductible IRAs
- \_\_\_ § 1231 gains/losses
- \_\_\_ Suspended passive loss/credit carryforwards
- \_\_\_ Unamortized mortgage points schedule

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## SAMPLE ENGAGEMENT LETTERS

This package contains samples of engagement letters to be used in connection with engagements to prepare income tax returns for:

- Estate Tax (Form 706)
- Individuals (Form 1040)
- Estates and Trusts (Form 1041)
- Partnerships/LLPs/LLCs (Form 1065)
- Corporations (Form 1120)
- S Corporations (Form 1120S)
- Qualified Retirement Plans (Form 5500)
- Tax Examination Engagement Letter

In addition, there are several optional paragraphs that may be used in lieu of or to supplement the various sample engagement letters contained herein. These optional paragraphs include 1) substantial understatement penalty disclosures for each type of engagement letter, 2) a paragraph limiting the scope of the engagement, 3) a paragraph discussing client records, 4) a paragraph disclosing the use of an outside processing service, 5) a paragraph regarding outside disclosure for peer review programs, 6) a paragraph disclosing finance charges, 7) a paragraph discussing the negligence penalty, and 8) a paragraph offering the option of electronically filing the tax return. A sample letter for use in connection with a tax examination engagement is also provided.

These engagement letter samples are issued as drafts only and do not represent an official AICPA position. Practitioners using them retain responsibility for their final content. They should be reviewed carefully and changed as necessary for your particular use. In adapting these drafts to your particular needs you should be sure to consider the following:

- 1) AICPA Statements on Responsibilities in Tax Practice,
- 2) state requirements regarding disclosure of finance charges,
- 3) state Board of Accounting requirements pertaining to disclosure of the use of an outside service bureau,
- 4) the desirability of obtaining the signed affirmation of the client (or clients in the case of joint and consolidated returns),
- 5) the need for a new engagement letter each year, and
- 6) a paragraph disclosing late payment charges.

## 706 - ESTATE AND INHERITANCE TAX RETURN ENGAGEMENT LETTER

Dear Fiduciary:

This letter is to confirm and specify the terms of our/my engagement with (Name of Estate) and to clarify the nature and extent of the services we/I will provide. In order to ensure an understanding of our mutual responsibilities, we/I ask all clients for whom returns are prepared to confirm the following arrangements.

We/I will prepare the appropriate federal and state estate and inheritance tax returns from information that you will furnish to us/me. We/I will not audit or otherwise verify the data you submit, although it may be necessary to ask you for clarification of some of the information. We/I will furnish you with questionnaires and/or worksheets to guide you in gathering the necessary information. Your use of such forms will assist in keeping pertinent information from being overlooked.

It is your responsibility to provide all the information required for the preparation of complete and accurate returns. You should retain all the documents and other data that form the basis of calculating the gross estate and appropriate deductions. These may be necessary to prove the accuracy and completeness of the returns to a taxing authority. You have the final responsibility for the estate and inheritance tax returns and, therefore, you should review them carefully before you sign them.

Our/My work in connection with the preparation of the estate and inheritance tax returns does not include any procedures designed to discover defalcations or other irregularities, should any exist. Likewise, we/I do not warrant the accuracy of any valuations or the appropriateness of the values used in the preparation of the tax returns.

We/I will use professional judgment in resolving questions where the tax law is unclear, or where there may be conflicts between the taxing authorities' interpretations of the law and other supportable positions. Unless otherwise instructed by you, we/I will resolve such questions in your favor whenever possible.

The law provides various penalties that may be imposed when taxpayers understate their tax liability. If you would like information on the amount or the circumstances of these penalties, please contact us/me.

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. In the event of such government tax examination, we/I will be available upon request to represent you and will render additional invoices for the time and expenses incurred.

Our/My fee for these services will be based upon the amount of time required at standard billing rates plus out-of-pocket expenses. All invoices are due and payable upon presentation.

If the foregoing fairly sets forth your understanding, please sign the enclosed copy of this letter in the space indicated and return it to our/my office. However, if there are other tax returns you expect us/me to prepare, please inform us/me by noting so just below your signature at the end of the returned copy of this letter.

We/I want to express our appreciation for this opportunity to work with you.

Very truly yours,

Accepted By: \_\_\_\_\_

Date: \_\_\_\_\_

Comments or additional requests: \_\_\_\_\_

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## 1040 - INDIVIDUAL TAX RETURN ENGAGEMENT LETTER

Dear Client:

This letter is to confirm and specify the terms of our/my engagement with you and to clarify the nature and extent of the services we/I will provide. In order to ensure an understanding of our mutual responsibilities, we/I ask all clients for whom returns are prepared to confirm the following arrangements.

