

DAVIS – SMITH ACCOUNTING ASSOCIATES, P.A.

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Client: _____

We are pleased to confirm our understanding of the arrangements for your income tax return(s). This letter states the services you have asked our firm to perform and the terms under which we have agreed to do that work. Please read this letter carefully because it is important to both our firm and you that you understand what you can and cannot expect from our work. In other words, we want you to know the limitations of the services you have asked us to perform. If you are confused at all by this letter or believe we have misunderstood what you need, please call us before you sign it. This engagement letter represents the entire agreement regarding the services described herein and supersedes all prior negotiations, proposals, representations or agreements, written or oral, regarding these services. It shall be binding on the heirs, successors and assigns of you and us. The Internal Revenue Service imposes penalties on taxpayers, and on us as return preparers, for failure to observe due care in reporting for income tax returns. In order to ensure an understanding of our mutual responsibilities, we ask all clients for whom we prepare tax returns to confirm the following arrangements.

We will prepare your 2019 Federal and **Specific State(s):** _____ Fiduciary Income Tax Form 1041 and related Federal and Specific State(s) Form income tax return schedules from information you furnish us. We will not audit, review, compile or otherwise verify the data you submit although we may ask you to clarify some of the information. We may furnish you with tax organizers and questionnaires to help you gather and organize the necessary information for us, in order to keep our fee to a minimum.

If you have taxable activity in a state other than that specifically listed you are responsible for providing our firm with all information necessary to prepare any additional applicable state(s) or local income tax returns as well as informing us of the applicable states. ***We are responsible for preparing only the specific Fiduciary income tax forms for the specified reporting agencies listed in this letter. Any other required services, forms or other actions on our part require a separate engagement letter. In the absence of written communications from us documenting such services, our services will be limited to and governed by the terms of this engagement letter. Our services are not intended to determine whether you have filing requirements in taxing jurisdictions other than the one(s) of which you have requested above.***

We must receive **all** the necessary information to prepare your return by March 15, 2020, to ensure that your return will be completed by April 15, 2020. If we have not received **all** of your information by March 15, 2020, and your return is not completed by April 15, 2020, we will file an extension for you. **Since we will not have all your information available we will be unable to determine whether or not you will need to make a payment with the extension. You may be subject to late filing or late payment penalties if you ultimately end up owing taxes once the returns are completed. You will need to inform us prior to April 5th, if you wish to make a payment with the extensions so that we can provide the forms to you to be mailed in with your checks.**

We will return all original documents at the end of the engagement and we recommend you maintain them for at least 7 years, the documentation necessary to support your tax returns, including but not limited to logs or diaries

detailing auto usage, cell phones, home computer usage, travel, entertainment, and receipts for all related expenses. You are also to maintain the required documents and receipts necessary to support all charitable contributions especially those over \$250.00 which require a receipt from the organization. In addition, you must maintain all records for the purchase, use and maintenance of any equipment purchases and if you have employees, you must maintain on file a W-4 and I-9 for each.

It is also your responsibility to carefully examine and approve your completed tax returns before signing. We are not responsible for the disallowance of doubtful deductions or inadequately supported documentation, nor for resulting taxes, penalties and interest. We will rely, without further verification, upon information you provide to us from 3rd parties including, but not limited to, K1's, 1099's, 1098's, and receipts and similar items. We are responsible for preparing only the returns listed above. If you discover incorrect information on the original return, we will be glad to prepare an amended return. If the change is a result of an error on our part, there will be no charge for the preparation of the amended return and we will be responsible for only the interest and penalties you incur, any additional tax remains your responsibility. Changes due to your omissions or errors in the documents you provided will result in a preparation fee being charged for the amended returns, and you will be responsible for any related tax, interest and penalties. It is our firm's policy to retain copies of your tax returns for seven years, after which they will be destroyed.

