



Department of the Treasury
Internal Revenue Service

PO Box 2986
Stop 4103 AUSC
Austin TX 78768-2986

Date:
October 28, 2024

Taxpayer ID number:
338-48-0638

PC:
1363

EGC:
5014

Tax period:
December 31, 2023

Person to contact:
Tax Examiner

Employee ID number:
192-82000

Contact telephone number:
1-866-897-0177

Contact hours:
7:00 AM - 10:00 PM

Contact fax number:
1-855-235-6791

EFRAIN & BEATRIZ FLORES COTTO
500 RANCHEROS DR SPC 148
SAN MARCOS CA 92069-2931

Dear EFRAIN & BEATRIZ FLORES COTTO:

We're auditing your federal income tax return and need a response from you. We reviewed your Form 1040 for the tax period shown above and made proposed changes to your tax. As a result, we found that you owe a balance of \$34,600.92. This amount may include tax, penalties, and estimated interest due. You should pay the balance due now to avoid additional penalties and interest charges.

What you need to do

- Review the enclosed Form 4549, Report of Income Tax Examination Changes, and attached Form 886-A, Explanation of Items.
- Respond as explained below to let us know by November 27, 2024, if you agree or disagree with our proposed changes.
- Include your telephone number with area code and the hours we can reach you if we need more information. If your address has changed, please include your current address.

If you agree with our proposed changes

Sign, date and mail the enclosed Form 4549 and Form 14817, Reply Cover Sheet, to us in the envelope we provided.

- If you're due a refund, you should receive a check within eight weeks if you don't owe other taxes or debts we're required to collect.
- If you owe additional taxes, make your check or money order payable to the United States Treasury. Write your taxpayer ID number, tax period and form number on the check.
- If you can't pay the total amount due, pay as much as you can now to limit penalties and interest, and make payment arrangements to pay the rest over time. The enclosed Publication 3498-A, The Examination Process (Audits by Mail), describes payment options. You can also visit www.irs.gov/payments.

If you don't agree with our proposed changes

Return the enclosed Form 14817, Reply Cover Sheet, along with your explanation and any supporting documents.

- Form 886-A explains documentation you need to give us.
- Publication 3498-A describes the audit process and explains your appeal rights.

What will happen if we don't hear from you

If you owe additional tax and don't respond to this letter, we'll send you a Notice of Deficiency by certified mail which will state the proposed amount you owe with penalties and interest. This legal notice explains your right to file a petition with the United States Tax Court. Once we issue a Notice of Deficiency, you cannot appeal disagreements to the IRS. We will still consider new information you may provide to us, but you will need to file a timely petition with the United States Tax Court to challenge the deficiency.

What to do if you want someone to represent you

If you want us to discuss this letter with your authorized representative, enclose a completed Form 2848, Power of Attorney and Declaration of Representative, with your reply.

Find tax forms or publications by visiting www.irs.gov/forms or calling 800-TAX-FORM (800-829-3676).

If you have questions, you can call the contact person shown on the first page of this letter.

Sincerely,

Anna B. Houston
Operations Manager

Enclosures:
Form 4549
Form 886-A
Envelope
Publication 3498-A
Form 14817

Form **4549**
(December 2020)

Department of the Treasury-Internal Revenue Service

Report of Income Tax Examination Changes

Name and address of taxpayer

EFRAIN & BEATRIZ FLORES COTTO
500 RANCHEROS DR SPC 148
SAN MARCOS CA 92069-2931

Taxpayer identification number

338-48-0638

Return form number

1040

Person with whom
examination
changes were
discussed.

