

Form **4549-A**
(August 2019)Department of the Treasury-Internal Revenue Service
Report of Income Tax Examination Changes
(Unagreed and Excepted Agreed)

Name and address of taxpayer CORPORATION		Taxpayer identification number		Return form number 1120	
THOUSAND OAKS, California 91362		Person with whom examination changes were discussed.		Name and title	
1. Adjustments to income		Period Ended 12/31/2016	Period Ended	Period Ended	
a. Gross receipts or sales		209,685.00			
b. Taxes and licenses		20,881.00			
c. Cost of goods sold (No Sch. A or F1125-A Detail)		173,345.00			
d. Repairs and maintenance		14,849.00			
e. Advertising		5,570.00			
f. Dues and Publications		600.00			
g. Flower Arrangements		2,644.00			
h. Laundry & Cleaning		7,808.00			
i. Musicians / Bands		5,413.00			
j. Maintenance and cleaning		5,011.00			
k. Supplies - tools & factory		7,777.00			
l. Adjusting Entry Expenses		26,750.00			
m. Salaries and wages		39,938.00			
n. Telephone Other deductions		3,935.00			
o.					
p.					
2. Total adjustments		524,206.00			
3. Taxable income per return or as previously adjusted		67,931.00			
4. Corrected taxable income		592,137.00			
Tax method					
Filing status					
5. Tax		201,327.00			
6. Additional taxes/Alternative minimum tax		0.00			
7. Corrected tax liability		201,327.00			
8. Less	a.				
credits	b. Total Credits (See attached schedule)	0.00			
	c.				
	d.				
9. Balance (line 7 less lines 8a through 8d)		201,327.00			
10. Plus	a.				
other	b.				
taxes	c.				
	d.				
11. Total corrected tax liability (line 9 plus lines 10a through 10d)		201,327.00			
12. Total tax shown on return or as previously adjusted		10,119.00			
13. Adjustments to:	a.				
	b.				
	c.				
14. Deficiency-Increase in tax or (overassessment-decrease in tax) (line 11 less line 12 adjusted by lines 13a through 13c)		191,208.00			
15. Adjustments to prepayment credits - increase (decrease)		0.00			
16. Balance due or (overpayment) - (line 14 adjusted by line 15) (excluding interest and penalties)		191,208.00			

	Period Ended 12/31/2016	Period Ended	Period Ended
17. Penalties, additions to tax, and additional amounts – IRC sections			
a. Accuracy-related (Negligence)	37,256.60		
b.			
c.			
d.			
e.			
f.			
g.			
h.			
i.			
j.			
k.			
l.			
m.			
n.			
18. Total penalties, additions to tax, and additional amounts	37,256.60		
19. Summary of taxes, penalties and interest			
a. Balance due or (overpayment) taxes - (line 16, page 1)	191,208.00		
b. Penalties and additions (line 18) - computed to 09/04/2020	37,256.60		
c. Interest* (IRC § 6601) - estimated and computed to 09/04/2020	5,791.22		
d. Amount due or (refund) - (sum of lines a, b, and c)	234,255.82		

*Interest, as provided by law, will be charged on any unpaid amount until it is paid in full.

Other information

Examiner's name Gregory S	Employee ID 1000	Office
Examiner's signature		Date 08/05/2020

The Internal Revenue Service has agreements with state tax agencies under which information about federal tax, including increases or decreases, is exchanged with the states. If this change affects the amount of your state income tax, you should amend your state return by filing the necessary forms.

You may be subject to backup withholding if you underreport your interest, dividend, or patronage dividend income you earned and do not pay the required tax. The IRS may order backup withholding (withholding of a percentage of your dividend and/or interest payments) if the tax remains unpaid after it has been assessed and four notices have been issued to you over a 120-day period.

Form 886-A (Rev. January 1994)886-A	EXPLANATION OF ITEMS	Schedule number or exhibit
Name of Taxpayer CORPORATION	Taxpayer Identification Number	Year/Period Ended 201612

Gross receipts or sales

Tax Period	Per Return	Per Exam	Adjustment
2016	\$767,866.00	\$977,551.00	\$209,685.00

Business gross receipts in the amount shown are includible in income.

Amortization Other deductions (not listed)

Tax Period	Per Return	Per Exam	Adjustment
2016	\$16,861.00	\$16,861.00	\$0.00

Taxes and licenses

Tax Period	Per Return	Per Exam	Adjustment
2016	\$20,881.00	\$0.00	\$20,881.00

Since you did not establish that the business expense shown on your tax return was paid or incurred during the taxable year and that the expense was ordinary and necessary to your business, we have disallowed the amount shown.

Cost of goods sold (No Sch. A or F1125-A Detail)

Tax Period	Per Return	Per Exam	Adjustment
2016	\$248,079.00	\$74,734.00	\$173,345.00

Since you did not establish that the business expense shown on your tax return was paid or incurred during the taxable year and that the expense was ordinary and necessary to your business, we have disallowed the amount shown.

