



## **Business Income Tax Return Engagement Letter**

January, 2019

Dear Client:

The A.C.T. Group, Ltd. is pleased to provide you with the professional services described below. This letter confirms our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide. This engagement between you and our firm will be governed by the terms of this Agreement.

### **Scope of Engagement**

We will prepare your 2018 United States Federal income tax return and the 2018 State income tax return. Additionally, if you ask for the service, we will also prepare prior year or amended tax returns. Our work will be performed in accordance with the Statements on Responsibilities in Tax Practice as published by the American Institute of Certified Public Accountants. This letter will serve to document our discussions regarding the scope of the engagement and contains the entire understanding of the parties regarding the work to be performed.

We will not prepare any tax returns except those which apply to your acceptance of this engagement letter without your written authorization to do so. We will prepare your tax returns based upon information and representations you provide to us. We will not audit or otherwise verify the data you submit to us, although we may ask you to clarify certain information. We will prepare the above referenced tax returns solely for filing with the Internal Revenue Service (“IRS”) and state and local tax authorities. They are not intended to benefit or influence any third party, either to obtain debt or equity financing or for any other purpose. We will not respond to any request from banks, mortgage brokers or other lenders for verification of any information reported on these tax returns.

You agree to indemnify and hold our firm and any of its partners, principals, shareholders, officers, directors, members, employees, agents or assigns (collectively, “firm,” “we,” “us,” or “our”) harmless with respect to any and all claims arising from the use of the tax returns for any purpose other than filing with the IRS and state and local tax authorities regardless of the nature of the claim, including the negligence of any party.

You agree that you will not and are not entitled to rely on any advice given to you by us unless your request and our response are provided in writing.

### **Client Responsibilities**

You will provide us with a trial balance and other supporting data needed to prepare your tax returns. It is your obligation to provide us with accurate and complete information, including income from sources outside of the United States of America.

We rely upon the accuracy and completeness of both the information you provide in the trial balance and other supporting data you provide in rendering professional services to you.

### **On-line access to information**

To the extent you provide our firm with access to electronic data via a local or online database from which we will download your trial balance or other information, you will be required to confirm in writing the accuracy of this data as of the date and time it is downloaded.

Depending on your Organization's structure, the following may apply:

**Partnership or limited liability company (LLC) agreement:**

You should review your partnership (or LLC) agreement with your attorney to ensure it addresses the significant changes to the partnership audit regime that will generally apply to partnership returns filed after 2018. These changes include, but are not limited to the following:

- Replacement of a "tax matter partner" with a "partnership representative,
- Current partners being held responsible for tax liabilities of prior partners,
- The partnership being held responsible for remittance of additional tax rather than individual partners being taxed, and
- Numerous elections or opt-outs that the "partnership representative" may make.

In addition, you should review your partnership, or LLC agreement to ensure that it meets your goals for the transfer of ownership and distribution of income. Often, partnership agreements do not address the transfer of ownership or may require updating as circumstances change. You acknowledge and confirm that it is your responsibility to review your partnership or LLC agreement with your attorney to ensure it addresses the changes to the partnership audit regime and meets your goals for the transfer of ownership and distribution of income.

**Trusts:**

You are responsible for the calculation of trust accounting income. We will not audit or otherwise verify the data you submit, although we may ask you to clarify your calculations.

**S Corporations:**

**Salaries and wages for S corporation shareholders**

You are responsible for determining the appropriate salary or wage to pay shareholders. If the IRS determines that the S corporation made distributions in lieu of an appropriate shareholder salary or wage, the IRS may reclassify the payments. As a result of the reclassification, the shareholder and S corporation may be responsible for employment taxes on the reclassified amounts in addition to penalties and interest.

**S corporation distributions**

Distributions should be made to shareholders on a per share, per day basis. If distributions were not made proportionately, the IRS may revoke the entity's S corporation election, which may result in unfavorable tax consequences. As such, it is your responsibility to ensure that shareholder distributions are made pro-rata.