Name and title

		Period Ended	Period Ended	Period Ended
1. Adjustments to income		12/31/2023		
a.	Sch C1 - Other Expenses	31,609.00		
b.	Sch C1 - Meals, and Entertainment	923.00		
c.	Sch C1 - Car and Truck Expenses	41,023.00		
d.	Social Security RRB	17,929.00		
e.	SE AGI Adjustment	(5,196.00)		
f.				
g.				
h.				
i.				
j.				
k.				
l.				
m.				
n.				
o.				
p.				
2. Total adjustments		86,288.00		
3. Taxable income per return or as previously adjusted		(6,792.00)		
4. Corrected taxable income		79,496.00		
Tax method		TAX TABLE		
Filing status		Joint		
5. Tax (See attached schedule)		18,185.00		
6. Additional taxes/Alternative minimum tax				
7. Corrected tax liability		18,185.00		
8. Less				
credits				
a.				
b.				
c.				
d.				
9. Balance (line 7 less lines 8a through 8d)		18,185.00		
10. Plus		12,498.00		
other				
taxes				
a. Self Employment Tax				
b.				
c.				
d.				
11. Total corrected tax liability (line 9 plus lines 10a through 10d)		30,683.00		
12. Total tax shown on return or as previously adjusted		3,195.00		
13. Adjustments to:				
a.				
b. Earned Income Credit		(137.00)		
c.				
14. Deficiency-increase in tax or (overassessment-decrease in tax) (line 11 less line 12 adjusted by lines 13a through 13c)		27,625.00		
15. Adjustments to prepayment credits - increase (decrease)				
16. Balance due or (overpayment) - (line 14 adjusted by line 15) (excluding interest and penalties)		27,625.00		

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.

Name of taxpayer EFRAIN & BEATRIZ FLORES COTTO	Taxpayer identification number 338-48-0638		Return form number 1040
17. Penalties, additions to tax, and additional amounts -- IRC sections	Period Ended 12/31/2023	Period Ended	Period Ended
a. Accuracy-IRC 6602	5,525.00		
b.			
c.			
d.			
e.			
f.			
g.			
h.			
i.			
j.			
k.			
l.			
m.			
n.			
18. Total penalties, additions to tax, and additional amounts	5,525.00		
19. Summary of taxes, penalties and interest			
a. Balance due or (overpayment) taxes - (line 16, page 1)	27,625.00		
b. Penalties and additions (line 18) - computed to 10/28/2024	5,525.00		
c. Interest** (IRC § 6601) - estimated and computed to 11/27/2024	1,450.92		
d. Amount due or (refund) - (sum of lines a, b, and c)	34,600.92		

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

Other information

Make sure items adjusted on this report are reported properly on previously filed and future returns. If the same deductions/credits adjusted on this report are present on returns you already filed, you can file amended returns to correct them and minimize related penalties and interest.

Examiner's signature Tax Examiner	Employee ID 192-82000	Office Austin, TX	Date 10/28/2024
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Consent to Assessment and Collection- I do not wish to exercise my appeal rights with the Internal Revenue Service or to contest in the United States Tax Court the findings in this report. Therefore, I give my consent to the immediate assessment and collection of any increase in tax and penalties, and accept any decrease in tax and penalties shown above, plus additional interest as provided by law. It is understood that this report is subject to acceptance by the Area Director, Area Manager, Specialty Tax Program Chief, or Director of Field Operations.

PLEASE NOTE: If a joint return was filed, BOTH taxpayers must sign

Signature of taxpayer	Date	Signature of taxpayer	Date
By	Title		Date

Name Of Taxpayer: EFRAIN & BEATRIZ FLORES COTTO
Identification Number: 338-48-0638

10/28/2024

Total

25.20.00

2023 TAX YEAR INTEREST COMPUTATION

Interest computed to 11/27/2024

Total Tax Deficiency \$27,625.00

Plus Penalties*

Failure to File - IRC 6651 \$0.00
Accuracy Related Penalty - IRC 6662 \$5,525.00
Accuracy Related Penalty - IRC 6662A \$0.00
Civil Fraud - IRC 6663 \$0.00
Manually Computed Penalty \$0.00

Total Penalties Subject to Interest \$5,525.00

Tax Deficiency and Penalties Subject to Interest \$33,150.00

Type	Effective Dates	Days	Rate	Interest
Compound	04/15/2024--11/27/2024	226	8%	<u>\$1,450.92</u>
Total Interest				<u>\$1,450.92</u>

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.

Form 886-A (May 2017)	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule number or exhibit
Name of taxpayer EFRAIN & BEATRIZ FLORES COTTO	Tax Identification Number (last 4 digits) 0638	Year/Period ended 2023

Sch C1 - Other Expenses

Per Return: \$31,609.00

Per Exam: \$0.00

Per Adjustment: \$31,609.00

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.

