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**TaxForum**

| 2017

**One Year Down,**

***But Wait!***

**There's *More*  
on Refundable Credits Due Diligence**



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# After completing this seminar, you will be able to ...

- Understand and meet your due diligence requirements with confidence
- Untangle those complicated credit qualification areas, and
- Apply practical interview techniques



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# Under PATH, IRC 6695(g) preparer due diligence now includes . . .



Earned Income  
Tax Credit



Child & Additional Child Tax  
Credit



American Opportunity  
Tax Credit



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# Common Due Diligence Errors

- Failing to meet the knowledge requirement
- Failing to keep records and documentation



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# Knowledge Requirement

**It's not just about knowing the law. You must...**

**Apply  
common  
sense  
standard**

**Not ignore  
the  
information  
you have**

**Ask  
questions  
when  
needed**

**Record your  
questions  
and client's  
responses**



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# Recordkeeping

## Keep paper or electronic records of:

- Form 8867, Paid Preparer's Due Diligence Checklist
- All applicable worksheets and computations
- Who, when and how eligibility information provided
- Documents you relied on to determine eligibility or compute the credit
- Additional inquiries made to meet the knowledge requirement and client's responses



# Interview Techniques

**Is the picture you have of your client correct, consistent and complete?**

- Ask open ended questions
- Address all eligibility requirements



# Focus your attention on common EITC errors

**Claiming child who does not meet residency or relationship requirements**

**Reporting income or expenses, particularly Schedule C's correctly**

**Filing as single or head of household when married**



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# These EITC Qualifying Child situations call for additional inquiries:

- Claiming qualifying child other than son or daughter
- Single parent claiming a son or daughter
- Claiming disabled adult as qualifying child



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# Diane Diligent and her alter egos ...

Ms. Rightway



Ms. Shortcut





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**Excuse Me!** Take the info you've got and get going on the return.

**Hold up!** That's not practicing due diligence.





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What due diligence issues should Diane Diligent review with her client?



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# Relationship and Residency





# Schedule C Income Verification



- Books and records to support income
- Per services charges & frequency
- Cleaning supplies cost
- Equipment cost



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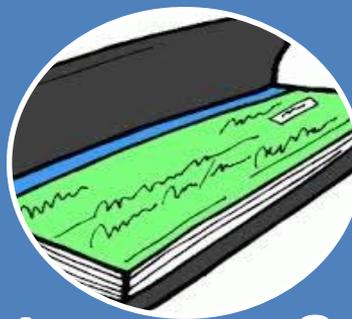
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# A diligent preparer considers...



**Business  
Activity**



**Income &  
Expenses**



**Records**





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# Focus your attention on common Child Tax Credit errors

Child does not meet residency or relationship requirements

Child does not qualify as a dependent

Child does not meet substantial presence test

SSN, ITIN and ATIN not issued before due date of return



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# These CTC situations call for additional inquiries:

- If a new client, determine when the SSN/ITIN/ATINs were issued
- Claiming qualifying child other than son or daughter
- Divorced/single parent claiming a son or daughter
- Child not a US citizen and may have lived outside of the US during the year



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# Joe Jones and his alter egos ...

Mr. Getthefacts



Mr. Timeismoney





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The girls have ITINs, no credits for them. Easy return, time is money!



**Slow Down!!** There may be no EITC, but we need to consider Child Tax Credit.



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# Joe is ready to meet his due diligence requirements . . .



What if any, dependency exemptions and refundable credits will Joe's client be entitled to?

