Internal Revenue Service Small Business and Self-Employed

Date: March 19, 2009

OCCOQUAN, VA 22125

Department of the Treasury 11166 Fairfax Blvd. Suite 500 Fairfax VA 22030

Taxpayer Identifying Number:

Tax Year:

Form Number:

1040

Person to Contact:

Employee Identification Number:

Contact Telephone Number:

Fax Number:

- -

Dear &

We have selected your federal income tax return for the year shown above for examination. We examine tax returns to verify the correctness of income, deductions, exemptions, and credits.

What You Need To Do

I have scheduled an appointment for you as shown below. If you are unable to keep this appointment, please call me at the contact number above within 10 days.

Appointment Information

Tax Year: 2007 Date: 04/03/2009

Place: 11166 Fairfax Blvd. Day: Friday

Suite 500

Fairfax VA 22030 Time: 8:30 AM

Room Number: 500

<u>Issues To Be Reviewed During The Examination</u>

Your examination will primarily be focused on the following issues:

- 1. Sch E1 Real Estate Loss After Passive Limitation
- 2. Unreimbursed Employee Expenses
- 3. Non-Cash Contributions

What To Bring With You To The Examination

Attached to this letter is Form 4564, *Information Document Request*, that lists the items on your return we will examine and the supporting items you need to provide. Please bring copies of your 2006 and 2008 individual income tax returns. For additional information see the enclosed Publication 1, *Your Rights as a Taxpayer*, and Notice 609, *Privacy Act Notice*.

Why The Information Document Request Is Important

It is important that you read and fully understand the attached Information Document Request. It lists the items you should bring with you to the appointment. To ensure an efficient examination and to save you time, please organize the requested items according to the issues identified above in this letter. If you have any questions or need additional guidance, please feel free to contact me.

What To To Expect At The Examination

Generally an examination is scheduled to last approximately 4 hours. During the examination, I will review the information you provide. My goal is to complete your examination at the initial meeting. However, depending on the results of the initial meeting and the supporting items you provide, I may ask you to provide additional information or schedule a follow-up meeting. When the examination is completed, you may owe additional tax, be due a refund, or there may be no change to your return.

Who May Come To The Examination

If you filed a joint return, you and/or your spouse may attend. You may also have someone represent you at the examination. If you will not be attending with your representative, you must provide a completed Form 2848, *Power of Attorney and Declaration of Representative*, or Form 8821, *Tax Information Authorization*, before the examination. You can get these forms from our office, from our website, www.irs.gov, or by calling 1-800-829-3676.

What Will Happen If You Do Not Respond

If you do not respond to this letter, we will issue an examination report based on the information available to us, which will result in additional tax due. Therefore, it is to your advantage to keep your appointment and to provide the requested records. If you are uncertain about the records needed or the examination process, please call me.

Sincerely,

Examining Officer

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Enclosures: Form 4564 Publication 1 Notice 609

Please bring records to support the following items reported on your tax return for 2007 .					
☐ Automobile Expenses ☐ Bad Debts ☐ Capital Gains and Losses ☐ Casualty Losses ☒ Contributions ☐ Credit for Child and ☐ Dependent Care Expenses ☐ Education Expenses ☒ Employee Business Expenses	☐ Energy Credit ☐ Exemptions (Child/Children, Other) ☐ Filing Status ☐ Income ☐ Interest Expenses ☐ Medical and Dental Expenses ☐ Miscellaneous Expenses ☐ Moving Expenses ☐ Rental Income and Expenses	☐ Sale or Exchange of Residence ☐ Taxes ☐ Uniform, Equipment, and Tools ☒ Passive Activity Loss ☐ ☐ ☐ ☐			
Schedule C					
Bank statements, canceled check		period fromto			
☐ All Business Expenses ☐ Bad Debts ☐ Car and Truck Expenses ☐ Commissions ☐ Cost of Goods Sold ☐ Depreciation	☐ Gross Receipts ☐ Insurance ☐ Interest ☐ Legal and Professional Services ☐ Rent ☐ Repairs	☐ Salaries and Wages ☐ Supplies ☐ Taxes ☐ Travel and Entertainment ☐			
Schedule F					
Bank statements, canceled check		period fromto			
☐ All Farm Expenses ☐ Depreciation ☐ Feed Purchases ☐ Fertilizers and Lime ☐ Gross Receipts	☐ Insurance ☐ Inventories ☐ Labor Hired ☐ Machine Hire ☐ Other Farm income	☐ Repairs and Maintenance ☐ Supplies Purchases ☐ Taxes ☐			

Form 4564 (Rev. September 2006)	Department of the Treasury - Internal Revenue Service Information Document Request			Request Number 0001
To: (Name of Taxpayer and Company Division or Branch) & Please return Part 2 with listed documents to requester identified below		Subject 1040 200712		
		SAIN number Submitted to:		to:
		Dates of Previous Requests (mmddyyyy)		

Tax Period(s): 200712

PLEASE BRING A COPY OF YOUR 2006 & 2007 TAX RETURN

Employee Business Expenses

Statement from your employer showing reimbursement policy (or statement that there is no reimbursement policy); amount and kind of expense reimbursed, charged, or provided; specific expenses not covered by reimbursement policy; territory assigned to you; dates and locations of temporary jobs; and a brief outline of your duties. Your employer should also state whether or not reimbursement is included on your W-2 as Wages, Tips, or Other Compensation.