**C Corporations:**

You are responsible for determining the appropriate salary or wage to pay shareholder-employees. If the IRS determines that the C corporation paid salaries or wages in lieu of an appropriate taxable dividend, the IRS may reclassify the payments. As a result of the reclassification, the shareholder may be responsible for income taxes, penalties and interest on the taxable dividend in addition to potential employment taxes on the reclassified amounts.

**Non-Profit Organizations:**

If your organization produces revenue from a trade or business activity not directly related to its tax-exempt purpose, it may have unrelated business income that must be reported separately from other income. You are responsible for informing us of any potential unrelated business income.

**Documentation**

You are responsible for maintaining adequate documentation to substantiate the accuracy and completeness of your tax returns. You should retain all documents that provide evidence and support for reported income, credits, and deductions on your returns as required under tax law. You are responsible for the adequacy of all such documents. You represent that you have such documentation and can produce it if needed to respond to any audit or inquiry by taxing authorities. You agree to hold us harmless with respect to any additional taxes, penalties, or interest imposed on you by taxing authorities resulting from the disallowance of tax deductions due to inadequate documentation.

### **Personal expenses**

You are responsible for confirming that personal expenses, if any, are segregated from business expenses and expenses such as meals, travel, entertainment, vehicle use, gifts, and related expenses, and are supported by necessary records required by the IRS and other taxing authorities. At your request, we are available to answer your questions and advise you on the types of supporting records required.

### **Employment records**

You are responsible for obtaining Forms I-9, Employment Eligibility Verification Form, from each new employee at the time of employment. In addition, Federal Form W-4, Employee's Withholding Allowance Certificate, and the applicable state equivalent should be retained for all employees. Failure to obtain these forms may subject an employer to penalties. Additional state requirements related to employment records may exist. At your request, we are available to answer your questions and advise you on required documentation.

### **Worker classification**

You are responsible for determining the correctness of any employment relationship which you have deemed to be that of an independent contractor. Payroll tax withholding and related employer payroll tax implications result from this determination. We recommend obtaining a Form W-9, Request for Taxpayer Identification Number and Certification, signed by the independent contractor, as well as a signed contract with the independent contractor. You should also issue a Form 1099-MISC, Miscellaneous Income, to all unincorporated independent contractors to whom you pay \$600 or more for services.

### **State and local filing obligations**

You are responsible for determining your state or local tax filing obligations with any state or local tax authorities, including, but not limited to, income, franchise, sales, use, property or unclaimed property taxes. You agree that we have no responsibility to research these obligations or to inform you of them. If upon review of the information you have provided us and other information that comes to our attention, we believe you may have an obligation to file additional tax returns, we will notify you of this responsibility in writing and ask you to contact us. If you ask us to prepare these returns, we will confirm accordingly in a separate engagement letter and delineate the additional charges for this service.

### **U.S. filing obligations related to foreign investments**

As part of your filing obligations, you are required to report the maximum value of specified foreign financial assets, which include financial accounts with foreign institutions and certain other foreign non-account investment assets that exceed certain thresholds. You are responsible for informing us of all foreign assets, so we may properly advise you regarding your filing obligations.

These assets include any ownership interests you directly or indirectly hold in businesses located in a foreign country, and any assets or financial accounts located in a foreign country over which you have signature authority. Based upon the information you provide, this information will be used to calculate any applicable foreign tax credits. We will also use this data to inform you of any additional filing requirements, which may include FinCEN *Form 114, Report of Foreign Bank and Financial Accounts* ("FBAR"). Failure to file required forms can result in the imposition of both civil and criminal penalties, which may be significant. The FBAR is not a tax return and its preparation is not within the scope of this engagement. If you ask us to prepare the FBAR, we will confirm this representation in a separate engagement letter.