We/I will prepare your 200\_\_ federal and requested state income tax returns from information that you will furnish us/me. We/I will not audit or otherwise verify the data you submit, although it may be necessary to ask you for clarification of some of the information. We/I will furnish you with questionnaires and/or worksheets to guide you in gathering the necessary information. Your use of such forms will assist in keeping pertinent information from being overlooked.

It is your responsibility to provide all the information required for the preparation of complete and accurate returns. You should retain all the documents, canceled checks and other data that form the basis of income and deductions. These may be necessary to prove the accuracy and completeness of the returns to a taxing authority. You have the final responsibility for the income tax returns and, therefore, you should review them carefully before you sign them.

Our/My work in connection with the preparation of your income tax returns does not include any procedures designed to discover defalcations or other irregularities, should any exist. We/I will render such accounting and bookkeeping assistance as determined to be necessary for preparation of the income tax returns.

We/I will use professional judgment in resolving questions where the tax law is unclear, or where there may be conflicts between the taxing authorities' interpretations of the law and other supportable positions. Unless otherwise instructed by you, we/I will resolve such questions in your favor whenever possible.

The law provides various penalties that may be imposed when taxpayers understate their tax liability. If you would like information on the amount or the circumstances of these penalties, please contact us/me.

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. In the event of such government tax examination, we/I will be available upon request to represent you and will render additional invoices for the time and expenses incurred.

Our/My fee for these services will be based upon the amount of time required at standard billing rates plus out-of-pocket expenses. All invoices are due and payable upon presentation.

If the foregoing fairly sets forth your understanding, please sign the enclosed copy of this letter in the space indicated and return it to our/my office. However, if there are other tax returns you expect us/me to prepare, such as gift and/or property, please inform us/me by noting so just below your signature at the end of the returned copy of this letter.

We/I want to express our appreciation for this opportunity to work with you.

Very truly yours,

Accepted By: \_\_\_\_\_

Date: \_\_\_\_\_

Comments or additional requests: \_\_\_\_\_

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1041 - FIDUCIARY (ESTATES AND TRUSTS) TAX RETURN  
ENGAGEMENT LETTER

Dear Client:

This letter is to confirm and specify the terms of our/my engagement with (Name of Estate or Trust) for the year ended (\_\_\_\_) and to clarify the nature and extent of the services we/I will provide. In order to ensure an understanding of our mutual responsibilities, we/I ask all clients for whom returns are prepared to confirm the following arrangements.

We/I will prepare the 200\_\_ federal and requested state fiduciary income tax returns from information that you will furnish to us/me. We/I will not audit or otherwise verify the data you submit, although it may be necessary to ask you for clarification of some of the information. We/I will furnish you with questionnaires and/or worksheets to guide you in gathering the necessary information. Your use of such forms will assist in keeping pertinent information from being overlooked.

It is your responsibility to provide all the information required for the preparation of complete and accurate returns. You should retain all the documents, canceled checks and other data that form the basis of income and deductions. These may be necessary to prove the accuracy and completeness of the returns to a taxing authority. You have the final responsibility for the fiduciary income tax returns and, therefore, you should review them carefully before you sign them.

Our/My work in connection with the preparation of the fiduciary income tax returns does not include any procedures designed to discover defalcations or other irregularities, should any exist. We/I will render such accounting and bookkeeping assistance as determined to be necessary for preparation of the income tax returns.

We/I will use professional judgment in resolving questions where the tax law is unclear, or where there may be conflicts between the taxing authorities' interpretations of the law and other supportable positions. Unless otherwise instructed by you, we/I will resolve such questions in your favor whenever possible.

The law provides various penalties that may be imposed when taxpayers understate their tax liability. If you would like information on the amount or the circumstances of these penalties, please contact us/me.

The returns may be selected for review by the taxing authorities. Any proposed adjustments by the examining agent are subject to certain rights of appeal. In the event of such government tax examination, we/I will be available upon request to represent you and will render additional invoices for the time and expenses incurred.

Our/My fee for these services will be based upon the amount of time required at standard billing rates plus out-of-pocket expenses. All invoices are due and payable upon presentation.

If the foregoing fairly sets forth your understanding, please sign the enclosed copy of this letter in the space indicated and return it to our/my office. However, if there are other tax returns you expect us/me to prepare, such as gift and/or property, please inform us/me by noting so just below your signature at the end of the return copy of this letter.

We/I want to express our appreciation for this opportunity to work with you.

