



Testimony

Pennsylvania House of Representatives

FINANCE COMMITTEE

Presented by

Richard B. Kelly, CPA

Maurice Brubaker, EA

Pennsylvania Society of Tax & Accounting Professionals

December 12, 2017

Good morning, Chairman O'Neill, Chairman Wheatley, and distinguished members of the House Finance Committee. My name is Richard Kelly; I appear before you today as the current President of the Pennsylvania Society of Tax & Accounting Professionals. I am a Certified Public Accountant, and a practitioner from Chadds Ford, PA. With me today is Maurice Brubaker, an Enrolled Agent whose firm is located in Lewisburg, PA. Maurice is the Chairman of our organization's committee that works in cooperation with the Pennsylvania Department of Revenue.

By way of background, the PSTAP is a growing professional membership organization that was founded in 1946 as the Pennsylvania Society of Public Accountants; we underwent a name-change several years ago. Today we represent more than 2000 Pennsylvania tax and accounting practitioners who are almost exclusively in public practice. Our membership base is comprised of Certified Public Accountants as well as Public Accountants, Enrolled Agents, Certified Financial Planners, educators, attorneys and tax and accounting professionals.

Our members provide professional services to tens of thousands of individual taxpayers, small business owners and employers. Tax practitioners are on the front line and in the business of educating taxpayers about the complexities of federal, state and local tax law and how to comply with it; we are fundamentally an external tax collection arm for the government. As such, we are extremely pleased to provide input on this issue and thank you for affording us this opportunity this morning.

Let me start by stating that we understand the current economic climate in Pennsylvania and the pressure to generate additional revenue in these challenging times. We do not question the Pennsylvania Department of Revenue's authority to collect tax revenue that is rightfully due the Commonwealth, nor do we challenge the Department's ability to review, question, or require substantiation from taxpayers in their effort to promote and enforce tax compliance. However, beginning as far back as 2014, the Department's enforcement posture and methodology has been what can only be described as a "fishing expedition" approach to tax collection that is inconsistent, unorganized and arbitrary. My comments will examine the Pennsylvania Department of Revenue's collection practices as it relates to unreimbursed

business expenses, the recent Desk Review Program for Schedule C, the 2017 Tax Amnesty Program and their newest program which we have only recently begun to encounter, the Sales, Use and Hotel Occupancy Tax Desk Review Program.

Unreimbursed Business Expenses

In 2014, the Department hired Revenue Solutions Inc. of Pembroke, Massachusetts to develop a process that used technology, metrics and analytical tools to search out potential intentional or accidental tax evaders and the target became unreimbursed business expenses. This third party company, RSI, retained 32% of the total collections that were brought in under this program. As one might expect, the contingency arrangement resulted in little consideration being given as to the legitimacy of the business expenses, and many Pennsylvania taxpayers received notices that their unreimbursed business expenses were denied across the board. Expenses such as union dues, uniforms, small tools, work related vehicles, professional journals and publications, travel and lodging and home office expenses, all of which are legitimate and allowable expenses under Pennsylvania statute, were and continue to be called into question. Advising and representing clients regarding legitimate business deductions is difficult without consistent enforcement practices on the part of the Department of Revenue.

The unreimbursed business expenses continue to be scrutinized and denied by the Department of Revenue. In many cases the expense deduction amounts to only a small tax savings for the taxpayer. As a result, it may not be cost effective for the client to pay their tax professional to appeal the denied expense and pursue the deduction; many taxpayers simply forfeit the money to the State. For example, \$3,000 worth of business expenses equates to \$92.10 in tax savings; the taxpayer must weigh the tax savings against the cost of substantiating the expense and in many cases the appeal does not make fiscal sense. The bottom line is that while the Department's ongoing approach to challenging UE expenses may result in tax collections for the state, the revenue in many cases rightfully belongs to taxpayers who have simply given up. This puts a very unfair burden on our clients and it is nothing short of stealing money out of the pockets of hardworking Pennsylvania taxpayers.

Schedule C Desk Reviews

In 2017, the Department began the *Schedule C Desk Review Program*. We have submitted supplemental practitioner comments regarding the Schedule C Desk Reviews because we think it is important that you see detailed accounts of how the *Reviews* impact Pennsylvania self-employed business owners. The various practitioner comments illustrate how these desk reviews have created confusion and expense for small business owners and practitioners alike.

I would like to address various aspects of the Department's approach:

1. **Confusing, unclear and unreasonable requests for information.** The notices that were sent to Schedule C taxpayers who were suspended for review (about 8% of all Schedule C filers) were vague and guidance from the Department on how to respond and/or what documentation was required to satisfy their request was very minimal. The Schedule C notices request "detailed breakdowns" which Revenue initially defined as "all receipts", throwing self-employed business owners and the practitioner community into a time-consuming frenzy. After weeks of receiving volumes of requested receipts and invoices, the Department modified their position to accept copies of general ledgers, summary information and QuickBooks files. The Department's approach was illogical and scattershot and taxpayers paid the price in both time and money. You will see multiple accounts in the attached material of taxpayers spending hundreds of dollars and hours of time photocopying receipts.
2. **Inadequate examiner knowledge/training.** The Department's use of metrics and data analytics is only as good as the individuals conducting the analysis. The examiners conducting the reviews exhibit little practical understanding of Schedule C and/or are inadequately trained for this project. For example questioning \$5,000 of auto expense for an outside salesperson, or \$18,000 of office expense for a \$700,000 dental practice seems misguided given the collection potential and is not an adequate use of taxpayer resources.

Further, as determination letters and assessment notices are only now beginning to surface, the reality is that many legitimate business expenses are being denied across the board. Examiners are disregarding the taxpayer documentation that was provided or they are not requesting additional documentation or explanation from the taxpayer when they have further questions.

- 3. Inadequate staffing and backlog issues.** The Department added no additional telephone lines, nor staff to handle the increased call volume. The more than 45,000 Schedule C taxpayers undergoing review are forced to get in que using the general Department of Revenue telephone number.

In addition, it is apparent by their backlog that Revenue does not have the manpower to adequately and timely review the information they are requesting from taxpayers. When taxpayer responses are received, it can take the Department as many as 8 weeks to log the response into their system, and months beyond that to receive a determination/assessment letter or a request for additional information. Our members who replied to April/May review letters have only recently begun to receive responses back from the Department. We are quickly approaching the year end and because new Schedule C letters are continuing to be disseminated, the backlog and the potential for adjustments will likely hamper our ability to file tax returns for these taxpayers.

To make matters even more confusing, despite their backlog, the Department is mailing second and sometimes even third notices to the taxpayer requesting the same information that was already sent or indicating that they have not received a response to their initial letter. In actuality the information has not been logged into their system yet. This is a very frustrating and time-consuming process for the taxpayer and/or the tax professional and a complete waste of taxpayer money to generate second and third notices that we are being told to ignore.

Meanwhile, the Department is asking taxpayers to submit their responses within 15 days of receiving the initial request (a timeframe that the Department says is only a guideline, but which the notice does not indicate).

- 4. Beyond the Scope of a Desk Review.** The nature and the volume of information being requested suggests the Department should be sending field auditors to review the information. The Department of Revenue is certainly justified to ask for substantiation for every purchase in a \$40,000 Cost of Goods Sold line item, but it is not practical to have practitioners and business owners send this information to the Department. HB 1867, P.N. 2580, sponsored by Representative Zimmerman (Referred to Finance October 16, 2017) addresses the issue by putting a field audit requirement on Revenue information requests that exceed 25 pages. PSTAP has not taken a formal position on this legislation but I mention it because it is further evidence of taxpayer outcry to collection procedures that are out of control.

Because Schedule C has been deemed a “desk review” as opposed to an audit, the process is devoid of a guaranteed structure that ensures fairness to the taxpayer. The Department is under no required timeframe to notify the taxpayer of the outcome. As I mentioned earlier, as we approach the year end, it is essential that taxpayers know if there are adjustments from the previous year and given the backlog situation that currently exists, this is unlikely.

Moreover, the desk reviews are not assigned to a specific examiner so the taxpayer cannot establish a line of communication with the individual who will ultimately make the final determination. When an assessment letter is issued, the taxpayer’s only recourse is to go through the arduous appeals process. Taxpayers should be afforded an interview opportunity (this opportunity is provided in a field audit via the Taxpayer Bill of Rights) to discuss the deductibility of the expense/deduction. The unfortunate reality is that many of these Schedule C Reviews are going to end up in appeals, when they could have been resolved. This is a costly process for the state as well as the taxpayer.

Tax Amnesty

The 2017 Tax Amnesty Program, like amnesty programs of the past, exposed collection inefficiencies within the Pennsylvania Department of Revenue.

Many taxpayers received delinquent notices that were erroneous or that went back more than ten or fifteen years. As you might expect, the likelihood of taxpayers retaining records that span decades to prove tax compliance is small in these cases.

While tax amnesty is a trend that provides a quick boost of revenue, keep in mind that the collection of this tax is not without cost. Tax evaders as well as the unknowing tax delinquents get a chance to settle their debts and are in effect granted a loan between the time the tax deadline actually occurred and the amnesty period. They are provided a further discount by the waiving off of the entire penalty and half of the total interest due on the tax.