### **Foreign filing obligations**

You are responsible for complying with the tax filing requirements of any other country. You acknowledge and agree that we have no responsibility to raise these issues with you and that foreign filing obligations are not within the scope of this engagement.

### **Other income, losses and expenses**

If you realized income, loss or expense from a business or supplemental income or loss, the reporting requirements of federal and state income tax authorities apply to such income, loss or expense. You are responsible for complying with all applicable laws and regulations pertaining to such operations, including the classification of workers as employees or independent contractors and related payroll tax and withholding requirements.

### **Ultimate responsibility**

You have final responsibility for your income tax returns. We will provide you with a copy of your electronic income tax returns and accompanying schedules and statements for review prior to filing with the IRS and state and local tax authorities (as applicable). You agree to review and examine them carefully for accuracy and completeness.

You will be required to verify and sign a completed Form 8879-S, IRS e-file Signature Authorization Form, and any similar state and local equivalent authorization form before your returns can be filed electronically. In the event that you do not wish to have your income tax returns filed electronically, please contact our firm. Additional procedures will apply. You will be responsible for reviewing the paper returns for accuracy, signing them, and filing them timely with the tax authorities.

### **CPA Firm Responsibilities**

Unless otherwise noted, we will perform our services in accordance with the Statements on Standards for Tax Services (“SSTS”) issued by the American Institute of Certified Public Accountants (“AICPA”) and U.S. Treasury Department Circular 230 (“Circular 230”). It is our duty to perform services with the same standard of care that a reasonable income tax preparer would exercise in this type of engagement. It is your responsibility to safeguard your assets and maintain accurate records pertaining to transactions. We will not hold your property in trust for you, or otherwise accept fiduciary duties in the performance of the engagement.

### **Bookkeeping assistance**

We may deem it necessary to provide you with accounting and bookkeeping assistance solely for the purpose of preparing the income tax returns. We will request your approval before rendering these services. Additional charges will apply for such services.

### **Prior year review**

Our review of the prior year’s tax return will necessarily be limited and may not find all errors. We will, however, bring to your attention any errors that we find. If you ask us to prepare amended tax returns and address any other matters arising as a result of any error, we will confirm this representation in a separate engagement letter.

### **Estimated tax payments**

You may be required to make quarterly estimated tax payments. We will calculate these payments for the 2019 tax year based upon the information you provide to prepare your 2018 tax returns (the “safe harbor” basis) and have no obligation to update recommended payments after the engagement is completed. If you ask us to update your estimated payments, we will confirm this in a separate engagement letter.

### **Management responsibilities**

The A.C.T. Group, Ltd., in its sole professional judgment, reserves the right to refuse to take any action that could be construed as making management decisions or performing management functions on your behalf. However, we may provide advice and recommendations to assist management in performing its functions and making decisions.

### **Errors, fraud, or theft**

Our engagement does not include any procedures designed to discover errors, fraud, or theft. Therefore, our engagement cannot be relied upon to disclose such matters.

### **Tax planning services**

Our engagement does not include tax planning services, which are available upon request and will be considered as a separate engagement. During the course of preparing the tax returns identified above, we may bring to your attention certain available tax saving strategies for you to consider as possible means of reducing your income taxes in subsequent tax years. However, we have no responsibility to do so, and will take no action with respect to any such recommendations, as the responsibility for implementation remains with you, the taxpayer.

### **Government inquiries**

This engagement does not include responding to inquiries by any governmental agency or tax authority. If your tax return is selected for examination or audit, you may request we assist you in responding to such inquiry. If you ask us to represent you, we will confirm this in a separate engagement letter and delineate how additional charges for this service will be calculated.

### **Brokerage or investment advisory statements**

If you provide our firm with copies of brokerage (or investment advisory) statements and/or read-only access to your accounts, we will use the information solely for the purpose of preparing your income tax returns. We will rely on the accuracy of the information provided in the statements and will not undertake any action to verify this information. We will not monitor transactions, investment activity, provide investment advice, or supervise the actions of the entity or individuals entering into transactions or investment activities on your behalf. We recommend you receive and review all statements promptly and carefully, and direct any questions regarding account activity to your banker, broker, or investment advisor.

