



Market Segment Specialization Program



TAXICABS

The taxpayer names and addresses shown in this publication are hypothetical. They were chosen at random from a list of names of American colleges and universities as shown in Webster's Dictionary or from a list of names of counties in the United States as listed in the United States Government Printing Office Style Manual.

This material was designed specifically for training purposes only. Under no circumstances should the contents be used or cited as authority for setting or sustaining a technical position.



Department of the Treasury
Internal Revenue Service

Training 3149-108 (5-93)
TPDS No. 84459N

Market Segment Specialization Program Taxicab Overview

Introduction

The information contained in this publication was developed and compiled in the Los Angeles District.

The initial examination of taxicab drivers in the Los Angeles District was begun in connection with the examinations of two corporate taxicab companies. Approximately 650 taxi drivers were under examination during the years 1987 to 1989, with average adjustments of \$8,000 and 7 hours per case year.

In order to provide for an equitable and consistent approach to all taxpayers under examination, a special "formula" was developed. This formula which was computed in three steps, incorporated information secured from the taxicab drivers, the Department of Transportation, taxicab companies, prevalent gas prices, etc., and other available data, such as number of days worked, miles driven, miles per gallon, number of paid trips and the taxi rates charged.

District Counsel, Appeals and attorneys from the taxicab companies, reviewed the (formula) computation used by the examining agents to determine gross income from operating taxicabs. The government and taxpayer representatives ultimately agreed on the validity of this alternative method of computing income and found that it was fair and defensible in a court of law.

Employment tax adjustments were also issued to the taxi companies that employed certain drivers to provide taxi service to credit customers, using the voucher system. Credit customers included schools, nursing homes, corporations and other organizations needing transportation at specific locations and hours each day.

Los Angeles is not what you would call a "taxi town," because most of its people drive their automobiles rather than use taxis or public transportation services. However, we believe that taxi drivers all over the nation operate in a manner similar to that of Los Angeles. Accordingly, our experience and the use of the gross income formula should prove to be an effective compliance alternative and have a significant impact in taxi city areas, such as New York, Boston, Washington, D.C., Philadelphia, Atlanta, Las Vegas, Denver, St. Louis, San Francisco and Austin.

Although the guide presents only an overview of the study conducted by the Los Angeles District, it can serve as a guideline for taxicab examinations across the country.

This page intentionally left blank.

TABLE OF CONTENTS

Introduction.....1
General Information.....3
Examination Techniques
 Pre-Examination Analysis.....5
 Books and Records.....5
 Reconstructing Gross Income.....6
 Income Formula.....7
Examination Issues
 Cashflow.....11
 Employee vs. Independent Contractor.....12
 Lease Drivers.....14
Appendix
 Gross Receipts Formula, Exhibit A.....16
 Analysis of Schedule C, Exhibit B.....17
 Taxi Formula Application, Exhibit C.....18
 Examination Summary Checksheet, Exhibit D.....29
 Schedule C from I.M. Taxpayer, Exhibit E.21
 City's Substitute for Schedule C, Exhibit F.....22

This page intentionally left blank.

General Information

At one time, cab companies required cab drivers to report the meter readings and the money collected to a company official at the end of their shift. The drivers were employees who received a minimum salary and a commission at the end of the pay period. In that scenario, income from tips was the big issue. Now, a company finds it easier to charge drivers a flat rate for using the vehicles and not have the problems of employment taxes and the review and manipulating of meter readings. This method of operation for the cab companies is the subject of Revenue Ruling 71-572, 1971-2CB347.

Taxicab companies are issued franchises by a political body or organization, such as the county, city, airport, etc., to operate in their respective jurisdiction.

In order to get the franchise, a company must guarantee that its vehicles will be in a clean condition, available at specified times to have a specified response time rate, and drivers meet certain standards.

There is also a franchise fee, costing between \$25,000 to \$40,000 that drivers must pay to the taxicab company. If a taxi does not meet the requirements of the franchise, it is referred to as a "bandit" and is considered illegal and subject to fines. Taxicab companies encourage their drivers to drive 10-12 hours per day, six days a week. To keep the license, they must have drivers available to answer the radio dispatch within minutes of the customer's request.