For tax years beginning in 2000, the IRS has provided that an individual taxpayer and his or her spouse, if applicable, may authorize the IRS to discuss the taxpayer's tax return with the CPA who signed the taxpayer's return as the return preparer. The authorization is granted by checking the "yes" box in the signature area of the tax return. By checking the "yes" box, you are granting the IRS permission to contact our firm with questions that may arise during the processing of your return. You would also be granting our firm the permission to (1) provide the IRS with any information that may be missing from your return, (2) call the IRS to inquire on the processing of your return or on the status of your refund, and (3) respond to any IRS notices that you have provided to our firm relating to mathematical errors, offsets, and return preparation. Once elected, the authorization cannot be revoked. The authorization is valid for one year after the due date for filing the tax return. Since our firm does not receive copies of the IRS notices regarding this tax return, we will be providing Form 8821 for your signature, when you pick up the completed return, which will allow the IRS to send us a copy as well.

Our fee does not include responding to inquires or examination by taxing authorities. However, we are available to represent you and our fees for such services are at our standard rates and would be covered under a separate engagement letter. You agree to immediately notify us upon the receipt of any correspondence from any agency covered by this letter. Please do not respond to or click on any links from emails purportedly from the IRS-the IRS never initiates correspondence via email and any such emails are attempts to steal your identity. Additionally, in order to protect your identity, we will verify your id, birthdate and social security number when you call or visiting our office. Whether you elect to deal with an audit yourself or choose to have us assist you, PLEASE CONTACT US PRIOR TO SIGNING ANY WAIVERS OR CONSENTS RELATING TO AN AUDIT. Likewise call us before paying any assessments resulting from IRS inquiry letters, many inquiries are computer generated and just require an explanation, please let us verify any amounts the IRS claims are owed before you pay.

We will use our judgment to resolve questions in your favor where a tax law is unclear if there is a reasonable justification for doing so. Whenever we are aware that a possibly applicable tax law is unclear or that there are conflicting interpretations of the law by authorities (e.g., tax agencies and courts), we will explain the possible positions that may be taken on your return. In accordance with our professional standards, we will follow whatever position you request, as long as it is consistent with the codes, regulations, and interpretations that have been promulgated. If the IRS should later contest the position taken, there may be an assessment of additional tax plus interest and penalties. Currently, the IRS and state taxing agencies are aggressive in assessing penalties. We assume no liability for any such additional penalties or assessments. In the event, however, that you ask us to take a tax position that in our professional judgment will not meet the applicable laws and standards as promulgated, we reserve the right to stop work and shall not be liable to you for any damages that occur as a result of ceasing to render services.

Please be aware of the following:

1. When a self-employed taxpayer reduces taxable income there is also a reduction in earned income reported to the Social Security Administration, which could reduce current and future benefits for the taxpayer and his or her dependents. You acknowledge and agree to the current tax reduction and the potential negative effects on future social security benefits for you, your spouse and any dependents.
2. From time to time various lenders may request that we sign, for you, some verification of income, employment or tax filing status. Because we were engaged only to prepare your income tax return, without examination, review, audit or verification, our insurance carriers, as well as the state board of accountancy,

prohibit us from signing any such document and we suggest that you have them send IRS Form 4506 to the IRS to obtain such verification.

3. The Affordable Care Act has added various new health insurance mandates, penalties and credits beginning in 2015. You acknowledge and agree that we will rely solely on information provided by you to us for the specific returns discussed above for the purpose of preparing this year's tax return and estimated tax payments for 2019. We have been retained only to prepare your tax returns for the above authorities and periods and have provided no advice regarding your eligibility for any credits, estimates of any payments or estimates of any penalties, all of which require a separate written engagement letter for those purposes.
4. Professional standards require us to electronically file all federal and state individual income tax returns ("e-filing"). However, you do have the right to "opt out" of the e-filing program. Please notify our firm immediately should you desire not to have your return e-filed so that we may provide you with the form(s) necessary for opting out of the e-file program. Please note that unless you notify us of your desire to not e-file your return, we will prepare your return to be e-filed.