Joe Jones, Tax Preparer



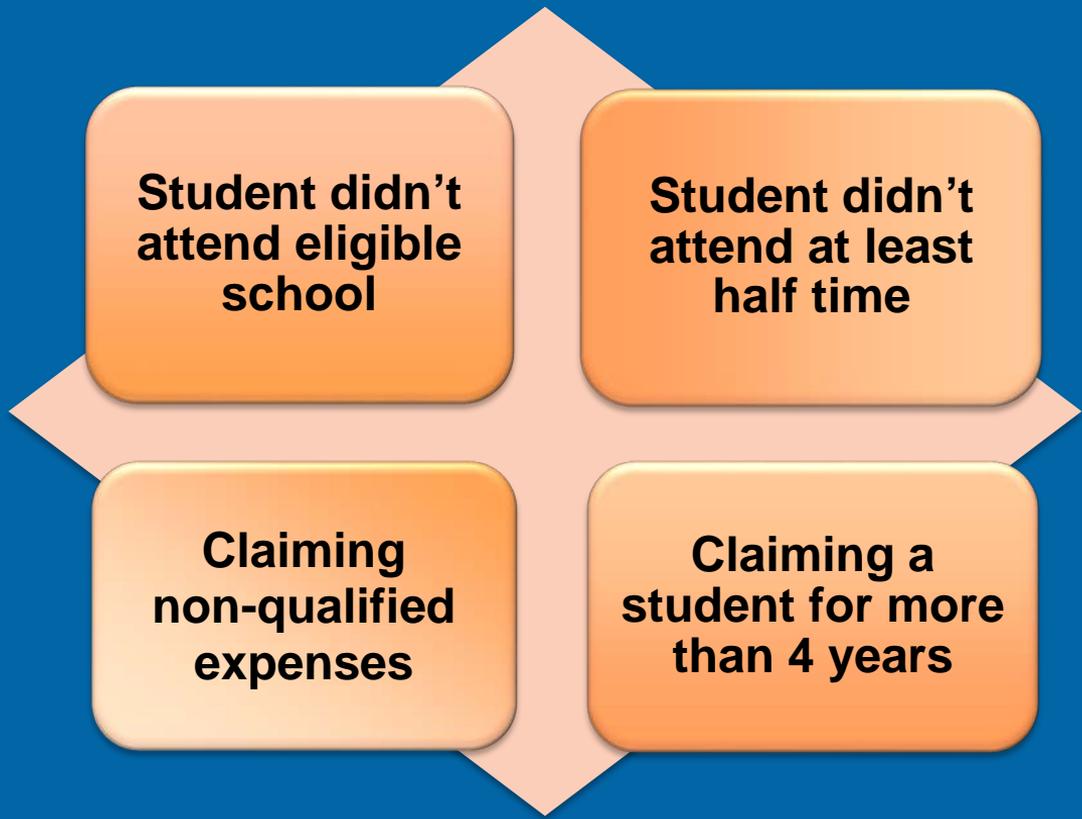
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# Focus your attention on common American Opportunity Tax Credit errors





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# Questions to ask while reviewing Form 1098-T

CORRECTED

|  |  |   |   |  |
|--|--|---|---|--|
| FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number |  | 1 Payments received for qualified tuition and related expenses<br>\$  | OMB No. 1545-1574<br><br><b>2017</b><br><br>Form <b>1098-T</b>  | <b>Tuition Statement</b>   |
|  |  | 2 Amounts billed for qualified tuition and related expenses<br>\$   |   |  |
| FILER'S federal identification no.   | STUDENT'S taxpayer identification no.                          | 3 If this box is checked, your educational institution changed its reporting method for 2017 <input type="checkbox"/> |   | <b>Copy B For Student</b><br><br>This is important tax information and is being furnished to the Internal Revenue Service. This form must be used to complete Form 8863 to claim education credits. Give it to the tax preparer or use it to prepare the tax return. |
| STUDENT'S name   |  | 4 Adjustments made for a prior year<br>\$   | 5 Scholarships or grants<br>\$  |  |
| Street address (including apt. no.)  |  | 6 Adjustments to scholarships or grants for a prior year<br>\$  | 7 Checked if the amount in box 1 or 2 includes amounts for an academic period beginning January—March 2018 ▶ <input type="checkbox"/> |  |
| City or town, state or province, country, and ZIP or foreign postal code   |  |   |   |  |
| Service Provider/Acct. No. (see instr.)  | 8 Check if at least half-time student <input type="checkbox"/> | 9 Checked if a graduate student . . . . <input type="checkbox"/>  | 10 Ins. contract reimb./refund<br>\$  |  |

Form **1098-T**

(keep for your records)

[www.irs.gov/form1098t](http://www.irs.gov/form1098t)

Department of the Treasury - Internal Revenue Service



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# These AOTC situations call for additional inquiries:

- No Form 1098-T
- Student is not typical college age
- Name of school is unusual
- Form 1098-T does not show at least half time student
- Form 1098-T shows graduate student
- If college age student return, find out about parent claiming student



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# Due Diligence Preparer Penalties

- Paid Preparers
- Employers of Paid Preparers

## Computation Example:

\$510 X 20 for EITC

\$510 X 20 for CTC

\$510 X 20 for AOTC = **\$30,600 Penalty**



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# *A Cautionary Tale*

Court Denies  
Return Preparer  
Penalty Refund



**Tax Analysts, Tax Notes Today, FEBRUARY 08, 2017**  
**Reference CODE: Section 6694 -- Understatement by**  
**Return**



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# Resources on EITC Central

Found at [eitc.irs.gov](http://eitc.irs.gov)/Tax Preparer Toolkit

- Refundable Credit Hot Topics for Preparers
- Due Diligence Training Module for CE credit
- Frequently asked questions by preparers
- Due Diligence training videos
- Examples on how to handle common due diligence situations
- Publications, forms and instructions





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# Thanks for attending

One Year Down,

***But Wait!***

There's *More*  
on Refundable Credits Due  
Diligence