

AUR Control:
 Notice: CP2000
 Notice Date: November 10, 2003
 Social Security Number:

Form: 1040
 Tax Year: 2002
 To call for assistance:
 between
 To fax information:
 between 8am – 5pm
 Contact:

You Must Return the Response Form by December 10, 2003

1 Why are you getting this notice?

The income, deduction and credit information (e.g., *what goes here?*) That we have on file does not match entries on your 2002 Form 1040. If this information is correct, you will owe

The proposed changes to your tax are listed below.

| Summary of Proposed Changes | |
|--|--|
| 2002 Tax Increase | |
| Penalties – if paid by December 10, 2003 | |
| Interest – if paid by December 10, 2003 | |
| Proposed Balance Due | |

2 What steps should you take?

Following these steps can help you understand this notice.

1. Review your 2002 tax return.
2. Compare your return to the information in the *Explanation Section* — page 5.
3. Decide if the information in the *Explanation Section* is correct.
4. Check the answers to *Frequently Asked Questions* — page 2.
5. Complete and return the *Response Form* in the enclosed return envelope — page 3.
6. Complete and return the *Installment Agreement Request* (enclosed) if you need to set up a payment plan.
7. Review your rights in *The Examination Process Booklet* (enclosed).

3 What happens if you don't respond by December 10, 2003?

We will send you a final notice, followed by a bill. During this time, interest will increase and certain penalties may apply.

Frequently Asked Questions

| | |
|---|---|
| Why did it take IRS so long to contact me? | Tax years generally end on December 31, but we may not receive complete information from employers, banks, businesses, and other payers until much later. |
| Will I need to file amended returns (federal/state/local) if I agree with some or all of the proposed changes? | <ol style="list-style-type: none"> 1. Do not file an amended federal return for the tax year shown in the upper right hand corner of page 1. We will correct this tax year when we receive your response. 2. If the changes on this notice apply to your state tax return, file an amended state/local tax return as soon as possible. We send information about changes based on this notice to your state and local tax agencies. 3. File amended returns for any prior or subsequent tax years in which the same error occurred. You'll limit the penalty and interest you owe. |
| What should I do if I am currently in bankruptcy? | Call us immediately at _____ . We need to talk with you before you complete and return the Response Form in this package or send us a payment. |
| What steps do I take if I do not agree? | We need you to tell us why you do not agree and send us information to support your statement. Please refer to <i>The Examination Process Booklet</i> (enclosed) for tips about what information you should send with your response. |
| What if I need more time to collect my supporting documentation? | If you cannot respond by December 10, 2003, please call us at _____ to request an extension. <i>Remember: If the tax increase is correct, then we will add interest and penalties to your bill during the extension.</i> |
| Why do I have to pay interest and penalties? | We are required by law to charge interest and penalties, if applicable, on all tax owed that is not paid in full by its due date (usually April 15). By law, interest will continue to increase until you have fully paid the tax owed and certain penalties may apply. |
| How can I prevent an error in the future? | <ol style="list-style-type: none"> 1. Include <u>all</u> income you've received during the year on your tax return. 2. Wait to file your return until you receive all income statements to be sure your return is complete. If you do not receive an income statement in time to meet the April 15th deadline, estimate the amount of income using, for example, pay stubs, bank statements, and so on. 3. Check the records (for example, W-2s, 1098s, 1099s, etc.) you receive from your employer, mortgage company, bank, or other organization to be sure the information they're reporting is correct. (Some states pay taxable unemployment benefits, so report that as income as well.) 4. If you receive any additional information after you filed your return, you should amend your return with the corrected information as soon as possible to avoid any interest or penalties. 5. Keep accurate and complete records. Normally, keeping your records for three years is sufficient. |
| What if I have more questions? | If we haven't answered your question here, you can find other Frequently Asked Questions on our Web site, www.irs.gov , or you can call _____ , topic _____ , for pre-recorded responses. |

Response Form

1. Review the Explanation Section to decide whether you agree or do not agree with IRS' proposed changes.
2. Complete and return the Response Form by December 10, 2003.
3. If you need additional time, call us at .

