

Internal Revenue Service  
Small Business and Self-Employed  
120 Front Street  
Suite 600  
Worcester MA 01608

Department of the Treasury

Taxpayer Identification Number:

Form:

1040

Tax Period(s):

200612

Response Date:

September 27, 2008.

Person to Contact:

Contact Hours:

8:00am to 4:30pm

Contact Telephone Number:

Contact Fax Number:

Employee Identification Number:

Date: September 17, 2008

SOLE PROPRIETOR

Schedule C

Dear

Your federal return for the period(s) shown above has been selected for examination.

**What You Need To Do**

Please call me on or before the response date listed at the top of this letter. I can be contacted at the telephone number and times provided above.

**What We Will Discuss**

During our telephone conversation, we will discuss:

- Items on your return that I will be examining.
- Types of documentation I will ask you to provide.
- The examination process.
- Any concerns or questions you may have.
- The date, time and agenda for our first meeting.

The issues listed below are the preliminary items identified for examination. During the course of the examination, it may be necessary to expand or contract the list of items. If this should occur, I will advise you of the change.

- Gross Receipts
- Other Expenses
- Cost of Goods Sold

## Someone May Represent You

You may have someone represent you during any part of this examination. If you want someone to represent you, please provide me with a completed Form 2848, *Power of Attorney and Declaration of Representative*, at our first appointment.

If you prefer, you may mail or fax the form to me prior to our first appointment. You can get this form from our office, or from our web site at [www.irs.gov](http://www.irs.gov), or by calling 1-800-829-3676. If you decide that you wish to get representation after the examination has started, we will delay further examination activity until you can secure representation.

## Your Rights As A Taxpayer

We have enclosed Publication 1, *Your Rights as a Taxpayer*, and Notice 609, *Privacy Act Notice*. We encourage you to read the Declaration of Taxpayer Rights found in Publication 1. This publication discusses general rules and procedures we follow in examinations. It explains what happens before, during, and after an examination, and provides additional sources of information.

Thank you for your cooperation, and I look forward to hearing from you on or before the response date.

Sincerely,

Internal Revenue Agent

Enclosures:  
Publication 1  
Notice 609  
Form 4564

<b>Form 4564</b>	<b>Department of the Treasury Internal Revenue Service Information Document Request</b>	<b>Request Number XXX-001</b>
<b>Tax Year: 2006</b> <b>Form: 1040</b>	<b>Subject: General Information</b>	
	<b>Submitted to:</b>	
	<b>Dates of Previous Requests:</b> none	

This is an initial Information Document Request to the above listed entity. Additional documents and/or information may be requested in subsequent Forms 4564.

**Description of Documents Requested:**

To assist me in completing the examination in as brief a time as possible, please have the following available at our first appointment. Please be advised that additional records may be requested as the examination warrants:

- 1) Form 2848 (Power of Attorney), if necessary.
- 2) Copies of prior examination reports issued by the Internal Revenue Service or Commonwealth of Massachusetts, if applicable, with respect to any audits within the last 5 years.
- 3) Copies of your Form 1040s filed for 2007 and 2005.
- 4) Copies of any Forms 1099 or K-1s received by you for 2002.
- 5) Copies of form 941s, Form 940, Form W-2s and W-3, and form 1099s filed with respect to labor expense and/or wages deducted on the 2006 Schedule C.
- 6) Bank statements, check registers, duplicate deposit slips, and cancelled checks for all checking accounts (business and personal) active from 12/01/05 to 01/31/07. Please obtain copies of any missing statements prior to our appointment.
- 7) Statements, passbooks, registers, or other records of transactions for any savings, investment, brokerage, or retirement accounts active during the same time period.

**Schedule C**

Gross Receipts

All books, journals, ledgers and work papers used in determining gross receipts

All bank statements, cancelled checks, and deposit slips (both business and personal, savings and checking) for the 14 month period from December of the year prior to the audit year through January of the year following the audit year

Records of all savings and invested funds for the year (savings accounts, money markets, CD's, etc.)

Records of all business and personal loan activity proceeds and payments

Information Due By: **Opening Conference**  
10/01/2008

<b>FROM,</b>	<b>Name and Title of Requestor</b>	<b>Date:</b>
	, Internal Revenue Agent	09/17/2008
	<b>Office Location:</b> 120 Front St. Suite 600 Worcester, MA 01608	

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Purchase invoices or closing statements covering acquisition and disposition of capital items, business and personal. This includes real estate, automobiles, machinery and equipment

Information on any nontaxable income received, such as Social Security benefits; gifts, inheritances, insurance proceeds and transfers between bank accounts

Copies of state sales tax returns for review during the exam

**Cost of Goods Sold**

Physical inventory sheets for both beginning and ending inventory for the year. Copies of the Federal Income tax returns for the year before and the year after the return being examined (copy of your inventory list, log book, invoices or any documentation you have that records your inventory)

Cancelled checks, receipts, journals, or summaries, of goods purchased for resale and all other records for labor, materials and supplies, and any other cost incurred to raise or produce goods for sale.