Copies of expense vouchers submitted to your employer

Logs, diaries, or other records of expenses not reimbursed by your employer

Please bring the items listed below which apply:

Automobile Expenses

Repair receipts, inspection slips, or any other records showing total mileage for the year

Log books and other records verifying the business mileage claimed

If you did not keep a log or other formal record of your business mileage, reconstruct the business use of the vehicle, including current mileage reading on the vehicle used for business purposes, mileage reading on the vehicle when you acquired it, the mileage reading for January 1 and December 31 of the year being audited, and mileage distance between your

Information d	ue by 04/03/2009	At next appointment	X Mail in]
	Name and Title of	Requester , Tax Compliance Officer	Employee ID number	Date (mmddyyyy) 03/19/2009
From:	Office Location:	11166 Fairfax Blvd. Suite 500 Fairfax, VA 22030		Phone: Fax:
Catalog Num	ber 23145K www	irs.gov Part 1 - Taxpaye	er's File Copy	Form 4564 (Rev. 9-2006

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residence and your business location. Also, bring an appointment book or calendar of your business activities during the year.

If you claimed actual expenses, bring paid bills, invoices, and cancelled checks for your automobile expenses including 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.

Entertainment, Meals, Gifts and Other Expenses

Records and receipts for entertainment expenses you claimed. These records must have been made timely and must show the names and business relationship of the persons entertained, the purpose of the entertainment, the place where the entertainment occurred, the date of the entertainment, and the amount of the expenditure.

For entertainment facilities, records showing expenses incurred, and total use and business use of the facility if you maintained it, in addition to the information requested in the paragraph above

For business gifts: records and receipts showing the cost of the gifts you provided, the persons to whom the gifts were made, and their business relationship

Receipts and other records for meals claimed

Travel, Lodging and Other Expenses

Itinerary of business trips away from home (e.g. conventions, training, etc.)

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Transportation tickets, receipts, cancelled checks, etc., to substantiate the expenses claimed

Verification of the number of days away from home overnight for business purposes. Receipts and any other records for meals and actual lodging

Brochures, activity schedules, agendas, etc., for all conventions, cruises or meetings

Proof of how this travel was related to your business

Business Use of Home

Provide documentation as to what method was used to determine business percentage and allocation of expense. Commonly used method to determine the business percentage: divide the area (length multiplied by width) used exclusively for business by the total square footage of your home.

Cancelled check and/or receipts to verify expenses incurred such as mortgage interest statement, property tax, insurance and utility bills

Provide records to support the cost basis if depreciation is part of the computation (e.g. closing documents from escrow papers for the purchase of the home and property tax statements)

Documentation (e.g. receipts, cancelled checks and sales invoices) verifying office supply expenses, rent, utilities and business phone line

Appointment book to identify exclusive and regular customer/client contact, if any

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Education Expenses

Documents such as transcripts, course descriptions, catalog, etc., showing period of enrollment in educational institution, principal subjects studied, and description of educational activity

Cancelled checks and receipts to verify amounts you spent for tuition and books, meals and lodging while away from home overnight for educational purposes, travel and transportation, and other educational expenses

Statement(s) from your employer explaining whether the education was necessary for you to keep your job, salary, or status; how the education helped maintain or improve skills needed in your job; how much education expense reimbursement you received, identified by kind of expenses; type of certificate and subjects taught, if a teacher

Complete information about any scholarship or fellowship grants, including amounts you received during the year

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Contributions

Written statement from the charitable organization or church of the amount of contribution and distinguish between goods and services if the amount exceeds \$75

For cash contributions of \$250 or more, provide a cancelled check, credit card statement or payroll check stub and a separate acknowledgement of the contribution from each organization

For cash contributions less then \$250, provide a cancelled check, credit card statement or payroll check stub

Provide logbook of mileage if car is utilized for contribution activities along with the name of the organization

For contributions other than money, name and address of the charitable organization; description of item(s) contributed; appraisal of the fair market value of each item on the contribution date; and original cost.

Include copy of Form 8283, Non-cash Charitable Contributions, if not attached to the return for all non-cash contributions over \$250

Appraisal for item or group of similar items that exceed \$5,000 in fair market value

A statement showing you were an official representative of the organization and the organization's reimbursement policy, if expenses were claimed for attending a convention or similar activity. Also, an itinerary or agenda for the activity

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Passive Activity Loss

Provide proof that you are a Real Estate professional or work in the real estate field on a daily basis if applicable. Provide a copy of your Real Estate license

Copy of prior year Form 8582 along with all worksheets to arrive at the rental loss. This would be on prior year return(s). Provide a written log of all your rental related activities that will support the deduction claimed on your tax return. Include proof of any trips taken out of town to the rental property, if the rental property is not local (mileage log)

If you have a management firm running the property for you, submit a copy of the year-end statement provided by the firm

Copy of the contract between you and the management firm explaining their duties and responsibilities for care of the property

If the property was sold in the year under audit provide a copy of the purchase and sales escrow papers. Also include a copy of all depreciation schedules that show the depreciation taken in the past year(s)

Copy of the worksheets used to arrive at the current year's 1055

Provide receipts that show the expenses on the rental property

Documentation showing date the property was converted to or from a rental and the fair market value of the property at time of conversion

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