

Child/Dependent/Earned Income Credit/Head of Household Due Diligence

Taxpayer completing this document and date completed: _____



Preparer reviewing document and date: _____

Our requirements for due diligence have increased with regard to several credits and the Head of Household filing status. These tax benefits relate to dependents. We need to be able to support that we have obtained substantial information from our clients to prove they have the right to claim the person(s) as a dependent, that they have a right to the credit/filing status and that they have accurately reported their income.

2023 Dependent Questionnaire

We realize we are asking for a lot here. Many of you have been our clients for a long time and we KNOW your circumstances. However, if the IRS cannot look in my files and see tangible proof of eligibility for these tax benefits, they will fine us \$560 per credit/filing status, for a total of up to \$2,240 per tax return. We cannot charge enough to cover this kind of liability! If they find one case without evidence, they will assume no file has evidence and fine for every return filed in our office claiming these tax benefits. They have restricted resources and can do much more to fight fraud by auditing preparer offices than each individual return. This is not about whether you qualify for the tax benefit, it is whether or not the IRS can see that we verified you do qualify. HOWEVER, if the IRS does audit our office and does not find evidence to support the tax benefits claimed, they may audit our clients individually to determine eligibility for tax benefits.

Because of the fines the IRS is charging preparers, they are giving stronger credibility to professionally prepared returns. Self-prepared returns do not have any due diligence checks, so they will be holding refunds longer and requesting verification information from many who choose to self-prepare. They are doing all of this to prevent paying out fraudulent refunds. Refund fraud is estimated to be around \$15 BILLION dollars each year. Even for professionally prepared returns, refunds related to these tax benefits are held until at least Feb. 15th each year.

Please take the time to read through our statements that we are required to make by law. I am asking you to sign below each statement as an affirmation that we explained these rules to you.

We are also required to retain copies of documents proving age, relationship, residency, support, disability, and citizenship (or US National/resident).

In order to have dependents, you cannot qualify as a dependent of anyone else.

I understand I cannot qualify as a dependent of another and claim dependents. I am not able to be claimed by a dependent of anyone else. _____

Taxpayer signature and date



TRUE
FALSE
Non-
Applicable

Dependents are either Qualifying Children (QC) or Qualifying Relatives (QR).

The requirements for all dependents are:

- 1. None of my dependents file a married filing joint return (or if so, the return is filed just to get a refund and/or spouse would have a tax liability if they filed separately). T / F / NA
2. All of my dependents are U.S. Citizens, U.S. Resident Aliens or U.S. Nationals. T / F / NA

We will need verification for each category, in the requirements, to place in our files so the IRS will know you meet the qualifications should they inspect our offices.

The requirements for a Qualifying Child (QC) are each of the following:

- 1. Age Test: the dependent child must be at least one of the following:
a. under the age of 19, OR T / F / NA
b. under the age of 24 and a full-time student for at least 5 months and younger than the taxpayer and spouse, (please provide the name of the school(s) and the dates the student(s) were enrolled; also, you need to fill out the EDUCATION WORKSHEET) T / F / NA
c. OR any age and permanently and totally disabled. Please describe the disability and provided healthcare provider statement T / F / NA

2. **Relationship Test:** the dependent child must be related by blood or marriage (step) as a child, sibling, grandchild, niece or nephew, or a qualifying foster child (placed by an agency, with the taxpayer all year).

Supporting Documents provided: _____

3. **Member of the Household Test:** the child must have lived with the taxpayer at least half of the year (temporary absences for school, travel, medical care, etc. do not count). **This is the definition of a custodial child/parent relationship.**

Supporting Documents provided: _____

- a. Are you the custodial parent of the child? Y / N
- b. If you are not the custodial parent, do you have a signed FORM 8332 from the custodial parent? Y / N
- c. Documents to support residency of the dependent(s) for the calendar year 2023: _____ Y / N

4. **Support Test:** the child **must not have** provided over half of his/her own support. Support includes paying for school (even with student loans in the child’s name only), earnings, investment income, social security in the child’s name and other funds consumed by the child but does not include welfare, SNAP, AFDC, child support or other similar payments. Children older than 16 are particularly important to consider for support issues.

- a. Do any of your qualifying children have income or student loans?
- b. For any qualifying child for whom you answered yes above, we will need to verify they did not provide over half of their support. Please complete the additional support worksheet for each child with income, student loans, social security or other types of financial support. Support includes both needs (food, shelter, medical, clothing) and wants (tuition, entertainment, spending money, etc.). This **Support Worksheet** can be picked up at the office or it is on our website.

5. **Children of Divorced or separated (they do not live together) parents** – if agreed upon by both parents, the non-custodial parent (see 3 above) may claim the child as a dependent ONLY if the custodial parent has signed a Form 8332 *Release/Revocation of Release of Claim to Exemption for Child by Custodial Parent*. **Even if a court decree states the non-custodial parent has a right to claim the child, the IRS still requires the release! IRS law is NOT Family Law. If a parent violates the court order, the harmed parent would need to pursue the matter in Family Court.** Even though the custodial parent gives up the right to claim the child as a dependent, the custodial parent still holds the rights to claim Head of Household, Earned Income Tax Credit and Dependent Care Credits. These rights cannot be signed over and the released child will not qualify for the claiming parent for any of those three tax benefits.

