

Due Diligence Requirements

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As your tax professional, we may be asking you additional questions next year that are required by the Tax Cuts and Jobs Act. Tax preparers must collect new information from clients who qualify for any of the following tax credits:

- Earned Income Tax Credit (EIC)
- Child Tax Credit (CTC)
- American Opportunity Tax Credit (AOTC)
- Head of Household filing status (HOH)

In addition to interviewing you and gathering the required information needed to answer all of the due diligence questions on Form 8867, Paid Preparer's Due Diligence Checklist, we are now required to ask additional questions if the information you provide seems incorrect, incomplete, or inconsistent. So please don't think we got extra nosy! It's the IRS's way of cracking down on fraud.

As tax preparers, we must keep copies for three years (either paper or electronic) of any documents provided by you that were relied on to determine whether any child is a qualifying child. We must also keep all worksheets showing how the credit was computed.

Penalty for Failure to Perform Due Diligence

For returns filed in 2019, the penalty is \$520 per failure to meet the due diligence requirements. This penalty applies to each credit that is subject to the due diligence requirements. As a result, a single return could contain more than one \$520 penalty!

IRS Letter 5025

The IRS is sending letters to *tax professionals* who have submitted returns with questionable claims for refundable credits and head of household status errors. Letter 5025 is generated as an educational effort to notify preparers

who submit a high number of returns containing these credits that they may not have met the due diligence requirements. While the letter is informational only, it serves to notify the tax professional that the IRS is monitoring returns prepared by them. The letter advises tax preparers to educate themselves on the due diligence requirements by taking an online training module.

Form 8867

If you're curious about the list of questions that we may have to ask you, you can view them on the due diligence checklist at this link:

<https://www.irs.gov/pub/irs-pdf/f8867.pdf>

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