Unlike the Federal Government and most other states, Pennsylvania has no statute of limitations on tax collection and thus no inherent pressure to collect the tax as it is due. Department collection procedures should be ongoing and not be predicated on an amnesty period. In one example, the Department of Revenue had 5 years of earning history of business return filings. No prior notices were issued to the taxpayer that there were unpaid taxes due on the returns that were filed. However, during the 2017 Tax Amnesty Program, a notice was issued to the taxpayer. The Department has come to utilize amnesty periods to clean up their records; PSTAP supports a Pennsylvania statute of limitations which would serve to hold the Pennsylvania Department of Revenue accountable to consistent, on-going collection efforts that center on timely compliance thus eliminating the need for future tax amnesty periods.

Sales, Use and Hotel Occupancy Tax Desk Review Program.

This is a new program being initiated by the Department that utilizes data analytics and industry standards to calculate a threshold for estimating what a business' ideal ratio of cash sales should be based on the amount of credit card sales reported for the business on the 1099K. When the reported cash sales doesn't fit their industry standard, the taxpayer will

receive a letter suggesting that their cash sales may be underreported and additional sales tax may be due the state as a result.

The issue is best explained through an actual example. A fast food franchise based in a college town, in 2014, reported total sales of \$908,000; \$756,000 of the sales were reported on the 1099K and the remaining sales were reported as cash sales. The letter from the Department informed the taxpayer that based on their "analysis" their total sales should have been \$1.6M; the Department estimated that the cash sales were underreported by \$500,000. The taxpayer has 30 days to respond to the notice and prove that their sales were in fact as they reported them.

The Department's metrics are not relevant to current lifestyle conditions. The use of credit cards is on the rise for all consumers, particularly college students. The overall sales were down in June and July just as one might expect when the majority of the restaurant's patrons are college students and they are home for the summer during this time period.

We anticipate that thousands of similar notices have been sent to Pennsylvania business owners. The amount of time that business owners and practitioners will spend to respond to these letters will be significant. The amount of time and taxpayer resources the Department will spend will also be significant and based on our initial impressions it is unlikely to yield large collection results.

As I have outlined, there has been a noticeable shift in the Department's collection procedures and methodology that has placed a burden on taxpayers that is unprecedented and is beyond what is reasonable. This approach to collection makes compliance difficult and renders Pennsylvania an unattractive state in which to do business. The PSTAP is very interested in partnering with you to offer insight and guidance on issues that affect Pennsylvania taxpayers and the business community. We once again, appreciate the opportunity afforded us today to appear before the Committee. We will continue to work hard to build strong working relationships with all Pennsylvania elected officials. We welcome any questions you may have with regards to our comments today.



RE: Supplemental Material Re: Desk Reviews of Schedule C

DATE: October 25, 2017

The attached information includes detailed accounts from tax and accounting practitioners regarding their experiences with the Pennsylvania Department of Revenue's Desk Review Program for Schedule C. The information contained here was voluntarily submitted by individual practitioners in response to our request for feedback in preparation for a meeting with the Pennsylvania Department of Revenue held on August 16, 2017. We requested the meeting with the Department as a result of an outcry for guidance from the practitioner community on how to respond to the Department's desk reviews.

Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Tuesday, August 01, 2017 3:20 PM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: My Schedule C

Hi Sherry
Thanks for taking up this issue with PA DOR

My questions / comments are as follows

- 1) **15 day requested response time** – especially in the summer time with vacation schedules, until taxpayer presents letter to me the 15 days may have often already expired.
Suggest at least a 30 day, preferable 60 days
- 2) **Unclear / unreasonable requests** – For example – cost of goods sold for a schedule C – for a retailer this could run to voluminous pages for just a summarized schedule, let alone individual invoices; Also may include wages, other costs etc.
The same is true for the other items I have seen requested – Other costs & auto expenses. For clients with good records the response is fairly simple – for those with complete but unorganized records the response could be more demanding.
I have been providing schedules of the listed items – with a cover letter if they want more to contact me or the taxpayer – Is that an acceptable response for them?
- 3) Is there a metric they are looking at? Odd %'s - e.g. high or low CGS %'s; unusually high expenses for certain items etc?
- 4) **What will be the turnaround time for DOR** – I can imagine they are getting volumes of data – I really would not look forward to handling their responses come January/February/ March
- 5) **Is the reason for the DOR's action because there is little to no audit activity at the IRS level? Or just a measure to help with the state's budget gap? Or just because they can?**
- 6) **Where are they going next?** 1099-INT & 1099-DIV to prove PA Muni or US interest; Basis for Dispositions; Rental Property expenses? (Please don't give them any ideas!)
- 7) I understand that they are "just doing their Job." Just seems that if there were problems they have missed decades of them.

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Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Tuesday, August 01, 2017 3:04 PM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: My Schedule C

1. You cannot talk to someone at PA because the phone lines are busy
2. The request for documents is worse than an IRS audit.
3. Only 15 days to respond

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Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Tuesday, August 01, 2017 1:57 PM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: RE: My Schedule C

First – THANK YOU!!

I have had 2 issues which I think mirror the issues many others have had.

1. We mailed information in 8 weeks ago for a small Schedule C (painting business). The client just got a second notice indicating that the Department had not seen a response to the first notice. We faxed in the same information.
2. A client (auto repair shop) recently got a notice requesting a detailed breakdown and documentation on his cost of goods sold. That total is over \$30,000. They also want an itemized breakdown and documentation of other expenses claimed on line 37. There is a statement in the return with an itemized breakdown.

It seems to me that there is a standard paragraph that whoever is preparing these requests just fills in a blank for an expense type or line number. They really need to be more specific. It is beyond a hardship to ask a client to copy every receipt for over \$30,000 of items in cost of goods sold. We, professionals, can't afford to do all the work to copy everything and not bill the client and the client can't afford to pay what that would cost. If they want to do an audit. They really need to assign staff to come out to the client site and do the audit.

It also seems to me that they have asked for lots of information from many taxpayers and they don't have the staff to do the follow up. It is much easier to send out a letter requesting information than it is to deal with that information when it comes in.

I would like to know how these returns are being selected.

I really think they need to stop sending out any more notices, possibly rescind many notices that have been sent out, stop sending out second notices, and clean up what they already have.

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Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Tuesday, August 01, 2017 1:47 PM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: Governor Wolfe

Good Afternoon, Sherry. I tried for two weeks to call Revenue, receiving a busy signal. We had faxed info to Harrisburg in May and they were asking for the same info.

I called another Revenue number I had, and I was advised they only the one number could be used and a great number of notices had gone out. 😊

So, I emailed the Governor yesterday and I got a call back today, and I checked and the May info was not imputed, as yet. So, I faxed it again.

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Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Tuesday, August 01, 2017 1:53 PM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: PA Audit

Sherry,

I am a small practitioner and I have had at least 12 audits in the last month for the State of PA.

They appear to be arbitrary in nature and request a back up of line 37 other expenses from schedule C and also material and supplier invoices.

Some of my clients have very large business's and could not possibly send all the back up information they requested.

I listed all items that were requested in their letter and told them if they want back up they would have to come to my clients home where the invoices are stored. My clients do not have copy machines or scanners.

Some of my clients said that they would rather lose the 3.04% credit than send the vast amount of money to copy each items and the cost to have it done would be prohibatable for my clients.

It appears there is a deal done by the state from outside consultants to have this done to generate additional revenue to the state and a percentage going going to the consultants they hired.

New clients are complaining they never had an audit in the past by the state. They feel I did something wrong to initiate the audit by the state.

They are also auditing business expenses for outside salesmen using Schedule UE.

The state should not be allowed to just audit anybody they want just for the sake of random selection.

Please try to stop the state from continuing with this unfair treatment of PA Schedule C businesses.

Thanks for helpng us .

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Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Tuesday, August 01, 2017 1:42 PM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: RE: PSTAP to Meet with PADOR on Schedule C Audits

When I called to ask for an extension for the "15 days to respond," to try and stop a second notice from coming, the agent said they don't give out extensions and that a second notice will automatically be send regardless. Is this correct? AND is there a way to change this, my clients are already startled enough as is.

Regards

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Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Tuesday, August 01, 2017 1:24 PM
To: pstap@mail-list.com
Subject: RE: [PSTAP_LIST] Some Sch C Review Questions

This message was sent by Accurate Accounting taxes4@evenlink.com

I had a business acquaintance, not even a client, ask me about this very issue this morning. They say they called up PA DOR, and the person on the phone call told them that the 15 days was a recommendation, and that (PA DOR) were months(!) behind in reviewing documents, and then added that (PA DOR) was reviewing all returns claiming any overpayments or refunds. My acquaintance, who is not in the profession, was shocked by this whole concept.

I cannot speak to what was said on a phone call, but I personally have seen returns "reviewed" where the client was in a liability situation to PA.

While the first two letters to my clients were both in overpayment situations, it seems like these letters have now moved towards a more "scattershot" approach.

I'd like to throw out this question to the list, do we know if any Right-To-Know requests have been filed asking the grounds for these "reviews"? I don't care for the business where a notice is claiming, for no known reason, that additional information is needed to "process" the return, yet the Department already sent back e-file acceptances months ago. If PA DOR is having issues with "processing" returns, how do they know what lines they want to look at?

If the Department wants to perform an audit, they should call it an audit, send out the Rev-554, and make realistic requests for records.

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Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Monday, August 21, 2017 4:14 PM
To: Information
Subject: RE: Answers to PSTAP Member Questions Regarding Schedule C Reviews

Hi Sherry

This is all very good info and is consistent with my recent experience – however – we are also seeing a lot of correspondence on UE expenses as well – (past 2 years)...

Do you have similar guidance on that initiative?

Also if the State decides they want to see actual receipts – is it acceptable to make them available for a field visit verses sending to a black hole?

