

Your Firm Name, CPAs

Your address · Your phone · you@yourfirm.com

October 9, 2026

Internal Revenue Service
Automated Underreporter Unit
Address as shown on the notice

Re: Notice CP2000, Form 1040, Tax Year 2024, Taxpayer Identification Number [TIN], Response Due October 14, 2026

To the Automated Underreporter Unit:

Identification

Item	Detail
Taxpayer	[Taxpayer Name]
Taxpayer identification number	[TIN]
Tax form	Form 1040
Tax year	2024
Notice	CP2000
Notice date	[Date shown on the notice]
Response due date	October 14, 2026
Proposed tax	\$3,642
Proposed penalty	\$0
Interest computed to October 14, 2026	\$676
Total proposed amount	\$4,318

This response is submitted by Your Firm Name, CPAs on behalf of the taxpayer. The signed response form accompanying this letter indicates partial disagreement with the proposed changes.

Summary of the response

The taxpayer agrees that nonemployee compensation of \$8,400 reported on Form 1099-NEC was not shown on the 2024 return, but asks that the addition to Schedule C be made on a net basis of \$6,250 after allowing \$2,150 of substantiated ordinary and necessary expenses of the same engagement that were not claimed on the return as filed.

The taxpayer disagrees with the proposed short-term capital gain of \$23,500 on the Form 1099-B proceeds, because the shares sold were purchased in June 2019 for \$21,900 and the basis was not reported to the IRS only because the position was transferred between brokers in 2022; the correct result on the records enclosed is a long-term capital gain of \$1,600. Because interest is computed on the underpayment of tax, the taxpayer asks that tax and interest both be recomputed once these items are reflected. The taxpayer does not contest that some additional tax is due for 2024 and intends to pay the corrected balance promptly.

Item 1: Form 1099-NEC nonemployee compensation of \$8,400

What the notice proposes: the notice states that nonemployee compensation of \$8,400 reported by a payer on Form 1099-NEC is not shown on the 2024 return, and proposes to increase Schedule C gross receipts by \$8,400 and to recompute self-employment tax, the deduction for one half of self-employment tax, and the qualified business income deduction.

The facts: the taxpayer agrees that the \$8,400 of nonemployee compensation was received and was not reported. It arose from a short side consulting engagement that is separate from the taxpayer's main Schedule C activity.

The taxpayer incurred \$2,150 of ordinary and necessary expenses in carrying on that engagement which were not claimed on the return as filed, consisting of 1,900 business miles supported by a contemporaneous log, a software subscription used only for that work, and supplies, each supported by records enclosed with this response.

The authority: a deduction is allowed for all the ordinary and necessary expenses paid or incurred in carrying on a trade or business, and where a mileage rate is used in lieu of actual vehicle costs the taxpayer must still substantiate the amount of each business use, that is the business mileage, and the time and business purpose of each use, 26 CFR § 1.274-5.

Nothing in that authority conditions the deduction on the expense having appeared on the return as originally filed, and the contemporaneous mileage log enclosed is the kind of record that authority contemplates, 26 CFR § 1.274-5.

The conclusion requested: that the adjustment for Item 1 be made as a net Schedule C addition of \$6,250, being \$8,400 of gross receipts less \$2,150 of substantiated expenses, rather than \$8,400.

Scope note: the taxpayer asks that self-employment tax, the deduction for one half of self-employment tax, and the qualified business income deduction be recomputed by reference to the net figure. That request rests on the governing Internal Revenue Code provisions for those items and not on the authority cited above, which addresses the deduction and its substantiation only.

Item 2: Form 1099-B gross proceeds of \$23,500 with basis not reported

What the notice proposes: the notice states that a broker reported gross proceeds of \$23,500 with cost basis not reported to the IRS, and proposes a short-term capital gain of \$23,500 computed as though basis were \$0.

The facts: the proceeds came from the sale of 180 shares of a mutual fund purchased in June 2019 for \$21,900. The position was transferred between brokers in 2022, which is why the receiving broker held no basis information to report and why the basis was flagged as not reported to the IRS. Enclosed are the 2019 purchase confirmation, the 2019 year-end statement, and the 2022 transfer statement.

