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Meeting Your EITC Due Diligence

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Overview

- Highlight changes
- Define Due Diligence
- Provide examples
- Share best practices
- Describe compliance effort
- Introduce tools



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Why Due Diligence?

1. Reduce errors
2. Give credit to eligible workers
3. Claim correct amount



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Why Due Diligence?

**21 to 26% of EITC claims
have errors**

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Paid Preparers must:

- Know the law,
- Get the facts,
- Ask the right questions,
- Document the responses.



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Reasons for errors:

- Misinterpreting the law
- Accepting client-given information at face value
- Intentional fraud



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New:

Due Diligence penalty increased to \$500
for returns due after December 31, 2011

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Due Diligence requirements

1. Complete Form 8867, Paid Preparer's Earned Income Credit Checklist



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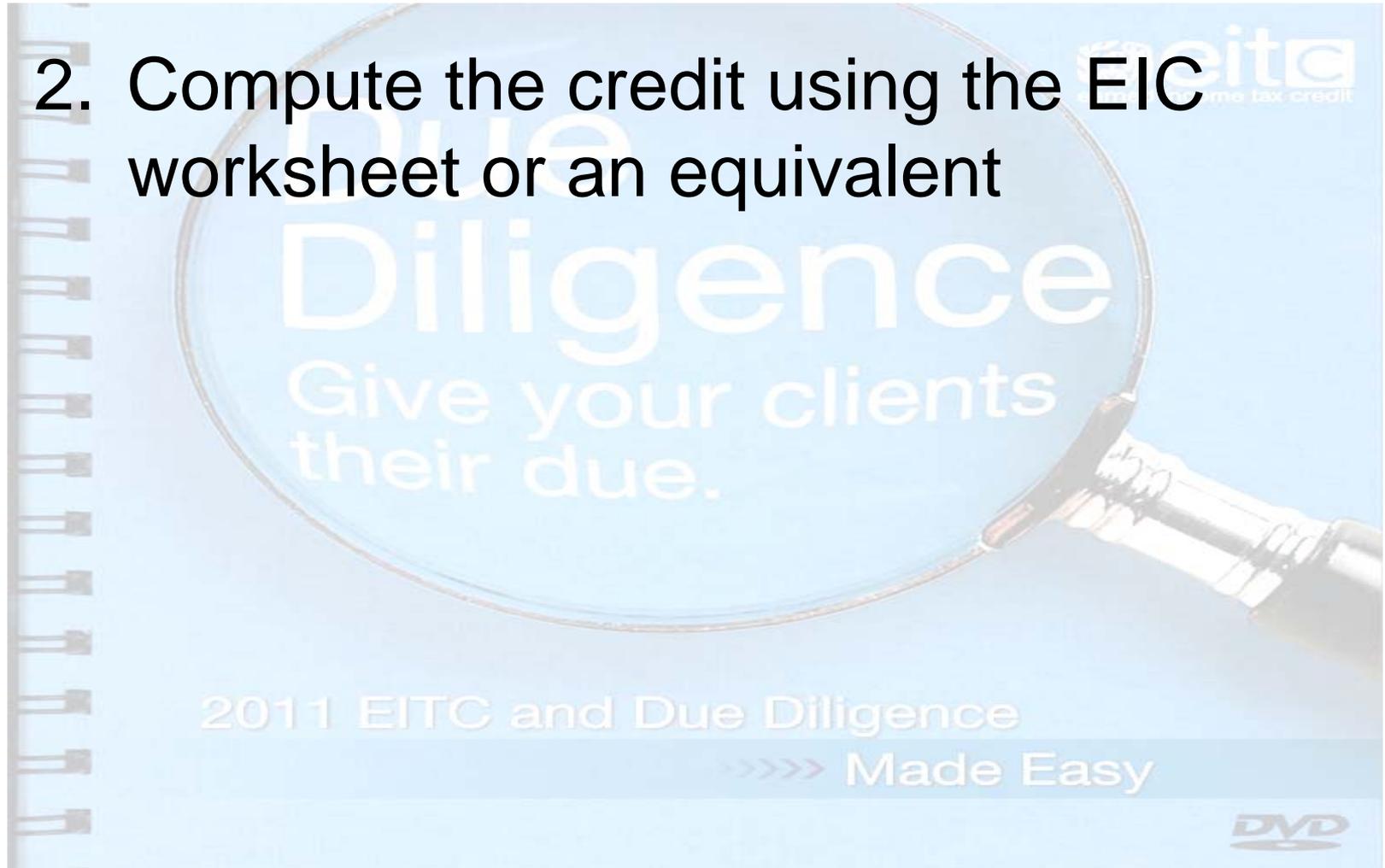
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Due Diligence requirements