STEP A Check only one of the three options. Then, go to Step B.

If you agree with the changes IRS is proposing, return this form with your payment or with the completed Installment Agreement Request.

OPTION 1 | I Agree with All Changes

I agree with the changes to my 2002 tax return.

I understand that I owe _____ in additional tax, penalties, and interest.

I understand that the law requires IRS to charge interest on taxes that are not paid in full by April 15, 2003. In addition, I understand that the IRS will charge interest until I have paid the tax in full. Certain penalties may also apply.

I understand that I can challenge these changes in the U.S. Tax Court only if IRS determines after the date I sign this form that I owe additional taxes for 2002.

I understand that I can file for a refund at a later date.

Signature

Date

Spouse's Signature

Date

If you do not agree with the changes IRS is proposing, return this form. When you return this form, include a signed statement that explains what you do not agree with. Also include copies of any documents, such as a corrected W-2, 1099, or missing forms, that support your statement.

OPTION 2 | I Do Not Agree with Some of the Changes

I've enclosed documentation to support the entries on my original return.

OPTION 3 | I Do Not Agree with Any of the Changes

I've enclosed documentation to support the entries on my original return.

STEP B Check the applicable payment options. Then, go to Step C.

Tip! Pay as much as you can now to keep penalty and interest charges low.

Make your check or money order payable to "United States Treasury." Write "Tax Year 2002 CP2000," this Social Security Number 555-55-5555, and your phone number on your check or money order.

OPTION 1 | I'm paying the full amount of _____

OPTION 2 | I'm making a payment of \$_____ because either:

I'm paying the amount I agree with or

I'm making a partial payment at this time

OPTION 3 | I'd like to request a payment plan to pay the tax I owe.

Complete the Installment Agreement Request (Form 9465) and mail it along with this form.

AUR Barcode Here

| STEP C | | Contact Information |
|--|-------------------|----------------------|
| 1. Please verify your address and note any corrections below. <i>(Print clearly.)</i> | | |
| Make corrections below | | |
| 2. Please list your phone numbers and the best time to call below. | | |
| Home | Best Time to Call | |
| Work | Best Time to Call | |
| 3. If you would like to authorize someone, in addition to you and your spouse, to contact IRS concerning this notice, please include the person's contact information and sign below. | | |
| Name | Phone | |
| Address | | |
| I authorize the person listed above to discuss information with and provide information to IRS about this notice. | | |
| _____ <i>Signature</i> | | _____ <i>Date</i> |
| _____ <i>Spouse's Signature</i> | | _____ <i>Date</i> |
| <p><i>The authority granted in Step C is limited as indicated by the statement above the signature line. The contact may not sign returns, enter into agreements, or otherwise represent you before the IRS. If you want to have a designee with expanded authorization, see IRS Publication 947, Practice Before the IRS and Power of Attorney.</i></p> | | |

| Before Mailing | Please make sure you have: |
|----------------|----------------------------|
|----------------|----------------------------|

- Completed Steps A, B, and C (both sides of this form).
- Included this form and your payment (if applicable) in the envelope provided.
- Included the *Installment Agreement Request* (if applicable) in the envelope provided.
- Made a copy for your records of the *Response Form* and the *Installment Agreement Request* if you used it.
- Checked that the IRS address shows through the envelope window.

Please Fold Here. Do not detach. Please be sure our address shows through the envelope window.

ON 30 0 200212 640

[Postal Barcode Here]

11/10/2003

50011-0017

Internal Revenue Service
 PHILADELPHIA IRS CENTER
 AUR TEST, PA 19154-0021

Ogden, UT 84401-2222

Explanation Section

How to Review This Section

1. Compare your records with the records we received under **Information Reported to IRS**.
2. Review the **Reasons for the Changes** to see why we changed your return.
3. Proceed to **Changes to Your Return** to see how your new tax was calculated.