Very truly yours,

Accepted By: \_\_\_\_\_

Date: \_\_\_\_\_

Comments or additional requests: \_\_\_\_\_

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## 1065 - PARTNERSHIP/LLP/LLC TAX RETURN ENGAGEMENT LETTER

Dear Client:

This letter is to confirm and specify the terms of our/my engagement with (Name of Partnership or Limited Liability Company) for the year ended (\_\_\_\_) and to clarify the nature and extent of the services we/I will provide. Also, by sending you this engagement letter we/I have assumed that you are the person responsible for the tax matters of the partnership. If this is not a correct assumption, please furnish us/me with the name of the tax matters partner.

Our/My engagement will be designed to perform the following services:

1. Prepare the federal, state, and local income tax returns with supporting schedules.
2. Perform any bookkeeping necessary for preparation of the income tax returns.

Our/My work in connection with the preparation of your income tax returns does not include any procedures designed to discover defalcations or other irregularities, should any exist.

We/I will use our/my judgment in resolving questions where the tax law is unclear, or where there may be conflicts between the taxing authorities' interpretations of the law and other supportable positions. Unless otherwise instructed by you, we/I will resolve such questions in your favor, whenever possible.

The law provides various penalties that may be imposed when taxpayers understate their tax liability. If you would like information on the amount or circumstances of these penalties, please contact us/me. Because this is an entity whose tax attributes flow through to its partners or members, the penalty for substantial understatement of tax relating to this entity may be imposed on the partners or members.

Management is responsible for the proper recording of transactions in the books of accounts, for the safeguarding of assets, and for the substantial accuracy of the financial records. You have the final responsibility for the income tax returns and, therefore, you should review them carefully before you sign and file them.

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. In the event of such government tax examination, we/I will be available upon request to represent you and will render additional invoices for the time and expenses incurred.

Our/My fee for these services will be based upon the amount of time required at standard billing rates plus out-of-pocket expenses. All invoices are due and payable upon presentation.

If the foregoing fairly sets forth your understanding, please sign the enclosed copy of this letter in the space indicated and return it to our/my office. However, if there are any additional returns you expect us/me to prepare, please inform us/me by noting so just below your signature at the end of the returned copy of this letter.

We/I want to express our/my appreciation for this opportunity to work with you.

Very truly yours,

Accepted By: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

Comments or additional requests: \_\_\_\_\_

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## 1120 - CORPORATION TAX RETURN ENGAGEMENT LETTER

Dear Client:

This letter is to confirm and specify the terms of our/my engagement with (Name of Corporation) for the year ended (\_\_\_\_) and to clarify the nature and extent of the services we/I will provide. Also, by sending you this engagement letter we/I have assumed that you are the person responsible for the tax matters of the corporation. If this is not a correct assumption, please furnish us/me with the name of the individual with whom this work should be coordinated.

Our/My engagement will be designed to perform the following services:

1. Prepare the federal, state, and local income tax returns with supporting schedules.
2. Perform any bookkeeping necessary for preparation of the income tax returns.

Our/My work in connection with the preparation of your income tax returns does not include any procedures designed to discover defalcations or other irregularities, should any exist.

We/I will use our/my judgment in resolving questions where the tax law is unclear, or where there may be conflicts between the taxing authorities' interpretations of the law and other supportable positions. Unless otherwise instructed by you, we/I will resolve such questions in your favor whenever possible.

The law provides various penalties that may be imposed when taxpayers understate their tax liability. If you would like information on the amount or circumstances of these penalties, please contact us/me.

Management is responsible for the proper recording of transactions in the books of accounts, for the safeguarding of assets, and for the substantial accuracy of the financial records. You have the final responsibility for the income tax returns and, therefore, you should review them carefully before you sign and file them.

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. In the event of such government tax examination, we/I will be available upon request to represent you and will render additional invoices for the time and expenses incurred.

Our/My fee for these services will be based upon the amount of time required at standard billing rates plus out-of-pocket expenses. All invoices are due and payable upon presentation.

If the foregoing fairly sets forth your understanding, please sign the enclosed copy of this letter in the space indicated and return it to our/my office. However, if there are any additional returns you expect us/me to prepare, please inform us /me by noting so just below your signature at the end of the returned copy of this letter.

We/I want to express our appreciation for this opportunity to work with you.

Very truly yours,

Accepted By: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

Comments or additional requests: \_\_\_\_\_

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## 1120S - S CORPORATION TAX RETURN ENGAGEMENT LETTER

Dear Client:

This letter is to confirm and specify the terms of our/my engagement with (Name of S Corporation) for the year ended (\_\_\_\_) and to clarify the nature and extent of the services we/I will provide. Also, by sending you the engagement letter, we/I have assumed that you are the person responsible for the tax matters of the corporation. If this is not a correct assumption, please furnish us/me with the name of the tax matters person.