6. **Is there any other person(s) who may be able to claim the child(ren) you wish to claim?** Y / N

a. If yes, please describe who might be able to claim the child(ren): _____

b. In the event two or more persons can claim the same child, which is only possible for persons who can meet all the above requirements, the “tie-breaker rules” come into play. Under the tie breaker rules, the child is treated as the qualifying child only by one person. The order of the persons chosen is as follows:

- i. The parents, if they file a joint return.
- ii. The parent, if only one of the persons claiming the child is a parent.
- iii. The parent with whom the child lived the longest during the tax year, if two of the persons are the child’s parent and they do not file together.
- iv. The parent with the highest adjusted gross income (AGI) if the child lived with each parent for the same amount of time during the tax year and the parents do not file together.
- v. The person with the highest AGI if no parent can claim the child.
- vi. A person with the higher AGI than any parent who can claim the child but does not.

c. **If someone else attempts to claim this child, do you get the child under the tie breaker rules described above?** Y / N

I have read and understand the requirements for a QC. Any child I have marked on the list of dependents as QC meets these requirements. If there are any questions about this, I will discuss them with my preparer.

Taxpayer Signature

Date

I have reviewed the above with the taxpayer and verified the taxpayer understands the requirements.

Preparer Signature

Date



TRUE
FALSE
Non-
Applicable
T / F / NA

Qualifications for a Qualifying Relative (QR): (DO NOT COMPLETE THIS IF YOUR DEPENDENTS ARE YOUR CHILDREN)

In addition to the qualifications for all dependents, a Qualifying Relative (QR) must meet these qualifications:

1. Not be the QC of another person – if the parent or other person(s) for whom the possible QR is the QC of someone who is not required to file a tax return, or files only to get money withheld returned, then the child is not a QC of the parent or other person(s).
2. Be a child, stepchild, foster child, son-in-law, daughter-in-law, parent (including step and in-law), sibling (including step and in-law) OR a member of your household for the entire year (from 12:00 am January 1st to midnight Dec 31st).
3. Have gross income less than the specified amount (\$4,700 for 2023).
4. Someone for whom you provided more than half of the person’s total support OR if 2 or more people combined shared more than half of the cost of the person’s support AND you provided at least 10% of the support AND all persons providing more than 10% support of the person have agreed you can claim the person through a signed statement (which must be sent with the tax return).

T / F / NA
T / F / NA
T / F / NA

Dependents (QUALIFYING CHILD AND/OR RELATIVE) Table

Name	Age as of 12/31/23	# of months in home in 2023	Qualifying Child (QC) <u>OR</u> Relative (QR)	Income, if any	Can anyone else claim the QC/QR

I have read and understand the requirements to claim a person as a QR. Any person I have marked as a QR on the table of dependents meets these requirements. If there are any questions about this, I will discuss them with my preparer.

Taxpayer signature

Date

I have reviewed the above with the taxpayer and verified that the taxpayer understands the requirements.

Preparer Signature

Date

Disallowance of Credits

Have you had the earned income tax credit disallowed or reduced in a prior year?

Y / N

Have you had the child tax credit disallowed or reduced in a prior year?

Y / N

Have you had the American Opportunity Credit disallowed or reduced in a prior year?

Y / N

Parents

Is the taxpayer (and spouse, if one listed) the natural, or legally adoptive parents of all children listed as dependents?

Y / N

If no, please explain why you believe you are entitled to claim the dependent on your tax return and why the parent(s) are not entitled to claim the child. _____

Income and Support

Do you have adequate taxable income to demonstrate that you have provided the required support for any dependents claimed? If not, do you have sources of non-taxable income that are used to help provide support? Please explain, indicating the source of the income (child support, VA benefits, non-taxable disability benefits, state or federal assistance, gifts, etc.) Y / N

If you have self-employment income, have you properly reported all your income and expenses? Y / N
(You must also fill out the SELF-EMPLOYMENT QUESTIONNAIRE)

Have you provided over half of the cost of the main home for at least one of the dependents that you can claim (even if you released the claim to the non-custodial parent)? Y / N

Did someone else live with you? Y / N
If so, who? _____

Did the other resident in the home earn more than you? Y / N
Please provide proof of the other residents' income.

If required, can you provide documents to substantiate your eligibility for any credits or filing status that you are claiming based on the listed dependents? Y / N

I can provide documentation to substantiate any tax benefits I have claimed related to myself or others I am claiming on my return if I am selected for an audit. _____ ←
Taxpayer signature *Date*

PREPARER USE ONLY

I have reviewed with the taxpayer Forms 886-H-XXX as related to this taxpayer. This taxpayer is aware of the requirements and has stated that they can substantiate the claims made on this return if the return is selected for any sort of additional examination. _____
Preparer signature *Date*

Please describe documents provided and retained to meet the document retention requirement: _____

Is this taxpayer personally known to you? Y / N
If so, please describe how you know the taxpayer, how long you have known the taxpayer, and any other personal knowledge that you have about the taxpayer as it pertains to claiming these credits related to children and income. Personal knowledge is not a substitute for documentation, asking questions or other due diligence activities:

Did any information provided appear to be inconsistent or inaccurate? Y / N
If YES, please describe the questions you asked and the answers provided to determine the qualifications for the credit(s) and filing status claimed _____

Are you \$560 per credit/status CERTAIN this taxpayer qualifies for the tax benefits given on this return? Additional questions asked and answers provided: _____ Y / N

Preparer Signature and Date