1. Information Reported to IRS that differs from the amounts shown on your return.

Please use the line numbers below to compare the items shown on your 2002 Form 1040 to the financial information reported to us. If this information is correct, your tax increase is **plus all applicable penalties and interest**. If you pay in full by **December 10, 2003**, you'll owe

| Item No. | Issue | Received From | Account Information | Amount Reported to IRS by Others | Amount Shown on Your Return | Difference |
|----------|-------|---------------|---------------------|----------------------------------|-----------------------------|------------|
| 1. | | | | \$ | \$ | \$ |
| | | | | \$ | \$ | \$ |
| 2. | | | | \$ | \$ | \$ |
| | | | | \$ | \$ | \$ |

2. Reasons for the Changes

This section provides explanations to help you understand the proposed changes to your tax return. The first paragraph below provides detailed information about your case. The paragraphs that follow provide explanations for:

- the items listed in Section 1. *Information Reported to IRS*
- the changes to your tax computation listed in Section 3. *Changes to Your Return*
- the penalty and interest charges listed in Section 3. *Changes to Your Return*
- *Payment Instructions*
- *Additional Information* that will help you understand this notice and what action you need to take to resolve the tax discrepancy

Within each subsection below, the paragraphs are organized by topic to help you review them.

This paragraph provides detailed information about your case.

Detailed Information

FREE TEXT INSERTED BY THE TAX EXAMINER

This paragraph is a "special 99" paragraph inserted by the tax examiner to answer taxpayer questions or otherwise clarify this taxpayer's case.

These paragraphs explain the items listed in Section 1. *Information Reported to IRS.*

Income

Interest, Dividends or Capital Gains – Schedules B and D (lines 8, 9, and 13)

INTEREST AND/OR DIVIDEND INCOME

The amount(s) of interest and/or dividend income you reported on your Form 1040, Schedule B (or Form 1040A, Schedule 1) was not included as income on page 1 of your tax return. We increased your amount of income on page 2 of this notice.

State and Local Income Taxes (line 10)

STATE AND LOCAL INCOME TAX REFUND

Since you claimed state and local taxes when you itemized deductions on your 2002 tax return, you must report any refund or credit of those taxes as income on your 2002 federal tax return (or the year in which you actually received the refund or credit). We increased your income accordingly.

Other Income – General

MISIDENTIFIED INCOME

If any of the income shown on this notice is not yours, send us the name, address, and social security number of the person who received the income. Please notify the payers to correct their records to show the name and social security number of the person who actually received the income, so that future reports to us are accurate.

These paragraphs explain items listed in the tax computation tables in Section 3. *Changes to Your Return.*

