

2011

IRS Nationwide
TaxFORUM



Earned Income Tax Credit

Due Diligence for Preparers 2011

2011

TAX FORUM
IRS Nationwide

Qualifications for EITC

All those claiming EITC must:

- Have a valid Social Security number
- Have earned income
- Not file as married filing separate
- Not file Form 2555 or Form 2555-EZ
- Investment income must be \$3,150 or less for the year
- Not be the qualifying child of another person
- Generally, be a U.S. citizen or resident alien for the entire year



2011

IRS Nationwide
TAX FORUM

Additional Requirements

And, your client **must** meet one of the following:

Have a qualifying child that meets all four tests:

- Age
- Relationship
- Residency
- Joint return

Those ***without*** a qualifying child must:

- Have lived in the United States for more than half the year
- Be at least 25 but younger than 65
- Not be a dependent of another person



2011

TAX FORUM

IRS Nationwide

Income Limits and EITC Amounts for Tax Year 2011

Number of Qualifying Children	For Single/Head of Household or Qualifying Widower, Income Must be Less Than:	For Married Filing Jointly, Income Must be Less Than:	Range of EITC
No Child	\$13,660	\$18,740	\$2 to \$464
One Child	\$36,052	\$41,132	\$9 to \$3,094
Two Children	\$40,964	\$46,044	\$10 to \$5,112
Three or More Children	\$43,998	\$49,078	\$1 to \$5,751

2011

IRS Nationwide
TAXFORUM

What's New for Preparers for the 2012 Filing Season?

Paid preparers of EITC returns will be required to attach Form 8867, *Paid Preparer's Earned Income Credit Checklist*, with every Tax Year 2011 return prepared claiming EITC



2011

TAX FORUM
IRS Nationwide



Why is Due Diligence Important?

Ensures your clients receive the correct EITC

Protects you and your clients from EITC penalties

Helps avoid/reduce EITC errors

2011

IRS Nationwide
TAX FORUM



EITC Due Diligence Summary

Internal Revenue Code §6695(g)

Has 4 Due Diligence Requirements

1. Completion of Eligibility Checklist
2. Computation of the Credit
3. Records Retention
4. Knowledge Requirement

2011

TaxFORUM
IRS Nationwide



Knowledge Requirement Tips

Recognize incomplete or inconsistent information

Make additional inquiries as needed

Document additional inquiries and the client's responses

Know what the knowledge requirement means for you

2011

IRS Nationwide
TAX FORUM



Common Errors



Claiming a child who does not meet the age, relationship or residency requirement

Using an incorrect filing status

Under- or over-reporting income and expenses

2011

TAX FORUM

IRS Nationwide



Best Practices to Avoid Qualifying Child Issues

- ✓ Phrase questions in terms your clients understand
- ✓ Ask enough questions to find out if the child meets all 4 of the tests: age, relationship, joint return, and residency tests
- ✓ Follow up on any questionable issues
- ✓ Understand when to apply AGI and tiebreaker rules

2011

TAX FORUM

IRS Nationwide



Best Practices to Avoid Filing Status Issues

- ✓ Phrase questions in terms your clients understand and don't let your client tell you their filing status
- ✓ Know the special rules for claiming HOH filing status when married and living apart
- ✓ Consider using the IRS Form 886-H series as a guide

2011

TAX FORUM

IRS Nationwide



Best Practices to Avoid Income Reporting Issues

- Ensure clients are not under or over-reporting income to maximize EITC
 - ✓ Be on the lookout for questionable W-2's
 - ✓ Question Household Help Income
- Ensure all required income and expenses are included on the return
 - ✓ Be on the lookout for questionable Schedule C's

2011

TAX FORUM

IRS Nationwide



Best Practices for Clients with Schedule C Returns

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

2011

TAX FORUM

IRS Nationwide



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 the eligibility checklist for each client every year
- ✓ Review the EITC credit computation for completeness
- ✓ Software may not catch all special rules or give your client their highest benefit, for example, combat pay election