Although e-filing requires both you and our firm to complete additional steps, the same filing deadlines will apply. You must therefore ensure that you complete the additional requirements well before the due dates in order for our firm to be able to timely transmit your return. We will provide you with a copy of the income tax returns for your review prior to electronic transmission. After you have reviewed the returns, you must provide us with a signed authorization indicating that you have reviewed the return and that, to the best of your knowledge, you feel it is correct. We cannot transmit the returns to the taxing authorities until we have the signed authorization. **Therefore, if you have not provided our firm with your signed authorization by April 11, 2020, we will place your return on extension, even though it might already have been completed.**

In that event, you will be responsible for ensuring that any payment due with the extension is timely sent to the appropriate taxing authorities. You will also be responsible for any additional costs our firm incurs arising from the extension preparation.

Finally, please note that although our firm will use our best efforts to ensure that your returns are successfully transmitted to the appropriate taxing authorities, we will not be financially responsible for electronic transmission or other errors arising after your return has been successfully submitted from our office.

From time to time during our relationship, you may seek our advice with regard to potential investments. We are not investment advisors. Accordingly, we suggest that you seek the advice of qualified investment advisors appropriate to each investment being considered. Unless otherwise specifically agreed to in a separate engagement letter signed by both parties, we will not advise you regarding the economic viability or consequences of an investment or whether you should or should not make a particular investment.

5. Please note that any person or entity subject to the jurisdiction of the United States (includes individuals, corporations, partnerships, trusts, and estates) having a financial interest in, or signature or other authority over, bank accounts, securities, or other financial accounts having an aggregate value exceeding \$10,000 in a foreign country, shall report such a relationship. Although there are some limited exceptions, filing requirements also apply to taxpayers that have direct or indirect control over a foreign or domestic entity with foreign financial accounts, even if the taxpayer does not have foreign account(s). Failure to disclose the required information to the U.S. Department of the Treasury may result in substantial civil and/or criminal penalties. Such disclosure includes filing Form 8938 with this Form 1040. *If you do not provide our firm with information regarding any interest you may have in a foreign account, we will not be able to prepare any of the required Income Tax related forms, and penalties may be due, for which we have no responsibility. In the absence of such information being provided we will presume you do not have any foreign assets or financial interests and will not file any applicable disclosure forms without separate written authorization.*
6. If you and/or your entity have a financial interest in any foreign accounts, you may also be responsible for filing Form FinCen 114 required by the U.S. Department of the Treasury on or before April 15th of each tax year. US citizens are required to report worldwide income on their US tax return.
7. The Internal Revenue Service, under IRC §6038 and §6046, requires information reporting if you are an officer, director or shareholder with respect to certain foreign corporations (Form 5471); foreign-owned U.S. corporation or foreign corporation engaged in a U.S. trade or business (Form 5472); U.S. transferor of property to a foreign corporation (Form 926); and, for taxable years beginning after March 18, 2010, if you hold foreign financial assets with an aggregate value exceeding \$50,000. By your signature below, you accept responsibility for informing us if you believe that you fall into one of the above categories and you

agree to provide us with the information necessary to prepare the appropriate forms. We assume no liability for penalties associated with the failure to file or untimely filing of any of these forms.

8. Federal law has extended the attorney-client privilege to some, but not all, communications between a client and the client's CPA. The privilege applies only to non-criminal tax matters that are before the IRS or brought by or against the U.S. Government in a federal court. The communications must be made in connection with tax advice. Communications solely concerning the preparation of a tax return will not be privileged.

In addition, your confidentiality privilege can be inadvertently waived if you discuss the contents of any privileged communication with a third party, such as a lending institution, a friend, or a business associate. We recommend that you contact us before releasing any privileged information to a third party.