Since taxi drivers are treated as independent contractors, no record of fares earned is maintained by the company. If the cab company owns the taxis, the driver must pay a rental fee for the use of the vehicle. The rental fee is computed on a weekly basis and may include charges for property damage insurance.

Drivers who own their vehicles are allowed to operate under the company license, but they are charged a fee for the dispatch service and insurance.

Notes:

Revenue Ruling 71-572, 1971-2 CB 347, Situation 1

An average driver in the Los Angeles area earns about \$200 per day. Often these drivers work long hours to earn enough money to buy the taxicab franchise and become a taxi owner/operator.

Normally, these drivers pay the \$25,000 to \$40,000 in full within a year of purchase.

The city's transportation department regulates the taxicab companies. The city sets the fee structure and makes periodic inspections of the meters. Drivers are required by the police to keep daily logs of passenger pick-ups and destinations. The city also checks to see if these logs are being kept and that they are maintained for the required two week period.

The city of Los Angeles also requires the taxi owners to file income statements with the city, to ensure that they are operating their cabs in a businesslike (profitable) manner. It restricts the number of taxi licenses issued, to ensure that licenses are used as intended, and that the city has enough taxis to serve its population.

Taxicab companies in Los Angeles are self-insured and do not offer collision insurance. Allegedly, drivers have numerous accidents and as a result, owners often purchase older and larger vehicles, these vehicles are less fuel-efficient and require substantial amount of repairs. The City is in the process of requiring taxi owners to operate taxis that are five years old or less in order to provide the public a better and safer transportation.

Notes:

EXAMINATION TECHNIQUES

Pre-Examination Analysis

To facilitate the examination of taxi cab drivers, the agent should obtain the following source documents, prior to the examination of the tax returns:

Monthly waybills: Waybills are retained for a period of 18 months. They can be obtained from the taxi companies and used to reconcile income. (In our project, when income tax returns were filed, the Schedule C's, were usually lower than the amounts shown on the income statements filed with the City Department of Transportation.

List of vehicles owned by taxpayer: The Department of Motor Vehicles is another source of valuable, public information.

Submitting Letter 1001 to the DMV, will provide a listing of vehicles owned by the taxpayer and a history of accidents.

Names and addresses of taxi drivers: The City License Departments provide names and addresses of drivers, and the companies for which they work.

IRP transcript, Form 5346 and Form 8300 Checksheet should be submitted to trace sources of unreported income.

Personal Living Expenses - Form 4822 should be prepared based on information from the taxpayer. This information, as received from the taxpayer, becomes one of the income probes prescribed in IRM 4235.

Books and Records

Generally, the taxicab industry is characterized by taxpayers who keep very informal records or no records at all. This was demonstrated during the examination of over 600 taxi driver returns where records were inaccurate or non-existent.

Notes:

Books and Records

Among the items that should be included in these examinations are the taxpayer's waybills. A waybill is a daily summary of the taxi driver's mileage and fares collected. Taxi drivers submit the original document to their taxi company. The taxi companies do not examine, inspect or verify the accuracy of these records.

Drivers often deduct expenses paid in cash prior to recording the daily receipts. The drivers should have receipts and cancelled checks for their expenditures.

Documented verification of miles driven will be especially important if the driver does not agree with the estimated paid miles derived from "the formula."

Deduction of payment of worker's compensation (or issuance of Form 1099's) by the taxi owner indicates he has a lease driver. The workmen's compensation deduction is either alone or combined with the dues paid to the taxi company. Most of the taxi owner operators failed to report lease income.

Income Probe Method

To determine the actual income for each of the years in question, use the three income probe methods prescribed by IRM 4235. First, analyze the taxpayer's bank deposits. Next use an indirect method to reconstruct income from the taxi operation which in this situation represents a formula that has been developed for this activity. Third, reconstruct income from the personal living expenses which the taxpayer provides and is shown on form 4822.

Compare the results from the three methods and analyze the differences to determine income.

