Internal Revenue Service
Small Business and Self-Employed
2384 Professional Parkway
Santa Maria CA 93455

Department of the Treasury

Date:
March 10, 2015
Taxpayer Identification Number:

Tax Year:
2013
Form Number:
1040
Person to Contact:
S
Employee Identification Number:
1001
Contact Telephone Number:
805-352-
Fax Number:
805-352-

C
Drive
Lompoc CA 93436

Dear C

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

WHAT YOU NEED TO DO

Please call the individual listed above WITHIN 10 DAYS to schedule an appointment. Please call between the hours of 7:30 AM to 4:00PM , Monday through Friday.

ISSUES TO BE REVIEWED DURING THE EXAMINATION

Your examination will primarily be focused on the following issues:

1. Casualty/theft loss
2. Rental Income and Expenses
3. Passive Activity Loss
4.
5.
6.

WHAT TO BRING WITH YOU TO THE EXAMINATION

Attached to this letter is an Information Document Request that lists the items on your return to be examined and the supporting items you need to provide. Please include complete copies of your 2012 and 2014 individual income tax returns. You should organize your records according to the issues identified above. For additional information see the enclosed Publication 1, *Your Rights as a Taxpayer,* and Notice 609, *Privacy Act Notice.*

WHY THE INFORMATION DOCUMENT REQUEST IS IMPORTANT

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

WHAT TO EXPECT AT THE EXAMINATION

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

A video presentation, "Your Guide to an IRS Audit", is available at http://www.irsvideos.gov/audit. The video explains the examination process and will assist you in preparing for your audit.

WHO MAY COME TO THE EXAMINATION

If you filed a joint return, you and/or your spouse may attend. You may also have someone represent you at the examination. If you will not attend with your representative, you must provide a completed Form 2848, *Power of Attorney*, or Form 8821, *Tax Information Authorization*, by the start of the examination. You can obtain these forms from our office, from our web site, www.irs.gov, or by calling (800) 829-3676.

WHAT WILL HAPPEN IF YOU DO NOT RESPOND

If you do not respond to this letter, we will issue an examination report showing additional tax due. Therefore, it is to your advantage to call and schedule an appointment. If you are uncertain about the records needed or the examination process, we will answer your questions when you call to schedule your appointment.

Sincerely,

S
Examining Officer
1001

Enclosures:
Information Document Request
Publication 1
Notice 609

Form **4564** (Rev. September 2006)	Department of the Treasury – Internal Revenue Service **Information Document Request**	Request Number 1-0001

To: *(Name of Taxpayer and Company Division or Branch)* C	Subject Form 1040	
	SAIN number	Submitted to: C M
Please return Part 2 with listed documents to requester identified below	Dates of Previous Requests (mmddyyyy)	

Description of documents requested

Tax Period(s): 201012; 201112; 201312

Provide complete copies of Forms 1040 and all schedules as filed for 2012, 2013, and 2014 years

Loss related to construction quality of real property

Verify with the purchase escrow, the address location, and the initial purchase price of the property listed in the judgment.

Provide a copy of the inspection report that would have been prepared by the inspector you hired prior to the final close of the purchase escrow.

Provide the complete copy of the qualified appraisal showing all details of how fair market value of the property was determined when you purchased the property.

Provide the qualified appraisal that was performed to verify the value of the property after the substandard construction was discovered.

Verify the cost of the appraisals.

Provide some documented explanation of why you were able to purchase the property at a significantly reduced price during an inflationary market period.

Verify the address location of the property and verify whether the property was a personal residence, investment, or a property producing income as a rental.

Verify with escrow and County property tax statements that you are the sole owner of the property.

Information due by 04/21/2015 At next appointment [X] Mail in [ ]

From:	Name and Title of Requester	Employee ID number	Date (mmddyyyy)
	Stuart Y. Tax Compliance Officer	1001.	03/10/2015
	Office Location: 2384 Professional Parkway Santa Maria , CA 93455		Phone: 805-352- Fax: 805-352-

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Proof of insurance (insurance policy, and proof of insurance paid related to your homeowner warranty.)

Verify the copies of repair contracts and verification of any payments made for any work performed on the property to correct the construction defects.

Verify the selling date and selling price of the property from the sales escrow.

Sch E Depreciation and Sch E Repairs for 2010, 2011, 2012, 2013

Provide copies of rental contracts as well as the records used to record and calculate the rental income for each of the listed rental properties for the 2010, 2011, 2012, 2013, 2014 years. Verify all dates that you or a family member lived at any of the rental properties.

Provide original purchase escrows and copy of recent property tax bill to identify your ownership, the date you purchased each property and calculation sheet to show how the valuation of the structures and the land was used for determining depreciable basis. Verify the date when each asset was first placed in service with a copy of the depreciation schedule and the tax return(s) as filed for each year.

A computation of how the depreciable basis was determined if different from the cost basis of the assets. This includes the actual proof of improvements to either property.

Provide a detailed explanation and the written documentation used to calculate the amount of time in service as an arm's length rental transaction between you and a non-related 3rd party.

Have available verification of the payment and the contracts and invoices for any capital

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	Name and Title of Requester	Employee ID number	Date (mmddyyyy)
From:	S' Tax Compliance Officer	1001	03/10/2015
	Office Location: 2384 Professional Parkway Santa Maria , CA 93455		Phone: 805-352- Fax: 805-352-

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improvements, along with a copy of the tax return filed for any year that improvements were made to either property.

Passive Activity Loss

Provide a reconciliation of the active and passive income you receive each month.

Identify all sources of income and provide complete return filings for all flow through income originating from other filed partnerships or corporation filed returns.

Identify how you determine the income from each individual source to be reported as passive or from active participation.

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

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

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

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

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