Description and computation of the cost of inventory items withdrawn for personal use. Include gifts to family members and friends, items for personal consumption, etc. A logbook, written record, or any documentation you have that shows what you used for business and what was given as gifts or to family, friends or personal consumption. We need to see how you separated what was used for business and what was used for personal consumption.

Any and all workpapers used in the preparation of your Schedule C. This would include worksheets, log books, notebooks, or any written documentation that shows your computation.

**Car & Truck Expenses**

Repair receipts, inspection slips, or any other records to show total mileage driven for the year

Log books and other records verifying the business mileage claimed

If you did not keep a log or other formal records of your business mileage, reconstruct the business use of the vehicle. This information should include current mileage reading on the vehicle used for business purposes, mileage reading on the vehicle when you acquired it, mileage reading for January 1 and

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December 31 of the year being audited, and mileage distance between your residence and your business location. Also bring an appointment book or calendar of your business activities during the year

If you claimed actual expenses, invoices and cancelled checks for automobile expenses you incurred during the year. These include gas, oil, tires, repairs, insurance, interest, tags and taxes

For depreciation of actual expenses provide a bill of sale or other verification to establish the cost or other basis of the vehicle, including the trade-in of another vehicle

**Depreciation**

Date when asset was first placed service (e.g. copy of depreciation schedule (tax return for that particular year), etc.) and subsequent year depreciation schedules

Purchase invoices, settlement sheets, receipts and any other evidence to verify ownership of the assets. You should also be able to provide the date you first placed the asset in service and began taking depreciation by providing a copy of the tax return indicating when the property was placed in service.

A computation of how the depreciable basis was determined if different from the cost basis of the assets. This includes the actual proof of the amount paid and date for the asset and/or improvements to the asset

Records, logbooks, etc. showing total business and personal use of the depreciable assets. If the asset had any personal use, please provide written documentation of how you determined the amount of business use vs. the amount of personal use. We need to have you establish that you did place the asset in service. We also need to have documentation (receipts, invoice, contracts, etc) that show the amount paid and the date. If the Section 179 deduction includes improvements, repairs, adjustments to the original purchase price, please provide documentation showing the date and amount.

Cancelled checks and/or receipts for capital improvements. If the basis of the asset you are depreciating includes any improvements, additions or adjustments, please provide proof of the amount and the date. This can include, but is not limited to, actual receipts, contracts, work orders with proof of payment or any other type of documentation. Cancelled checks will be considered, but we must see a clear connection to the asset being depreciated.

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Other Expenses

Explanation of how the expense related to your employment, including a description of the item

Cancelled checks and receipts verifying the expenses

Utilities

Verification of amount paid for utilities expense. (e.g., cancelled checks, receipts, invoices, etc.)

Copy of bills showing the name of person responsible for payments and the address where the service is provided

Taxes

Cancelled checks, receipts and other statements to verify the amount of taxes deducted as a business expense on your tax return. Include real estate and personal property tax statements showing on which property the taxes are being assessed. Also include copies of employment tax returns (W-2, 940, 941, etc.) for federal and state, if employment taxes are deducted. Provide copies of all state sales tax returns filed for the year, if applicable.

Schedule A

Interest Expense

Verification of the debt (e.g. loan papers, promissory notes, etc)

Proof interest expenses were incurred in the taxable year. Payment books for installment purchases or purchase contract and cancelled checks, receipts, or other evidence of payments made.

Proof that loan was from a debtor/creditor relationship and not from a gift. A written legal and binding agreement between two parties (e.g. land contract, notarized papers, etc.)

Provide the debt instrument that shows the receipts or statements from creditors amount of interest paid and names of payees (e.g. mortgage statement Form 1098, including land contracts, written proof of interest paid by taxpayer on the loan, etc.)

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Statement from broker to show investment interest

If home mortgage, then provide statement that indicated who the payment was made to, if other than a financial institution (i.e., amortization statement)

**Real Estate and Personal Property Taxes**

Verification of legal ownership of the property

Cancelled checks, mortgage statements or receipts for taxes paid

A copy of the settlement statement, if real property was sold or purchased during the year

Identification of any special assessments deducted as taxes, and an explanation of their purpose

Copy of property tax bill

Documentation for any property tax rebates or refunds

**State and Local Income Taxes / State Tax Refund**

Verification of amount paid in state and local income taxes including any amount paid for a prior year

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