Notes:

Pre-Examination Resources

- a. Waybills
- b. Income statements filed with the city
- c. Company records of lease drivers
- d. DMV records
- e. IRP transcript

When a taxpayer fails to maintain records, necessitating income reconstruction by the Service under a formula, and the taxpayer takes the matter into litigation, courts view the Service's method of accounting to be presumptively correct. It is not necessary for the formula to be precise in order for the formula to retain the presumption that it is a method of accounting that clearly reflects income. A taxpayer may be able to show that one of the calculations in one of the steps should be modified. However, even if the taxpayer is able to make this factual showing, the remaining elements of the formula will retain their presumption of correctness. See *Batt v. Commissioner*, T.C. Memo. 1965-104

Although the conservative approach of using all three methods to determine income is recommended, if lack of information or resources restrict the examination, a reconstruction of income based on any one of the three methods should be sustained in court.

Cash on Hand

It is important from the start of the examination to establish clearly taxpayer's explanations on accumulated cash, since the taxpayers frequently indicated that their accumulation of cash occurred prior to the years under examination.

This is important whether or not the taxpayer is using cash from the taxi operation to pay for personal expenses or the expenses of the taxi operation prior to reporting the fares collected.

If the taxi operators are recent immigrants, securing transcripts of all returns filed can verify sources of cash. Forms filed with the Immigration Department will indicate the assets that they brought from abroad. Taxpayer's previous occupations, inheritances, loans, gifts and other sources of income must be analyzed.

Mileage

Use cab repair receipts to reconcile the actual miles driven and compare to the miles estimated for use with the formula. (As more taxi drivers were examined in the Los Angeles project, they became aware of our approach and began to submit repair bills not having odometer readings). One method to determine the amount of mileage driven, when repair bills do not have odometer readings, is by estimating mileage from oil bills, tire purchases, tune-ups, and other regular maintenance services.

Examples: 5 oil bills submitted indicate 15 oil changes
x 3,000 miles per oil change
45,000 miles driven.

Notes:

3 Ways to Estimate G/R

- 1 - Bank Deposit Analysis
- 2 - Income formula (See Exhibit A)
- 3 - Using F. 4822, Personal Living Expenses

See Exhibit E - Sample forms
See IRM 4235

Fuel Consumption

Gas expenditures should correspond to the amount of miles the taxi was actually driven. During examination, many taxpayers claimed that the gas expenses were overstated. This fact could be verified by the actual miles driven from odometer readings or from information filed with the local Department of Transportation. The analysis of gas expenditures is very important, since the formula is based on the consumption of gas.

Reconstructing Income

An indirect method, a formula to estimate income, can be used to reconstruct income or gross receipts when it is determined that the taxi-operator does not have adequate records.

In Warren R. Batt Sr. and Optat M. Batt v. Commissioner, the Tax Court ruled the adequate records should be maintained by the petitioner, and that income can be reconstructed by a reasonable formula or method when he failed to do so.

Upon review of the Department of Transportation taxi rates and gas prices from 1984 to 1986 gross income was determined as based on these factors:

- (1) A flag drop of \$1.90 for the first 1/5 or 64 seconds.
- (2) \$0.20 for each additional 1/8 mile or part from 1986.
\$0.20 for each additional 1/7 mile or part prior to 1986.
- (3) \$0.20 for each 40 seconds waiting time and/or traffic delay.
- (4) \$24.00 flat rate per trip (group) or taxicab trips between
- (5) \$2.50 surcharge for trips origination at Los Angeles
- (6) Gasoline averaged \$.86/gallon to \$1.23 per gallon from 1984

Notes:

Warren R. Batt Sr. and Optat M. Batt v. Commissioner

The formula determines total miles driven based upon the cost of gasoline and average mileage, per gallon.

In the case cited above, the taxi was estimated to operate at a 50% occupancy rate. This is a conservative estimate since the taxi used its radio for return fares.

Total mileage	
<u>X</u>	<u>50%</u>
Subtotal #1	
Subtotal #1	
<u>X</u>	<u>\$1.40</u>
Subtotal #2	
+total flag drop*	
Subtotal #3	
<u>+ 10% for estimated tips</u>	
Total Gross Receipts	

* total flag drop collected for the year (no. of days x customer per day) x the \$1.90 entry rate.

Notes:

AUDIT ISSUES

Cashflow

Often, the taxpayer's bank statements will indicate that the taxpayer has cash activity that does not correspond to the income reflected on the return. Most taxi operators pay their taxi expenditures and personal living expenditures in cash prior to depositing their monies.

Like many other cash-basis taxpayers in a cash-basis business, cab drivers tend to keep detailed records of expenses and virtually none to verify income.