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Sherry DeAgostino (on behalf of PSTAP)

From: [Redacted]
Sent: Tuesday, August 01, 2017 1:55 PM
To: Sherry DeAgostino (on behalf of PSTAP),
Subject: My Schedule C

Sherry,

You wanted information on our experience with the new Schedule C audits. We have gotten absolutely no responses to date from PA on any audits and many refunds appear to be held up. When calling to ask status we get an auditor needs assigned to the account.

The notices are unclear as to what constitutes adequate proof. Do they want every single receipt, do they want bank statements, do they want summary workpapers?

We did get 2nd requests on several accounts and we just refaxed in the exact same information using the PA special fax sheet. They can't seem to even record all responses properly.

The audits seem to focus on cost of goods sold, milage, meals and other costs. Is there some kind of additional disclosure we can make to avoid these time wasting fishing exercises?

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Sherry DeAgostino (on behalf of PSTAP)

From: [Redacted]
Sent: Monday, August 21, 2017 4:16 PM
To: Information
Subject: Re: Answers to PSTAP Member Questions Regarding Schedule C Reviews

Sherry,

Based on this, I am wondering if the Billing Notice with the disallowance of Auto and Travel expense was an automated second letter, rather than a reaction to the paperwork provided, since my letter with support was dated July 27 and they are reviewing May now.

Also, I note that the Department keeps insisting on the use of Fax and/or email. None of these media is appropriate for the kind of voluminous responses required by the Sch C letters.

Thank you

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Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Tuesday, August 01, 2017 3:53 PM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: Schedule C audits-

Hi Sherry,

Where is the aug 16 meeting being held? Can members attend if they want?

The schedule C requests for expense breakdown has been annoying for tax clients. In calls to PA they indicate to send the general ledger, or summary of transactions for each expense category given. The timeframes for the responses is tight for some clients (those clients that do their own bookkeeping). One client sent in their expense summary late and PA sent a notice recently that they denied all categories of expenses (indicating on notice "if you disagree, please send written response"). I've called the 717-787-8201 number on the notices and it's almost always busy now (probably with angry/confused Schedule C taxpayers trying to make sense outa these notices)

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Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Tuesday, August 01, 2017 3:36 PM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: My Schedule C

Sherry,

We have been inundated with the letters regarding the Schedule C Audits. They are very confusing to the taxpayer and they take a significant amount of our time to respond to them. Although we have responded to many of them, we have not received any response back from the PA Department of Revenue. We feel they should at least have a phone number dedicated to this issue and a "person" we can actually speak with to get the taxpayer's account cleared. The way they are handling these audits puts the work on the tax preparer and not on the Department to do their audits. There seems to be an unreasonable number of letters being mailed to the taxpayers.

In addition, we have had several clients who haven't received their 2016 refunds yet. However, when we call the Department of Revenue the refund all of a sudden gets released. Is there some reason why refunds aren't being released before a phone call is made?

I appreciate your efforts in meeting with the Department and trying to resolve these issues.

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Sherry DeAgostino (on behalf of PSTAP)

From: [Redacted]
Sent: Wednesday, August 02, 2017 12:13 PM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: My Schedule C

Are they somehow skirting the law? The letters state they need the audit info in order to process the returns.
Is it an Audit? A processing issue?

The letters are very generic... Send the documentation for expenses? Are we supposed to tie everything together or does the department do that?

No real guidance on what to do.

Any time frame on the results? Do they legally have a time frame to respond?

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Sherry DeAgostino (on behalf of PSTAP)

From: [Redacted]
Sent: Wednesday, August 02, 2017 11:28 AM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: My Schedule C

The time involved is ridiculous to respond for what they are asking for.

Example 1 Questioned 5K in auto expenses for an outside salesman. If disallow the entire amount the additional tax would be approx. \$ 150.

Example 2 Questioned Cost of Sales for 23K against sales of 71 K That's a 67% gross profit.

Example 3 Questioned 18 K of office expense against a 700K dental practice

I don't believe the people sending out the requests for documentation, have very much experience with Schedule C's, which are the only requests we have received

Interested to hear the results of your august 16th meeting

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Sherry DeAgostino (on behalf of PSTAP)

From: [Redacted]
Sent: Tuesday, August 01, 2017 3:23 PM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: My schedule C

Problem:

PA does not make it clear what level of detail will satisfy their schedule C inquiries. The letter implies taxpayers should possibly reply with receipts. Yet the small envelope and invitation to fax a reply implies that they don't expect much volume to the response.

Sherry DeAgostino (on behalf of PSTAP)

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From: [REDACTED]
Sent: Tuesday, August 01, 2017 3:25 PM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: Re: My Schedule C

Sherry,

This is very important, and I want to thank you for doing it.

I assume you have seen the listserve I initiated asking for feedback on this same topic. It should provide you with some unscientific overview of what is happening.

As for me: I actually did some math:

10 clients with Sch C income, of which 2 are on extension. I received 2 requests for support, which comes out to 25% of submitted returns. I do know that this is a very small sample.

Some of my partners have also received requests, but they haven't shared with me the %. One of them supplied a quickbooks listing of all COGS purchases. He is awaiting a response as to whether this is enough or if the auditor wants to see actual paid bills.

Of my two - One has no COGS. The request was for support of "other expenses." I submitted 1099-Misc for subcontractors, and legal documentation for some losses; those were the two big items. I indicated on my cover letter that if they wanted to see support for minor items (like \$210 in uniform expense) to let me know. I am waiting.

The two above were submitted at the end of June 2017.

This past week I received the second request. I submitted copy of the disbursement ledger (no quickbooks for this client), highlighting both COGS and Automobile expenses. In my cover letter I included a requested explanation of auto and travel expenses: this is a garage door company which does 95% of its business at the customers' residences. Too soon for a response.

As you see, we have not come to a resolution yet.

By the way, this is very minor, but the request comes by mail with a no.10 envelope and asks that the requested support be mailed back in the envelope or faxed back. Really??

I look forward to your report in the meeting

Sherry DeAgostino (on behalf of PSTAP)

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From: [REDACTED]
Sent: Tuesday, August 01, 2017 2:57 PM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: My Schedule C

Received audit letter for a retail business with sales over \$1 million.

The letter had a long list of documents requested with instructions to fax the documents to PA Dept. of Revenue.

Based on the audit request, the number of pages to be faxed was at least 1,000 pages, which doesn't make sense.

We tried many times to call the telephone number on the audit notice, but the line is always busy. So instead we faxed a letter to PA asking to call us to discuss the audit scope. After 10 days, we didn't receive a reply so we faxed another request for a phone call. Still no reply. For both faxes, we have a receipt that it went through.

It appears that the letter was generated by a computer without any individual actually reviewing the schedule C to determine what the audit scope should be and if it is more appropriate to conduct a field audit.

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Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Tuesday, August 01, 2017 2:43 PM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: RE: PSTAP to Meet with PADOR on Schedule C Audits

The request for copies of purchase invoices is nearly impossible for most of the bigger businesses. For some it would take weeks to copy every purchase invoice and would cost thousands for an employee to do so. This request is unreasonable. Can't the department come out and review the info on site for the larger businesses?

Most of my clients responded to the letter by submitting the detail such as QuickBooks print outs and asked the Department to respond as to which purchase invoices they would like to see. So far we have heard nothing back.

From talking to other professionals some feel if the state pursues the unreasonable requests we will have to reach out to our local representatives and if that does not work we will collectively hire legal counsel.

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Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Tuesday, August 01, 2017 3:23 PM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: Schedule C Audits

Hi Sherry,

Below are some questions that may be helpful. If not just delete them.

1. What is the normal turnaround time for a response regarding the information requested?
2. How long does it take PA to process the request for documentation. Some people are receiving second request letters, when the information was already sent.
3. What is the percentage of returns that have been changed due to these audits?
4. What is the amount of money brought in by this program?
5. Will the taxpayer receive a letter from PA stating that there are no changes?
6. What rights does the taxpayer have if PA changes the return?
7. Will PA accept a QuickBooks printout or do they want the actual receipts? PA has given different opinions on this.

If I think of more I will email them to you.

Regarding these notices from the state, it is Mark's opinion that most of them are designed to hold up or altogether keep the refunds that are rightfully due to our clients.

We have received MANY notices of this nature from our clients:

1. In some cases, they have used the gross receipts and disallowed all of the expenses. What is the reasoning for this?

2. In many cases, where we have responded in the required time frame, the client then receives another identical notice asking for the same information. Again - WHY?? Where does the first one go?

3. Some of these notices state that they are being issued because Revenue is "conducting a review of your PA40 Personal Income Tax return with respect to the expenses being claimed on the PA Schedule C." However, they also are requiring the taxpayer's "company (or union)'s expense reimbursement policy" as a condition of employment or a signed letter from the employer, etc. These items have nothing to do with the Schedule C.

These are huge wastes of time, only to have to often repeat the process all over again. These are generally unbillable items for our office which are wasting our time and resources.

On another somewhat related topic, but perhaps something that could be addressed at another time: several of our self-employed business clients' PA refunds are held up for months because Revenue keeps asking for (and getting) their W2s, 1099's, etc. and letters from their employers (in some cases, this is the taxpayer himself). They should already have all of this information in their hand. As a payroll processor, I know that I send W2s and 1099s to all the required agencies at the end of the year. What are they doing with them??

So we have to collect all of this information unnecessarily and send it to them, and, lo and behold, the taxpayer receives another letter in the following months with the same requests.

It's apparent that they are working hard to keep the refunds that these taxpayers should rightfully be receiving. (We often over withhold on PA and Federal taxes for our business owners because we have no way of knowing until the year ends how much business income they will have. These clients prefer to pay in throughout the year on their payroll rather than owe at the end of the year.)