Our/My engagement will be designed to perform the following services:

1. Prepare the federal, state, and local income tax returns with supporting schedules.
2. Perform any bookkeeping necessary for preparation of the income tax returns.

Our/My work in connection with the preparation of your income tax returns does not include any procedures designed to discover defalcations or other irregularities, should any exist.

We/I will use our/my judgment in resolving questions where the tax law is unclear, or where there may be conflicts between the taxing authorities' interpretations of the law and other supportable positions. Unless otherwise instructed by you, we/I will resolve such questions in your favor whenever possible.

The law provides various penalties that may be imposed when taxpayers understate their tax liability. If you would like information on the amount or circumstances of these penalties, please contact us/me. Because an S corporation is an entity whose tax attributes generally flow through to its shareholders, the penalty for substantial understatement of tax relating to S corporation items may be imposed at either the corporate or shareholder level.

Management is responsible for the proper recording of transactions in the books of accounts, for the safeguarding of assets, and for the substantial accuracy of the financial records. You have the final responsibility for the income tax returns and, therefore, you should review them carefully before you sign and file them.

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. In the event of such government tax examination, we/I will be available upon request to represent you and will render additional invoices for the time and expenses incurred.

Our/My fee for these services will be based upon the amount of time required at standard billing rates plus out-of-pocket expenses. All invoices are due and payable upon presentation.

If the foregoing fairly sets forth your understanding, please sign the enclosed copy of this letter in the space indicated and return it to our office. However, if there are additional returns you expect us/me to prepare, please inform me/us by noting so just below your signature at the end of the returned copy of this letter.

We/I want to express our/my appreciation for this opportunity to work with you.

Very truly yours,

Accepted By: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

Comments or additional requests: \_\_\_\_\_

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5500 - QUALIFIED RETIREMENT PLAN RETURN  
ENGAGEMENT LETTER

Dear Client:

This letter is to confirm and specify the terms of our/my engagement with (name of plan) for the plan year ended (\_\_\_\_) and to clarify the nature and extent of the services we/I will provide. In order to ensure an understanding of our mutual responsibilities, we/I ask all clients for whom returns are prepared to confirm the following arrangements.

We/I will prepare your 200\_\_ Form 5500 (or other 5500 series form) from information that you will furnish to us/me. We/I will not audit or otherwise verify the data you submit, although it may be necessary to ask you for clarification of some of the information. We/I will furnish you with questionnaires and/or worksheets to guide you in gathering the necessary information. Your use of such forms will assist in keeping pertinent information from being overlooked.

It is your responsibility to provide all the information required for the preparation of a complete and accurate return. You should retain all the documents and other data that form the basis of the Form 5500 filing. These may be necessary to prove the accuracy and completeness of the returns to the Internal Revenue Service and Department of Labor. You have the final responsibility for the return and, therefore, you should review it carefully before you sign it.

Our/My work in connection with the preparation of your Form 5500 filing does not include any procedures designed to discover defalcations or other irregularities, should any exist.

We/I will use professional judgment in resolving questions or where there may be conflicts between the authorities' interpretations of the law and other supportable positions. Unless otherwise instructed by you, we/I will resolve such questions in your favor whenever possible.

Your return may be selected for review by the Internal Revenue Service and the Department of Labor. Any proposed corrective adjustments by the examining agent are subject to certain rights of appeal. In the event of such government examination, we/I will be available upon request to represent you and will render additional invoices for the time and expenses incurred.

Our/My fee for these services will be based upon the amount of time required at standard billing rates plus out-of-pocket expenses. All invoices are due and payable upon presentation.

This engagement letter relates only to the plan(s) specified above. Please notify us/me if you have additional employee benefit plans that might require a Form 5500 filing.

If the foregoing fairly sets forth your understanding, please sign the enclosed copy of this letter in the space indicated and return it to our/my office. However, if there are other returns you expect us/me to prepare, please inform us/me by noting so just below your signature at the end of the returned copy of this letter.

We/I want to express our appreciation for this opportunity to work with you.

Very truly yours,

Accepted By: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

Comments or additional requests: \_\_\_\_\_

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## TAX EXAMINATION ENGAGEMENT LETTER

Dear Client:

This letter will confirm the arrangements for our/my representation of you with respect to the Internal Revenue Service examination of your \_\_\_\_\_ Federal income tax return. As part of this engagement, we/I request that you sign the attached Form 2848, *Power of Attorney and Declaration of Representative*, which will notify the IRS that we/I are your authorized representative.

