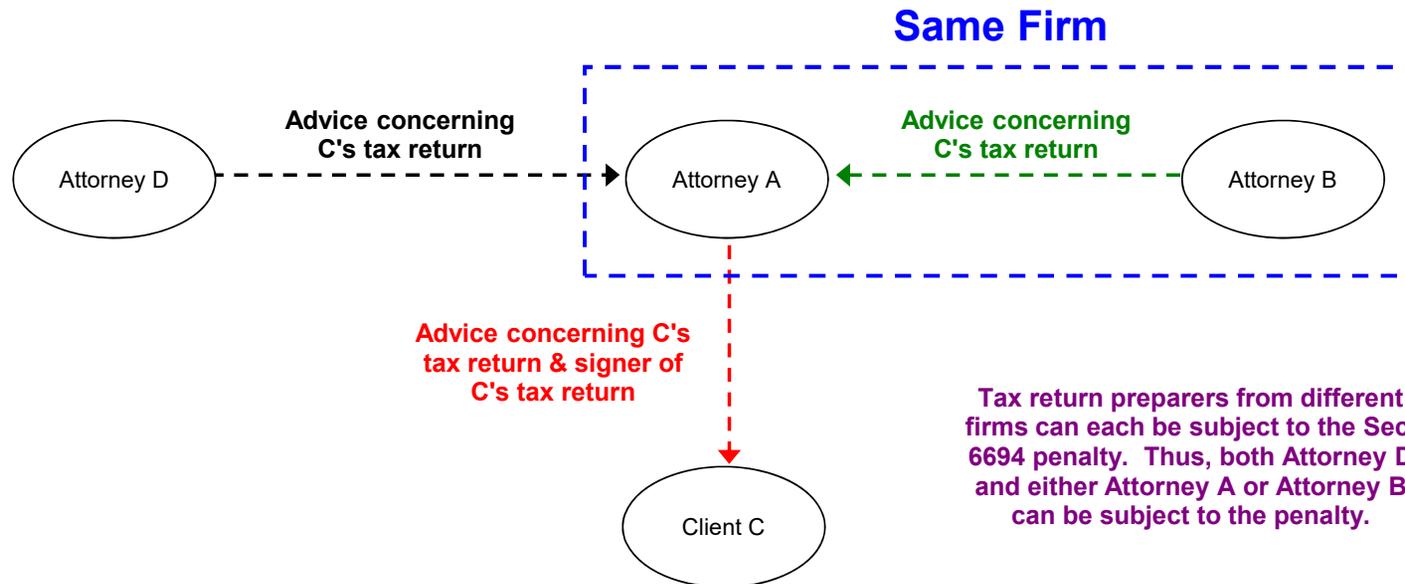


**Reg. 1.6694-1(b)(6),
Example 4**

**Potential For Two Sec. 6694
Penalties With Attorneys
From Different Firms**

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Attorney A provides advice to Client C concerning the proper treatment of an item with respect to which all events have occurred on C's tax return. In preparation for providing that advice, A seeks advice regarding the proper treatment of the item from Attorney B, who is within the same firm as A, but A is the attorney who signs C's return as a tax return preparer. B provides advice on the treatment of the item upon which A relies. Attorney D, who works for a different firm than A, also provides advice on the same position upon which A relies. B's and D's advice is reflected on C's tax return but no disclosure was made in accordance with §1.6694-2(d)(3). The advice constitutes preparation of a substantial portion of the return within the meaning of §301.7701-15(b)(3).

The IRS later challenges the position taken on the tax return, giving rise to an understatement of liability. For purposes of the regulations under section 6694, A is initially considered the tax return preparer with respect to C's return, and the IRS advises A that A may be subject to the penalty under section 6694 with respect to C's return. Based upon information received from A or another source, it may be concluded that B, rather than A, had primary responsibility for the position taken on the return that gave rise to the understatement and may be subject to penalty under section 6694 instead of A. It may be concluded that D is also primarily responsible for the position on the return and may be subject to penalty under section 6694.