


**2024
National Income Tax
Workbook**

Chapter 1: Ethics Part 1
Written Information Security Plan P-3

Case Studies 2,3,6,7,9&10



Land Grant University
Tax Education Foundation

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Written Information Security Plan P.3-4

- Circular 230 – Practitioners must be competent to engage in practice before the IRS and exercise due diligence in preparing returns and other IRS documents
- Practitioners should understand basic security, recognize the signs of a data breach, respond to and recover data loss
- § 7216 Nondisclosure - Prohibits using taxpayer information without their consent

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Written Information Security Plan P.5

State Laws and Professional Organizations may have Confidentiality Rules of their own.

Practitioners in those states / organizations should be aware of those requirements.

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Data Protection P.5

- Commercial Security Software
- Security networks
- Strong password policies
- Use of firewalls
- Use of secure data sharing and collaboration platforms
- Limit confidential information
- Know how to respond to a data breach
- Security Expectations
- Training

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Written Information Security Plan P.7

- The Gramm-Leach-Bliley Act (GLBA) requires tax return preparers to ensure the security and confidentiality of a taxpayer’s information
- As part of GLBA the Federal Trade Commission (FTC) established the Safeguards Rule
- Safeguards Rule requires a tax practitioner to have a WISP

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Written Information Security Plan P.7

A practitioner certifies compliance with WIST on their annual PTIN renewal:

11 Data Security Responsibilities	I am aware that paid tax return preparers are required by law to create and maintain a written information security plan that provides data and system security protections for all taxpayer information. <input type="checkbox"/>
	See IRS Publication 5708 and 4557 for more information about your responsibilities.

Form **W-12** (Rev. 10-2024)

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MICPA Requirements

All Michigan CPAs that hold a PTIN are required to hold a WISP for PTIN renewals by 12/31

There are new items from the IRS website included in the new template making old WISPs no longer valid if created before August 2024

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Written Information Security Plan P.8


The FTC requires the following:

1. Designate one or more employees to coordinate the information security plan
2. Identify and assess risks to customer information and evaluate the effectiveness of current safeguards
3. Design, implement, monitor and test a safeguards program
4. Select service providers that can maintain safeguards
5. Evaluate and adjust the program as needed

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Written Information Security Plan P.8

- IRS Resources Available:
 - Office of Professional Responsibility Issue No 2023-10
 - IRS Publication 5708



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Written Information Security Plan P.8

OPR Guidelines:

1. Don't collect more PII than needed
2. Protect the PII that you collect
3. Restrict access to PII to those with a need to know
4. Dispose of documents properly
5. Use qualified, vetted contractors
6. Instill awareness and train employees
7. Establish security protocols for electronic programs and files

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P.9

8. Develop and enforce email policies and procedures
9. Continually monitor computer networks to identify security issues
10. Establish guidelines related to internet browsing
11. Maintain good records and have policies and procedures in place in case of a data breach
12. Develop policies regarding the use of virtual private networks (VPNs)

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Case Studies

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Case study 2: Email Advice P. 33

- Samantha sends an email to her tax adviser
- It is a "quick question" on selling a property and buying a rental house that would qualify for a tax-free exchange
- Samantha's realtor suggested the tax treatment and wants to show her property listings

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Case study 2: Email Advice P. 34

1. Should Josh respond to Sam's email?
2. If he chooses to respond, should he "reply all," and how much information should Josh include?
3. What other due diligence obligations does Josh have?

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Case study 2: Email Advice P. 39

1. Should Josh respond to Sam's email?

Tax advice in email or text message not good practice
 Yes or no answer might not be sufficient

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Case study 2: Email Advice P. 39

2. If he chooses to respond, should he “reply all,” and how much information should Josh include?

Must comply with Circular 230

Use judgement. Consider confidentiality and nondisclosure. By replying to all, may inadvertently make confidential disclosure

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Case study 2: Email Advice P. 39

3. What other due diligence obligations does Josh have?

- Ensure the accuracy of the information received by Sam
- Must ask additional questions about the manufactured home, the lease, and the use of the property
- Might want to e-mail Sam and follow-up with a phone or office conference
- (Email Example Response pg. 39)

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Case study 3: Client acts and omissions P. 34

- Zane and Krystal opened a rock-climbing gym
- They formed a single member LLC with Krystal being sole owner
- They prepared their own tax return (Schedule C) for 2024 indicating a substantial profit from the gym
- They subsequently received a business loan based on that information
- In April 2025 they meet with a practitioner, Martin, to discuss amending the return
- They have classified Zane as an independent contractor because they don't want to spend money on payroll or a partnership return
- They also indicate they “missed” several expenses on their initial return

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Case study 3: Client acts and omissions P. 34

1. Can Martin prepare the return as directed?
2. If Martin suspects that the reported profit was to obtain a loan, does he have any duty to inform the bank about the amended return?