| Tax and Credits | |
|---|--|
| Itemized Deductions – Schedule A (line 37) | |
| SCHEDULE A MISCELLANEOUS DEDUCTIONS PERCENTAGE LIMITATION | |
| Miscellaneous deductions are reduced by 2% of your adjusted gross income Form 1040, line 35). Since we refigured your adjusted gross income, we also refigured your miscellaneous deduction. | |
| Tax Computation (lines 41 and 42) | |
| ALTERNATIVE MINIMUM TAX | |
| We refigured your alternative minimum tax. If your calculations differ, please send us a copy of your Form 6251, Alternative Minimum Tax Individuals. | |
| Tax Credits (lines 44-53) | |
| CREDIT FOR CHILD AND DEPENDENT CARE EXPENSES | |
| The credit for Child and Dependent Care Expenses is based on your child and dependant care expenses, your earned income, and adjusted gross income. The credit cannot be more than your tax. Since we changed your income and tax, we also changed the amount of your credit for Child and Dependent Care Expenses - Form 2441. | |
| CREDIT FOR THE ELDERLY OR DISABLED (Form 1040-Schedule R/Form 1040A-Schedule 3) | |
| The Credit for the Elderly or Disabled is based on earned income and adjusted gross income. This credit cannot be more than your tax. Since we reduced your income and tax, we also reduced the amount of the Credit for the Elderly or the Disabled on your Form 1040, line 47 (or Form 1040A, line 30). | |
| EDUCATION CREDITS | |
| Since we changed your income and tax, we also adjusted the amount of the education credits (Hope and Lifetime Learning Credits) on your tax return. | |
| CHILD TAX CREDIT | |
| Since we changed your income and tax and you are claiming qualifying child(ren) as dependents on your tax return, we adjusted the amount of allowable Child Tax Credit. The allowable amount of the Child Tax Credit is based on filing status, the number of qualifying child(ren), and 'modified adjusted gross income'. The credit cannot be more than the tax. If you filed and claimed credits on Form 8839- Qualified Adoption Expenses, Form 8396-Mortgage Interest Credit, and/or Form 8859- District of Columbia First-Time Homebuyer Credit with your original tax return, the forms may need to be reworked and submitted with your reply for consideration. | |
| Other Taxes | |
| Self-Employment Tax – Schedule SE (line 55) | |
| SELF-EMPLOYMENT TAX ON SELF-EMPLOYMENT (SE) INCOME | |
| Self-Employment income is earned income from which no Social Security Tax was withheld. Non-employee compensation and other income from part-time or full-time work may be considered Self-Employment (SE) income that is subject to Self-Employment Tax. We figured the Self-Employment Tax on the net SE income reported on your return and/or on the underreported SE income shown (in the Explanation Section, starting on page 5) of this notice. Self-Employment Tax consists of Social Security Tax of 12.4% and Medicare Tax of 2.9%. (Even if you have paid the maximum amount of Social Security Tax, you are still liable for additional Medicare Tax.) The deduction for one-half of the Self-Employment Tax shown on page 2 of this notice is based on the change we made to your Self-Employment Tax. If you were an employee, you will be liable for income tax and the employee's share of Social Security (7.65%) and Medicare taxes (2.9%). Your social security account will be credited with the amount of Self-Employment income shown on this notice. | |
| Tax on Qualified Plans (line 57) | |
| PREMATURE DISTRIBUTIONS TAX FROM A SIMPLE IRA PLAN | |
| Our proposal includes an additional tax on a premature distribution from your SIMPLE IRA Plan. The tax is 25% of the taxable part of your premature distribution and is included in the tax computation on page 2 of this notice. | |

The 25% tax does not apply if:

- the distribution was made 2 years (or more) after establishing the SIMPLE IRA Plan,
- the distribution was rolled over to another SIMPLE IRA Plan within 60 days,
- you were disabled, or
- at least 59 1/2 years old at the time of the distribution.

If you rolled your distribution over into another SIMPLE IRA Plan, within 60 days, please send us a signed statement showing:

- the amount you rolled over,
- the date you received the distribution,
- the date of deposit in another SIMPLE IRA Plan, and
- the name of the SIMPLE IRA Plan that received the funds.

If the distribution was exempt from the 25% tax because it was made after the 2 year period, you were disabled, or at least 59 1/2 years old, please send us a statement showing the reason for the exemption.

If the 25% tax does not apply because the distribution was made after the 2 year period, a 10% premature distribution tax may still apply. Other exceptions may apply as indicated in Publication 17, Your Federal Income Tax, or Publication 590, Individual Retirement Arrangements.

These paragraphs explain the penalty and interest charges listed in Section 3. *Changes to Your Return*. By law, IRS is required to charge interest and penalties, if applicable, on any unpaid tax balance until the amount is paid in full.

| Penalty and Interest Charges | |
|---|---|
| Interest Charges | |
| INTEREST PERIOD | We charge interest when your tax is not paid on time. Interest is computed from the due date of your return (regardless of extensions) until paid in full or 30 days from the date of this notice. Interest compounds daily except on underpaid estimated taxes for individuals or corporations. Interest is also charged on penalties that are owed. (<i>Internal Revenue Code Section 6601</i>) |
| For More Information About Your Penalty and Interest Charges | |
| DETAILED PENALTY/INTEREST COMPUTATION | If you require a detailed penalty or interest computation for this notice, please call the toll-free telephone number listed on page 1. |