Again, this is a huge waste of our time and resources and creates a long delay in the client receiving the refund to which they are entitled.

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Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Tuesday, August 01, 2017 2:30 PM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: 'My Schedule C'

Sherry

I was very happy to see this issue being finally addressed by the PSTAP. I am proud to be a member of this fine organization.

These random reviews from the state addressing the schedule C are a disgrace.

The issue does not lie with the Dept of Revenue as much as it lies with our elected officials.

Where do I start?

1. The notices are very vague words such as "detailed breakdown" what is that?
2. You can simply NOT get through to the Department of Revenue the line is always busy!
3. The notices only give you 15 days to respond! However when I finally talked to Department representative they said they will take 3 months to review the documentation that the client submits.
4. Also when I finally got through to dept of revenue they said a detailed breakdown from quickbooks is fine. but they wanted to know what each check is for. In other words they wanted to know what a construction company bought at home depot i.e. screws wood and the like. This is unreasonable. I told them I'll even send bank statements and canceled checks they said they did not want that until initial review is over.

I can go on and on with this as a number of tax professionals are being hit by this!

The PSTAP needs to have a live seminar and address this situation and provide a guide of how to properly answer these notices!

I DONT want it presented by the PA Dept of Revenue it can be in conjunction with the state but the state speakers are in a word useless!

Furthermore PSTAP missed an opportunity to properly address the disgrace that was the amnesty program the was run by a Pioneer

a collection company that has been accused of illegal practices see NY times

article <https://www.nytimes.com/2017/06/23/business/dealbook/irs-private-collectors.html>

Lastly the Department is still attacking the employee business expenses. That issue should also be addressed at the seminar.

The Department does not have the resources to properly handle all these notices they are randomly sending out.

Furthermore the taxpayer is poorly prepared to respond to these notices

Thanks for addressing this issue

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Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Wednesday, August 02, 2017 11:22 AM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: my schedule C

Expires: Thursday, August 02, 2018 12:00 AM

Sherry,

We have to date received two request for Schedule C along with Advertising in one case.

Client 1 - The letter (July 12, 2017) stated to please provide a detailed breakdown and documentation to support the amount claimed for cost of goods sold. I printed out the qb detail for the cost. If I was to supply all documentations it would have required myself or the taxpayer to copy 972 pages. So I contacted the state at the bureau of Individual taxes and was told that all they wanted was the qb detail. The letter is so misleading. In reality we had to copy 53 pages and then faxed the information.

Client 2 – the letter (July 1, 2017) stated same as above except no advertising. The total invoices and receipts were 1037. Client did not want to copy all the information so qb print out was mailed and a note stating that if they wanted to review all the invoices and receipts to make an appointment with the accountant at the accountants place of business.

Now we have not received a second notice stating that we disregarded the first notice but I have heard that some taxpayer's have even though they sent all required information in a timely fashion.

Question What is causing this second notice when the information has either been mailed or faxed in a timely fashion.

Question Why send a letter requesting everything and then telling us when we call that the quickbook print out is enough?

Question How long do we give them to send an all clear notification regarding the review?

Question How long will it take before the State even reviews the information? When will we know that they are reviewing or have completed reviewing the information?

Question Who will be contacting the taxpayer about the review? Also how will the taxpayer be contact?

Question What will be the appeal process?

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Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Wednesday, August 02, 2017 10:40 AM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: Sch C

Dear Sherry:

I have written 8 or 10 letters in response to their letters. I told them that invoices would be available for their inspection. They should make arrangements to stop by at the clients. I have not have any response from them. (could they at least reply)

The one thing that we did receive was an assessment notice that they disallowed all the cost of goods sold.

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Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Wednesday, August 02, 2017 10:39 AM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: My Schedule C

Sherry
Wonderful to hear that the PA DOR may be listening!

My remarks are that the PA DOR seems to be asking for a lot of information and giving the taxpayer/preparer 10-15 days to return the information. However, they are not so prompt with a reply. We have returned several letters and have not received any response....not even 1!

This is a tremendous waste of payroll dollars for a preparer and it seems that our clients think we did something wrong. In fact, we did not do anything wrong but it is difficult to make them understand.

Also, the PA DOR told me via a phone call that they only want an itemized listing to back-up the numbers claimed on the tax return. This seems to be waste of time because in even though we don't do it, what is to stop someone from putting false information on their itemized listing?? If the PA DOR is going to inquire about these deductions, then I think they should ask fewer taxpayers and do a better job of actually "reviewing" the expenditures.

I have to wonder of the PA DOR is attempting to make a statement to taxpayers/preparers that they want valid deductions listed on the Schedule C, but at present time, it seems they are making the opposite statement. Just be able to list deductions on a spreadsheet and they are accepted????....I am a bit confused!!!

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Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Tuesday, August 01, 2017 4:19 PM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: My Schedule C

The PADOR sent a schedule C COGS letter to a client with \$8.8 million in sales. I called PADOR asking them what they were expecting to receive as the actual transactions were in the hundreds of thousands of transactions. The representative to me to just describe the business and what makes up COGS. The department is also asking for the same Taxpayer supporting documentation for every account listed on line 37 which is every account that does not fit a specific description line on Schedule C. Again what are they actually expecting to receive when the number of transactions are numerous?

If they want to audit all of these schedule C's shouldn't they be doing the work to determine if there are compliance issues?

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Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Tuesday, August 01, 2017 4:25 PM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: "My Schedule C"
Importance: High

Hi Sherry

Couple items for your meeting which I am sure you already have on your hit list:

1) Not sufficient amount of time (couple requests were dated 6/1/17 and PA wanted them in 15 days), had to call PA up on the phone - now my time to wait on hold etc.

2) Why doesn't PA Department of Revenue have satellite offices set up for the Audit review instead of having the Accountant or the client mail a massive amount of paper to the reviewer? This is costing money to send the information and the cost of copying the paperwork that is sent times 3 (one for the client, one for the accountant and one for PA)

3) Client doesn't want to spend the cost of putting this together. I know its not PA's problem etc but this is crazy.

Its also part of the engagement letter too but the client doesn't care.

4) Sending travel logs and calendars etc. for backup support is crazy. PA said to send original doc's and that is just not going to happen since PA has a tendency to lose everything.

5) PA department of Revenue has in the third paragraph of their letter, - " Please return this letter with your reply in the envelope provided " -- the envelope is a regular size # 10 envelope size 4 1/8th x 9 1/2 - now how are we supposed to put all the information into this? Plus again postage costs! Or the third paragraph says to fax the information - how are we supposed to fax all of this information? The phone number that is given is also always tied up !!! 1-717-787-8201 - this is the number on the letter.

Hey Sherry if you know anyone that needs help with these Audits or anything else please let me know, I am always willing to help out and work

Thanks so much! Have a nice rest of the summer! :)

Sherry DeAgostino (on behalf of PSTAP)

From: [Redacted]
Sent: Tuesday, August 01, 2017 3:57 PM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: My Schedule C

Sherry

In response to your e-mail regarding meeting with PA over schedule C audits, I am providing the following comments:

- 1. I have several client that were selected for examination of their Schedule C. In all cases the client received a letter stating that the information was due 15 days from the letter date. I believe the letter date was the date mailed. Thus, when the client received the PA correspondence, 3 or 4 days had already passed. In effect, scaring the client into believing they had 10 days to respond.
- 2. In each case, as to the item above, I prepared a letter to PA requesting additional time to respond. In each case, neither the client nor I received any response from PA acknowledging or denying the additional response time request.
- 3. Several clients' audit were for Cost of Goods Sold. Each correspondence audit requested supporting documentation of each line item. No issue with that. But, many clients have numerous receipts for purchases. The client's incur significant time and costs to photo copy each receipt, prepare a schedule and provide to the Department. I would argue that any Schedule C - Cost of Goods Sold audit, in excess of say \$10,000 of costs, should not be conducted via correspondence, but rather by field examination.

In the case of Cost of Goods Sold audits, my clients selected for audit have all been internet/retail types. Thus, the amount of purchases can be quite significant. Seems to me that the Department is specifically examining anything associated with the internet or amazon.

Will the Department recognize significant revenue, relative to the cost to obtain such revenue. I realize the cost is not incurred by the Department per se, but rather by the taxpayer being examined.

Conclusion: Correspondence audits should be used for specific and isolated matters. Field audits should be used for pervasive or general examinations.

PA is quickly moving up the chain of least favored tax states in more ways than one. New York and California tax agencies are well known to be very difficult to work with. Conversation on the street is that PA is no longer considered a friendly or easy to work with. Not a good avenue to bring new business into the state or encourage existing taxpayers to become entrepreneurs.



Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Tuesday, August 01, 2017 3:13 PM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: My schedule C

Hi Sherry,
Thanks for voicing our concerns to PA DOR. These are my issues:

1. **Timing – they allowed 15 days.** My client called for an extension because she had extenuating circumstances but they would not allow an extension.
2. My client called on exactly what to send and was told **receipts were needed.**
3. Needless to say – **wait times on calling** them concerning the matter. **There should be a dedicated line or person assigned with a direct number to call for questions.**
4. Date of this particular letter was May 8. Date sent June 12. **Almost 5 lbs. of documentation was sent** with everything asked: a summary document with attached receipts; everything was organized.
5. **Yesterday another letter** was sent to my client saying they never received the documentation. Client called: here are the results of the conversation per the PA DOR rep:
 1. She confirmed the documents were received. **At this point the letters should stop;** but was told the **letters are 8 weeks behind.**
 2. Documents sent to an outside imaging department. Many times the imaging is not clear and has to be redone.
 3. The examiners examine the documents. Examiners have **a back log** and with the volume of information we sent, **the examiners possibly will not get to it until the end of year!**
 4. She stated that she could of just sent excel worksheets instead of all that volume of information, but when my client initially called, they said they wanted receipts. We sent the travel log on excel with receipts for parking and tolls and an excel worksheet with meals and entertainment with receipts attached. In addition , all items of other expenses were requested. A summary was provided for each line item and receipts were attached to each summary page.
 5. Because there was so much information, she made a **note to the examiner to please open up all images.** With the volume of information, she said the examiner would get frustrated. **So the question is how much information do they want because this is an inconsistency.**
 6. **Basically they want the information timely, but they cannot process these timely.**
 7. Rep told her she was not singled out. **They have a new manager that insisted on increasing the volume of schedule Cs and UEs** for audit and/or review. FYI, My client had a loss. **She was getting no refund or owed no tax.**
6. This process was very expensive for my client when counting her time, an assistant's time to photocopy everything and input to excel and my time to review, compose a letter and send the information.

This is not related to schedule C but even with the UE's last year- One of my clients was disallowed everything even though detailed receipts were sent.

With the amnesty program, this is far behind too. One corporate client just received notices concerning an EFT penalty for not making the payment via EFT and interest, penalty and late fee notice for the tax due when it was supposed to be waived under amnesty. These letters go out and then we have to spend an hour and half on the phone to find out there is one person that is dealing with the amnesty. There is a back log with processing. These letters are going out before the amnesty returns are processed. So we have to follow up in a few more weeks.

Audit A:

ORIGINAL NOTICE: Taxpayer received Notice dated 4/20/2017 on 4/23/2017. The taxpayer forwarded to me on 4/24/2017. I called the number on the notice 717-787-8201 multiple times on April 24 and 25, 2017, each time I received a busy signal. In order to avoid being late with the information requested, we went ahead and gathered, photocopied and collated all of the information requested. We finished this task and the package was mailed on 5/5/2017. It was mailed with a return receipt requested. The green card was received and provides a delivery date of 5/8/2017.

2nd NOTICE: Taxpayer received 2nd notice dated 7/7/2017 and forwarded to me for review. I called 717-787-8201 - 3 times on 7/11/2017. The first two I received a busy signal. The third time I was 18 in the que and was placed on hold until I received Heather-id#805. She advised me that there was an 8 week delay in entering receipt of the information. She confirmed that they did receive it and would work to have it assigned to a tax examiner since they had the information so long. She confirmed that she did see it scanned into their system and yes it was a large file. (It cost us \$14.87 to mail- and weighed ½ pound.) A lot of paper. In an effort to "get this done and over with" we photocopied each invoice – stapled/collated by receipt with the line number and expense name at the beginning. Included physical inventory county sheets for beginning and ending inventory. This individual told me they did not want all of this information. I stated that that is exactly what they asked for in the original letter "detailed breakdown and documentation to support the amount claimed". Heather also did tell me it takes 8 weeks to get the information they receive into their system. I think she noted that this package was logged in on July 8th.

3rd NOTICE: Taxpayer received notice dated 7/14/2017 on 7/17/17, again requesting information that was already provided and as I was advised earlier, logged into their system and which was being assigned and examined. I called on July 18th2017 getting Teresa, agent #841 only to be told that the information was received and examined and that there was no change to the return. I asked them to provide communication confirming there was no change to the return and was told that they would send a letter.

PA RESPONSE: Taxpayer received letter dated 8/1/2017 on July 31, 2017 stating this is not a bill, however it reflects changes made to your tax return. This is a zero calculated balance at the end so I guess this is their way of communicating that there was no change to the return.

Audit B:

After speaking with Dave Brayden at the IRS working together conference, I printed the detail on QuickBooks, faxed it over and I still have not heard anything. My client has not heard or received anything from PA DOR either since they emailed me the morning of 8/2/2017 asking if I have heard anything. On a positive note, they have not received additional notices as far as I know. I have asked the question, but haven't received a response.

I also have a letter from PA regarding the PA Schedule UE for a different taxpayer, dated 5/11/2017 which we have responded and again, I have had no response either way but since all documentation was sent, we aren't too concerned since there was no follow up notices yet.

These are just the ones that have come across my desk. This firm has 6 other schedule C that we are working on. So a total of 8 for this firm.

I will tell you that the major problem came in when I responded by U.S. Postal service. All other response Audit B and the PA UE have been faxed. This is just my observation.

My personal opinion is that they are not doing a good job of communicating with the taxpayer what they are actually requesting. I'm sure someone could have provided better verbiage than what was sent???. I don't think it is appropriate, respectful or professional to send all of the follow up notices even though they admitted it was in their system???. I don't think they should be taking 8 weeks to log a response in when their letter clearly sets the time limit to 15 days. If they are going to ask us to respond in 15 days, I think if it takes 8 weeks to log in, they should not be sending 2nd and 3rd requests until they are positive they have NOT received this information. I am not saying they have to acknowledge receipt of packages that are mailed in, but I do think there should be some mechanism to flag that the account has responded in some way so that the additional notices are not sent further upsetting the taxpayer. In this case they did send multiple notices after they received the package and the taxpayer nearly has a panic attack each time she receives something.

Sherry,

This input is forwarded to you relative to the forthcoming meeting with PA Dept. of Revenue involving the massive Schedule C audits recently exercised by them. Tax client E Mail directly involved with Schedule C audit being sole-proprietor in a Landscaping/Lawn Service Firm is forwarded for your consideration as possible help understanding the client had to make 180 copies of different documents supporting the different categories of expenses claimed plus three (3) comprehensive worksheets summarizing all of the detailed items involved. The worksheets alone took the client five (5) hours to prepare.

I am so glad that our PSTAP organization is pursuing this matter with the PA folks in order for them to understand what a tremendous strain this has put on the entire PA Small Business Community not to mention the costs associated with such effort by the PA Dept. of Revenue. I would like to know what the total costs for this exercise will be by them PA Dept. of Revenue versus the amount of additional tax revenue on their behalf?

No wonder our great state of Pennsylvania is in the financial mess we are in right now considering recent budget shortfalls & tax increases not being helped by all these audit burdens being placed on the PA Small Business Community. Hoping some good comes from your meeting on this matter with the PA Dept. of Revenue on August 16, 2017.

Thanking you again

Business Cards

Envelopes

This one was not too bad as I had most but making copies of everything was time consuming to say the least

LINE 2 – Cost of Goods Sold \$11,265

Mulch, Sod, Grass Seed, Fertilizer

Stone

Rental Equip

Plants

Shrubs

Trees

Straw

Planters

This was very hard – too many things to copy made about 100 copies from 2.00 to 1, 000 – tons of time on this one

LINE 37 – Other Expenses lots of different areas

Fuel

Work Clothes

Cell Phone

Contract Labor

Gave tons of breakouts for this

So at the end of the day I had about 180 copies, 3 spreadsheets full of information and all this was sent to them on May 29th, 2017. It took about 5 hours to put all of this information together because of the specifics that they wanted. They wanted copies, a detailed breakdown, supporting documentation, itemized breakdown to name a few of the process words they used.

Since sending all of the documentation that they required I have yet to hear a thing. No acknowledgment that they received it, they are reviewing it, it is closed.....nothing in all of June or July. So at the end of the day are they okay with what was sent or will I be getting another letter?

Very frustrating process as a taxpayer.

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Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Wednesday, August 02, 2017 5:33 PM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: SCHEDULE C AUDITS

I have two clients (which is not bad I have talked to other Accountants and they are dealing with multitudes of letters) dealing with the C audits. It took a month to finally get through to someone to answer my questions that I had. I spoke to Elodia on July 26 at approximately 10:30 am.

I asked if they wanted all receipts and she said we must copy all and send to them... the one company that they want proof has 100's of receipts.

I asked why they are conducting mail audits instead of actual in person audits.. her response was the legislators are requiring it and they will be conducted each year.

Our closest local office is now in Greensburg, they just closed Johnstown in June. I stated that it is not fair to clients or us as preparers to have to bear the cost of copying and sending in all the records. (Paper, toner, time to pay someone to copy, and the certified postage to make sure they get it) Someone should be available from the State to conduct this audits. Her response was silence.

I was told we have 30 days to complete the requested information. In my case I am going to be out of the office for most of August she noted this on the taxpayers who received the letters. This is putting an unfair burden on the businesses and us as Accountants and preparers.

My thoughts are they have the right to audit but not to put an extra burden on the business to prepare and send them records is not justifiable. They, the State, should have personnel to come out and review the records or have a local office available for the taxpayer to present the records.

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Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Wednesday, August 02, 2017 5:06 PM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: RE: PA Department of Revenue Issues Two Updates

Importance: High

Sherry:

I had one taxpayer that I had to respond and send a ton of backup receipts to. It cost the client \$850 for me to handle this. It took hours. We had to attach support for 6-7 categories of other deductions claimed including home office. We had to summarize by category and attach the back up. This was a painful process. I feel if PA truly wants all of this information, they should send an auditor out like the IRS does and review original documents and force the taxpayers and their representatives to undertake this painstaking process.

It is entirely too cumbersome and a major burden for the taxpayer.

Subject:

My Schedule C audits

33

Hi Sherry,

Thanks for taking the time to meet with PA Department of Revenue about the "audits" they are doing. I use that term very loosely because I don't see them doing auditing what so ever. They are requesting literally tons of paperwork provided by thousands of taxpayers and tax professionals across the state but from what we are told from our phone calls to Department of Revenue they are still haven't gotten to faxes they received from April so obviously they don't have the man-power to get through all of the documentation they are requesting, let alone "audit" it but they keep requesting more information from more taxpayers. WHY????