### **Timing of the Engagement**

We expect to begin the preparation of your returns upon receipt of this executed Agreement, the trial balance and other supporting data agreed to above.

If your return is electronically filed, our services will conclude upon the earlier of the filing and acceptance of your 2018 tax returns by the appropriate taxing authorities or one year from the execution date of this letter. You will be required to verify and sign a completed Form 8879, IRS e-file Signature Authorization, and if applicable, a State Equivalent Authorization Form before your returns can be filed electronically. You are responsible for reviewing the accuracy of all tax returns and any accompanying schedules and statements prior to filing.

If your return is filed by mail, our services will conclude upon the earlier of delivery to you of your 2018 tax returns for your review and filing with the appropriate taxing authorities or one year from the execution date of this letter.

### **Extensions of Time to File Tax Returns**

The original filing due dates for your tax returns (1120S and 1065) are March, 15, 2019 for federal and March 15, 2019 for State. C Corporations (1120 & 1120-H) and 1041 Trust & Estate tax returns are due April 15, 2019. **Due to the high volume of tax return compliance services performed by our firm, the information needed to complete the tax returns must be received no later than March 1, 2019 to provide us with adequate time to prepare your returns for filing by the due dates.**

It may become necessary to apply for an extension of the filing deadline if there are unresolved tax issues or delays in processing, or if we do not receive all of the necessary information from you on a timely basis. Applying for an extension of time to file may extend the time available for a government agency to undertake an audit of your return or may extend the statute of limitations to file a legal action. All taxes owed are due by the original filing due date. In addition, extensions may affect your liability for penalties and interest or compliance with government or other deadlines. If you agree to this engagement, we reserve the right to automatically file "0" balance extensions on your behalf, without notifying you this year and the next, unless we hear from you otherwise. Failure to timely file for an extension of time to file can result in penalties for failure to file tax returns, which accrue from the original due date of the returns, and can be substantial. We are available to discuss this matter with you at your request if the need arises.

### **Penalties and Interest Charges**

Federal, state, and local taxing authorities impose various penalties and interest charges for non-compliance with tax law, including, for example, failure to file or late filing of tax returns, and underpayment of taxes. You, as the taxpayer, remain responsible for the payment of all taxes, penalties, and interest charges imposed by taxing authorities.

We rely on the accuracy and completeness of the information you provide to us in connection with the preparation of your tax returns. Failure to disclose, or inadequate disclosure of income or tax positions, can result in the imposition of penalties and interest charges.

### **Fees and Billings**

Thank you for selecting The A.C.T. Group Ltd. for your tax preparation needs. The fee for our services will be billed at our regular hourly rate for senior accountants and may be less for other staff members. Fees are based upon the complexity of the work to be performed, and our professional time, as well as out-of-pocket expenses. In addition, this fee depends upon the timely delivery, availability, quality, and completeness of the information you provide to us. You agree that you will deliver all records requested and respond to all inquiries made by our staff to complete this engagement on a timely basis. You agree to pay all fees and expenses incurred whether or not we prepare the tax returns.

Please note that although a limited amount of time is allowed for phone conversations between the client and tax preparer (as part of the standard tax preparation fee), additional phone calls and e-mails are billed separately. Payment will be expected upon release of the tax returns.

### **Electronic Data Communication and Storage and Use of Third Party Administrative Services**

In the interest of facilitating our services to your company, we may send data over the Internet, store electronic data via computer software applications hosted remotely on the Internet, or allow access to data through third party vendors' secured portals or clouds. Your confidential electronic data may be transmitted or stored using these methods. We may use third party service providers to store or transmit this data, such as providers of tax return preparation software. In using these data

communication and storage methods, our firm employs measures designed to maintain data security. We use reasonable efforts to keep such communications and data access secure in accordance with our obligations under applicable laws and professional standards. We require our third party vendors to do the same.