These paragraphs provide *Payment Instructions*.

| Payment of Tax/Balance Due | |
|---|--|
| BACKUP WITHHOLDING ON INTEREST AND DIVIDENDS | We are proposing a tax increase based completely or partially on interest or dividends not reported on your tax return. If you agree that the income shown in our proposal is correct, and the tax increase is not paid, we may notify payers to deduct and withhold 30% of any payments they make to you in the future. This is called backup withholding and occurs when interest or dividend income is not reported on your tax return, as required by law. |

These paragraphs provide *Additional Information* that will help you understand this notice and what action you need to take to resolve the tax discrepancy.

Additional Information

INFORMATION MAILED SEPARATELY

Additional information (forms, schedules, publications, etc.) concerning this notice has been mailed to you in a separate envelope.

3. Changes to Your Return

Note: We only show the items that have been affected by the information we received in the following chart. All other items are correct as shown on your return. Unless noted, line numbers always refer to the line number on your tax return.

| Changes to Your Income and Deductions | Reported to IRS, or as Corrected | Shown on Return | Difference |
|---------------------------------------|----------------------------------|-----------------|------------|
| Total Income, line 22 | \$ | \$ | |
| Taxable Dividends | \$ | \$ | \$ |
| State Income Tax Refund | \$ | \$ | \$ |
| Self-Employment Tax Deduction | \$ | \$ | \$ |
| | Income Net Difference | | \$ |
| Total Deductions, line 36 | \$ | \$ | |
| Miscellaneous Deduction* | \$ | \$ | \$ |
| | Deductions Net Difference | | \$ |
| Total Change to Taxable Income | | | \$ |

| Changes to Your Tax Computation | As Corrected by IRS | Shown on Return | Difference |
|--|---------------------|-----------------|------------|
| Taxable Income, line 41 | \$ | \$ | \$ |
| Tax, line 42 | \$ | \$ | \$ |
| Alternative Minimum Tax, line 43 | \$ | \$ | \$ |
| Foreign Tax Credit, line 45 | \$ | \$ | \$ |
| Credit for Child and Dependent Care Expenses, line 46 | \$ | \$ | \$ |
| Credit for the Elderly or the Disabled, line 47 | \$ | \$ | \$ |
| Education Credits, line 48 | \$ | \$ | \$ |
| Retirement Savings, line 49 | \$ | \$ | \$ |
| Child Tax Credit, line 50 | \$ | \$ | \$ |
| Other Credits, line 53 | \$ | \$ | \$ |
| Self-Employment Tax, line 56 | \$ | \$ | \$ |
| Social Security and Medicare Tax on Tip Income Not Reported to Employer, line 57 | \$ | \$ | \$ |
| Tax on Qualified Plans, including IRAs, and other Tax-favored Accounts, line 58 | \$ | \$ | \$ |
| Advance Earned Income Credit Payments, line 59 | \$ | \$ | \$ |
| Household Employment Tax, line 60 | \$ | \$ | \$ |
| FICA Tax, line ?? | \$ | \$ | \$ |
| Total Tax, line 61 | \$ | \$ | \$ |
| Income Tax Withheld, line ?? | \$ | \$ | \$ |
| Total Payments, line ?? | \$ | \$ | \$ |

| | | |
|------------------------------------|-------------------------------|----|
| Summary of Proposed Changes | | |
| Amount of Tax Increase | | |
| Total Tax, line 61 | | \$ |
| Total Payments, line 66 | | \$ |
| | Amount of Tax Increase | \$ |
| Penalty | | \$ |
| Interest | | \$ |
| | Total Amount You Owe | \$ |

**Decreases to Deductions result in an increase to taxable income.*

***Decreases to Payments increase the amount owed.*