Department of the Treasury
Internal Revenue Service
201 West Rivercenter Boulevard, Stop 825G
Covington, KY 41011

Date:

Tax year:
2011

Contact telephone number:
1-859-669-5179

EITC Use Only

You may have violated tax law by submitting inaccurate returns

Our review of the Earned Income Tax Credit (EITC) returns you prepared for tax year 2011 indicates you may have submitted inaccurate returns on behalf of your clients. Intentionally disregarding EITC tax law could result in penalties and other consequences for you as the paid preparer and your clients. The primary issue we identified on your TY 2011 returns is claiming qualifying children who do not meet the relationship or residency requirements.

If you file inaccurate EITC returns:

Your client may face:

- A ban for 2 or 10 years from claiming the EITC, depending on the reason we disallowed the EITC
- Accuracy-related or fraud penalties
- Interest charges on the amount he or she must repay

You may face:

- **A $500 penalty** for each failure to comply with EITC due diligence requirements (section 6695(g) of the Internal Revenue Code)
- **A penalty of at least $1,000** for each disallowed EITC claim if any part of the tax liability is understated due to an unreasonable position (section 6694(a) of the Internal Revenue Code)
- **A penalty of at least $5,000** for each disallowed EITC claim if any part of the tax liability is understated due to willful or reckless conduct (section 6694(b) of the Internal Revenue Code)

If we assess return-related penalties against you, we might also:

- Revoke your status as a registered return preparer
- Bar you from preparing tax returns
- Refer you for criminal investigation
- Suspend or remove you or your firm from IRS e-file
- Conduct a due diligence audit

Last year, over 90% of due diligence audits resulted in a preparer penalty.

Requirements for paid preparer due diligence
As a paid preparer, you must take extra steps to ensure your EITC returns are complete and correct (section 6695(g) of the Internal Revenue Code and section 1.6695-2 of the Treasury Regulations). You must use your knowledge of the tax laws to ask your clients the right questions and document your questions and their responses to meet the following four due diligence requirements:

	DUE DILIGENCE REQUIREMENTS
STEP 1	Complete Form 8867, *Paid Preparer's Earned Income Credit Checklist,* and submit it with every EITC return you prepare.
STEP 2	Complete an EITC worksheet, or its equivalent, that shows how you computed the EITC.
STEP 3	• Analyze the information your client provides and ask appropriate questions in response • Evaluate whether the information is incomplete and gather any missing facts • Determine if the information is inconsistent or incorrect (recognize contradictions or statements you know could not be true) • Document your inquiries and your client's responses
STEP 4	Keep copies of: • The completed Form 8867 • Your EITC worksheet • Records of who provided you with EITC eligibility information and when they provided it • Documents your clients provided that you relied on to determine eligibility for the EITC or to compute the amount of the EITC You must keep these records for 3 years from the later of: • The due date of the return • The date the return was e-filed • The date the taxpayer signed the return • The date you gave the part you prepared to the signing return preparer

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The most common reason we assess due diligence penalties is for failure to meet the knowledge requirement (step 3 of the due diligence requirements). You should:

- Conduct an in-depth interview with every client, every year
- Apply a common sense standard to the information your client provides
- Ask additional probing and relavant questions if a reasonable and well-informed tax return preparer knowledgeable in the law would conclude that any information appears to be incorrect, inconsistent, or incomplete.

Tax software is a tool, not a substitute for your tax law knowledge and common sense. I am enclosing Publication 4687, *EITC Due Diligence Brochure.*

For more information on EITC requirements or EITC due diligence

Visit our website at www.eitc.irs.gov/rptoolkit/main/. If you have further questions, you must call us within 30 days at the number at the top of this letter.

We will monitor your future returns to ensure that your accuracy improves.

Sincerely,

Vicki Donohoe
Program Manager
SBSE Campus Compliance Services
Planning and Performance Monitoring

Enclosure:
Publication 4687

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