

2010

Tax FORUM

IRS Nationwide



Earned Income Tax Credit

✓ I've Met My Due
Diligence

What You Should Know for the 2010 Filing Season

Continuing in 2010

- Married taxpayers who file a joint return have higher income limits
- The credit is expanded to include three or more qualifying children
- If a parent qualifies, any person other than the parent claiming the child must have an AGI higher than the parent

New for 2010

- Service wide PTIN registration requirement

Due Diligence Benefits the Tax Preparer

- Avoid penalties
- Increased customer satisfaction
 - Fewer errors, rejects and adjustments
 - Lower likelihood of audits
- Increased office efficiency

Why EITC Due Diligence?

- EITC error rate is 23-28%
- About 66% of EITC returns are prepared by paid preparers
- Due Diligence helps you avoid EITC errors on client returns
- The law requires paid preparers to take extra steps to ensure correct EITC claims

EITC Due Diligence

- Internal Revenue Code §6695(g)
- Due Diligence has 4 requirements
 1. Completion of Eligibility Checklist
 2. Computation of the Credit
 3. Records Retention

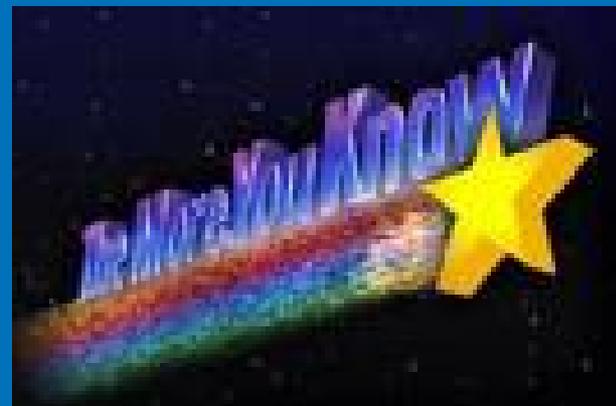
AND....

EITC Due Diligence

4. Knowledge Requirement

– More than 90% of penalties are assessed for failure to meet this requirement

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



Due Diligence Common Errors

Pay particular attention to the following issues that account for more than 60% of all EITC errors



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

- Conduct a thorough interview
- Get the right information
 - Ask the right questions
 - Get all the facts
 - Document as you go
- Don't rely on software alone
- Protect your client's personal information

Best Practices to Resolve or Avoid Qualifying Child Issues

Phrase questions in terms your clients understand

Understand when to apply the AGI rule and tiebreaker rules

Know the definition of disabled for tax purposes

Follow up on any questionable issues about the relationship



Ask enough questions to accurately determine if the child meets the relationship, age, and residency tests

Best Practices to Resolve or Avoid Filing Status Issues

Ask enough questions to be able to accurately determine your client's filing status

Consider using the IRS Forms 886

Phrase questions in terms your clients understand



Best Practices to Resolve or Avoid Income Reporting Issues

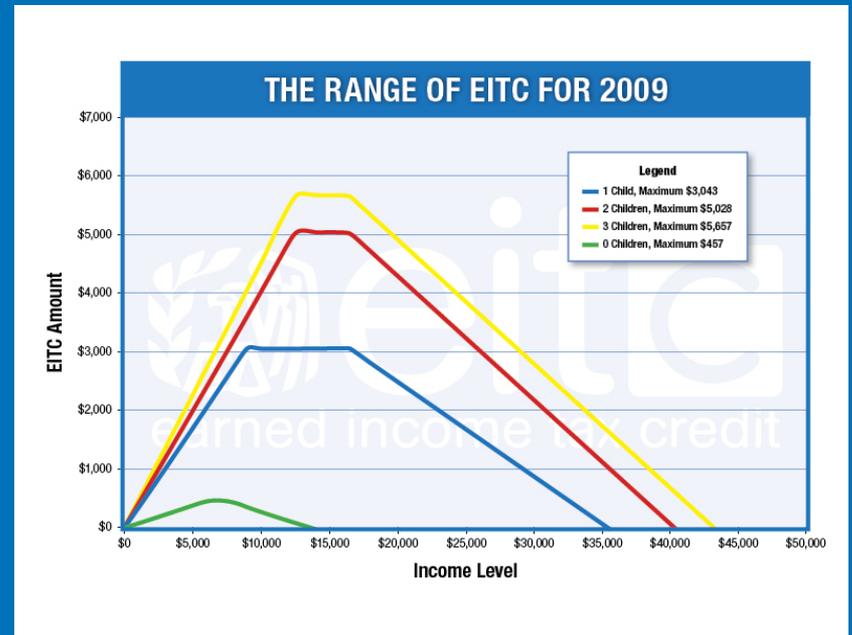
Ensure clients are not under or over-reporting income or expenses