We/I will represent you before the Internal Revenue Service during this examination, unless the arrangement is terminated in writing by either party. Furthermore, in the event we/I cannot resolve all of the issues at the examination level, we/I will be available to appeal any proposed deficiency at the Appeals Division of the Internal Revenue Service, although that appeal is not part of this engagement.

We/I will not audit, or otherwise verify, any information provided by you for presentation to the Internal Revenue Service during the course of the examination, unless we/I deem it necessary or you specifically request us to do so in writing. However, we/I may ask you for further clarification and expect you to provide that clarification promptly and candidly.

Our communications are “confidential,” not “privileged.” This means that in *most* cases our communications cannot be disclosed to third parties without your approval. On the other hand, privileged communications are not permitted to be disclosed, even in court. There is no CPA-client privilege in criminal tax matters. Accordingly, if we/I are served by a properly issued administrative summons compelling us/me to testify in court proceedings, even our/my confidential communications are subject to disclosure.

The Internal Revenue Service has recently begun emphasizing a number of procedures during examinations to ascertain that taxpayers have reported all of their income. These procedures have led to a growing number of requests by examining agents to interview the taxpayer directly. However, you do have a statutory right to be represented, and *not* to meet with the examining agent (unless you are served with an enforceable administrative summons). It is in your best interest to refer any questions or other contact from the agent to us/me without discussing the case with the agent. By signing this engagement letter you acknowledge that any direct contact by the IRS will be promptly referred to us/me as your authorized representative. It is hereby acknowledged that if you choose to appear before or discuss this case with the agent against our/my advice, you do so at your own risk.

Fees for our/my representation (plus out-of-pocket expenses) will be billed as incurred. We/I also require a retainer of \$\_\_\_\_\_, payable on acceptance of this agreement.

Fees and expenses are due and payable upon presentation of our invoice to you. Bills rendered to you will not be applied against the \$\_\_\_\_\_ retainer. Our/my fee for representing you will be based upon our/my time, billed at our/my customary rates. We/I estimate our/my fees to be \$\_\_\_\_\_ or on average \$\_\_\_\_\_ per hour. If we/I have not received payment in accordance with the stated terms, we/I reserve the right to terminate this engagement with no further notice.

If this letter reflects your understanding of the terms of our engagement, please sign below and return one copy in the enclosed envelope.

We/I look forward to serving you.

Very truly yours,

Accepted By: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

OPTIONAL PARAGRAPHS FOR INCLUSION IN  
TAX ENGAGEMENT LETTERS

A) Accuracy-Related Penalty Disclosures

1. For Individuals:

The law provides for a penalty to be imposed where a taxpayer makes a substantial understatement of their tax liability. For individual taxpayers, a substantial understatement exists when the understatement for the year exceeds the greater of 10 percent of the tax required to be shown on the return, or \$5,000. The penalty is 20 percent of the tax underpayment. Taxpayers may seek to avoid all or part of the penalty by showing (1) that they acted in good faith and there was reasonable cause for the understatement, (2) that the understatement was based on substantial authority, or (3) that the relevant facts affecting the item's tax treatment were adequately disclosed on Form 8275 or 8275-R attached to the return and there was reasonable basis for the position. You agree to advise us/me if you wish disclosure to be made in your returns or if you desire us/me to identify or perform further research with respect to any material tax issues for the purpose of ascertaining whether, in our/my opinion, there is "substantial authority" for the position proposed to be taken on such issue in your returns.

2. For Partnerships and Limited Liability Companies:

The law provides for a penalty to be imposed where a taxpayer makes a substantial understatement of their tax liability. For partnerships and individual taxpayers, a substantial understatement exists when the understatement for the year exceeds the greater of 10 percent of the tax required to be shown on the return, or \$5,000. The penalty is 20 percent of the tax underpayment. Taxpayers other than "tax shelters" may seek to avoid all or part of the penalty by showing (1) that they acted in good faith and there was reasonable cause for the understatement, (2) that the understatement was based on substantial authority, or (3) that the relevant facts affecting the item's tax treatment were adequately disclosed on Form 8275 or 8275-R attached to the return and there was reasonable basis for the position. A taxpayer is considered a "tax shelter" if its principal purpose is to avoid federal income tax. Because a partnership is an entity whose tax attributes flow through to its partners, the penalty for substantial understatement of tax relating to partnership items may be imposed on the partner. You agree to advise us/me if you wish disclosure to be made in your returns or if you desire us/me to identify or perform further research with respect to any material tax issues for the purpose of ascertaining whether, in our/my opinion, there is "substantial authority" for the position proposed to be taken on such issue in your returns.

