



# **EITC SURVIVAL TIPS**

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# History

- IRS released a study in 1997
  - High rate of noncompliance
  - Unintentional and intentional errors
- Congress enacted legislation
  - Budget authority for five years
  - New appropriation to address this noncompliance.



# Strategy

- Congress instructed IRS to improve EITC compliance
  - Expand customer service and public outreach programs
  - Strengthen enforcement activities
  - Enhance research efforts



# Strategy

- Education, assistance, and outreach
  - Toll-free, IRS.gov, partnering
- Compliance enforcement
  - New math error adjustments
  - Pre-refund examinations
- Criminal investigations



# Accomplishments

- Developed / Implemented
  - EITC education and enforcement programs for paid preparers
  - Additional statutory authority to deny questionable claims during initial processing (math errors)
  - Improved examination case selection system



# Accomplishments

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- Enhanced education / outreach
  - Targeted advertising campaign



# Accomplishments

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- Enhanced education / outreach
  - Targeted advertising campaign
  - Innovative partnerships
  - Practitioner assistance
- Redesigned returns, publications, instructions, and schedules resulting in the decrease of math errors



# Accomplishments

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- Enforcement
  - Examined 2.7 million returns
  - Protected \$5 billion in revenue





# Compliance Studies

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- Compliance Estimates for EITC Claimed
  - TY 1997
  - TY 1999
- National Research Program



# What's Next?

- Continue holistic approach to improve EITC compliance
- Continue pre-refund examination activity
- Enhance effectiveness of case selection tools
- Implement suggestions from Treasury/IRS EITC taskforce



# New Law for TY 2002

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- Phase out increased for joint filers
- Modified AGI changed to AGI
- AMT reduction eliminated
- Nontaxable earned income eliminated



# New Law for TY 2002

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- Qualifying child relationship test changed
- Qualifying child abode test changed
- Tie-breaker rule changed



# New Law for TY 2002

- Qualifying child - relationship test
  - Son, daughter, stepchild, or descendant
  - Sibling, stepsibling, or descendant whom the TP cares for as the TP's own
  - Eligible foster child (child placed with the TP by an authorized placement agency) whom the TP cares for as the TP's own



# New Law for TY 2002

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- Qualifying child - abode test
  - Child must live with the TP for more than half the year



# New Law for TY 2002

- Tie-breaker Rule
  - Applies **only** if more than one TP claims the EIC on the basis of the same qualifying child
  - When this occurs, law specifies which TP can claim the credit



# New Law for TY 2002

- If child is a Qualifying Child of -
  - 1 parent and another person, parent
  - Neither parent, highest AGI
  - 2 parents, parent Qualifying Child lived with the longest
  - 2 parents same length of time, higher AGI





# Due Diligence

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## Four requirements

- Complete eligibility checklist (Form 8867)
- Compute EIC on worksheet
- Have no knowledge of incorrect item
- Retain records



# Due Diligence

- Reliance on taxpayer statements
  - Must make reasonable inquiries
  - Cannot share information
- Application of tie-breaker rules
  - Taxpayer has inferior right
  - Taxpayer has superior right



# Guidance

- Formal guidance
  - Priority Guidance Plan
  - IRS.gov; Tax Professionals; More Topics; Administrative Information and Resources
- Informal guidance
  - IRS Written Determinations
  - [www.IRS.gov/news/efoia/determine.html](http://www.IRS.gov/news/efoia/determine.html)



# Guidance

## 2002-2003 Priority Guidance Plan

- Guidance on the EIC
- Guidance regarding temporary absences and the abode requirement.



# Guidance

## IRS Written Determinations

- Procedures the IRS must follow when disallowing the EIC
  - 200202069
- Collection statute of limitations when EIC is disallowed
  - 200223051



# Questions & Answers

2002 Nationwide Tax Forum