Earned Income Tax Credit
Due Diligence

Know the Law
Ask the Right Questions
Get All the Facts

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What is EITC Due Diligence

- EITC error rate is 23-28%
- 70% of EITC returns are prepared by paid preparers
- Congress enacted due diligence requirements in response to EITC error rate
- Requires paid preparers to take extra steps to ensure correct EITC claims
EITC Due Diligence

- Internal Revenue Code §6695(g)
- Requirements
  1. Completion of eligibility checklist
  2. Computation of the credit
  3. Records retention
  4. Knowledge requirement
     90% of penalties assessed for failure to comply with this area

Common Errors

More than 60% of all EITC errors are from:

1. Claiming a child who does not meet the age, relationship or residency requirement
2. Filing as single or head of household when married
3. Under or over-reporting income
Best Practices for Applying EITC
Due Diligence in your Practice

• Know the law
• Ask the right questions
• Get all the facts
• Document as you go

Know the Law

• Don’t rely on software alone
• Explain the law to your clients
• Evaluate the information received
• Use resources available when questions come up
Ask the Right Questions

• Conduct a thorough interview
• Ask open ended questions
• Phrase questions in terms your clients understand
• Ask questions of each client, each child, every year

Determine if a child is a qualifying child
– Determine residency and household living arrangements
– Ensure your client meets the new age requirement or exception
– Secure enough information to ensure your client meets special requirements of certain relationships
Ask the Right Questions

Determine correct filing status

– Don’t expect your clients to understand the tax definitions of head of household or “considered unmarried”
– Take special note when filing status changes from one year to the next
– Use Form 886-H-HOH

Ask the Right Questions

• Ensure income is reported correctly
  – Consider reasonableness of known income
  – Be alert to questionable income reporting forms (Forms W-2 and 1099)
  – Follow up on Schedules C with rounded numbers for income/expenses and/or no expenses
  – Look out for questionable situations where the income maximizes the EITC credit
• Get all the facts
Document as You Go

• Document any additional questions you raised and your client’s responses
• Maintain all clients’ records in a secure environment

IRS Resources

• EITC Preparer Toolkit
  – Search “toolkit”, select “EITC Toolkit for Tax Return Preparers”
  – EITC Central tab
  – EITC Due Diligence Training Module
  – Hot Topics
Welcome to the Tax Preparer Toolkit

Here is everything you need for EITC information and procedures to help you as a tax return preparer assist your clients.

This toolkit includes:

- The latest rules and tax law changes
- EITC eligibility requirements
- Tips on how to file accurate claims and meet your due diligence requirements
- The most up-to-date EITC forms, brochures, and support materials available for download
- Compliance information

Alerts for Special Situations

- Review our Hot Topics for items affecting you as a tax return preparer such as:
  - Visits to Preparers Filing Highly Questionable 2008 EITC Returns
  - Proposed Return Preparer’s Review
  - EITC 2009 Tax Forum Presentations
  - Identity Theft

EITC Central

Welcome to EITC Central: Everything you need, all in one place.

We created this new and improved site for our valued IRS partners and tax preparers. By using the latest tools for marketing, education, and tools to help in accurate tax return preparation, you can ensure all EITC eligible workers receive the credit they earned and deserve.

IRS’s goals for EITC are to increase participation while reducing errors. The resources in this site help balance the goals, assisting you in reaching these eligible workers who qualify for the credit and preparing accurate returns which reduces claims made in error.

We welcome comments and suggestions to better meet your needs in improving this site.

We thank you for your efforts in serving taxpayers well.
Summary

- Know the law
- Ask the right questions
- Get all the facts
- Document as you go