Be on the lookout for questionable W-2's

Be on the lookout for questionable Schedule C's that maximize the EITC

Guide clients through a reconstruction of income and expenses

Ensure all required items are included on the return



Don't Rely on Software Alone



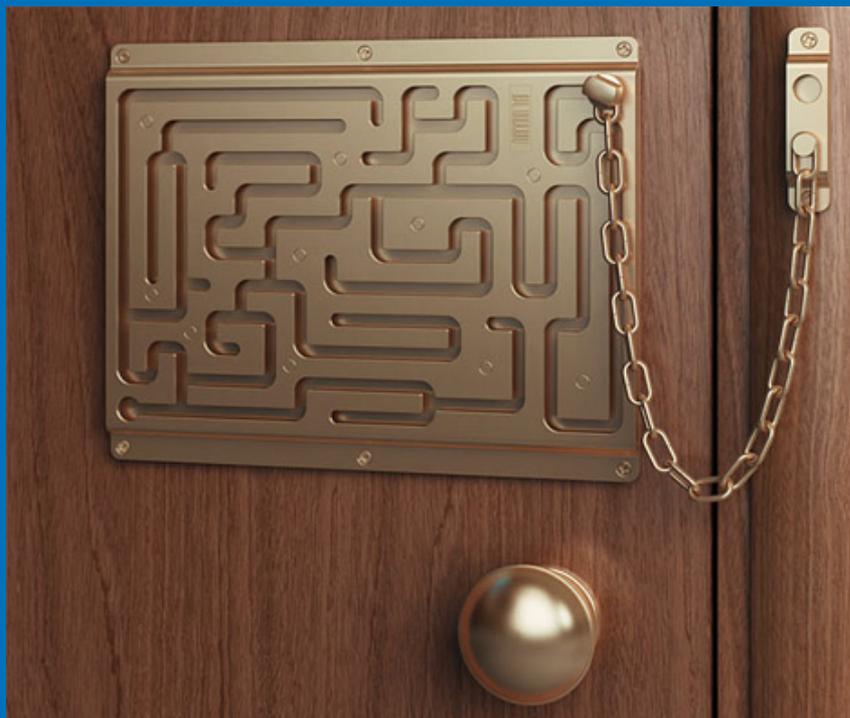
Software is **only** a tool. Preparers must know the law and eligibility requirements.

Ask **all** the questions required to complete Form 8867 for each client every year

Software may not catch all special rules

Review the EITC credit computation for completeness

Protect Your Client's Personal Information



You are on the front line to help protect your clients

Maintain all clients' records in a secure environment

Back-up electronic records and maintain in a secure location

Applying EITC Due Diligence in Your Tax Practice



Consequences of EITC Due Diligence Non-compliance



- Due diligence penalties
- E-file sanctions
- Disciplinary action from OPR
- Injunction actions barring preparers from return preparation
- Criminal prosecutions

EITC Central – Your Home for All Things EITC

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Life's a little easier with  earned income tax credit

EITC CENTRAL TAX PREPARER TOOLKIT PARTNER TOOLKIT MARKETING EXPRESS

Welcome

Welcome to the Tax Preparer Toolkit

Here is everything you need for EITC information and products 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
- The newly launched EITC Due Diligence Training Module

EITC Due Diligence Training Module

Hot Topics

About EITC for Preparers

What's in the Toolkit?

Preparer Due Diligence

Child-Related Tax Benefit Differences

www.eitc.irs.gov

Due Diligence - Know the law. Ask the right questions. Get all the facts.

EITC Due Diligence Means...

Know the law

Ask the right questions

Get all the facts

Document as you go