The authority: for a noncovered security, where no basis is shown on Form 1099-B or the basis shown was not reported to the IRS, the taxpayer enters the correct basis of the property in column (e) of Form 8949, so that gain is computed by reference to the correct basis rather than a basis of zero, Instructions for Form 8949 (Sales of Capital Assets). The enclosed purchase, year-end and transfer records are the documentation of that correct basis, Instructions for Form 8949 (Sales of Capital Assets).

The conclusion requested: that the Form 1099-B proceeds of \$23,500 be reduced by a cost basis of \$21,900 and that the resulting gain of \$1,600 be treated as long-term, reflecting acquisition in June 2019, rather than as a short-term gain of \$23,500. The taxpayer encloses a corrected Form 8949 and Schedule D reflecting that computation for the examiner's use.

Scope note: the Form 8949 instructions are authority for the reporting procedure. The basis amount of \$21,900 and the holding period beginning in June 2019 rest on the enclosed broker records and on the Internal Revenue Code and regulations governing basis and holding period of mutual fund shares.

Item 3: Interest of \$676 computed to October 14, 2026

What the notice proposes: the notice shows interest of \$676 computed to October 14, 2026 and a total proposed amount of \$4,318.

The facts: interest is computed on the underpayment of tax, so the amount shown changes if the proposed tax of \$3,642 changes. If Item 1 is reflected as a net Schedule C addition of \$6,250 and Item 2 as a long-term capital gain of \$1,600, the recomputed tax will be lower than \$3,642 and the interest must be recomputed on that lower figure. No payment has yet been applied to the proposed amount, and the taxpayer intends to pay the corrected balance promptly.

The authority: underpayment interest, at the underpayment rate, is charged on an outstanding liability from the due date of the unpaid liability to the date fully paid, IRM 20.2.9. Interest therefore follows the amount of tax actually determined to be due and continues to accrue on the corrected underpayment until payment, so the \$676 is a figure as of October 14, 2026 only, IRM 20.2.9.

The conclusion requested: that tax and interest both be recomputed on the corrected figures and that a revised notice or bill showing the recomputed amounts be issued so that payment may be made.

Accuracy-related penalty

The notice proposes a penalty of \$0 for 2024, and the taxpayer agrees with that item as shown. The taxpayer has filed and paid on time in every prior year. If any penalty is proposed after the figures are recomputed, the taxpayer requests notice and an opportunity to respond before assessment.

Matters the examiner may wish to confirm from the enclosures

The following points are addressed in the enclosed schedules and records rather than in this letter:

- The dollar breakdown of the \$2,150 among business mileage for 1,900 miles, the software subscription, and supplies, and whether the vehicle amount was computed using the standard mileage rate applicable to 2024 or actual vehicle costs.
- The date, destination and business purpose of each trip recorded in the contemporaneous mileage log.
- Whether the side consulting engagement is reported as a separate Schedule C or combined with the taxpayer's existing Schedule C activity, and the resulting combined net earnings from self-employment.
- The 2024 sale date and settlement date of the 180 mutual fund shares.
- Whether any of the 180 shares were acquired through dividends or capital gain distributions reinvested after June 2019, and whether an average basis method applies to the account, either of which would affect the \$21,900 basis figure or the holding period of part of the position.
- Whether the 180 shares were the entire position or a partial disposition, and the lot identification used.

Action requested

The taxpayer asks that the proposed assessment be adjusted so that Item 1 is a net Schedule C addition of \$6,250 rather than \$8,400, that Item 2 is a long-term capital gain of \$1,600 rather than a short-term capital gain of \$23,500, and that tax and interest be recomputed accordingly and a revised bill issued.