2. Compute the credit using the EIC worksheet or an equivalent



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Due Diligence requirements

3. Keep records

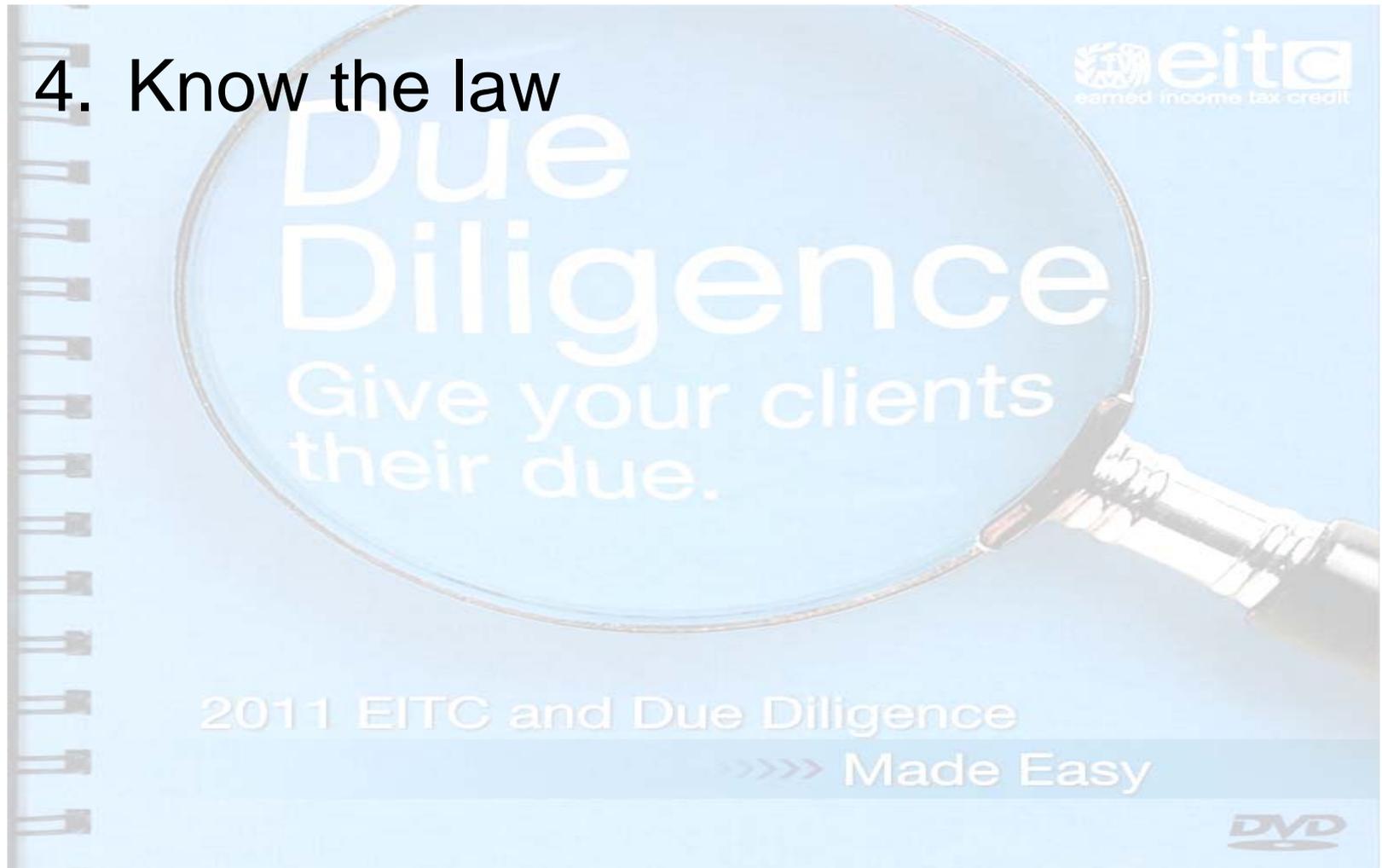


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Due Diligence requirements

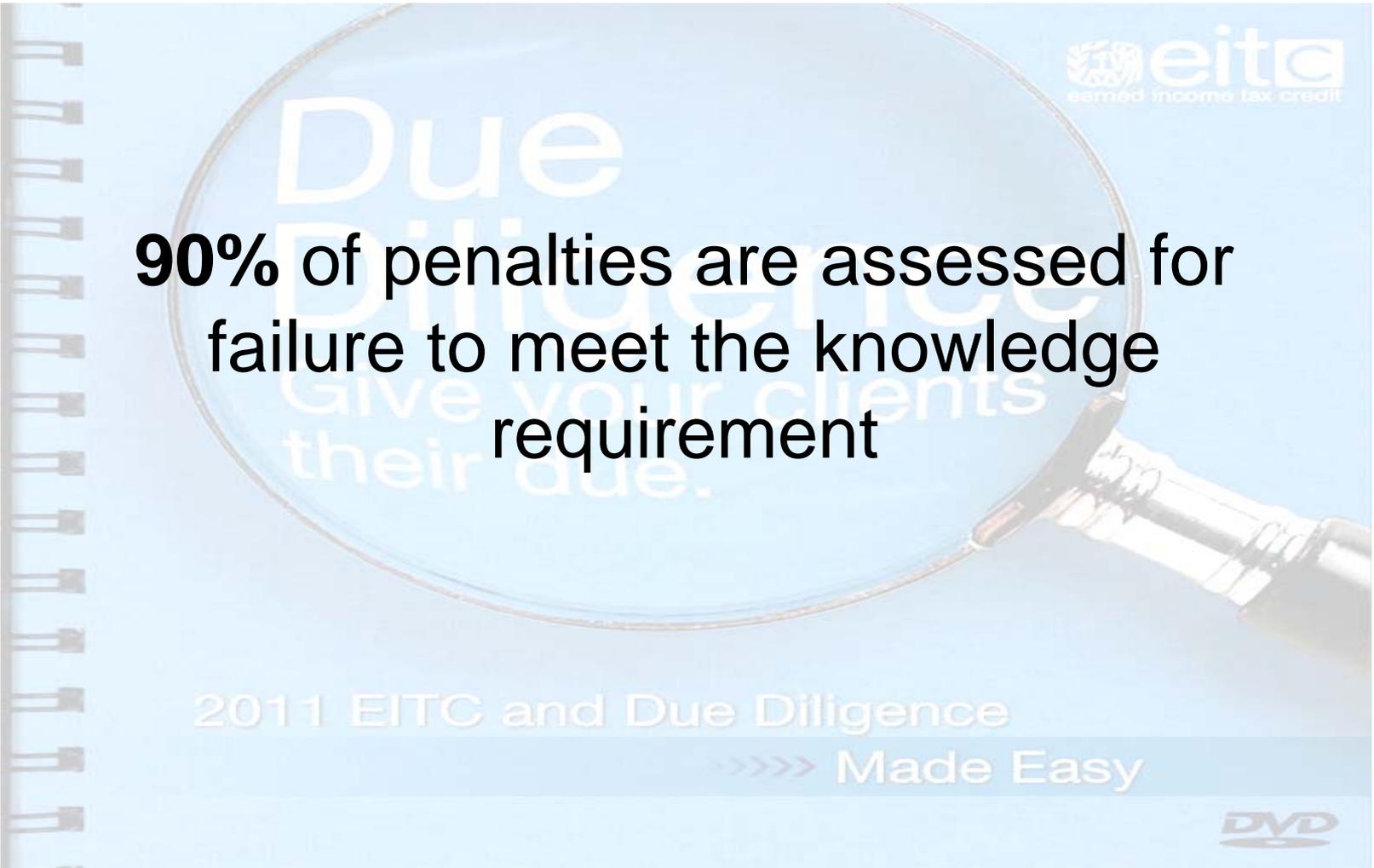
4. Know the law



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90% of penalties are assessed for failure to meet the knowledge requirement

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Knowledge standard

Would a reasonable and well-informed tax return preparer, knowledgeable in the law, conclude the client-furnished is questionable?

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Tip #1

Recognize incomplete or inconsistent information.

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Tip #2

Don't rely on tax software.