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Case study 3: Client acts and omissions P. 40

1. Can Martin prepare the return as directed?
 - Determination if a Schedule C appropriate – is this a legal issue?
 - Circular 230 consideration –
 - If Martin concludes that Zane is a partner and not an independent contractor, he should advise them to file a partnership return and explain the penalties for failing to do so.
 - If Martin knows that reporting as a disregarded entity is incorrect, he should decline to prepare the return.

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Case study 3: Client acts and omissions P. 40

2. If Martin suspects that the reported profit was to obtain a loan, does he have any duty to inform the bank about the amended return?
 - No duty to investigate fraud
 - Consider responsibilities under Circular 230, state licensing, professional organizations
 - Discuss concerns with clients
 - Advise client to discuss with an attorney
 - Consult with his own legal counsel

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Case study 6: Electronic records P. 35 - 36

- Columbia Tax & Bookkeeping has been unable to find qualified candidates for their open positions for over 2 years.
- They decided to terminate some engagements due to this fact
- The firm is considering using technological tools to help their operations and provide efficient and effective tax planning and bookkeeping services
- The tools include:
 - Artificial Intelligence Research Tool
 - Automated Return Preparation
 - Outsourced Data Verification

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Case study 6: Electronic records P. 35 & 36

1. Can Columbia Mountain reasonably rely on the search results produced by the AI research tool in Figure 1.14?

**FIGURE 1.14
Artificial Intelligence Research Tool**

Precise Research Tools offer a sophisticated AI-powered algorithm that offers fast and trusted answers to your tax law questions. Developed by industry tax experts, our proprietary machine learning improves performance over time to curate predictive text queries that quickly and efficiently generate answers to complex problems.

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Case study 6: Electronic records P. 43 - 44

1. Can Columbia Mountain reasonably rely on the search results produced by the AI research tool in Figure 1.14?

Exercise appropriate professional judgment when relying on a tool.
Preparers may use tools.
Preparer is still responsible for what is on the return.
Columbia should evaluate the research results.

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Case study 6: Electronic records P. 35 & 36

2. Can Columbia Mountain competently rely on the practice management software in Figure 1.15?

**FIGURE 1.15
Automated Return Preparation**

Executive Resources Software can optimize your tax practice. We use the latest predictive technology to automate the assembly of tax returns for individuals, businesses, trusts, and estates. Streamlined workflow replaces manual processes for greater speed and agility, and increased production and profitability.

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Case study 6: Electronic records P. 44

2. Can Columbia Mountain competently rely on the practice management software in Figure 1.15?

- Tools can provide significant benefits to practitioners
- Must be competent in technology and use such resource proficiently
- Columbia is ultimately responsible.

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Case study 6: Electronic records P. 35 & 36

3. How can Columbia Mountain comply with its duties of confidentiality and nondisclosure and its duty to safeguard data if it uses the data verification tool in Figure 1.16?

**FIGURE 1.16
Outsourced Data Verification**

Data International is an integrated web-based platform that allows you to verify the integrity and accuracy of data in real-time. Our data verification and enrichment tools use automated pattern recognition and platform and human cross-referencing to collect data from third-party resources, improving your data quality and ensuring more accurate filings. Timely and personalized results will increase operational efficiency and reduce the risk of errors, penalties, and audits.

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Case study 6: Electronic records P. 44

3. How can Columbia Mountain comply with its duties of confidentiality and nondisclosure and its duty to safeguard data if it uses the data verification tool in Figure 1.16?

- Enter into a contractual agreement with the third party service provider to ensure they have controls to prevent unauthorized disclosure
- Obtain specific consent from the client before disclosing confidential information to the provider

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Case study 7: Due Diligence P. 36

- Cody, a hiking and skiing guide, splits time in Montana and Alaska
- Cody owns a home, has 2 roommates, who watch dog while away.
- He is unmarried but has two children, ages 8 and 10
- Cody tells his preparer, Cindi, he wants to file as HOH and claim EIC
- He states children live with him full-time and he provides all support
- Cody reports \$22,719 of income from his guiding activities in 2024

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Case study 7: Due Diligence P. 36

1. What due diligence must Cindi perform to verify Cody's eligibility to file as head of household and Cody's eligibility for the EIC?
2. Can she rely on information Cody has provided?

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Case study 7: Due Diligence P.44 - 45

1. What due diligence must Cindi perform to verify Cody's eligibility to file as head of household and Cody's eligibility for the EIC?

