Return address (please print)

PLACE POSTCARD STAMP HERE

Complete both sides and mail to the address below

To: Internal Revenue Service
401 W. Peachtree St.
Stop 54W1
W:CAR:SPEC:FO:OA
Atlanta, GA 30308-3539

IRS
Department of the Treasury
Internal Revenue Service
www.irs.gov

Due Diligence Requirements

Paid preparers who file EITC returns or claims for refunds for their clients must meet four due diligence requirements. Those who fail to do so can be assessed a $100 penalty for each failure.

Preparers must:

- Complete Form 8867, Paid Preparer's Earned Income Credit Check sheet, or your own form as long as it provides the same information.
- Complete the appropriate EIC worksheet found in the instructions for Forms 1040, 1040A, and 1040EZ or in Publication 596, or your own worksheet as long as it provides the same information.
- Have no knowledge or reason to know that any information used to determine the taxpayers eligibility for the credit and the credit amount is incorrect. Preparers must make reasonable inquiries of their clients, if the information appears to be incorrect.
- Keep Form 8867 and the EITC worksheet (or your equivalents of each), and a record of how, when and from whom the information used to prepare the form and worksheet was obtained. Preparers must keep these documents for three years from June 30th following the date the return or a claim for refund was presented to the taxpayer.

THE INTERNAL REVENUE SERVICE (IRS) IS COMMITTED TO PROVIDING TAXPAYERS WITH THE INFORMATION AND TOOLS THEY NEED TO PREPARE TIMELY, ACCURATE AND COMPLETE TAX RETURNS. WE CONSIDER THE PROFESSIONAL RETURN PREPARER COMMUNITY A VITAL PARTNER IN HELPING US ACHIEVE THIS GOAL.

IRS
Department of the Treasury
Internal Revenue Service
www.irs.gov
Publication 4138 (2-2003)
Catalog Number 35586Z

EITC

Earned Income Tax Credit

Information for the Tax Return Preparer

Improving the Accuracy of EITC Prepared Returns

The IRS needs your help

Filing returns electronically can eliminate many errors associated with EITC.

If you would like more information please note this on the attached card and return.

Information

We need your help in ensuring that the EITC is determined correctly for the eligible taxpayer.

Information you should know about potential errors

EITC errors can potentially delay or even result in denial of the EITC portion of a taxpayer's refund.

- Duplicate Taxpayer Identification Numbers for EITC qualifying children account for a significant number of processing return errors. These types of errors occur when the Social Security Number of a child is used on multiple returns claiming EITC. Potential causes include:
  - Divorced or separated parents claiming the same qualifying child.
  - Two persons living in the same household who claim the same qualifying child.
  - Persons using stolen social security numbers and names.
  - Persons sharing the same social security numbers and names.
- Other errors occur when there is a miss-match between dependent information on the return and the dependent database. This database is an application that adds external databases to internal data and applies a comprehensive set of rules to score returns. Potential causes that trigger/break these rules include:
  - Incorrect name or birth-date used for qualifying child.
  - Non-custodial parents who claim the EITC,
  - Non-custodial parents who do not qualify for the EITC, filing electronically before the custodial parent, which causes an electronic rejection of the taxpayer who is entitled to the credit.

To avoid these errors look at the Social Security card for the child(ren). Be sure to check for the correct name and social security number and ask where the child resides. The first and last names of the child(ren) as well as the birth date must match the Social Security Administration's records.

Important tax law changes for 2002 returns

New definition of earned income: For tax years beginning after 2001, earned income will no longer include employee compensation that is nontaxable.

Some examples of nontaxable compensation are:

- Military employee basic housing and subsistence allowances and combat zone compensation;
- Salary deferrals such as 401(k) and Thrift Savings Plan contributions; and
- Excludable employer-provided benefits, such as dependent care benefits.

Elimination of modified adjusted gross income (AGI): Taxpayers will no longer need to figure modified AGI. The EITC will be figured using AGI, not modified AGI.

New rules for persons with same qualifying child (tie-breaker rule): The tiebreaker rule will apply only when more than one taxpayer actually claims the EITC on the basis of the same qualifying child. In these cases, the law sets forth new rules to be used to determine which person can claim the EITC on the basis of that child.

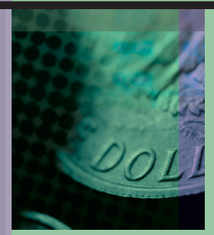
Change in residency requirement for qualifying child: In all cases, the child must live with the taxpayer for more than half the year.

Reduction of EITC by alternative minimum tax is eliminated.

Break for joint filers: The income amounts at which the phase-out begins and ends will increase by $1000 for taxpayers filing as "married filing jointly."

TAXPAYERS WITH NO CHILDREN CAN QUALIFY

Taxpayer's who do not have a qualifying child are also eligible for the EITC if certain conditions are met. They cannot file as married filing separately, must be at least age 25 but under age 65, have earned income less than $11,060 ($12,060 if filing jointly), have a valid SSN, cannot have investment income more than $2550, cannot be the qualifying child of someone else, must have lived in the United States for more than half of 2002, must not qualify as a dependent of someone else, and must not be filing a Form 2555.



INCORRECT FILING STATUS ALSO REMAINS A SIGNIFICANT CAUSE FOR EITC OVERCLAIMS. MARRIED TAXPAYERS MUST FILE AS MARRIED FILING SEPARATELY OR MARRIED FILING JOINTLY UNLESS THEY MEET THE SPECIAL HEAD OF HOUSEHOLD RULES FOR MARRIED PERSONS. A MARRIED TAXPAYER CANNOT FILE AS SINGLE.

NOTE:

If you determine a taxpayer does not qualify for EITC but may appear to by the information given on the tax return, remember to indicate "No" directly to the right of line 64 on Form 1040 or line 41 on 1040A. This will suppress a notice from going to the taxpayer to determine if they are eligible to claim the EITC.

These suggestions can prevent your clients from experiencing possible processing delays, unnecessary IRS notices and possible disallowance of the EITC.

Recertification for EITC disallowance

If the taxpayer's EITC was denied or reduced for any year after 1996, you will need to complete an additional form to claim the credit for 2002.

- If the EITC for tax year 2001 was denied or reduced solely because one or more children were determined not to be the taxpayer's qualifying child, attach Form 8862 to the next years tax return on which the taxpayer claims the EITC based on one or more qualifying children.
- If the EITC was denied or reduced for tax year 2000 or an earlier year for any reason, or if the EITC was denied or reduced for tax year 2001 for a reason other than a determination that one or more children were determined not to be the taxpayer's qualifying child, attach Form 8862 to the next year's tax return.
- If the EITC was denied or reduced as a result of a mathematical or clerical error, do not attach Form 8862 to the next tax return.
- If Form 8862 is required and it is not attached, any EITC claimed will be denied.

NOTE:

If the taxpayer's EITC was denied due to reckless or intentional disregard of the rules, then the EITC cannot be claimed for the next two years. If the denial was due to fraud, then the EITC cannot be claimed for the next 10 years.

Additional Resources

For more information on the EITC, return the attached card to the address specified. Indicate what information you need and someone from the nearest IRS office will contact you. Please complete all of the requested information so that we can provide assistance.

RECOMMENDED SOURCES OF EITC INFORMATION INCLUDE:

- Publication 596, Earned Income Credit
- Publication 3107, EITC 2003 Tax Professional Guide.
- Publication 3999, Tax Law Changes for Tax Year 2002. This is a large size poster that you can hang up in your office to publicize the availability of EITC. Publication 4000 is the same poster in 8½ x 11 size. One side is in Spanish and the other side is in English.
- Web site www.irs.gov/eitc

You may download IRS forms, publications and other tax information from the IRS web site at www.irs.gov. You may also call the IRS at 1-800-829-3676 to place your orders.

Attend one of the annual Tax Forums hosted by the IRS every summer. Information on upcoming forums can be found at www.irs.gov.

Form #13388
Catalog # 356071
OMB # 1545-1825

Please check all that apply

❍ Please contact me

❍ I am interested in obtaining EITC materials

❍ I am interested in information about electronic filing

I have questions about EITC
❍ recertification ❍ due diligence ❍ qualifying child ❍ other

I can be reached between the hours of _____ and _____
on _____ and _____ (Dates and Days).

Name _____

Phone number _____

Email address _____

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We ask for information on this form to carry out the Internal Revenue laws of the United States. Your response is voluntary. Your are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and information are confidential, as required by Code Section 6103.

The time needed to complete this form will vary depending on the individual circumstances. The estimated average time is 3 minutes. If you have comments concerning the accuracy of this time estimate or suggestions for making this form simpler, we would be happy to hear from you. You can write to the Tax Forms Committee, Western Area Distribution Center, Rancho Cordova, CA 95743-0001.