3. For C Corporations:

The law provides for a penalty to be imposed where a taxpayer makes a substantial understatement of their tax liability. For corporate taxpayers, a substantial understatement exists when the understatement for the year exceeds the greater of 10 percent of the tax required to be shown on the return, or \$10,000. The penalty is 20 percent of the tax underpayment. Taxpayers may seek to avoid all or part of the penalty by showing (1) that they acted in good faith and there was reasonable cause for the understatement, (2) that the understatement was based on substantial authority, or (3) that the relevant facts affecting the item's tax treatment were adequately disclosed on Form 8275 or 8275-R attached to the return and there was reasonable basis for the position. You agree to advise us/me if you wish disclosure to be made in your returns or if you desire us/me to identify or perform further research with respect to any material tax issues for the purposes of ascertaining whether, in our/my opinion, there is "substantial authority" for the position proposed to be taken on such issue in your returns.

4. For S Corporations:

The law provides for a penalty to be imposed where a taxpayer makes a substantial understatement of their tax liability. For S corporations and individual taxpayers, a substantial understatement exists when the understatement for the year exceeds the greater of 10 percent of the tax required to be shown on the return, or \$5,000. The penalty is 20 percent of the tax underpayment. Taxpayers other than "tax shelters" may seek to avoid all or part of the penalty by showing (1) that they acted in good faith and there was reasonable cause for the understatement, (2) that the understatement was based on substantial authority, or (3) that the relevant facts affecting the item's tax treatment were adequately disclosed on Form 8275 or 8275-R attached to the return and there was reasonable basis for the position. A taxpayer is considered a "tax shelter" if its principal purpose is to avoid Federal income tax. Because an S corporation is an entity whose tax attributes generally flow through to its shareholders, the penalty for substantial understatement of tax relating to S corporation items may be imposed at either the corporate or shareholder level. You agree to advise us/me if you wish disclosure to be made in your returns or if you desire us/me to identify or perform further research with respect to any material tax issues for the purpose of ascertaining whether, in our/my opinion, there is "substantial authority" for the position proposed to be taken on such issue in your returns.



5. For Fiduciaries (Estates and Trusts):

The law provides for a penalty to be imposed where a taxpayer makes a substantial understatement of its tax liability. For fiduciary taxpayers, a substantial understatement exists when the understatement for the year exceeds the greater of 10 percent of the tax required to be shown on the return, or \$5,000. The penalty is 20 percent of the tax underpayment. Fiduciaries may seek to avoid all or part of the penalty by showing (1) that they acted in good faith and there was reasonable cause for the understatement, (2) that the understatement was based on substantial authority, or (3) that the relevant facts affecting the item's tax treatment were adequately disclosed on Form 8275 or 8275-R attached to the return and there was reasonable basis for the position. You agree to advise us/me if you wish disclosure to be made in the returns or if you desire us/me to identify or perform further research with respect to any material tax issues for the purpose of ascertaining whether, in our/my opinion, there is "substantial authority" for the position proposed to be taken on such issue in the returns.

- B) The engagement does not include any services not specifically stated in this letter. However, we/I would be pleased to consult with you regarding other income tax matters, such as proposed or completed transactions, income tax projections, and for research in connection with such matters. We/I will render additional invoices for such services at our/my standard billing rates.
- C) You represent that the information you are supplying to us/me is accurate and complete to the best of your knowledge and that your expenses for meals, entertainment, travel, business gifts, charitable contributions, dues and memberships, and vehicle use are supported by records as required by law. We/I will not verify the information you give us/me. However, we/I may ask you for clarification of some of the information.
- D) Your tax return will be processed by an outside tax computer processing center. Please advise us/me if you prefer that we/I request extra security or forego the outside processing altogether.
- E) We/I subscribe to a program of peer review for maintenance of quality control in our/my office. As part of this program, your return may be selected for review by other CPAs under strict rules of confidentiality. Your acceptance below constitutes your agreement for disclosure under the program.
- F) A late payment charge of \_\_\_ percent per month will be assessed on any balance that remains unpaid after deduction of current payments, credits, and allowances after 30 days from the date of billing. This is an Annual Percentage Rate of \_\_\_ percent.