A basic fee (often called the flag drop or the entry fee) is charged to each customer as soon as the customer enters the taxicab. If the examiner can determine the approximate number of customers a driver has in a specific period, the amount the driver received for this portion of the taxi fare is easily computed. (the flat fee is regulated by the city that issues the franchise.)

The second portion of the charge each passenger pays, is based on miles traveled while enroute to the destination. The passenger notices the meter readings increase as the miles increase. Therefore, it is reasonable to assume that if the examiner could determine the approximate number of miles traveled, he/she could also compute the money received by the driver for mileage.

Several variables must be considered when attempting to reconstruct income. Each driver operates in a different manner. Consequently, the facts differ with each driver. Some drivers only "play the airport" or their favorite, while some ride the streets in their favorite area randomly searching for customers. All drivers pay a fee for the dispatch service and must be available for calls from the dispatcher. Many drivers allege that the dispatcher only notifies favorite drivers who tip well. In any case, it is best to address all the variables during the initial interview.

Notes:

See Exhibit C - Tax Formula Computation

For example, if a driver "plays the airport," he goes to the airport (holding lot) and wait his turn for a fare, pays \$2.50 (for leaving the lot), picks up his fare, delivers the passenger to the desired destination, and returns to the lot. In reality, the driver who picks up a passenger at the airport usually delivers that fare to one of the downtown hotels and then picks up another fare at the same hotel. When the second passenger is delivered to the requested destination, the dispatcher has another fare to be picked up in the near vicinity.

(Incidentally, the airport places additional restrictions on each driver.) It limits the vehicle appearance at the airport only to every other day. If the cab number is an odd number, the vehicle can only enter the airport holding lot on odd days, limiting it to 15 days per month.

The second variable is the amount of non-paid miles traveled. It is reasonable to consider that the car is not occupied 100% of the time it is on the road; the actual percentage will vary with each individual driver, but would not be cost effective if greater than 50%.

Another variable is the number of miles the taxicab gets for every gallon of gas used. In Los Angeles and vicinity, taxicabs are almost all 1977 to 1980 vehicles, which get about 12 miles to the gallon. Most drivers, however, insist their vehicles get only nine miles to a gallon.

Employee vs. Independent Contractor

Revenue Ruling 71-572, 1971-2 C.B. 347 provides that taxi drivers who lease their vehicles from a taxicab company in return for a percentage of the fares that they collect are to be regarded as employees of the company. However, absent other "control" factors, owner/operators who lease the company's services and drivers who lease both the vehicles and the company's services for a fixed amount at regular intervals are not company employees. Their earnings are subject to self-employment tax and related estimated tax payments.

Notwithstanding Rev. Rul. 71-572, the Los Angeles District concluded that the drivers audited were generally employees because other "control" factors existed which are not present in the ruling's factual situations. If a specific factual situation is not covered by Rev. Rul. 71-572, then no conclusion should be drawn based solely on the vehicle's ownership. This is just one of the factors to be analyzed in determining whether a common law employer-employee relationship exists. See Rev. Rul. 87-41, 1987-1 C.B. 296. Among the factors which should be examined in determining whether an employer-employee relationship exists are:

(1) the degree of control exercised over the details of the work; (2) the investment in the work facilities; (3) the opportunity for profit or loss; (4) whether the type of work is part of the principles regular business; (5) the right of the company to discharge the driver; (6) the permanency of the relationship; and (7) the relationship the parties think they are creating.

While the degree of control exercised over the details of the work is important, the crucial test lies in the right to control (1) the manner in which the service is to be performed; (2) the means to be used; and (3) the result to be obtained.

In the Los Angeles project, the facts indicated that the examined taxicab drivers should generally be regarded as employees. In order for a taxicab company to meet its many franchise requirements, all of its drivers (lease drivers as well as owner/operators) must follow the appropriate rules and regulations. Although all drivers can theoretically refuse to take a given dispatch order, their ability to refuse without suffering adverse consequences is directly related to the length of time that the driver has been with the company. Their ability to refuse such orders is not tied to the ownership of the vehicle. Furthermore, no distinction by the company is made between the owner/operators and the lease drivers in terms of assignments, the hours to be worked, or the fares to be charged. The company can discharge owner/operators as easily as lease drivers because the only way a person can drive a taxi is to be included under the franchise granted to the company. The car must be painted in the company colors and the car must be included within the number of vehicles allowed in the company fleet. It must also be included in the company property damage insurance policy.