- Must ask additional questions and obtain additional information to determine eligibility for the credit and filing status
- Must complete and submit Form 8867 Paid Preparer's Due Diligence Checklist
- Must not know or have reason to know that any information is not correct
- Must maintain records for 3 years

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Case study 7: Due Diligence P. 45

2. Can she rely on information Cody has provided?

- She can rely in good faith on the information but must make inquiries if the information appears incorrect, inconsistent, or incomplete
- Cody claims children live with him but he travels
- Cody claims he provides all support, but income is low
- Cindy must obtain additional information

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Case Study #9 Conflict of Interest P.37

Facts:

- Karol Brown provided tax advice and return preparation for William Mueller for 25 years
- She set up 2 trusts for him – a disclaimer trust and an asset protection trust
- William, now 80, has 2 sons: Norman, in the film industry in California and Brian, a special ed teacher lives near William
- Karol also prepares Brian's returns, who claims EIC and premium tax credit
- Brian helps William with finances and health care
- Brian and Norman don't get along

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Case Study #9 Conflict of Interest P. 37

- William has gifted \$2,000,000 to his 2 sons as of June 2024

Asset		Gross Estate Inclusion
Disclaimer Trust	\$2,000,000	0
Asset Protection	\$2,500,000	0
Personal Residence	\$750,000	\$750,000
401(k)	\$1,000,000	\$1,000,000
Cash/Stocks	\$200,000	\$200,000
Total		\$1,950,000

Disclaimer Trust
 A type of trust that allows the surviving spouse to avoid paying estate taxes on some of their inheritance. If one spouse chooses not to inherit the assets outright, they move them into a disclaimer trust. They can avoid estate taxes.

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Case Study #9 Conflict of Interest P.37

- William arranges meeting with Karol to discuss estate planning
- Norman and wife, Brian and son attend meeting
- Family wants to know if William should gift the trust assets to Norman and Brian to prevent an estate contest
- After gift, William retains house and retirement account

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Case Study #9 P.37

- Can Karol advise the family about the estate and gift tax consequences of the gift, or does Karol have a conflict of interest?
- If Karol decides that she can proceed with offering advice, what due diligence steps should she take?

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Case Study #9 Conflict of Interest P. 37

What are the consequences of the gift?

- Brian - Rental income could make him ineligible for the EIC and Premium Tax credit
- William – Could result in large estate tax liability

Gifts so far:

Asset protection trust	2,000,000	This leaves \$1,750,000 potentially taxable if William dies after the sunset of the higher exclusion amount
Gifts to sons	2,000,000	
Gift of assets in trusts	<u>4,500,000</u>	
Total	8,500,000	

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Case Study #9 Response P. 46

1. Can Karol advise the family about the estate and gift tax consequences of the gift, or does Karol have a conflict of interest?

Circular 230 §10.29 states that a conflict of interest exists if the representation of one client will be directly adverse to another client, or there is significant risk that the representation of one or more clients will be materially limited by the practitioner's responsibilities to another client.

Karol must identify potential conflicts of interest, evaluate them to determine if they can be waived, and if appropriate disclose the conflict and obtain informed consent.

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Case Study #9 Response P. 47

2. If Karol decides that she can proceed with offering advice, what due diligence steps should she take?

- Written informed consent from William and a waiver of the conflict within 90 days
- Consider getting waiver from William, Norman and Brian and retain copies for at least 36 months
- Have all parties acknowledge in writing, gifts could impact income tax benefits and could have estate tax consequences
- Document the non-tax reasons for the gifts

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Case study 10: Tax positions P. 38

- Brooke is a sales rep for a company selling canoes and rafts
- As an independent contractor she earned \$245,000 in sales in 2024
- She also travels to kayak competitions where she has some winnings
- She reports \$246,450 total business income
- \$105,000 in travel expense
- \$16,000 other business expenses

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Case study 10: Tax positions P. 47

1. Can Miguel assist Brooke to take the position that her sales activity and her kayaking activity can be aggregated to determine a trade or business?

- A return preparer cannot take a position that lacks reasonable basis.
- To have reasonable basis there must be some authority for the position
- Tax return preparers are subject to penalties under §6694 for understatements due to unreasonable positions

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Case study 10: Tax positions P. 47

2. What else should Miguel do?

- Establish the facts, evaluate reasonableness of conclusions, relate applicable law
- If conclusion is there is a single trade or business, help substantiate that conclusion – prepare business plan
- Avoid penalties by disclosure
- If conclusion is they cannot be aggregated, decline to prepare the return

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Here is the link to the evaluation: