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EITC Due Diligence It's Everyone's Business

Objectives

By the end of this seminar, you will have an understanding of:

- EITC Due Diligence Requirements and the importance of ensuring they are met
- Recurring challenges or common errors in determining EITC eligibility
- Due Diligence Preparer correspondence and responding to the IRS



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Due Diligence Requirements

- Complete and submit Form 8867
- Complete and keep all worksheets used to compute the credit
- Apply the Knowledge Requirement
- Keep Records



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Common Due Diligence Errors



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- Not meeting knowledge requirements
- Not keeping records
- Using tax preparer “Do it yourself” software
- Not completing and submitting **Form 8867**



IRS



Apply Your Knowledge

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Know the Law

You **MUST** know:

- What earned income is
- EITC requirements everyone must meet
- Qualifying child rules
- Eligibility without a qualifying child
- The exceptions



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It's not just about knowing the law, it's:

- Applying a common sense standard
- Determining what questions you are going to ask your clients
- Using information that you know about your clients



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Schedule C income and expenses misreporting



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Watch out For Schedule C Errors

- Under and over reporting of income to maximize EITC
- Not claiming expenses
- Selective reporting of income and expenses

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Form 8867 - Schedule C Best Practices

- Review supporting material
- Educate clients on the need for recordkeeping and the consequences of failure to keep records
- Conduct a thorough and in-depth interview with your client about their business activity
- Guide clients through a reconstruction of income and expenses, if necessary



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IRS



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IRS Auditor Comments



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Relationship, Disability and Residency



Important Reminders for a Qualifying Child



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Relationship

Watch for other taxpayers who may be able to claim Qualifying Child

Disability

Not able to engage in any substantial gainful activity and condition is expected to last at least 12 months or result in death

Residency

Must live with Qualifying Child for at least 6 months in the United States





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Letters from the IRS



EITC Due Diligence Letters

IRS sends letters to specific preparers based on:

- High likelihood of EITC errors on claims
- Those preparing a high number of these claims

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Complete and Record

- Complete Form 8867 thoroughly and submit it with ALL EITC claims
- Complete a worksheet used to calculate the credit
- Record any additional information you gather



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Keep and Retain

- Copies of client documents relied on to determine EITC eligibility
- Your EITC worksheet
- A record of who/when EITC eligibility information was provided
- Additional inquiries you made to meet the knowledge requirement and your client's responses



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Safeguard and Keep records for 3 years from:

- The due date of the return or
- The date the return was e-filed or
- The date the taxpayer signed the return or
- The date you gave the part you prepared to the signing preparer...whichever is later



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Due Diligence Must Do's

- Know the Law
- Apply your knowledge
- Develop client interview techniques
- Complete, record and retain



IRS Help

- Send your Due Diligence questions to:
eitc.program@irs.gov
- Visit EITC Central at:
eitc.irs.gov



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