Other cab companies have credit customers who pay drivers with a voucher. That type of driver (who submits vouchers is an employee. The vouchers are submitted to the company, who accepts them as payment of the driver's fees and reimburses the drivers for the amount. The creditor is then billed and the cab companies receive the payment. For example, a driver who is assigned a particular school run, is required to pick up several handicapped children from their homes, at a particular time every morning, deliver them to school and back home every day. The company does exercise the necessary control required to classify those drivers as employees.

The Service's ability to reclassify an individual from an independent contractor to an employee with respect to the employer's liability for employment tax may be limited by the application of section 530 of the Revenue Act of 1978. Section 530 creates certain standards of "reasonable" taxpayer behavior which ensure that the employer's employment tax liability (but not the employee's) will be relieved if it misclassifies workers. To obtain section 530 relief, the employer must classify all workers in similar positions in the same fashion, file all required information returns (including Forms 1099) and have a reasonable basis for the classification scheme. The reasonable classification basis can be satisfied if the employer relied upon: (1) a revenue ruling or judicial precedent; (2) a longstanding classification practice of a significant portion of the industry; (3) an earlier examination where the classification of the workers was not challenged by the Service; or (4) some other reasonable basis for the classification. Section 530's relief is limited to employment taxes and it does not relieve the misclassified workers from their respective employment tax liabilities.

Lease Drivers

Hardly any owner-operators report lease income, although most companies/owners do lease out one or more of their vehicles. The lease rate in 1984 was \$40./day and is as high as \$72./day, currently. The lease drivers are not issued F.1099s (as required) and no one admits to maintaining records of the day the car(s) were leased. Therefore, the examiner must usually know from some other source, who the lease driver is to get a more accurate picture of the company business. One way to determine which owner-operators had lease drivers is to note the companies who paid workman's compensation, if the city where the company operates requires it.

Findings in Los Angeles project revealed that less than 40% of lease drivers filed tax returns. Many of those who did file, did so only because their spouses had worked somewhere and received a W-2. If the lease driver is issued F.1099's, they should be reconciled to the taxpayer's gross income.

The number of lease drivers and the amount of lease income can be verified, by the statements of income filed with the city. Bank statements may also indicate periodic lease payment (approximately \$200 to \$400 a week) and the taxi company records will indicate which lease drivers the taxpayer has.

The taxi companies are self-insured and as such, must keep records of the lease drivers of all the taxi owners. The lease driver's driving records and personnel history are reviewed prior to being allowed to lease a taxi from a franchise. These records also serve as a source of a

substantial number of non-filers. Most lease drivers work sporadically and frequently do not report the income or pay tax on it.

Examination Technique

Compare the taxi owner's lease income to the amount of income reported to the city, the workmen's compensation paid, as well as the estimated lease income from the number of weeks the taxi is leased. (All these figures are available in the taxi company records). The estimated income total should be compared to an estimated income number based on the formula. The number of days per week the taxi was being leased, the amount of gas used, the driver's age, place of residence and the driver's method of operation are to be considered in using the formula.

This page intentionally left blank.

Exhibit A Formula for Computing Taxi Gross Receipts

Step 1--Amount earned for entry

Number of customers per day _____
X Days worked per year = _____
Approximate trips per year _____
X Entry Rate _____
Total earned entry amount _____

Step 2--Business Miles Driven

Total amount paid for gas _____
Divided by Cost per gallon _____
Number of gallons used _____
X Miles per gallon _____
Total miles driven _____
Less Percentage of non-business miles _____
Total Business mileage _____

Step 3--Gross Receipts & Unreported Income

Business mileage (from Step 2) _____
X Rate charged per mile * _____
Taxi fares based on miles _____
+ Total Entry Amount (from Step 1) _____
Total fares collected _____
+ 10% tips _____
Estimated gross receipts _____
+ Lease rental income _____
Total Gross Receipts _____
Less Gross receipts per tax return _____
Unreported income _____
* from Dept. of Trans. of taxi rates & gas prices