You recognize and accept that we have no control over the unauthorized interception or breach of any communications or data once it has been sent or has been subject to unauthorized access, notwithstanding all reasonable security measures employed by us or our third party vendors. You consent to our use of these electronic devices and applications and submission of confidential client information to third party service providers during this engagement.

To enhance our services to you, we will use SmartVault, a collaborative, virtual workspace in a protected online environment. SmartVault allows for real-time collaboration across geographic boundaries and time zones and allows The A.C.T. Group, Ltd. and you to share data, engagement information, knowledge, and deliverables in a protected environment. In order to use SmartVault, you will be required to execute a client portal agreement and agree to be bound by the terms, conditions and limitations of such agreement. You agree that The A.C.T. Group, Ltd. has no responsibility for the activities of SmartVault and agree to hold The A.C.T. Group, Ltd. harmless with respect to any and all claims arising from or related to the operation of SmartVault. While SmartVault backs up your files to a third party server, we recommend that you also maintain your own backup files of these records.

### **Termination and Other Terms**

You agree that any claim arising out of this engagement letter shall be made within one year of the conclusion of services as described in Timing of the Engagement, regardless of any longer period of time for commencing such claims as may be set by law. Claim is understood to be a demand for money or services, the service of a suit, or the institution of arbitration proceedings against The A.C.T. Group, Ltd.

We reserve the right to withdraw from the engagement without completing services for any reason, including, but not limited to, your failure to comply with the terms of this engagement letter, if you disagree with our recommendations regarding tax return filing and reporting obligations, tax return positions to be taken or disclosures to be made in the returns, or for any other reason.

We may use a subcontractor (located outside the U.S.) to assist us in the preparation of your tax returns. The subcontractor has established procedures and controls designated to maintain data security and protect client confidentiality. As the paid preparer of your tax returns, our firm remains responsible for exercising reasonable care in preparing your tax returns, and your tax returns will be subjected to our firm's normal quality control procedures.

At the completion of our engagement, the original source documents will be returned to you. Workpapers and other documents created by us are our property. Such original workpapers will remain in our control, and copies are not to be distributed without our prior written consent.

You may request that we perform additional services not contemplated by this engagement letter. If this occurs, we will communicate with you regarding the scope and estimated cost of these additional services. Engagements for additional services may necessitate that we amend this letter or issue a separate engagement letter to reflect the obligations of both parties. In the absence of any other written communications from us documenting additional services, our services will be limited to and governed by the terms of this engagement letter.

If any portion of this engagement letter is deemed invalid or unenforceable, such a finding shall not invalidate the remainder of the terms set forth in this engagement letter.

If you are no longer a client of The A.C.T. Group, Ltd, we will retain your tax returns for 10 years. After that time, there is a minimum fee of \$200 to reactivate your files and send them to you. Only tax returns and copies of source documents that were provided by you can be released. Our work papers remain the property of The A.C.T. Group, Ltd.

### **Entire Agreement**

This engagement letter, including any attachments, encompasses the entire agreement of the parties and supersedes all previous understandings and agreements between the parties, whether oral or written. Any modification to the terms of this engagement letter must be made in writing and signed by both parties.

Please note that by submitting your information, you agree to the terms of this engagement, even if unsigned. This engagement terminates upon deliverance of the tax returns. Also, please remember you are responsible for the information on your return. Please make sure you review carefully and approve your completed tax returns before signing e-file authorization forms to be sent to the tax authorities.

We appreciate the opportunity to be of service to you. Please date and sign the enclosed copy of this engagement letter and return it to us to acknowledge your agreement with its terms. It is our policy to initiate services only after we receive the executed engagement letter.

Very truly yours,

The A.C.T. Group, Ltd.

Accepted By:

Company Name

Date:

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