Insurance expenses

Tax Period	Per Return	Per Exam	Adjustment
2016	\$18,808.00	\$18,808.00	\$0.00

Repairs and maintenance

Tax Period	Per Return	Per Exam	Adjustment
2016	\$14,849.00	\$0.00	\$14,849.00

Since you did not establish that the business expense shown on your tax return was paid or incurred during the taxable year and that the expense was ordinary and necessary to your business, we have disallowed the amount shown.

Advertising

Tax Period	Per Return	Per Exam	Adjustment
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* Indicates no "Per Return" or "Per Exam" amount was entered for this adjustment.

Form 886-A (Rev. January 1994)886-A	EXPLANATION OF ITEMS	Schedule number or exhibit
Name of Taxpayer CORPORATION	Taxpayer Identification Number	Year/Period Ended 201612

2016	\$5,570.00	\$0.00	\$5,570.00
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Since you did not establish that the business expense shown on your tax return was paid or incurred during the taxable year and that the expense was ordinary and necessary to your business, we have disallowed the amount shown.

Dues and Publications

Tax Period 2016	Per Return \$600.00	Per Exam \$0.00	Adjustment \$600.00
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Since you did not establish that the business expense shown on your tax return was paid or incurred during the taxable year and that the expense was ordinary and necessary to your business, we have disallowed the amount shown.

Flower Arrangements

Tax Period 2016	Per Return \$2,644.00	Per Exam \$0.00	Adjustment \$2,644.00
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Since you did not establish that the business expense shown on your tax return was paid or incurred during the taxable year and that the expense was ordinary and necessary to your business, we have disallowed the amount shown.

Laundry & Cleaning

Tax Period 2016	Per Return \$7,808.00	Per Exam \$0.00	Adjustment \$7,808.00
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Since you did not establish that the business expense shown on your tax return was paid or incurred during the taxable year and that the expense was ordinary and necessary to your business, we have disallowed the amount shown.

Musicians / Bands

Tax Period 2016	Per Return \$5,413.00	Per Exam \$0.00	Adjustment \$5,413.00
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Since you did not establish that the business expense shown on your tax return was paid or incurred during the taxable year and that the expense was ordinary and necessary to your business, we have disallowed the amount shown.

Maintenance and cleaning

Tax Period 2016	Per Return \$5,011.00	Per Exam \$0.00	Adjustment \$5,011.00
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* Indicates no "Per Return" or "Per Exam" amount was entered for this adjustment.

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Name of Taxpayer CORPORATION	Taxpayer Identification Number	Year/Period Ended 201612

Since you did not establish that the business expense shown on your tax return was paid or incurred during the taxable year and that the expense was ordinary and necessary to your business, we have disallowed the amount shown.

Supplies - tools & factory

Tax Period	Per Return	Per Exam	Adjustment
2016	\$7,777.00	\$0.00	\$7,777.00

Since you did not establish that the business expense shown on your tax return was paid or incurred during the taxable year and that the expense was ordinary and necessary to your business, we have disallowed the amount shown.

Adjusting Entry Expenses

Tax Period	Per Return	Per Exam	Adjustment
2016	\$26,750.00	\$0.00	\$26,750.00

Since you did not establish that the business expense shown on your tax return was paid or incurred during the taxable year and that the expense was ordinary and necessary to your business, we have disallowed the amount shown.

Salaries and wages

Tax Period	Per Return	Per Exam	Adjustment
2016	\$184,893.00	\$144,955.00	\$39,938.00

Since you did not establish that the business expense shown on your tax return was paid or incurred during the taxable year and that the expense was ordinary and necessary to your business, we have disallowed the amount shown.

Telephone Other deductions

Tax Period	Per Return	Per Exam	Adjustment
2016	\$3,935.00	\$0.00	\$3,935.00

Since you did not establish that the business expense shown on your tax return was paid or incurred during the taxable year and that the expense was ordinary and necessary to your business, we have disallowed the amount shown.

* Indicates no "Per Return" or "Per Exam" amount was entered for this adjustment.

Accuracy-Related Penalties under IRC 6662

20 Percent Penalty – Internal Revenue Code Section 6662(a)

It has been determined that the underpayment of tax shown on line 5 below is attributable to one or more of the following:

- (1) Negligence or disregard of rules or regulations;
- (2) Substantial understatement of income tax;
- (3) Substantial valuation misstatement (overstatement);
- (4) Transaction lacking economic substance.

Therefore, an addition to tax is imposed as provided by Section 6662(a) of the Internal Revenue Code.

1. Total underpayment, excluding underpayment attributable to Section 6662A penalty issues, if any	191,208.00
2. Less: Underpayment attributable to non-penalty issues	0.00
3. Less: Underpayment attributable to 40% Section 6662 penalty issues	0.00
4. Less: Underpayment attributable to civil fraud penalty issues	0.00
5. Underpayment to which Section 6662(a) applies (Line 1 less the sum of lines 2, 3, and 4)	191,208.00
6. Applicable penalty rate	20.00%
7. Section 6662(a) accuracy-related penalty (Line 5 times line 6)	38,241.60
8. Less: Previously assessed/previously agreed Section 6662(a) penalty	0.00
9. Total section 6662(a) accuracy-related penalty (Line 7 less line 8)	38,241.60

40 Percent Penalty – Internal Revenue Code Section 6662(h); 6662(i); 6662(j)

It has been determined that the underpayment of tax shown on line 5 below is attributable to one or more of the following:

- (1) Gross valuation misstatement (overstatement);
- (2) Non-disclosed transaction lacking economic substance;
- (3) Undisclosed foreign financial assets.