- G) The law provides for a penalty of 20 percent to be imposed on any underpayment that results from negligence or disregard of rules or regulations. Negligence “includes any failure to make a reasonable attempt to comply...” with the Code. Disregard “includes any careless, reckless or intentional disregard.” Taxpayers may seek to avoid all or part of the penalty by showing they acted in good faith and by demonstrating that they have a reasonable basis for the understatement.
- H) You may choose to have us/me file your return electronically with the Internal Revenue Service Center. You must review and sign the return before it can be electronically transmitted. We/I are/am not responsible for the length of time it takes the IRS to process your return. Our/my fee for this service is \_\_\_\_\_.
- I) We/I have attached a tax organizer. It is designed to assist you in gathering the data necessary for us/me to prepare a complete and accurate return.
- J) The Internal Revenue Service Restructuring and Reform Act of 1998 provides a limited confidentiality privilege for certain communications between you and my/our firm involving tax advice. This privilege does not cover items other than tax advice such as your tax records, tax return preparation, state tax proceedings, criminal proceedings, or private civil litigation. Any disclosure of qualifying confidential information to the government or third parties may result in waiver of the confidentiality privilege. To protect your right to privileged communication, please contact us if you have any questions or need further information.

## CONFIDENTIALITY PRIVILEGE ENGAGEMENT LETTER

Dear Client:

The Internal Revenue Code, as amended by the Internal Revenue Service Restructuring and Reform Act of 1998, extends a CPA–client confidentiality privilege to qualified tax advice that we provide to you. In order to ensure that all communications resulting from tax advice is covered under the privilege umbrella of the Act, we are asking you to confirm the following arrangements:

We will provide tax advice as needed or requested to meet specific objectives or generally to meet long-term tax related goals and objectives. You have the right to review and/or be supplied with copies of any and all tax planning or research memos and workpapers prepared by our firm related to such tax advice. Tax advice includes, but is not limited to, the following:

- Researching the income tax reporting of a particular transaction. We will review these situations with you and resolve issues in your favor whenever possible.
- Providing business tax and consulting to you, throughout 2001, for consideration in making tax-related decisions.
- Providing services related to the expected outcome of future tax decisions.

Privileged tax advice **does not** include communications associated with the preparation of tax returns, tax accrual workpapers associated with a financial audit or other financial statement engagement, or in providing general business or accounting recommendations or other non-tax engagements.

You may assert the confidentiality privilege in any noncriminal tax matter before the Internal Revenue Service or any proceeding in Federal Court brought by or against the United States

We will not disclose any advice provided under the scope of this engagement letter to the Internal Revenue Service or third parties unless you provide us written consent to do so. Any disclosure of confidential information by you or us to the IRS or third parties may cause the Confidentiality Privilege to be waived. Caution must be taken by both parties to not inadvertently waive the privilege.

You should notify us of any requests by the Internal Revenue Service for information about any tax advice or tax advice documents provided by us to you.

If you advise us to assert the Confidentiality Privilege on your behalf you agree to hold **\*\*FIRM NAME\*\*** harmless and indemnify us for any attorney fees and any other costs and expenses (including penalties) incurred by us in defending the confidential communication.

Very truly yours,

Accepted By: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

**TAX RETURN ROUTING SCHEDULE**

(To be bound with \_\_\_\_\_)

CLIENT NAME/NUMBER \_\_\_\_\_ TAX YEAR \_\_\_\_\_

TYPE OF RETURN \_\_\_\_\_ STATE/LOCAL RETURN(S) REQUESTED \_\_\_\_\_

DUE DATE \_\_\_\_\_ EXTENDED DUE DATE \_\_\_\_\_

DATE DATA RECEIVED FROM CLIENT \_\_\_\_\_ TARGET COMPLETION DATE \_\_\_\_\_

IN-CHARGE \_\_\_\_\_ SIGNER \_\_\_\_\_ ENGAGEMENT LETTER SIGNED \_\_\_\_\_

	<u>Assigned to/ Target Date</u>	<u>Initial/Date</u>	<u>Actual Time/Cost</u>	<u>Budget Time/Cost</u>
Client Interview	_____	_____	_____	_____
Preparation	_____	_____	_____	_____
Update Permanent File	_____	_____	_____	_____
Math Check	_____	_____	_____	_____
Forms Input Review	_____	_____	_____	_____
To Computer Processing	_____	_____	_____	_____
Data Entry/Typing	_____	_____	_____	_____
Returned from Computer Processing	_____	_____	_____	_____
Forms Output Review	_____	_____	_____	_____
Technical Review	_____	_____	_____	_____
Update Carryforward Schedule	_____	_____	_____	_____
Assembly	_____	_____	_____	_____
Signature	_____	_____	_____	_____
Mail/Pick-Up/Delivery (Circle One)	_____	_____	_____	_____
Estimate Reminder Log Updated	_____	_____	_____	_____
Total	_____	_____	_____	_____

<u>BILLING</u>	<u>Time Charges</u>	<u>Computer Charges</u>	<u>Out-of-Pocket</u>	<u>Total</u>	<u>Billing</u>
Prior Year	_____	_____	_____	_____	_____
Current Year	_____	_____	_____	_____	_____

.....