Sch C1 - Meals, and Entertainment

Per Return: \$923.00

Per Exam: \$0.00

Per Adjustment: \$923.00

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.

Sch C1 - Car and Truck Expenses

Per Return: \$41,023.00

Per Exam: \$0.00

Per Adjustment: \$41,023.00

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.

Statutory-Social Security RRB

Per Return: \$396.00

Per Exam: \$18,325.00

Per Adjustment: \$17,929.00

Since we changed your adjusted gross income, we adjusted the taxable part of your social security benefits and/or your tier I railroad retirement benefits, as shown in the attached computation.

Form 886-A (May 2017)	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule number or exhibit
Name of taxpayer EFRAIN & BEATRIZ FLORES COTTO	Tax Identification Number (last 4 digits) 0638	Year/Period ended 2023

Statutory-SE AGI Adjustment
 Per Return: \$1,053.00
 Per Exam: \$6,249.00
 Per Adjustment: (\$5,196.00)

Your self-employment tax has changed as a result of adjustments made to your net earnings from self-employment as shown in this report. The self-employment tax deduction has been adjusted to one-half of the recomputed amount.

Statutory-Earned Income Credit
 Per Return: \$137.00
 Per Exam: \$0.00
 Per Adjustment: (\$137.00)

Because we changed your adjusted gross income and/or your earnings and those changes affected your modified adjusted gross income or earned income, we have also adjusted your earned income credit.

Statutory-Self Employment Tax
 Per Return: \$2,105.00
 Per Exam: \$12,498.00
 Per Adjustment: \$10,393.00

We have adjusted your self-employment tax due to a change in your net earnings from self-employment.

Name of Taxpayer: EFRAIN & BEATRIZ FLORES COTTO 10/28/2024
 Identification Number: 338-48-0638 Total 25,20.00

2023 - Form 8962 - Premium Tax Credit

1. Tax family size 2
 2a. Modified adjusted gross income 111,930.00
 2b. Dependents' modified adjusted gross income 0.00
 3. Household income (sum of lines 2a and 2b; no less than -0-) 111,930.00
 4. Federal poverty line (FPL) **Other 48 States and DC** FPL amount 18,310.00 FPL amount times 4.0 73,240.00
 5. Household income as a percentage of federal poverty line 401%
 (If line 3 is greater than FPL amount times 4.0, enter 401% on line 5; otherwise, divide line 3 by FPL amount; do not round and enter only the first two numbers after the decimal point on line 5)
 6. If married filing separately and no relief indicator is checked; enter 0.00 on line 7, skip columns A, B, C, D, and E of lines 11 thru 23
 7. Applicable figure 0.0850
 8a. Annual contribution for health care (multiply line 3 by line 7 and round to whole number) 9,514.00
 8b. Monthly contribution for health care (divide line 8a by 12 and round to whole number) 793.00
 9. Using shared policy or alternate calculation for marriage? No
 10. Using annual or monthly calculation? **Annual**

Annual Calculation	A. Annual Premium Amount	B. Annual Premium SLCSP Amount	C. Annual Contribution (amount from line 8a)	D. Annual Maximum Premium Assistance (subtract C from B)	E. Annual Premium Tax Credit Allowed (smaller of A or D)	F. Annual Advance PTC
11.	10,961.00	10,305.00	9,514.00	791.00	791.00	9,879.00

Monthly Calculation	A. Monthly Premium Amount	B. Monthly Premium SLCSP Amount	C. Monthly Contribution (amount from line 8b or alternate calculation)	D. Monthly Maximum Premium Assistance (subtract C from B)	E. Monthly Premium Tax Credit Allowed (smaller of A or D)	F. Monthly Advance PTC
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12. January
 13. February
 14. March
 15. April
 16. May
 17. June
 18. July
 19. August
 20. September
 21. October
 22. November
 23. December
 Total