If we are asked to disclose any privileged communication, unless we are required to disclose the communication by law, we will not provide such disclosure until you have had an opportunity to argue that the communication is privileged. You agree to pay any and all reasonable expenses that we incur, including legal fees, that are a result of attempts to protect any communication as privileged.

9. New privacy laws were established by the IRS effective January 1, 2011 and we are now prohibited from providing confidential information or copies to anyone other than you without your specific, written authorization. To comply with these new regulations, we provide all copies of all returns to you in a secure web portal. Your use of this portal is limited to lawful income tax related documents in compliance with our written portal usage policy and will be maintained and accessible solely in accordance with our policy for no more than 30 days after any notification of termination of services by either party, after which point it will be electronically deleted. Our portal policy is available on request. If we are asked to disclose any privileged communication, unless we are required to disclose the communication by law, we will not provide such disclosure until you have had an opportunity to argue that the communication is privileged. You agree to pay any and all reasonable expenses that we incur, including legal fees, that are a result of attempts to protect any communication as privileged. In addition, your confidentiality privilege can be inadvertently waived if you discuss the contents of any privileged communication with a third party, such as a lending institution, a friend, or a business associate. We recommend that you contact us before releasing information to a third party.

In the interest of facilitating our services to you, we utilize a secure web portal. Your use of this portal must comply with our standards of use, and as owners of the portal we retain the right to limit and deny use of the portal for inappropriate purposes. Your access to files maintained on the portal will be terminated no later than 90 days after the date you are notified that the tax return is available. All confidential information sent to you as well as the portal will be password protected. While we will use our best efforts to keep such communications secure in accordance with our obligations under applicable laws and professional standards, you recognize and accept that we have no control over the unauthorized interception of these communications once they have been sent and consent to our use of these devices during this engagement.

10. New forms of currency and commerce have become commonplace. You hereby acknowledge that if you make use of alternative types of crypto-currency or payment, such as Bitcoin or Paypal, or conduct business in the consumer to consumer rental market, such as Uber, Lyft, Airbnb, FSBO, Turo, etc., you have provided us with details of all transactions.
11. It is our policy to keep records related to this engagement for three years after which they are destroyed. However, we do not keep any original client records. We will return those to you at the completion of the services rendered under this engagement. When records are returned to you, it is your responsibility to retain and protect your records for three years for possible future use, including potential examination by any government or regulatory agencies.

Fees for our services will be at our standard rates plus any out-of-pocket expenses. Payment for service is due when rendered and interim billings may be submitted as work progresses and expenses are incurred. We reserve the right to stop work on any account that is 90 days past due, in accordance with our firm's stated collection policy. You further acknowledge and agree that in the event we stop work or withdraw from this engagement as a result of your failure to pay on a timely basis for services rendered as required by this engagement letter, we shall not be liable to you for any damages that occur as a result of our ceasing to render services. Our fees do not include responding to inquires or examination by taxing authorities or third parties, for which you will be separately billed for time and expenses involved.

Interest and finance charges will be charged at the maximum allowable by law, or at 1.5% per month, whichever is less, on accounts over thirty (30) days past due. Should Davis Smith Accounting Associates PA bring legal action to collect monies due under the contract or should the matter be turned over to collection. Davis Smith Accounting

Associates PA shall be entitled, to the fullest extent permitted under the law, to reasonable legal fees and costs of any such collection attempt.

Our services will conclude upon delivery of the completed income tax returns discussed above or upon our suspension of services or resignation from the engagement. In recognition of the relative risks and benefits of this agreement to both the client and the accounting firm, the client and the accounting firm have discussed and have agreed on the fair allocation of risk between them. As such, the client agrees, to the fullest extent permitted by law, to limit the liability of the accounting firm to the client for any and all claims, losses, costs, and damages of any nature whatsoever, so that the total aggregate liability of the accounting firm to the client shall not exceed the accounting firm's total fee for services rendered under this agreement. The client and the accounting firm intend and agree that this limitation apply to any and all liability or cause of action against the accounting firm, however alleged or arising, unless otherwise prohibited by law. Both parties agree that there is a one-year limitation period to bring a claim against us for errors and omissions. The one-year period will begin upon the date of the tax professional's signature on the tax returns covered by this engagement letter.

