

January 2019 TaxInsight



Due Diligence

You may notice that your tax preparer is asking you a lot of additional questions this year. Why is that? The IRS identified several areas of concern for fraud and identity theft. A few years ago, they started requiring tax professionals to complete formalized due diligence for taxpayers who took the earned income tax credit, child tax credit, additional child tax credit, and the American opportunity tax credit. For 2018 tax returns, this expands to include anyone who files as head of household and anyone who claims the new credit for other dependents.

What this entails is a closer questioning of the taxpayer about issues related to these credits. Tax professionals have four requirements for meeting their due diligence:

1. They must have knowledge. Therefore, they need to ask a lot of questions. They must confirm that they've asked sufficient questions to know that a taxpayer is eligible for the credits.
2. They must complete Form 8867 and any worksheets that are required for the credits, which may involve asking deeper questions about financial or family matters. Some of the questions may make the client uncomfortable, but they are necessary.
3. They must file Form 8867 and any accompanying worksheets.
4. They must retain any documents that they use to calculate the credits or establish eligibility for HOH. Tax professionals may ask to take copies of certain forms. They will keep these secure for three years, and then may destroy them.

It's important to understand that tax professionals are not only trying to protect their clients from fraud, but

they are also liable for significant penalties if they do not comply with the due diligence requirements. Fines are \$520 for every credit (and HOH filing status), regardless of whether the preparer correctly files the return. For example, that amounts to a \$1,560 penalty for a head of household return claiming an earned income tax credit and a child tax credit. This undoubtedly is more than the fee they'd collect for preparing the return.

Tax Notes

It's likely the date the IRS will begin accepting e-filed tax returns will be a little later this year, due to changes resulting from the *Tax Cuts and Jobs Act*.

Important Tax Dates

- January 15 – Fourth quarter estimated taxes due
- January 31 – Filing deadline for W-2s and 1099s
- February 27 – Refunds for returns with a due diligence requirement begin to arrive
- March 1 – Filing deadline for farmers and fishermen returns
- March 15 – Filing deadline for partnership and S corporation returns
- April 15 – Filing deadline for individual, fiduciary, and C corporation returns

Did You Know?

The last Monday in January is Bubble Wrap Appreciation Day, which harkens back to the day that a shipment of microphones wrapped in bubble wrap was sent to a Bloomington, Indiana radio station. The DJs accidentally broadcast the sound of bubbles popping. Dr. Kathleen M. Dillon did ground-breaking research establishing that popping Bubble Wrap reduces stress. So, if you're worried about your 2018 taxes, pop away!

Quote Corner

"Those who say it can't be done are usually interrupted by others doing it."

~ James Baldwin