**SPECIAL INSTRUCTIONS/BUDGET EXCEPTIONS:**

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**TAX RETURN GUIDE SHEET**  
(To be bound with \_\_\_\_\_)

Taxpayer \_\_\_\_\_

Taxable Year(s) \_\_\_\_\_

Return \_\_\_\_\_

Number of additional copies \_\_\_\_\_

Additional copies to:

Name \_\_\_\_\_

Name \_\_\_\_\_

Address \_\_\_\_\_

Address \_\_\_\_\_

Attach Extension: Yes \_\_\_\_\_ No \_\_\_\_\_

Number of Forms W-2 \_\_\_\_\_ Number of other withholding statements \_\_\_\_\_

Other attachments to return:

\_\_\_\_\_ Federal return to state return

Other accountant information to be furnished to client: (X=Xerox, C=Computer printed)

- \_\_\_\_\_ Income Tax Summary
- \_\_\_\_\_ Carryover Schedules
- \_\_\_\_\_ Partnership/S Corporation/Fiduciary/K-1 Reconciliations
- \_\_\_\_\_ Passive Activity Loss Worksheets
- \_\_\_\_\_ Current Year Depreciation Schedules
- \_\_\_\_\_ Next Year Depreciation Schedules
- \_\_\_\_\_ Adjusted Trial Balance
- \_\_\_\_\_ Federal Tax Trial Balance
- \_\_\_\_\_ Adjusting Journal Entries
- \_\_\_\_\_ Reclassifying Journal Entries
- \_\_\_\_\_ Federal Tax Journal Entries
- \_\_\_\_\_ General Ledger
- \_\_\_\_\_ General Journal Entries
- \_\_\_\_\_ Cash Disbursements
- \_\_\_\_\_ Cash Receipts
- \_\_\_\_\_ Other (description and workpaper references)

Other processing instructions:

\_\_\_\_\_ Return client data

Final release:

The return described above was signed and released by me after all pending items were cleared, all appropriate levels of review were signed off, and all processing steps completed.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

**CARRYFORWARD SCHEDULE**

Client Name/Number: \_\_\_\_\_

Carryforward to Period: \_\_\_\_\_ Tax Form: \_\_\_\_\_

**CARRYFORWARD DEDUCTION AND CREDITS (CHECK IF APPLICABLE)** **AMOUNT**

___	Capital Loss Carryforward	\$ _____
___	Charitable Contributions Carryforward	_____
___	Net Operating Loss Carryforward - Regular	_____
___	Net Operating Loss Carryforward - AMT	_____
___	Investment Credit Carryforward	_____
___	WIN Credit Carryforward	_____
___	Job Tax Credit Carryforward	_____
___	Loss Carryforwards Attributable to At-Risk Limitation (Partnerships, S Corps., etc.)	_____
___	Loss Carryforwards Attributable to Basis Limitations (Partnerships, S Corps., etc.)	_____
___	Investment Interest Expense Carryforward	_____
___	Carryforward of Office in Home Deductions	_____
___	Carryforward of Suspended Passive Losses and Credits	_____
___	Alternative Minimum Tax Credit	_____
___	Section 179 Amount Due to Income Limitations	_____
___	Foreign Tax Credit	_____
___	Other _____	_____
___	_____	_____
___	_____	_____

**DEFERRED GAINS (CHECK IF APPLICABLE)**

___	Installment Sales	_____
___	Income Pick-up from Short-Year S Corp., Partnership and Trust Returns	_____
___	Gain on Sale of Residence	_____
___	Cash to Accrual Method Adjustments	_____
___	Gain on Involuntary Conversion	_____
___	Uniform Capitalization Inventory Adjustment	_____
___	Recapture of Bad Debt Reserve	_____
___	Deferred intercompany gains (for consolidated returns only)	_____
___	Triggered built-in gains tax not paid due to taxable income limitation	_____
___	Other _____	_____
___	_____	_____
___	_____	_____

COMMENTS AND EXPLANATIONS: \_\_\_\_\_

\_\_\_\_\_  
 \_\_\_\_\_

Prepared by: \_\_\_\_\_

\_\_\_\_\_  
 \_\_\_\_\_

Signature

Date