



51A Middle Street Newburyport MA 01950

Phone: 800-588-7039 Fax: 877-902-4284

contact@bhfe.com

www.bhfe.com

Course Information

Course Title: *Earned Income Credit Course #291617*

Number of continuing education credit hours recommended for this course:

In accordance with the standards of the National Registry of CPE Sponsors and the IRS, CPE credits have been granted based on a 50-minute hour.

EA, OTRP 4 (All States) IRS: Qualified Sponsor number: *FWKKO*.

CPA: 4 (All states)

National Registry of CPE Sponsors ID Number: 107615.

Sponsor numbers for states requiring sponsor registration

Florida Division of Certified Public Accountancy: 4761 (Ethics #11467)

Hawaii Board of Public Accountancy: 14003

New York State Board of Accountancy: 002146

Ohio State Board of Accountancy: M0021

Texas State Board of Accountancy: 009349

CLU, ChFC: 4 (Professional Recertification)

Course Description

The Earned Income Credit (EIC) is a refundable tax credit that has a significant impact on United States revenue. In fact, EIC claims in any year generally total more than \$69 billion.

EIC claims are also increasing in both number and amount¹. In the ten year period ending in 2010, the number of EIC claims increased from 19.6 million to 27.4 million, an increase of 39.8%. Not only had the number of claims for EIC increased over the period, the average credit per family also increased by 28.8%, from \$1,704 at the beginning of the period to \$2,194 in the year the 10-year period ended. The combination of an increased number of EIC claims coupled with an increase in the average credit caused the total amount of EIC claimed to skyrocket by 82.3% over the period from \$33.4 billion to \$69.7 billion.

In a recent year, 148.7 million individual federal tax returns were filed, and 28.9 million—19.4% of individual taxpayers—claimed the Earned Income Credit. Based on that percentage, it would not be unexpected that approximately one taxpayer in every five may claim the EIC.

¹ Source: Internal Revenue Service, Statistics of Income Division, Table 1, Individual Income Tax Returns: Selected Income and Tax Items for Tax Years 1999 – 2011. <http://www.irs.gov/uac/SOI-Tax-Stats-Historical-Table-1>

Program Delivery Method: Self-Study (NASBA QAS Self-Study/Interactive)

Subject Codes/Field of Study

EA/OTRP: Federal Tax Law Update

CPA: Taxes

Course Level, Prerequisites, and Advance Preparation Requirements

Level: Overview. This program is appropriate for professionals at all organizational levels.

Prerequisites: Basic familiarity with federal taxation

Advance Preparation: None

Course Content

Publication/Revision date: 3/28/2017.

Author: Paul J. Winn CLU ChFC

Final exam (online): Forty questions (multiple-choice).

Instructions for taking this course

You must complete this course within one year of the date of purchase (if you do not complete the course within one year, contact us to determine whether an updated edition of the course is available, in which case we will provide you with a PDF of the updated course and the online exam at no charge).

A passing grade of at least 70% is required on the final exam for this course. You may retake the exam if you do not pass it on the first attempt (no charge).

Complete the course by following the learning objectives listed on page one, studying the chapter-text, then studying the review quiz at the end of the chapter (answers to chapter review quizzes are at the end of the text). Once you have completed each chapter and you are confident that the learning objectives have been met, answer the final exam questions (online).

Instructions for Taking the Final Exam Online

- Login to your account online at www.bhfe.com.
- Go to "My Account" and view your course.
- Select "Take Exam" for this course and follow instructions.

Additional Information

- The exam may be started, stopped, then resumed at a later date.
- The exam is "open book," it is not timed, and it may be retaken if not passed on the first attempt (no charge).
- Results (correct, incorrect answers) and certificate appear immediately upon passing the exam.
- CFP® and EA credits are reported weekly.

Have a question? Call us at 800-588-7039 or email us at contact@bhfe.com.

Copyright 2017 by Paul J. Winn CLU ChFC

ALL RIGHTS RESERVED. NO PART OF THIS COURSE MAY BE REPRODUCED IN ANY FORM OR BY ANY MEANS WITHOUT THE WRITTEN PERMISSION OF THE COPYRIGHT HOLDER.

All materials relating to this course are copyrighted by Paul J. Winn CLU ChFC. Purchase of a course includes a license for one person to use the course materials. Absent specific written permission from the copyright holder, it is not permissible to distribute files containing course materials or printed versions of course materials to individuals who have not purchased the course. It is also not permissible to make the course materials available to others over a computer network, Intranet, Internet, or any other storage, transmittal, or retrieval system. This document is designed to provide general information and is not a substitute for professional advice in specific situations. It is not intended to be, and should not be construed as, legal or accounting advice which should be provided only by professional advisers.