Exhibit B

Analysis Schedule C

Example: I.M. TAXPAYER

1. Gross income is determined through the use of the taxi formula (Exhibit C). Gas expenditures are entered together with the number of days worked and the number of customers per day to calculate the gross receipts. Compare gross receipts to the taxpayer's waybills. In most instances, taxpayers will not have records, in which case the formula will be used to determine income, but if the City requires an income statement, a comparison can be made. The statement to the City is not audited and is only used to insure the City that the driver is providing a needed service, therefore, the statements are often false (and overstated to impress the City).
2. Analyze repair invoices and copy the ones that include odometer readings. If the Taxpayer cannot provide repair invoices with odometer readings, oil change invoices can be used to estimate total miles driven, (figuring the oil gets changed approximately every 3000 miles.)
3. Workmen's compensation payments indicate the taxi owner had a lease driver for the entire year. ($\$150./\text{month} \times 12 \text{ months} = \$1,800$) Workmen's compensation is not mandatory, as some taxpayers may remind you. Also, the auto mileage will likely be higher than if there were no lease driver.
4. Airport surcharges are paid by the passengers and should not be deducted by the taxi operator. Prior to 1987, the taxi operator paid this surcharge and was not reimbursed, but the surcharges indicate that the taxi operator had trips from the airport. (LAX surcharges divided by $\$2.50/\text{per trip} = \text{total number of trips}$.)

Exhibit C

Taxi Formula Application

Examples - Results from analysis of I.M. Taxpayer, Schedule C

	1984	1985	1986	1987	1988
Step 1 - Amount earned for entry					
Number of customers per day	10	10	10	10	10
X Days worked per year	<u>x 225</u>				
Approximate trips per year	2250	2250	2250	2250	2250
X Entry rate	<u>\$ 1.90</u>				
Total earned entry amount	\$4,275	\$4,275	\$4,275	\$4,275	\$4,275
Step 2 - Business miles driven					
Total spent for gas	\$ 0	\$ 0	\$ 0	\$ 0	\$3,710
divided by Cost per gallon	<u>\$ 1.15</u>	<u>\$ 1.23</u>	<u>\$ 1.08</u>	<u>\$ 1.00</u>	<u>\$ 1.20</u>
Number of gallons used	0	0	0	0	3,092
X Miles per gallon	<u>12</u>	<u>12</u>	<u>12</u>	<u>12</u>	<u>12</u>
Total miles driven	0	0	0	0	37,104
X Percent of non-business miles	<u>x 50%</u>				
Total business miles	0	0	0	0	18,552
Step 3 - Gross Receipt & Unreported Income					
Business miles (step 2)	0	0	0	0	18,552
Taxi rate charged per mile	<u>\$ 1.40</u>	<u>\$ 1.40</u>	<u>\$ 1.40</u>	<u>\$ 1.60</u>	<u>\$ 1.60</u>
Taxi fares based on miles	\$ 0	\$ 0	\$ 0	\$ 0	\$29,683
* Total entry amount (step 1)	<u>\$4,275</u>	<u>\$4,275</u>	<u>\$4,275</u>	<u>\$4,275</u>	<u>\$4,275</u>
Total fares collected	\$4,275	\$4,275	\$4,275	\$4,275	\$33,958
+ 10% tips	<u>428</u>	<u>428</u>	<u>428</u>	<u>428</u>	<u>3,396</u>
Gross receipts	\$4,703	\$4,703	\$4,703	\$4,703	\$37,354
+ lease rental income	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$15,000</u>
Total gross receipts	\$4,703	\$4,703	\$4,703	\$4,703	\$52,354
less gross receipts per return	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$17,000</u>
Unreported income	\$4,703	\$4,703	\$4,703	\$4,703	\$35,354

Exhibit D

Summary Checksheet of Taxicab Examination Considerations

I. History

- A. Cash industry
- B. Poor recordkeeping
- C. Unsophisticated taxpayers
 - 1. Immigrants
 - a. Unfamiliar with tax law & recordkeeping
 - b. Easy prey for unethical tax preparers
 - 2. Camaraderie and willingness to comply
 - 3. Vulnerability to unethical tax return preparers