The notices are extremely vague about what is to be provided. Detail of Cost of Sales. What kind of detail? Copies of a piece of notebook paper a client gave us with a list of numbers in a column for Materials? Or a spreadsheet that shows a column for Materials, one for Subcontract, one for Permits, each with a few dozen #s. What does that show? When accountants see the word "audit", we think way more detail than that since that really isn't verifying anything. So if we would be doing an audit of a client, we would want to see the detail of what makes up those #s. But not necessarily every one. We would select a sample and tell them which ones we want detail of.

But PA doesn't do that. They don't tell us do they just want summary information, do they want detail for every single item as in every receipt? If they want to see every receipt, make an appointment and go the place of business and look receipts. But it's not the taxpayer's job to do the Department of Revenue's work for them and it sure as hell isn't the tax preparer's job, but somehow the Department of Revenue is under the impression that it is. There are some days my small firm spends hours on these notices. First there is the call from the client when they get the letter, usually assuming we messed up their return. Then they bring it to the office, we need to look-up the client return, see what information we used to come up with certain lines on the tax return the DOR is looking for, go to the clients work papers, if bookkeeping was done in QuickBooks, open that, modify reports to print, print them, prepare special DOR fax coversheet and fax dozens of pages to DOR. Some days we get several of these requests which wastes a huge amount of time for the accountants and secretaries of our firm.

I have going to plenty of the Department of Revenue seminars over the years and they always stress the tax professionals are their partners. Bullshit!! The idea of DOR deciding they want a bunch of information but don't feel like taking the time to get it themselves and therefore pawning it off on the public accountants surely isn't my idea of a partnership. We hear at those classes all of the extra work we are supposed to do to educate our clients about the difference of what PA wants, ask questions about out of state purchases and voluntarily pay use tax, etc. We have done that for years. Look where it gets us. Just today my one bookkeeper came in my office with a business's credit card bills. We looked over the various gas station purchases, realized some of the purchases were on the same day as ones in York but also in the town where their son is in college. We charged those purchases to Shareholder Distribution, not truck expense. But if DOR is taking the position that all of the work that we do they throw out without any cause until we prove it, maybe we should take the same stance. We can easily take the stance that every expense that comes across our desk from a client is 100% deductible until the IRS or PA DOR proves it isn't. PA is totally throwing out the work that we do, make us look like we are incompetent to our client, have total disregard for our time, our judgement and the work we do but want us to go out of our way to do their work for them. Sorry, doesn't work that way in my world. Our clients hire us to do a job an pay us, not the Department of Revenue. I'm not sure where they come off thinking the accounting community exists to work for them but that is exactly how they come across. As taxpayers, WE pay their salaries. not the other way around.

Thanks again for speaking up for us and good luck in your meetings, I hope it doesn't fall on deaf ears. If so, forward the emails like this to Senators and Representatives and let them know how DOR is acting. Seems like they are the only group DOR pays any attention to. It may also show the legislators why they need to change the laws, follow federal law where applicable, and eliminate may areas the DOR has to overreach their authority of grey areas of PA rules and allow them to interpret however they feel at the moment with little recourse for the taxpayer other than the appeals process which they know most people won't do.

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Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Thursday, August 03, 2017 7:31 AM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: Re: PSTAP to Meet with PADOR on Schedule C Audits

General Questions;

1. is a copy of the ledger or listing of details satisfactory instead of sending copies of actual receipts.
Example Cost of goods Sold for a Used Car Dealer
Recycling business who makes small purchases from general public
Neighborhood Grocery Store that still uses the Dome Book. Buys on a weekly basis has all purchases listed.
2. Starting to receive second letter claiming first letter was not answered. First letter was answered.
3. Will taxpayer receive a letter that his return is accepted when proof is submitted.

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Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Wednesday, August 02, 2017 8:45 PM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: RE: PA Department of Revenue Issues Two Updates

Hi Sherry,

Thanks for pursuing this issue for us. I can share two situations I have currently:

One is a client who files a schedule C for horse racing activity. PA Revenue wants us to send in all his receipts for his 2016 "other expenses" amounting to \$116,000. The 2016 Sch C we filed reflects a \$67,000 loss. Even if PA Rev ends up denying half of his "other expenses" he will still have a Sch C loss. Since Sch C losses are not deductible against other sources of income for PA Personal Income tax purposes, they would be no change in the amount of tax due. This seems like wasted effort the part of PA Revenue, my client, and myself. Seems more about harassment than an appropriate educated audit process.

The 2nd is a client who started in 2016 as an independent contractor salesman for a national marketing/novelty items company. My client had a very substantial amount of business mileage, all documented, as he was working on building his accounts in the Mid-Atlantic region. PA Rev is requiring him to send them all detailed records supporting his "auto expense" deduction of \$9,400. This is not a large dollar amount in the total scheme of things. Client does have excellent mileage records and don't foresee any change when all the motion is completed. I have to think PA Rev has much bigger fish to fry.

I'm thinking Revenue has redirected their focus from their war on "employee business expense" to small Sch C's. I personally see a continuing course of action that equates to picking the little guys. I see a revenue department that is misdirected and needs to rebuild their "business model". As a taxpayer I object to my tax dollars being utilized to support an audit process that most assuredly does not produce significant revenue for PA.

First they roll out a Tax Amnesty program which was most confusing. Now, they are conducting tax examinations without using field auditors. They expect us to do their work. I guess that could be bullet number 1. If they want supporting evidence for the Schedule C expenditures then send out the field auditors and we will gladly provide them with the supporting documentation.

Points of concern with the Schedule C examinations:

1. They are requesting invoices or other supporting documentation be sent to them. We will not mail original documents into Harrisburg. The chances of those documents being returned to the clients is zero.
2. The amount of detail they are requesting will require boxes of information to be sent to Harrisburg. When they make a request for supporting documentation for Cost of Goods Sold, they are requesting hundreds of invoices from several vendors. In some cases, they have requested support for advertising, automobile expense, insurance expense, office expense, and Other expenses. How in the world do they expect all of this documentation to be mailed to them? Again as stated in the opening paragraph, if they want to review all of this support then send out the field auditors.
3. We have found the State to be inconsistent with their responses to our inquiries on just what exactly they are looking for. In one instance they requested the invoices. In another instance they requested just supporting schedules and then they would tell us if they wanted to examine any of the related invoices.
4. The first letter sent to the taxpayers states the deadline to respond is fifteen days. Then when we have called the State, we have been told that is not a deadline. According to the agents we have spoken with, they will give us 60 days to respond. Why would an official letter from the PA Department of Revenue set a 15 day deadline date when it is not a real date?
5. The State has given no consideration to the anxiety this causes the taxpayers. First, the taxpayers immediately assume that their return was prepared wrong, so, of course, this is the tax preparers fault. Secondly, since they already paid to have their tax return prepared why should they pay to have the tax preparer now respond to the State's request. (Being sarcastic, everyone knows we, the tax preparers should be able to anticipate all of the expenses PA was going to ask support for.)

These points just stated address only the current tax examination letters that PA has sent, now to comment on the "Tips for Successfully Filing PA Schedule C".

1. First addressing the general tips, these are all basic understandings of every tax preparer. There was no reason that the State should have wasted their time and our tax dollars with these ridiculous "helpful" tips.
2. More importantly is the section discussing submitting documentation. The state has basically stated here that we should submit supporting schedules for every possible expense they may question. Why don't they just instruct the taxpayers to mail them all of their general ledger transactions and then the PA Department of Revenue can prepare the tax return for the taxpayer.
3. If this is what PA wants then they should change their instructions and identify exactly what expenses they want supporting schedules for. Then we the tax preparers can proceed with meeting the State requirements. We can also explain to the taxpayers that the preparation of their return will be three times as expensive because of the State's requirements for supporting documentation.
4. Final inquiry, if the state is so understaffed that they cannot send out field auditors to conduct these audits, then why are they creating all of this extra work for the Department. Once these truckloads of documents reach Harrisburg, how long is the information going to sit on someone's desk before it is finally looked at. Is the taxpayer going to have to wait six months, a year or longer, to find out if PA agrees with their tax return?

I have spoken with our State legislators and it is clear this is all a revenue producing attempt to help shrink the budget deficit. The State would be much better off asking every PA citizen to donate an additional \$10. We could shrink the deficit substantially and not cost the taxpayers and tax preparers thousands of dollars to meet the State's demands for supporting documentation. Between the amount of time we have spent with the PA Tax Amnesty program and now with the PA Schedule C examinations, I should submit a bill to PA for \$10,000.

Thank you for this opportunity to express our concerns and frustrations. At this point in time, the State is becoming an embarrassment in their approach to generate revenue.

Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Monday, August 07, 2017 12:17 PM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: My Schedule C

Ms. DeAgostino,

Good afternoon. Thank you for the opportunity to submit questions for the upcoming meeting.

As of this point, I believe all of my questions except the last are procedural.