24. Total premium tax credit (amount from line 11E or sum of lines 12E thru 23E) 791.00
 25. Advance payment of PTC (amount from line 11F or sum of lines 12F thru 23F) 9,879.00
 26. Net premium tax credit (if line 24 is greater than line 25, subtract line 25 from line 24; if line 25 is greater than line 24, skip this line and go to line 27; if line 25 equals line 24, enter 0.00)
 27. Excess advance payment of PTC (if line 25 is greater than line 24, subtract line 24 from line 25; otherwise, enter 0.00) 9,088.00
 28. Repayment limitation (if line 5 is 400% or more, skip this line)
 29. Excess advance premium tax credit repayment 9,088.00
 (smaller of line 27 or line 28)(if line 28 is blank, enter amount from line 27)

17 Penalties, additions to tax, and additional amounts -- IRC sections	Period Ended	Period Ended	Period Ended
	12/31/2023		
a. Accuracy-IRC 6662	5,525.00		
b.			
c.			
d.			
e.			
f.			
g.			
h.			
i.			
j.			
k.			
l.			
m.			
n.			
18. Total penalties, additions to tax, and additional amounts	5,525.00		
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c. Interest** (IRC § 6601) - estimated and computed to 11/27/2024	1,450.92		
d. Amount due or (refund) - (sum of lines a, b, and c)	34,600.92		

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Other information

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PLEASE NOTE: If a joint return was filed, BOTH taxpayers must sign

Signature of taxpayer	Date	Signature of taxpayer	Date
By	Title		Date

Name of Taxpayer: EFRAIN & BEATRIZ FLORES COTTO
Identification Number: 338-48-0638

Total

10/28/2024
25.20.00

2023 - SOCIAL SECURITY

004496

1. Enter total net social security benefits from Form SSA-1099 and Form RRB-1099	21,559.00
2. Enter one-half of line 1	10,780.00
3. Enter the amount from line 2, plus modified adjusted gross income and tax exempt interest	101,151.00
4. Enter \$25,000 (\$32,000 if married filing joint, -0- if married filing separate and lived with spouse at any time during the year)	32,000.00
5. Subtract line 4 from line 3 (not less than zero)	69,151.00
6. Enter \$9,000 (\$12,000 if married filing joint, -0- if married filing separate and lived with spouse at any time during the year)	12,000.00
7. Subtract line 6 from line 5 (not less than zero)	57,151.00
8. Enter the smaller of line 5 or line 6	12,000.00
9. Enter one-half of line 8	6,000.00
10. Enter the smaller of line 2 or line 9	6,000.00
11. Multiply line 7 by 85%	48,578.00
12. Add lines 10 and 11	54,578.00
13. Multiply line 1 by 85%	18,325.00
14. Taxable social security benefits (smaller of line 12 or line 13)	18,325.00

Name of Taxpayer: EFRAIN & BEATRIZ FLORES COTTO
Identification Number: 338-48-0638

Total

10/28/2024
25.20.00

2023 - Schedule EIC - Computation of Earned Income Credit

1. Investment income (if amount is greater than \$11,000, no credit is allowed)	0.00
2. Wages, salaries, tips, etc.	7,553.00
3. Amount of Medicaid waiver payments excluded from income	0.00
4. Subtract line 3 from line 2 (if value is zero or less, enter -0-)	7,553.00
5. Amount of nontaxable combat pay received	0.00
6. Sum of lines 4 and 5	7,553.00
7. Net profit or loss from self-employment less deductible part of SE tax	82,206.00
8. Earned income (sum of lines 6 and 7)	
9. Credit allowed using the amount on line 8	89,759.00
10. Adjusted gross income	0.00
11. Credit allowed using the amount on line 10 (if applicable)	108,696.00
12. Earned income credit (smaller of lines 9 and 11, if applicable or zero if line 1 is greater than the yearly investment income limitation amount)	0.00

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 and/or Section 6676 penalty issues, if any	27,625.00
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)	27,625.00
6. Applicable penalty rate	20.00%
7. Section 6662(a) accuracy-related penalty (Line 5 times line 6)	5,525.00
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)	5,525.00

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 and/or Section 6676 penalty issues, if any	27,625.00
2. Less: Underpayment attributable to non-penalty issues	0.00
3. Less: Underpayment attributable to 20% Section 6662 penalty issues	27,625.00
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