II. Examination Techniques

- A. Books & records for actual examination
 - 1. Waybills
 - a. Taxpayer's copies
 - b. Copies filed with the taxi companies
 - 2. Bank Statements
 - 3. Expense Receipts
 - a. Gas
 - b. Auto repairs
 - c. Workmen's compensation
 - d. Insurance dues
 - 4. Insurance settlements
 - a. Copy of cancelled check
 - b. Copy of settlement agreements
 - 5. Loan agreements
 - a. Obtain copy of agreement and of deposit slip from borrower
 - b. Inspect cancelled check to borrower
 - c. Determine if the loan is accepted
 - 6. Purchase and sales agreement
 - 7. Lease agreements with lease drivers
 - 8. Review of F.1099's from owner to lease driver
- B. Pre-examination analysis
 - 1. Reconcile waybills to income statements filed with City
 - 2. Obtain schedule of lease drivers
 - a. Compare taxi company records to taxpayer's tax return
 - b. Compare financial statement filed with City to tax return, looking for unreported lease income
 - 3. Dept. of Motor Vehicles
 - a. Number of autos owned
 - b. History of accidents

Exhibit D
(continued)

4. Records filed with Federal agencies
 - a. F.8300 Currency Transaction Report
 - b. IRP transcript and F.1099's
 - c. Forms filed with Immigration (if applicable)
 - d. F.4822 Personal Living Expenses

C. Gross Receipts

1. Bank Deposit analysis
 - a. Interest income
 - b. Source of deposits
2. Initial interview
 - a. Established cash on hand (when/how accumulated, how much, over what period of time)
 - b. Reconstruct income using F. 4822, Statement of Personal Living Expenses plus cash payments for taxi expenditures
3. Residency and former occupations (in and outside of U.S.)
4. Method of taxi operation
 - a. Airport vs. city/hotels
 - b. Number of cities driver has licenses to operate in
 - c. Number of years taxpayer has been taxi driver
 - d. Taxpayer's circumstances
 - i. Physical condition
 - ii. Taxpayer's age
 - iii. Handicap

III. Examination of tax returns

- A. Estimate taxpayer's income
 1. Formula
 2. Lease driver income
 3. Review waybills
 4. Substantiate major expenses
 - a. Repair bills--copy invoices with mileage listed. If no such copies, copy receipts for oil or tire changes
 - b. Gas
 - c. Dues
 - d. Workmen's compensation
 - e. Liability insurance
- B. Employee vs. Independent Contractor
- C. Lease drivers

Exhibit E

Information from Schedule C (Form 1040)
1988

Name of Proprietor - I.M. Taxpayer

Part I Income

Gross Receipts	\$15,000
Other Income	<u>2,000</u>
Gross Income	<u>\$17,000</u>

Part II Deductions

Dues and Pubs.	\$3,000
Insurance	7,000
Laundry/Cleaning	200
Repairs	5,000
Other Expenses	
Workmen's Comp.	1,800
Gasoline	3,710
LAX Surcharges	1,200
License	<u>935</u>
	<u>7,645</u>
Total Deductions	<u>\$22,845</u>
Net Profit	<u>(\$5,845)</u>

Exhibit F

Sample Form of City's Substitute Schedule C

All UITD owners submit this form to the UITD office as soon as possible. Previously, Schedule "C" was required but now the L.A. DOT requires this form. This form must be sent to the city by April 15.

Revenue

Owner's Taxicab Fares Collected.....\$24,000
Second Driver's Lease Payments.....12,000
 Second Drivers Fares Collected \$35,000
Other (specify source) This pertains to your
UITD taxi only.....
TOTAL REVENUE.....\$36,000

Expenses

Association Dues.....\$ 3,000
Gasoline..... 3,710
 Total Miles Driven 40,000
Repairs and Maintenance of Taxicab
(includes tires, oil, etc.).....\$ 5,000

Car Model CHEVY
Cost \$10,000
Date Purchased 1984

Taximeter Depreciation.....
Radio Depreciation.....
Liability Insurance.....\$ 7,000
Uniforms.....
Interest.....
DMV Taxes.....
Los Angeles City Permits..... 935
Other City or County Permits.....
Workman's Compensation..... 1,800
Other Expenses (itemize).....car wash..... 200
 ...LAX surchar..... 1,200
TOTAL EXPENSES..... \$22,845

Net Income..... \$13,155

I declare under penalty of perjury that the above amounts are true and correct. Dated at Los Angeles, California on

(month, day, year)

Signature

Cab #