1. What exactly is a "review"? While the Fiscal Code grants inquisitorial powers to the Department, the Audit procedures used by the Department do not seem to allow for a "review" of a Taxpayer's Books and Records with rendering some form of written opinion.
2. Are copies of the Rev-554 being provided to Taxpayers who receive these "review letters"?
3. How does a "Review" differ from an audit when these "reviews" are requesting books and records?
4. Is the Department claiming, as is implied in the "review letters", that the returns received by the Department cannot be processed as received?
5. Is the Department treating the returns undergoing "review" as timely filed? If not, is the Department going to take that position in litigation, such as Bankruptcy or for purposes of Statute of Limitations?
6. (If applicable) Will the Department inform tax professionals that they do not consider a return, which a tax professional believes has been filed, is considered to be incomplete by the Department?
7. How will the Department calculate statutory interest on the refunds? As per the Department's customer service center, refund claims in the form of timely filed original returns only accrue interest after 75 days from the legal filing date, so roughly July 1st for timely filed returns without extensions. Going by the guidance issued by the Department in regard to Sales Tax (business) overpayments determined through an "audit", those credits are credited as the overpayment date (Sales Tax Bulletin 2017-001), which would presumably be the legal due date for most individual tax payments and credits.
8. What binding guidance has the Department issued that requires books and records to be provided to the Department along with the filing on a PA-40? As of the 2016 filing season, the Rev-993 has no provision for these documents being a requirement to file a complete return.
9. Will software providers be required to include a feature, like Intuit did for the RCT-101 with Sole Member LLCs, to require a PDF copy be attached to the return?
10. Can Military orders be attached to the PA-40 in the same format as this new "additional document" PDF format?
11. In one case, my client had a literal box of records. How would a client provide these records to the Department, particularly within the 15 days requested? When dealing with the Bureau of Audits, a time and place for examination can be established, and it makes minimal sense to impose a requirement to make copies on the Taxpayer to ensure they retain records that they may need for other compliance purposes.

Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Monday, August 07, 2017 9:27 AM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: My Schedule C

Good Morning Sherry,

I am a small time preparer and have only had one state Schedule C audit. The audit I did have was of a large client.

The inquiry asked for a itemization of line 37, "Total Other Expenses." On this particular return the amount on that line was \$955,276. (A large amount for such a line, I agree.) An itemization was provided with the return and is as follows:

Permits	\$ 614
Construction Materials	\$551,561
Miscellaneous	\$ 211
Employee Mileage Reimb	\$3,162
Home Office Expense	\$ 459
Contract Labor	<u>\$399,269</u>
TOTAL	\$955,276

I did not try to provide supporting documents in the form or receipts etc. for these amounts. What I did provide were the transaction listings from QuickBooks for each of the amounts listed above. The transaction listings totaled 31 pages of data. Two and a quarter hours were needed to complete the inquiry for the client.

The response packet was sent to the state on August 2nd. We haven't received a response yet.

Thanks Sherry. I appreciate your efforts.

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Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Monday, August 07, 2017 8:34 AM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: My Schedule C

Hi Sherry,

Here are my comments:

1. I think it is unrealistic for them to request invoices for any line, I see a lot of requests for cost of goods sold, this could be thousands of invoices. I have been providing ledgers instead and ask them to provide specific transactions they need to see the support.
2. They give the client 15 days to respond. I had to call and ask for an extension as a client had been on a 2 week vacation and found the letter in the mail when they got back. I was told by the person on the phone that the 15 days is just a guideline that they had 60 days to respond. If that is the case then they should say 60 days on the notice and stop creating fire drills.
3. I have been sending all my responses priority mail with tracking and know exactly when it was received by the department of revenue. However several of my clients received second notices indicating that they did not receive the information, yet I have proof it was received over 45 days prior. When I called I was told they are very far behind and I should email it. This is creating frustration on the client as they think we did not do our job, and also more work for us to now email the information.
4. I am curious as to how they are selecting which schedule C to look at, it appears they chose to many as they can not timely keep up with the volume.
5. This seems very much like audits, and therefore they should go through the proper procedures and notifications.

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Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Sunday, August 06, 2017 11:36 AM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: Re: PA Department of Revenue Issues Two Updates

Dear Sherry:

I have three Schedule C audits from PA so far. Two of these are my clients and the third is from another accountants office.

These audits are going to cause my clients to have an extra financial burden in fees due to these audits which are I believe are uncalled for. Example, one client would have fees of \$1,000.00 or more to complete the audit and paper work involved which would only save him \$381.00 in PA Taxes upon proving the successful audit review. What in heavens name is the PA Dept of Revenue doing?????????

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Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Thursday, August 03, 2017 3:08 PM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: My Schedule C

My questions for the PA Department of Revenue are:

1. Will all taxpayer's receive a response from the Department even if there is no change to the return?
2. Can the Department be more specific as to the documentation they are requesting. Cost of Goods Sold can involve thousands of transactions, are they really expecting us to send thousands of invoices and cancelled checks?
3. How much longer can we expect to receive notices regarding 2016 tax returns?
4. Does the Department of Revenue expect these letters to be sent every year going forward?

I would like to thank the PSTAP for meeting with the DOR to get some questions answered.

42

Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Thursday, August 03, 2017 3:02 PM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: Schedule C audits

We've had 6 PA schedule C audits. Most have requested 100% receipts for their COGS, automobile logs and often receipts on other expenses items. None of the audits have been resolved yet. I know one client received a letter saying she never sent the information, even though she had a certified mail receipt. She spent a full day trying to get through on the phone to be told they did have her package- though they show it as received a week BEFORE she mailed it now.

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Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Thursday, August 03, 2017 11:22 AM
To: Information
Subject: UE reviews

Hi Sherry

Would you please talk to the Dept of Revenue about their crazy US reviews.

I have several straight union workers and they have been dealing with the DOR since March. First they ask for mileage and expenses for each W-2. So I sent them a spreadsheet for all miles and expenses for each W-2 as applicable. Then they ask for a mileage log of all miles for each W-2. Then they ask for a letter from the employer. They keep asking for the same thing in a different format. My daughter called on August 2 and asked if they had received all the documents they needed. All documents were faxed with a DEX-93 cover sheet on July 11. Received the notice July 5. They said yes they have everything but it will be 10-12 weeks before they can get to her return because they are on April 24 document reviews. Good God Almighty its August and they are on April reviews. They have got to get some people who actually know something. This is just plain asinine. Can you bring this up at your meeting on the the 16th. The refunds range from \$200 to \$900, Its not like its a great fortune. If they want a separate UE for each W-2 then they better change their system to accept multiple UE's which it doesn't. I can make them but I can't efile them. I can't get anything done because all I do is fuss with this UE stuff. You cannot tell me that farming stuff out is cheaper than the DOR reviewing the documents. If you can't hire people who know something then do away with all these stupid forms like the tax forgiveness, Schedule UE and Rent and Property Tax rebate. . They'll forgive tax on someone who has \$65,000 of pension and social security and \$500 of interest. But working people who would like to have tax forgiveness but instead have UE expenses get raked over the coals providing documents twice. Then you have the Rent and Property Tax rebate which is a mixed up affair. You own a home and you get \$250 but you rent and you get \$650. Where is the logic in that?? The State has gone to hell in a hand basket and it ain't getting any better.

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Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Thursday, August 03, 2017 1:23 PM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: My Schedule C

Sherry,

I have encountered 2 Schedule C Audits for the state of Pennsylvania since April, 2017.

The first one, the State wanted a schedule for the Cost of Goods Sold. We prepared that information and submitted it. Within 3 weeks, Pennsylvania came back, thanked us for the information and closed the case.

The second one is in limbo?? The State wanted a Schedule and Copies of Receipts for Costs of Goods Sold, Insurance Expense and Auto Expense. They also wanted logs for Auto Expense. I prepared schedules listing the Costs of Goods Sold Expense, Auto Expense and Insurance Expense. I also provided Auto logs to the State. In my cover letter I stated that if they wanted receipts it was available for their inspection. We have not received any response after 6 weeks. The schedules were cumbersome.

45

Some of my clients have very large businesses and could not possibly send all the back up information they requested.

I listed all items that were requested in their letter and told them if they want back up they would have to come to my clients home where the invoices are stored. My clients do not have copy machines or scanners.

Some of my clients said that they would rather lose the 3.04% credit than send the vast amount of money to copy each item and the cost to have it done would be prohibitable for my clients.

It appears there is a deal done by the state from outside consultants to have this done to generate additional revenue to the state and a percentage going to the consultants they hired.

New clients are complaining they never had an audit in the past by the state. They feel I did something wrong to initiate the audit by the state.

They are also auditing business expenses for outside salesmen using Schedule UE.

42

Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Tuesday, August 08, 2017 9:06 AM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: RE: PSTAP to Meet with PADOR on Schedule C Audits

Sherry,

Thank you for addressing this matter as we have been discussing this issue throughout our office since tax season ended. My question is as follows. With all the letters we wrote this summer for our clients, as far as I know, we have not had one reply from PA acknowledging our response. What is their timeframe on reviewing our letters?

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Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Friday, August 11, 2017 4:14 PM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: Re: PA Audit

Sherry,

Thanks for the feedback. I hope your meeting results in stopping this unfair request from the Department for all the back up information they are requesting on a shot gun audit.

I hope if they continue their witch hunt they will request 1 or 2 items for back up proof or an explanation as to the deduction. They should not be allowed to audit a Schedule C unless they have a good reason to do so or they need further explanation of a deduction that was taken.

The IRS would not waste their time auditing a company unless the result would prove worth the time and effort to on their part. The state should look at the value of the audit in terms of amount of dollars received versus cost spent on their part.

I hope you are successful.

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Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Tuesday, August 08, 2017 8:48 AM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: My Schedule C

Sherry,

I have been practicing Accounting for over forty years and have never had a schedule C audit.

This year to date I have had at least six.

The problem I have encountered is there is no clarification as to what we need to send in to verify the numbers.

People use credit cards to make payments, are we to supply copies of the statements or actual invoices which most don't have.