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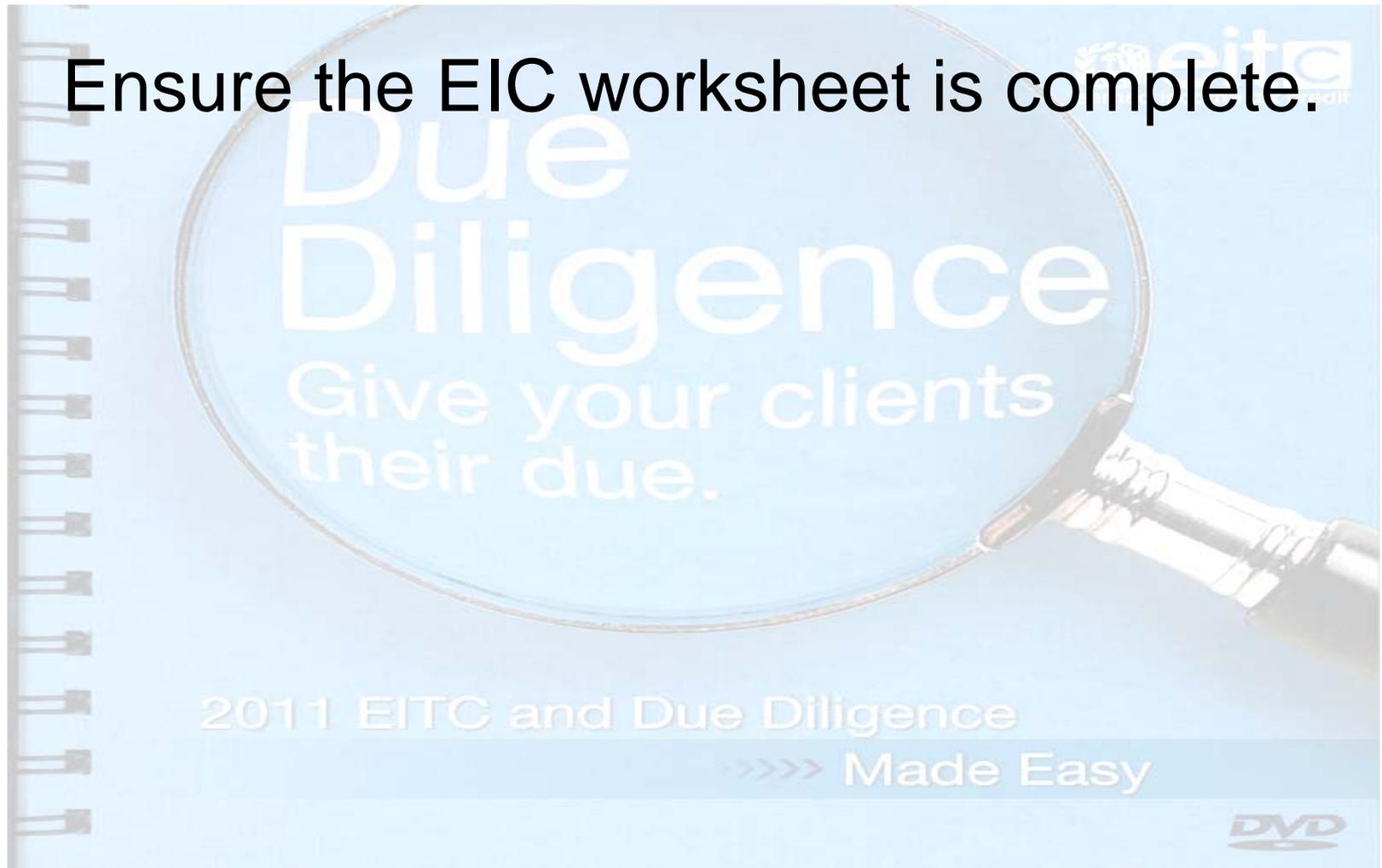
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Tip #3

Ensure the EIC worksheet is complete.



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Remember, IRS does not
review and approve tax
software



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Avoid the top 3 errors

1. Non-qualifying child
2. Incorrect filing status
3. Under- or over-reporting earnings



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Tip #4

Ask simple, easy to understand questions.

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Tip #5

Get all the facts to determine qualifying child eligibility.

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Probe relationships; look for ambiguous answers



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Tip #6

Know the special rules and exceptions.

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Tip #7

Understand the AGI and tie-breaker rules.

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Avoid the top 3 errors

1. Non-qualifying child
2. **Incorrect filing status**
3. Under- or over-reporting earnings



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Tip #8

You, **not the client**, determine their filing status.

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Tip #9

Know the rules for head of household filing status.

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Avoid the top 3 errors

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Tip #10

Look for questionable Forms W-2.

