



**BEACON HILL**  
FINANCIAL EDUCATORS

51A Middle Street Newburyport MA 01950

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

[contact@bhfe.com](mailto:contact@bhfe.com)

[www.bhfe.com](http://www.bhfe.com)

## Course Information

**Course Title:** *EITC Due Diligence Course #291921*

**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, RTRP** 3 (All States) IRS: Qualified Sponsor number: *FWKKO*.

**CPA:** 3 (Accepted in 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 (for ethics): 002146

Ohio State Board of Accountancy: M0021

Pennsylvania Board of Accountancy: PX 178025

Texas State Board of Accountancy: 009349

### Course Description

The Earned Income Credit (EIC) is a refundable tax credit that has a significant impact on United States revenue. It is also the source of a disproportionately large number of errors in tax returns in which a claim for it is made. In a recent year, 150.3 million individual federal tax returns were filed, and more than 27.4 million—18.2% claimed the Earned Income Credit<sup>1</sup>. Based on that percentage, it would not be unexpected that, in the years ahead, approximately one taxpayer in every five will claim the EIC. Approximately 70% of federal income returns claiming the earned income credit are prepared by professional tax return preparers.

This course briefly summarizes the earned income credit rules, examines the common errors committed when claiming the credit, discusses the EIC due diligence requirements imposed on professional tax return preparers, and identifies the sanctions to which preparers and their employers may be subject for a failure to meet expected due diligence requirements.

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

---

<sup>1</sup> SOI Tax Stats-Individual Income Tax Returns may be accessed at:  
<http://www.irs.gov/uac/SOI-Tax-Stats-Historical-Table-1>.

## Subject Codes/Field of Study

IRS (EA/OTRP): Federal Tax Law Update  
NASBA (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: 4/21/2021.

Author: Paul J. Winn CLU ChFC

Final exam (online): Twenty-eight questions (multiple-choice).

## Instructions for taking this course

**Note:** Download and save the PDF of this course to your computer for future reference, and to enable the search function (Menu: Edit>Find) and bookmarks (icon on left side of document window) for easier navigation.

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](http://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.
- EA credits are reported weekly.

**Have a question?** Call us at 800-588-7039 or email us at [contact@bhfe.com](mailto:contact@bhfe.com).

Copyright 2021 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
<b>Chapter 1 – Earned Income Credit Rules .....</b>	<b>2</b>
Introduction .....	2
Learning Objectives.....	2
Nature of the Earned Income Credit .....	2
Earned Income Credit Eligibility .....	2
Eligibility Rules Applicable to Everyone.....	2
Eligibility Rules Applicable to Taxpayers with a Qualifying Child .....	3
Eligibility Rules Applicable if Taxpayer Does Not Have a Qualifying Child.....	3
Special Rule Modifying Age Requirement for Taxpayers with no Qualifying Child .....	3
Common Earned Income Credit Errors .....	4
Earned Income Credit Errors Involving Qualifying Children .....	4
Qualifying Child Requirements.....	4
When a Child is Disabled.....	5
When Two Taxpayers Claim a Qualifying Child .....	5
Tie-Breaker Rules .....	6
Earned Income Credit Errors Involving a Client’s Filing Status.....	6
Single Filing Status .....	6
Separated Spouses .....	7
Head of Household Filing Status .....	7
Married Persons Living Apart .....	8
Earned Income Credit Errors Involving Income Reporting .....	8
Earned Income Credit Errors Involving Social Security Numbers.....	8
Taxpayers with Qualifying Children who Fail to Meet Identification Requirements.....	8
Summary .....	8
Chapter Review .....	9
<b>Chapter 2 – Due Diligence Requirements .....</b>	<b>11</b>
Introduction .....	11
Learning Objectives.....	11
The Statutory Requirement for Due Diligence – IRC §6695.....	11
Specific Requirements Applicable to EIC Due Diligence .....	12
Paid Preparer’s Due Diligence Checklist – IRS Form 8867 .....	12
Due Diligence Questions to Ask to Avoid Qualifying Child Errors .....	12
Avoiding Filing Status Errors .....	13
Avoiding Income Reporting Errors.....	14
Avoiding Social Security Number Earned Income Credit Errors .....	15
Paid Preparer’s Due Diligence Checklist Best Practices .....	15
Figuring the Amount of the Earned Income Credit .....	15
Calculating Earned Income for EIC Purposes .....	15
Taxpayers Not Self-Employed, Statutory Employees, Clergy or Church Employees.....	15
Self-Employed Taxpayers, Statutory Employees, Clergy and Church Employees .....	17
Computation Best Practices.....	21
Know the Law and the Client.....	21
When Should a Preparer Ask Additional Questions – Examples .....	22
Knowledge Requirement Best Practices .....	22
Record Maintenance.....	23
Record Maintenance Best Practices .....	23
Failure to Meet Due Diligence Requirements .....	23

Consequences for the Tax Return Preparer .....	23
Consequences for the Preparer’s Employer .....	24
Consequences for the Client of EIC Disallowance.....	24
Disallowance Due to Reckless or Intentional Disregard of EIC Rules .....	24
Disallowance Due to Fraud.....	25
Claiming EIC after Disallowance .....	25
IRS Form 8862 Timing .....	25
Filing IRS Form 8862 .....	25
Exceptions .....	25
Summary .....	26
Chapter Review .....	27
<b>Answers to Chapter Review Questions .....</b>	<b>29</b>
Chapter 1.....	29
Chapter 2.....	30
<b>Glossary .....</b>	<b>32</b>
<b>Index .....</b>	<b>34</b>
<b>Appendix A – Worksheet A .....</b>	<b>35</b>
<b>Appendix B – Worksheet B .....</b>	<b>36</b>
<b>Appendix C – EIC Instructions.....</b>	<b>38</b>

## **Introduction to the Course**

The Earned Income Credit (EIC) is a refundable tax credit that has a significant impact on United States revenue. It is also the source of a disproportionately large number of errors in tax returns in which a claim for it is made. In a recent year, 150.3 million individual federal tax returns were filed, and more than 27.4 million—18.2% claimed the Earned Income Credit<sup>2</sup>. Based on that percentage, it would not be unexpected that, in the years ahead, approximately one taxpayer in every five will claim the EIC. Approximately 70% of federal income returns claiming the earned income credit are prepared by professional tax return preparers.

This course briefly summarizes the earned income credit rules, examines the common errors committed when claiming the credit, discusses the EIC due diligence requirements imposed on professional tax return preparers, and identifies the sanctions to which preparers and their employers may be subject for a failure to meet expected due diligence requirements.

## **Learning Objectives**

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

- Recognize the earned income credit eligibility rules;
- List the common errors committed in connection with claiming the earned income credit;
- Describe the consequences for the taxpayer of the IRS' disallowance of the earned income credit;
- Identify the tax return preparer's earned income credit due diligence requirements; and
- List the sanctions that may be applied on a tax return preparer and his or her employer for a failure to meet due diligence requirements.

---

<sup>2</sup> SOI Tax Stats-Individual Income Tax Returns may be accessed at: <http://www.irs.gov/uac/SOI-Tax-Stats-Historical-Table-1>.