There is also no confirmation as to them receiving the information.

I responded to my first audit request back in April and my client got a second notice in July requesting the same information only to find out it took them three months to post the fact that they received it.

They then told me it would take six to eight months to respond.

It is ridiculous for a client to have to wait 10 months for a response to an audit, and I am sure the responses will start coming out in the middle of next tax season when we have little or no time to respond or dispute.

The state set up a new program and do not have the people to follow through. I have been told by my contact at

Revenue that there are boxes and boxes of paperwork just sitting in agents office not being worked on because of lack of staffing.

You would think there screening process would be a little different and not be focusing on professionally prepared Schedule C's.

To date I have not gotten one resolution to an audit request.

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Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Monday, August 07, 2017 1:25 PM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: My Schedule C

Hi Sherry,

Here are the notes from David Hughes

Schedule C

1. Information for audit is cumbersome the way the PA Department of Revenue requests it.
2. There is no feedback as to the result of the audit.
3. I believe that the audit can be performed differently to make it easier on the taxpayer and the accountant.
4. What is the purpose of this audit besides money?

50

Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Monday, August 07, 2017 10:54 AM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: RE: PSTAP to Meet with PADOR on Schedule C Audits

I know that my clients that have been selected are frustrated at the very generic nature of the requests. I have 2 large schedule C businesses that were asked to provide detail as to their cost of goods sold. This was a huge amount of detail to provide for no apparent reason. It appears to be a lazy way for the state to take up a tremendous amount of our and our client's time with these random requests for information. I for one can't believe the state has the manpower to analyze the tremendous amount of detail they must be receiving in response to these requests.

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Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Monday, August 07, 2017 10:19 AM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: My Schedule C

One additional comment. The return address on the top of the letter is not the same as the address on the envelope enclosed, so if the client does not provide the envelope, the response is going to the wrong PO Box.

S2

Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Thursday, October 12, 2017 8:28 AM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: Desk Review Circumstance

Good Morning Sherry,

We had a situation where we received a second notice requesting information allowing us 30 days to respond. In less than a week, we provided the requested information to the state via the new email address to resolve the matter. The client received a billing notice in the mail after two weeks of receiving the second notice requesting further info. Within the notice, it state that 2 Lines of the Schedule C expenses were denied. However, almost all expenses were denied (even those that were not being questioned), changing the taxpayer's income by \$30k. I contacted that state via the billing phone # to determine what was changed but the state could not even determine what deductions were allowed or disallowed in total. They suggested that I formally request to be contacted by the state or have a direct contact number be provided to me to resolve the matter. Less than a week after this, the client received another notice from the PA Property Tax/Rent Rebate office that stated they would need to repay their rebate they received in July, \$250. The client spoke with his State representative's office and provided them with the same info we have been sending to the state. The client is from the Lancaster area. About a week later, my client received a call from the representative's office indicating that the matter was fully resolved and no balances were due back to the state.

During this same period of time, the taxpayer's wife and primary bookkeeper for the business suffered a stroke. This is an example of how far wrong the state has reached in this process. If we need to address these issues in the same manner, the offices of our state representatives will start to become rather busy tending to these notices.

I have provided my time and service to this client regarding this matter free of charge. But as I have worked with IRS auditors, these "desk reviews" are far more intrusive than most IRS audits.

S3

Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Thursday, August 24, 2017 3:42 PM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: RE: PA DOR FINAL Answers to PSTAP Schedule C Questions

I just received a 2nd notice on a client that we faxed 41 pages to PA with their Dex 93 form on June 6th. We received a successful fax confirmation from our fax machine. I am about to lose it with PA at this point.

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Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Saturday, August 19, 2017 8:55 PM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: question for you re- PADOR

Hi Sherry,

You may recall I mentioned during the Schedule C email that a client, a Salesman had all expenses rejected for 2015 in spite of all receipts sent and letter explaining the nature of his job.

We recently filed for 2016 and they simply received a Personal Income tax notice adjusting the Schedule UE expenses to zero and sending them a bill for tax, interest and penalty.

They were supposed to receive a refund. I just don't understand how they can do that? Any suggestions?

55

Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Wednesday, August 16, 2017 9:07 AM
To: Information
Subject: Re: PSTAP TO ADDRESS SCHEDULE C REVIEWS WITH PA DEPARTMENT OF REVENUE

8-16-17

Sherry

When are we the accountants going to get paid (subsidies- others get it) from the Federal, State, and local agencies for doing their work ?? (Especially if we prove to them we are doing work properly and there are no changes to the audit they want us to perform and prove to them)

They cut their administrative cost thru us filing electronically, audits, and policing so why can we not ask for them to pay us to do their work instead of us asking the taxpayers to pay more and additional fees ??

Why aren't we asking our representatives to pass a law so that if they want to continue to ask for proof and we are correct have them pay. Maybe this would stop some of the automatic sending of letters to various taxpayers??

56

Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Wednesday, August 16, 2017 9:06 AM
To: Information
Subject: RE: PSTAP TO ADDRESS SCHEDULE C REVIEWS WITH PA DEPARTMENT OF REVENUE

Sherry

My first audit notice was in early May and we responded sending all documents invoices, credit card charges, copies of checks etc.

Having received no answer I sent a status request in early July.

Then last week the client received the same letter as the first.

When the client called angry of course she was informed they are at least ten week before they would look at what was sent and could not stop the second letter.

Obviously they have no experience on how to conduct an audit or they would not requires verification for all expense as opposed to a sample of a few. This is the first and with gross income of 10,828 and total expenses of total expenses of 10678 for a mere 147 in profit. A complete disallowance would raise \$ 300, are we that desperate for revenue. I guess we are with a 2 billion deficit.

Harrisburg cannot manage their financial affairs and all of the small business are going to pay the costs and we will eat a lot of time in the process.

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Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Friday, August 11, 2017 10:14 PM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: Fwd: My Schedule C
Attachments: Meeting with Revenue - Questions - Schedule C.pdf; ATT00001.htm

Sherry,

Excellent effort beyond my wildest expectations by your office. Thank you!!!!

Two questions that may or may not be appropriate?

Has the department of revenue verifying PA would not have exposure to a class action lawsuit for selective enforcement?

Has the department considered how future legislative action might restrict their latitude with Schedule C correspondent audits in the future?

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Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Friday, August 11, 2017 5:28 PM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: RE: My Schedule C audits

Hi Sherry,

Thanks for letting us know how things are going. It looks like you have some very good points and plenty of information to get the point across what us practitioners are having to deal with on a daily basis. I got 2 more notices today requesting Schedule C info but we still have not heard a word of anything we have sent in 4 months ago.

One additional question to maybe ask is why hundreds of notices continue to go out requiring thousands of hours to be spent if they are months behind. Why not suspend any future notices for this program until their backlog is down to 15 days. The client only has 15 days to compile all if this requested information. If that is a reasonable time for a business owner to do the amount of work the DOR is requesting, 15 days sound like a reasonable time to expect a response when a DOR person only has to review what is presented. If they don't have the manpower to meet that timeframe, don't send out any more notices requesting information until their backlog is to that level.

Hopefully PA Department of Revenue is receptive to change to their policy, but I'm not holding my breath. If not, you have a lot of good information compiled which would be easy to send out to the Senators and Representatives. I would definitely advocate doing so if DOR keeps up what they've been doing. It's been my experience over the years DOR doesn't like getting calls from the Senators and Senators don't like hearing from their constituents about what surely seems like an abuse of power by the Department of Revenue. Yes Senators want to see as much revenue coming in the door as they can to help close the budget gap, but not necessarily by any means and at the expense of un-do burden on small businesses.

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Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Friday, August 11, 2017 3:53 PM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: RE: My Schedule C

Dear Sherry,

I would want to know if there is a way to avoid these notices in the future. They are creating an undue burden on our clients and if more paperwork is necessary to send to the PA Department of Revenue it would be easier to generate during tax preparation, not months later.

20

Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Thursday, October 12, 2017 1:10 PM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: Schedule C

Hello:

A construction client of mine received a PA notice to support the amount claimed for cost of goods sold on Line 2 of their PA Schedule C and provide for all car and truck expenses claimed on Line 10.

This is so intrusive and time consuming. For example, my client has a lot of parking expenses in center city that we need to document with receipts. Really? So how much do they have to pay me to make sure all the documentation is complete? It is more cost effective to pay their extortion than for me to review every receipt.

I have no problem if an auditor came out and did a field audit because they would have skin in the game and not want to waste their limited resources.

Please tell them at the House hearing they are pissing off the people that lay the golden eggs. I am so tired of all the bullshit (excuse my French but this most accurately expresses my feelings) State and Local taxes getting nicked and dimed all the time.

As a side note, I intend to move to either Florida, Texas, or Tennessee when I retire in six years. Not going to die here and leave 4.5% to support the incompetence and corruption in PA after paying all income tax on my savings.

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Sherry DeAgostino (on behalf of PSTAP)

From: [REDACTED]
Sent: Tuesday, September 26, 2017 9:52 AM
To: Sherry DeAgostino (on behalf of PSTAP)
Subject: RE: PA DOR FINAL Answers to PSTAP Schedule C Questions

Hi Sherry. What are you looking for in regards to the state saying they are not receiving the info we send them in response to notices? I responded to a notice for one of my clients (sent via fax, for which I printed an activity summary to show it was sent) and just got a response back from the state that no documentation was provided.

This is so out of hand it's not even funny. How much are they costing the business owners in extra accounting fees and the time wasted by both the CPA's/accountants and the state workers? I really hope they revamp this program.