Enclosures

1. Signed CP2000 response form, partial disagreement box checked
2. Signed statement of the taxpayer's position on Item 1 and Item 2
3. Schedule of the \$2,150 of expenses for the consulting engagement, by category
4. Contemporaneous mileage log supporting 1,900 business miles
5. Software subscription invoices
6. Supply receipts
7. 2019 purchase confirmation for 180 mutual fund shares, \$21,900
8. 2019 year-end broker statement
9. 2022 broker-to-broker transfer statement
10. Corrected Form 8949 and Schedule D for 2024 reflecting a \$1,600 long-term capital gain
11. Form 2848, Power of Attorney and Declaration of Representative, if not already on file

Closing

Please direct any questions or requests for additional documentation to this office at Your phone. The taxpayer asks that correspondence be sent to Your Firm Name, CPAs, Your address. Thank you for your consideration of this response.

For the firm before sending (remove this section)

Positions that did not pass the citation gate and facts the response still needs:

- Needed: Filing status for 2024 (no spouse is stated, so single is assumed unless the return shows otherwise) and whether dependents are claimed
- Needed: State or other jurisdiction of residence, and whether a corresponding state return must be amended or a state matching notice is expected
- Needed: Client's age (not stated; no age-dependent item should be computed without it)
- Needed: 2024 taxable income before and after the proposed changes, which drives the qualified business income deduction limitation and the capital gain rate on the \$1,600 long-term gain
- Needed: The dollar breakdown of the \$2,150 of expenses among the 1,900 business miles, the software subscription, and supplies, and whether the vehicle cost was computed using the standard mileage rate for 2024 or actual expenses (the notice text does not state a mileage rate, so the rate must be taken from the applicable 2024 guidance)
- Needed: Whether the side consulting engagement is a separate trade or business from the client's main Schedule C activity, which affects whether a second Schedule C is used and how the qualified business income deduction is computed
- Needed: The exact 2024 sale date of the 180 mutual fund shares and the settlement date
- Needed: Whether any of the 180 shares were acquired through reinvested dividends or capital gain distributions after June 2019, and whether an average basis method applies to the fund shares, either of which would change the \$21,900 basis figure or split the holding period
- Needed: Whether the 180 shares were the entire position or a partial disposition, and if partial, which lot identification was used
- Needed: Whether the client's main Schedule C activity already reported on the 2024 return, and the amounts reported, so the recomputed self-employment tax reflects the combined net earnings
- Needed: Whether the client's 2024 return already reflected a qualified business income deduction and the amount
- Needed: Whether any estimated tax penalty under the underpayment rules was assessed or may apply for 2024
- Needed: Whether a signed Form 2848 or Form 8821 is on file so the firm may correspond with the IRS on this notice
- Needed: Whether the client has received any related state notice or any other IRS notice for 2024
- Needed: The client's intended payment timing and whether any payment has already been made toward the proposed amount

Sincerely,

[Name], [Credential]
Your Firm Name, CPAs

Authorities cited in this letter

26 CFR § 1.274-5

• VERIFIED

"IRC 162 - A deduction is allowed for all the ordinary and necessary expenses paid or incurred in carrying on any trade or business."

IRM 4.19.15

• CPA TO CONFIRM

Corroborating authority; not independently text-checked for this letter.

Instructions for Form 8949 (Sales of Capital Assets)

• PROCEDURAL

"For noncovered securities, enter the correct basis of the property in column (e) if: No basis is shown on Form 1099-B or Form 1099-DA (or substitute statement), or The basis shown wasn't reported to the IRS."

26 CFR § 1.1012-1

• CPA TO CONFIRM

Corroborating authority; not independently text-checked for this letter.

IRS Publication 550

• CPA TO CONFIRM

Corroborating authority; not independently text-checked for this letter.

IRM 20.2.9

• PROCEDURAL

"Underpayment interest, at the underpayment rate, is charged on an outstanding liability from the due date of the unpaid liability to the date fully paid, IRC 6601(a)."

IRM 20.2.14

• CPA TO CONFIRM

Corroborating authority; not independently text-checked for this letter.

Draft prepared for the signing professional's review. Verify every fact against the notice and the return, attach the enclosures listed, and remove the section headed "For the firm" before sending.