Table of Contents

Course Information	ii
Table of Contents	iv
Introduction to The Course.....	1
Learning Objectives.....	1
Chapter 1 – Earned Income Credit Rules	2
Introduction	2
Learning Objectives.....	2
Eligibility to Receive EIC.....	2
EIC Rules Applicable to Everyone	2
Adjusted Gross Income Limits	2
Valid Social Security Number Required	3
Tax Filing Status.....	3
Citizenship or Residency	3
Foreign Earned Income	4
Investment Income	4
Earned Income.....	4
EIC Rules That Apply Only if the Taxpayer Has a Qualifying Child	4
Relationship, Age, Residence and Joint Return Tests	4
The Relationship Test	4
The Age Test.....	5
Student Defined.....	5
Permanently and Totally Disabled Defined.....	6
The Residency Test	6
Exception for U.S. Military Stationed Outside the U.S.	6
The Joint Return Test	6
Child Must Have Valid Social Security Number	6
Qualifying Child of More than One Person Rule	7
Tiebreaker Rules.....	7
Qualifying Child of Another Taxpayer Rule	7
EIC Rules That Apply if Taxpayer Does Not Have a Qualifying Child	8
The Age Rule	8
Death of Spouse During Year.....	8
The Dependent of Another Person Rule	8
The Qualifying Child of Another Taxpayer Rule	8
The Main Home Rule	9
Figuring the Amount of the Earned Income Credit	9
Calculating Earned Income for EIC Purposes	9
Taxpayers Not Self-Employed, Statutory Employees, Clergy or Church Employees.....	9
Self-Employed Taxpayers, Statutory Employees, Clergy and Church Employees	11
Summary	15
Chapter Review	16
Chapter 2 – Earned Income Credit Errors	17
Introduction	17
Learning Objectives.....	17
Incidence of Earned Income Credit Errors.....	17
Factors Leading to Earned Income Credit Errors.....	18
Estimated Revenue Impact of Earned Income Credit Errors	18
Common Earned Income Credit Errors	19
Earned Income Credit Errors Involving Qualifying Children	19
Qualifying Child Requirements.....	19
When a Child is Disabled.....	19
Avoiding Qualifying Child Earned Income Credit Errors	20

Earned Income Credit Errors Involving a Client’s Filing Status.....	20
Single Filing Status	20
Head of Household Filing Status	21
Married Persons Living Apart	21
Avoiding Filing Status Earned Income Credit Errors.....	21
Earned Income Credit Errors Involving Income Reporting	22
Avoiding Income Reporting Earned Income Credit Errors – Red Flags.....	23
Earned Income Credit Errors Involving Social Security Numbers.....	23
Avoiding Social Security Number Earned Income Credit Errors	24
Summary	24
Chapter Review	24
Chapter 3 - EIC Disallowance	26
Introduction	26
Learning Objectives.....	26
IRS Efforts to Reduce Improper EIC Payments.....	26
Claiming EIC after Disallowance	26
IRS Form 8862 Timing	26
Filing IRS Form 8862	27
Exceptions	27
Client Consequences of EIC Disallowance	27
Disallowance Due to Reckless or Intentional Disregard of EIC Rules	27
Disallowance Due to Fraud.....	28
Summary	28
Chapter Review	28
Chapter 4 - EIC Due Diligence	30
Introduction	30
Learning Objectives.....	30
Tax Preparer Due Diligence a Statutory Requirement – IRC §6695	30
Due Diligence Requirements.....	31
Eligibility Checklist – IRS Form 8867.....	31
Due Diligence Questions to Ask to Avoid Qualifying Child Errors	31
Eligibility Checklist Best Practices	31
EIC Computation	32
Computation Best Practices.....	32
Know the Law and the Client.....	32
When Should a Preparer Ask Additional Questions – Examples	33
Knowledge Requirement Best Practices	33
Record Maintenance.....	33
Record Maintenance Best Practices	34
Failure to Meet Due Diligence Requirements	34
Consequences for the Tax Return Preparer	34
Consequences for the Preparer’s Employer	35
Summary	35
Chapter Review	36
Answers to Chapter Review Questions	37
Chapter 1.....	37
Chapter 2.....	38
Chapter 3.....	39
Chapter 4.....	41
Glossary	43
Index	45
Appendix A – Worksheet A.....	47
Appendix B – Worksheet B.....	48

Introduction to The Course

The Earned Income Credit (EIC) is a refundable tax credit that has a significant impact on United States revenue. In fact, EIC claims in any year generally total more than \$69 billion.

EIC claims are also increasing in both number and amount². In the ten year period ending in 2010, the number of EIC claims increased from 19.6 million to 27.4 million, an increase of 39.8%. Not only had the number of claims for EIC increased over the period, the average credit per family also increased by 28.8%, from \$1,704 at the beginning of the period to \$2,194 in the year the 10-year period ended. The combination of an increased number of EIC claims coupled with an increase in the average credit caused the total amount of EIC claimed to skyrocket by 82.3% over the period from \$33.4 billion to \$69.7 billion.

In a recent year, 148.7 million individual federal tax returns were filed, and 28.9 million—19.4% of individual taxpayers—claimed the Earned Income Credit. Based on that percentage, it would not be unexpected that approximately one taxpayer in every five may claim the EIC.

Learning Objectives

Upon completion of this course, you should be able to:

- Apply the earned income credit rules to determine if a taxpayer is eligible for the tax credit;
- Identify the common errors committed in connection with the earned income credit;
- Describe the consequences of the IRS' disallowance of the earned income credit; and
- Recognize the tax return preparer's EIC due diligence requirements.

² Source: Internal Revenue Service, Statistics of Income Division, Table 1, Individual Income Tax Returns: Selected Income and Tax Items for Tax Years 1999 – 2011. <http://www.irs.gov/uac/SOI-Tax-Stats-Historical-Table-1>