2011

TaxFORUM
IRS Nationwide

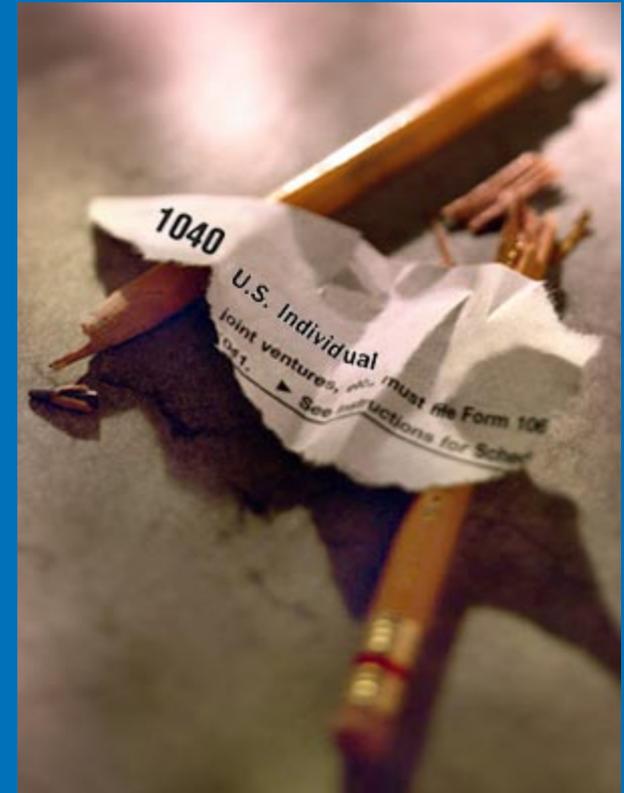


EITC Return Preparer Compliance Program

Letters to EITC
return preparers
Knock and Talk
visits

Due Diligence
audits

Injunction referrals
to DOJ



2011

IRS Nationwide
TAX FORUM

Due Diligence Recap

- ✓ Due Diligence Must Do's
 - ✓ Ask all the right questions
 - ✓ Get all the facts
 - ✓ Document as you go
- ✓ Don't rely on software alone
- ✓ Refer to Forms 886-H Series
- ✓ Protect your client's personal information
- ✓ Keep back-up copy of returns in a separate and safe location
-

2011

TaxFORUM

IRS Nationwide



Due Diligence

Give your clients their due.

2011 EITC and Due Diligence

»»»» Made Easy



2011

Tax FORUM

IRS Nationwide

EITC Central – Your Home for All Things EITC

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 all things. It makes it easy for you to practice due diligence and to help your clients get the EITC they earned. This toolkit helps you:

- KEEP on top of what's hot.
- LEARN about EITC Compliance Programs.
- FIND helpful tips and tools.
- LOCATE the answers to the questions preparers frequently ask.
- DOWNLOAD the most up-to-date EITC forms, brochures and support materials.
- COMPLETE the EITC Due Diligence Module in English or Spanish or the Schedule C and Record Reconstruction Training.
- LINK to everything else EITC.

Review our Hot Topics for items affecting you as a tax return preparer such as:

- New PTIN Application
- Return Preparer Review Recommendations
- Our EITC Due Diligence Training Module for CPE Credit in English and Spanish!
- EITC Schedule C and Record Reconstruction Training
- Return Preparer Compliance and Enforcement: Information Center
- EITC Due Diligence Video Clips

Did you know?

- You can now take the [EITC Due Diligence Training Module](#) online. Enrolled agents can receive CPE credit.

Resources

- Avoid the **most common EITC errors**. [Learn more.....](#)

Left sidebar links: About EITC for Preparers, Hot Topics for Return Preparers, Frequently Asked Questions, Preparer Due Diligence, Due Diligence Video Clips, EITC Preparer Compliance - Tailored, Tiered and Targeted, EITC Schedule C and Record Reconstruction Training, EITC Due Diligence Training Module, Educational Opportunities, Publications and Products

www.eitc.irs.gov