If any dispute arises among the parties, they agree to try first in good faith to settle the dispute by mediation administered by the American Arbitration Association (AAA) under its Rules for Professional Accounting and Related Services Disputes. All unresolved disputes shall then be decided by final and binding arbitration in accordance with the Rules for Professional Accounting and Related Services Disputes of the AAA. Fees charged by any mediators, arbitrators, or the AAA shall be shared equally by all parties. **IN AGREEING TO ARBITRATION, WE BOTH ACKNOWLEDGE THAT IN THE EVENT OF A DISPUTE EACH OF US IS GIVING UP THE RIGHT TO HAVE THE DISPUTE DECIDED IN A COURT OF LAW BEFORE A JUDGE OR JURY AND INSTEAD WE ARE ACCEPTING THE USE OF ARBITRATION FOR RESOLUTION.**

If the above fairly sets forth your understanding, please sign the signature section of the sign in sheet. Please note that you are agreeing that you have in your records all the necessary documentation and evidence to support all the information on your tax return including if applicable the W-4's and I-9's for employees, log books or diaries for auto, cell phone and home computer usage and are complying with the Form 1099 requirements. It is our firm's policy to mark the box that grants authorization, if you do not wish to authorize us to discuss this tax return with the IRS please indicate that on the sign-in sheet as well.

Please sign and date this page of the engagement to acknowledge your agreement with and acceptance of your responsibilities and the terms of this engagement. It is our policy to initiate services after we receive the executed engagement letter. If any provision of this agreement is declared invalid or unenforceable, no other provision of this agreement is affected and all other provisions remain in full force and effect.

Sincerely,

Davis-Smith Accounting Associates

Client Signature: _____

Date: _____

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In 2018 the US Supreme Court in *South Dakota v. Wayfair* overturned the established physical presence rules for businesses to determine if they needed to register, collect and pay sales tax in an individual state. If your business has a website and engages in internet based out-of-state sales, you could be exposed to new laws passed by over 35 states requiring you to register, collect, and pay sales tax in that state.

Most states have passed laws stating that if you sell more than \$100,000 of products or services OR more than 200 transactions of any dollar amount, you are subject to their rules. Failure to follow their rules could essentially bankrupt your company in a few years with penalties. The AICPA has an example of a company with a \$9,000 annual sales tax liability unpaid for seven years. With penalties after 7 years the company would owe the state \$2.6 million in back taxes and penalties.

We do not monitor sales volumes or the number of transactions by state and do not register or file sales tax returns for you when we prepare your income tax returns. It is imperative if you have a website selling products or services, or you offer sales across state lines, that you familiarize yourself with these rules and protect your company. We can make suggestions for software solutions if you wish, but again, you need to action on this issue because it is not part of your income tax preparation.

We also strongly recommend that you contact your elected Federal officials and alert them to the need for a small business exemption with a threshold of \$10 million in sales. Otherwise the costs of compliance could overshadow the revenues you generate from out of state sales. We strongly recommend you watch this explanatory video and forward it to your business owner friends and more importantly members of Congress before your business becomes bogged down or overwhelmed by the cost of registering, collecting and paying sales tax in up to 9,000 different jurisdictions. It is a free video on YouTube at <https://youtu.be/oq1P8VceUxE>

With over 9,000 separate state and local taxing jurisdictions in the United States our concern for your company's exposure to these rules forced us to alert you to the problem via this special alert letter. Please act sooner rather than later, we cannot over-emphasize the importance of compliance with these rules.

Sincerely,

Davis-Smith Accounting Associates

(Signature) _____ (Date)