



**Department of the Treasury**  
**Internal Revenue Service**  
**Return Preparer Office**  
1122 Town and Country Commons  
Chesterfield, MO 63017

Date:

Contact telephone number:  
(636) 255-1598

Contact hours:  
8 a.m.- 5 p.m. CT

Re:  
Schedule C, Forms 1099-K

[Tax Return Preparer]  
[Address]  
[City, state, zip]

## **Recommendation to take Continuing Education programs about Schedule C**

Dear Tax Return Preparer,

The purpose of this letter is to provide educational assistance and promote proper reporting of information from Forms 1099-K, *Payment Card and Third Party Network Transactions*. The form, introduced in 2011, provides the IRS and taxpayers who own businesses with important tax information about the amount of sales from payment cards and other electronic means. Our information indicates you prepared income tax returns in calendar year [XXXX] reporting Schedule C (Form 1040), *Profit or Loss From Business (Sole Proprietorship)*. Please pay special attention to the new Form 1099-K, *Payment Card and Third Party Network Transactions*, information when preparing your clients' tax returns next filing season. To reduce the potential for errors, you may benefit from continuing education (CE) programs on this topic.

Continuing education is voluntary and there is no requirement that you complete courses to prepare a federal tax return. However, we believe that participation in some educational programs related to business income and expenses may benefit you in preparing more accurate Schedule C returns. Information about courses and a list of IRS-approved CE providers is available at [www.irs.gov/taxpros/ce](http://www.irs.gov/taxpros/ce).

### **Schedule C reminders**

To prepare accurate Schedules C, you must ask your clients relevant and probing questions to help determine the income and expenses claimed are correct and allowable. Taxpayers may not fully understand the tax laws and may incorrectly believe they don't have to report all income, or that they are entitled to claim deductions for non-qualifying expenditures. You should ask your clients to provide all Forms 1099-K they received. You should also ask your clients if they have documentation to support all expenses claimed in case the IRS requests receipts.

### **Return preparer responsibilities**

A paid tax return preparer must take multiple steps to prepare accurate tax returns on behalf of clients. These steps include reviewing the applicable tax law, and establishing the relevance and reasonableness of income, credits, expenses, and deductions on a return. Generally, you can rely in good faith, without verification, on information your client provides. However, you can't ignore the implication of the information furnished to, or actually known by you. You must ask reasonable questions if the information appears to be incorrect, incomplete, or inconsistent with important facts or other information.

### **Helpful resources**

In addition to considering CE programs, we encourage you to review the Schedule C instructions, Form 1099-K instructions, and other IRS publications available at [www.irs.gov](http://www.irs.gov), search keywords: "Recommended Reading for Small Businesses." Additionally, there is specific guidance at [www.irs.gov/Tax-Professionals/Third-Party-Reporting-Information-Center](http://www.irs.gov/Tax-Professionals/Third-Party-Reporting-Information-Center).

### **Improper reporting**

Form 1099-K contains important tax information and is furnished to the IRS as well as the business owner.

Both you and your clients may be adversely affected by incorrect returns and improper reporting of Schedule C and Form 1099-K information. Improper or inaccurate reporting may result in any or all of the following:

- Your clients may be liable for additional tax, interest, and penalties if their returns are examined and found to be incorrect.
- Tax return preparers, who prepare a client return with any part of an understatement of tax liability due to an unreasonable position, can be assessed a penalty of at least \$1,000 per return (IRC Section 6694(a)).
- Tax return preparers, who prepare a client return with any part of an understatement of tax liability due to reckless or intentional disregard of rules or regulations by the tax return preparer, can be assessed a penalty of at least \$5,000 per return (IRC Section 6694(b)).

### **Annual Filing Season Program**

If you're considering taking CE courses, be aware that the IRS Annual Filing Season Program recognizes the efforts of preparers improving their professional competence through continuing education. Information on the program is available at [www.irs.gov/Tax-Professionals/Annual-Filing-Season-Program](http://www.irs.gov/Tax-Professionals/Annual-Filing-Season-Program).

We hope this letter increases your awareness of the Form 1099-K reporting requirements and its importance in preparing accurate Schedules C for your clients.

Sincerely,

Carol A. Campbell  
Director, Return Preparer Office