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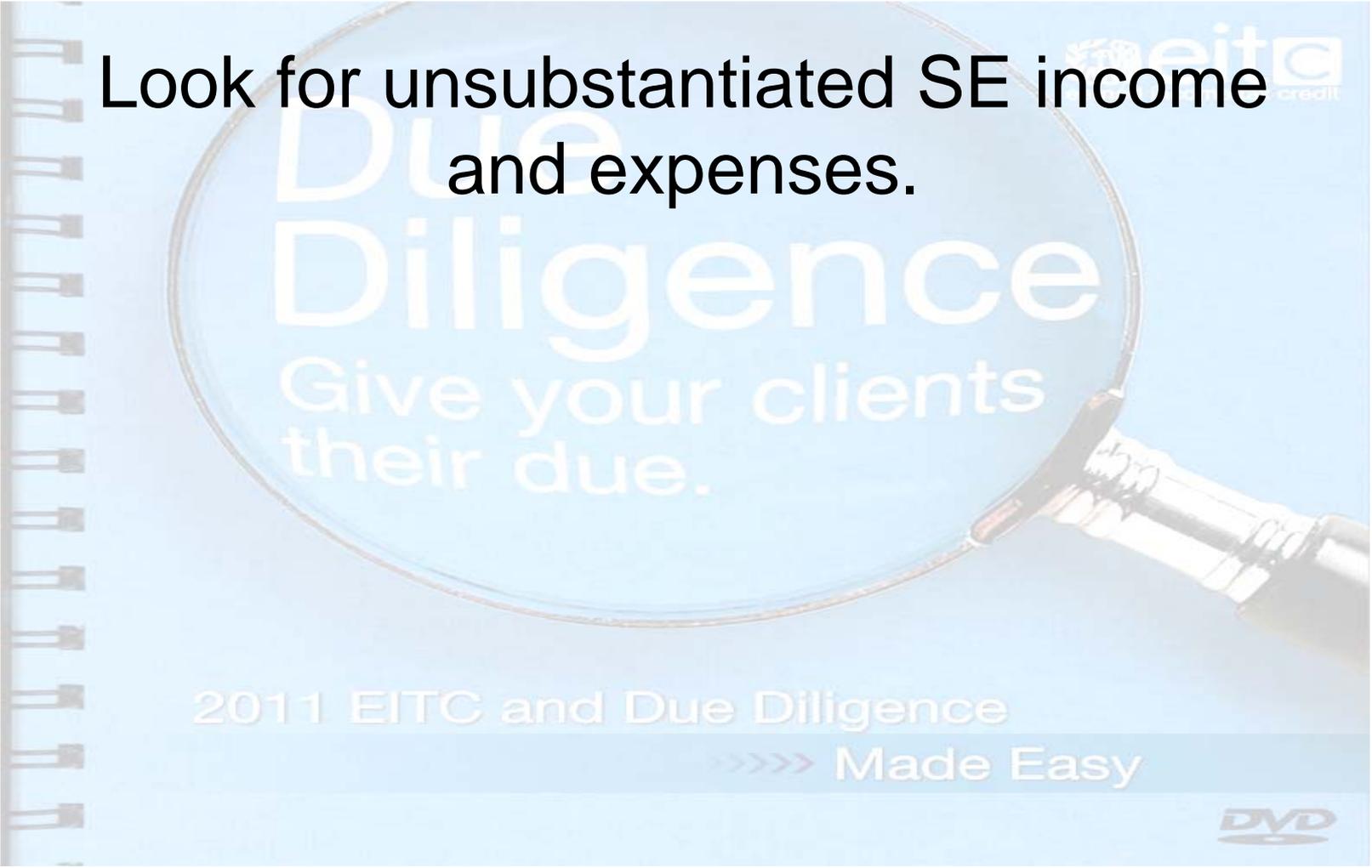
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Tip #11

Look for unsubstantiated SE income and expenses.



