

Balance *sheet*

Due Diligence Requirements

By Barbara Krout

The December 2015 passing of the PATH (Protecting Americans from Tax Hikes) Act increased the due diligence requirements for tax preparers preparing personal tax returns. This is nothing new to tax preparers or their clients who were already receiving the earned income tax credit (EITC), but is something new to quite a few taxpayers since the EITC is for low income taxpayers. This new Act has increased the due diligence requirement to include both the American Opportunity Tax Credit (AOTC) and the Child Tax Credit (CTC).

The AOTC is a credit for qualified education and expenses paid for an eligible student for the first four years of higher education. A taxpayer can receive a maximum annual credit of \$2,500 per eligible student.



The CTC is a credit for people who have a qualifying child and can be claimed in addition to the credit given for child and dependent care expenses.

Both of these credits have been around for some time (the AOTC was previously known as the Hope Credit), but now tax preparers must complete IRS Form 8867 (Paid Preparer's Due Diligence Checklist for the EIC, the CTC, the ACTC and the AOTC) which requires tax preparers to obtain additional information and paperwork in order to determine the taxpayer's eligibility to claim these credits.

These additional items required by the taxpayer may include but are not limited to the following:

- To prove that the custodial parent or non-custodial parent can claim the CTC by completing Form 8332 or have a signed similar document containing the same information such as a divorce agreement
- To prove residency of a qualifying child through school records, landlord statements, health care provider statements, medical records, child care provider record, social service records, or employment records
- To prove your business income with a business license, Forms 1099, business bank statements, expense records, or receipt records
- To prove only qualified tuition and related expenses are considered
 - Provide form 1098-T received from the eligible education institution
 - Student activity fees are eligible if paid to the institution and as a condition of enrollment or attendance
 - Book, supplies and equipment (computers) are not qualified
 - Provide a statement showing amount paid to institution

Do not be surprised if your tax preparer is now asking for this additional information when preparing your return. They are not trying to drive you crazy, but instead are ensuring you are receiving the maximum credits from the government that you are allowed.

If you have any questions on these or other credits you may think you are eligible for, please contact our office.

Items presented are not intended to be technically complete. Additional information may be required to make an informed decision.