Therefore, an addition to tax is imposed as provided by Section 6662(h); 6662(i); or 6662(j) of the Internal Revenue Code.

1. Total underpayment, excluding underpayment attributable to Section 6662A penalty issues, if any	191,208.00
2. Less: Underpayment attributable to non-penalty issues	0.00
3. Less: Underpayment attributable to 20% Section 6662 penalty issues	191,208.00
4. Less: Underpayment attributable to civil fraud penalty issues	0.00
5. Underpayment to which 40% Section 6662 penalty applies (Line 1 less the sum of lines 2, 3, and 4)	0.00
6. Applicable penalty rate	40.00%
7. 40% Section 6662 accuracy-related penalty (Line 5 times line 6)	0.00
8. Less: Previously assessed/previously agreed 40% Section 6662 penalty	0.00
9. Total 40% section 6662 accuracy-related penalty (Line 7 less line 8)	0.00

Total

Taxpayer: CORPORATION
TIN:

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Tax Period(s): 201612

201612 - Adjustments Subject to Accuracy-Related Penalty - IRC 6662

<u>Adjustments</u>	<u>Amount</u>	<u>Internal Revenue Code Penalty Section</u>
Negligence or Disregard of Rules or Regulations:		Section(s) 6662(c)
Gross receipts or sales	209,685.00	
Taxes and licenses	20,881.00	
Cost of goods sold (No Sch. A or F1125-A Detail)	173,345.00	
Repairs and maintenance	14,849.00	
Advertising	5,570.00	
Dues and Publications	600.00	
Flower Arrangements	2,644.00	
Laundry & Cleaning	7,808.00	
Musicians / Bands	5,413.00	
Maintenance and cleaning	5,011.00	
Supplies - tools & factory	7,777.00	
Adjusting Entry Expenses	26,750.00	
Salaries and wages	39,938.00	
Telephone Other deductions	3,935.00	
		Section(s) 6662(d)
Gross receipts or sales	209,685.00	
Taxes and licenses	20,881.00	
Cost of goods sold (No Sch. A or F1125-A Detail)	173,345.00	
Repairs and maintenance	14,849.00	
Advertising	5,570.00	
Dues and Publications	600.00	
Flower Arrangements	2,644.00	
Laundry & Cleaning	7,808.00	
Musicians / Bands	5,413.00	
Maintenance and cleaning	5,011.00	
Supplies - tools & factory	7,777.00	
Adjusting Entry Expenses	26,750.00	
Salaries and wages	39,938.00	
Telephone Other deductions	3,935.00	

Taxpayer: CORPORATION
 TIN

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 Tax Period(s):

201612 - Interest Computation

Unagreed Tax Deficiency		191,208.00
Plus Penalties		
Failure to File - IRC 6651	0.00	
Accuracy Related Penalty - IRC 6662	37,256.60	
Accuracy Related Penalty - IRC 6662A	0.00	
Civil Fraud - IRC 6663	0.00	
Manually Computed Penalties	0.00	
	<hr/>	
Total Penalties Subject to Interest		37,256.60
Unagreed Tax Deficiency and Penalties Subject to Adjusted Interest Rates		<hr/> 228,464.60

Interest Type	Effective Dates	Days	Rate	Interest
				5,791.22
			

Interest on penalties is computed from the due date of the return (including extensions) until the date of payment. The interest shown on this report is estimated. Interest is computed from the due date of the return (including extensions) and will continue to accrue until the date paid in full. Interest on the failure to pay penalty is computed from the date of assessment and is therefore not considered in this report.

Extension date: 09/15/2017

Form 886-A	EXPLANATION OF ITEMS	Schedule Number 1
Name of Taxpayer Corporation	Tax Identification Number	Year/Period ended 201612

201612

IRC 6662 Penalty Amount \$ 37,256.60

Taxpayer fail to verify the correct gross receipts, per code section 61. Taxpayer throw away cash register tapes, in order to prevent claiming The correctable gross receipts.

Taxpayer fail to verify expenses, which were disallowed on the report. Taxpayer fail to provide documentation to verify expenses, which were disallowed.

IRC section 6662(a)

Since all or part of the underpayment of tax for the taxable year(s) is attributable to one or more of (1) negligence or disregard of rules or regulations, (2) any substantial understatement of income tax, or (3) any substantial valuation overstatement, an addition to the tax is charged as provided by section 6662(a) of the Internal Revenue Code. The penalty is twenty (20) percent of the portion of the underpayment of tax attributable to each component of this penalty. In addition, interest is computed on this penalty from the due date of the return (including any extensions).

Government Argument

Taxpayer failed to report the correct income and expenses, on the tax return. Therefore Accuracy related penalty on understatement of correct tax due.