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The Case of the Teased Up Records



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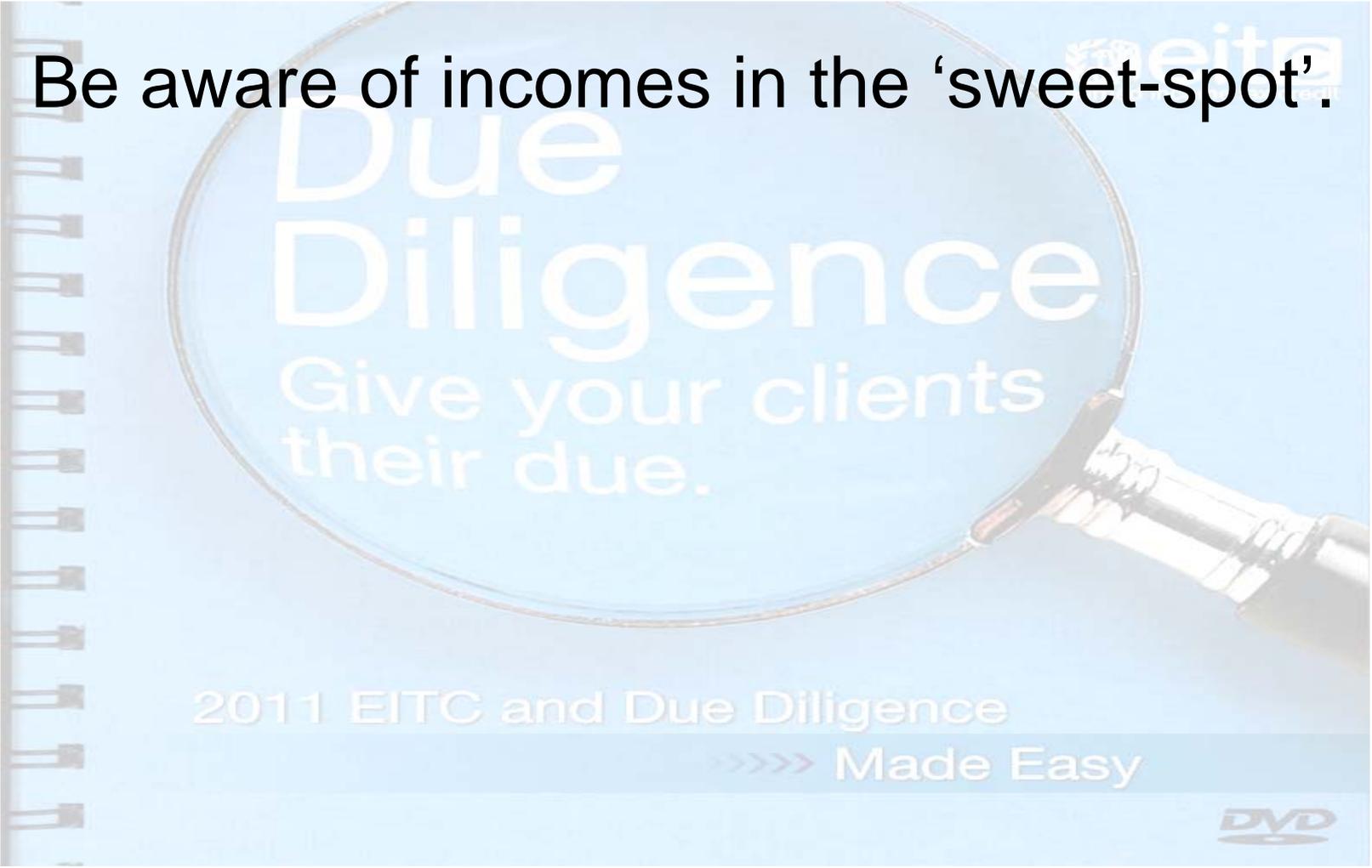
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Tip #12

Be aware of incomes in the 'sweet-spot'.



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New

Individuals and firms who employ others to prepare returns could be subject to due diligence requirements and penalties.

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New

Preparers must file Form 8867 with returns.

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INTERNAL REVENUE SERVICE

New

- Preparers must retain copies of client-provided documentation
- Record retention period simplified

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New

Due diligence penalty jumps to \$500 per occurrence.



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Due Diligence enforcement

- Targeted
- Tailored
- Tiered

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Compliance remedies

- Education
- In-person visits
- Onsite audits of EITC records
- Civil injunctions or criminal prosecutions



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Due Diligence Compliance

- Tier 1
 - Educational letters alerting both new and experienced preparers with high error probability



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Due Diligence Compliance

- Tier 2
 - In-person educational visits by IRS agents and criminal investigators



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Due Diligence Compliance

- Tier 3
 - Onsite audits of preparer records, checklists, worksheets, etc.



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Due Diligence Compliance

- Tier 4
 - Civil injunctions can permanently or temporarily bar tax preparation



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Key points

The knowledge requirement is the most challenging to meet.

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Key points

**EITC Due Diligence
benefits everyone.**

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Key points

IRS is committed to reducing EITC errors.

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Key points

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