

Communications & Liaison
STAKEHOLDER LIAISON


Be Tax Ready – Understanding Rules for Due Diligence and the Child Tax Credit and Earned Income Tax Credit Under the American Rescue Plan Act of 2021

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Topics


- Introduce how the American Rescue Plan Act (ARPA) of 2021 affects returns claiming refundable credits
- Explore how ARPA rules impact your clients' eligibility for the earned income tax credit (EITC) and enhanced child tax credit (CTC)
- Review due diligence requirements for the EITC, CTC, AOTC and head of household filing status and discuss how ARPA impacts the requirements
- Explain how to avoid common errors related to due diligence and claiming the applicable tax benefits
- Share IRS' online resources for paid preparers

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Due Diligence Tax Benefits




**Earned
Income Tax
Credit**

(EITC)




**Child Tax
Credit (CTC)
Additional
Child Tax
Credit (ACTC)
Credit for Other
Dependents
(ODC)**



**American
Opportunity
Tax Credit**

(AOTC)



**Head of
Household
Filing
Status**

(HOH)

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Tax Return Preparer Toolkit




EITC.IRS.gov or IRS.gov/toolkit

– or –

- In IRS.gov, search: “toolkit”
- In commercial search engines, enter:
 - Tax preparer toolkit or Tax toolkit or Preparer toolkit

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Due Diligence Requirements Review

As a paid tax return preparer, you must:

Complete and submit **Form 8867**

➔

Compute the credits based on the facts

➔


Ask all the right questions

➔

Keep records for three years

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Due Diligence Requirements Review (cont.)

Complete and submit **Form 8867**

➔

Compute the credits based on the facts

➔

Ask all the right questions

➔

Keep records for three years

Dependent

Residency

Age

Relationship

Tie-Breaker Rules

Separated Spouse

Gross Income

Support

Citizenship

Earned Income

AGI

1st 4 Years Post-Secondary

Joint Return

SSN

Household Upkeep Costs

1098-T

More...

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Form 8867 Paid Preparer's Due Diligence Checklist
 Earned Income Credit (EIC), American Opportunity Tax Credit (AOTC),
 Child Tax Credit (CTC) including the Additional Child Tax Credit (ACTC) and
 Credit for Other Dependents (ODC), and Head of Household (HOH) Filing Status

OMB No. 1545-0074
2020
 Department of the Treasury
 Internal Revenue Service
 ▶ To be completed by preparer and filed with Form 1040, 1040-SR, 1040-PR, 1040-SS, 1040-PR, or 1040-SS.
 ▶ Go to www.irs.gov/form8867 for instructions and the latest information.
 Taxpayer identification number

Part I Due Diligence Requirements
 Please check the appropriate box for the credit(s) and/or HOH filing status claimed on the return and complete the related Parts I-V for the benefit(s) claimed (check all that apply). EIC CTC/ACTC/ODC AOTC HOH

1 Did you complete the return based on information for tax year 2020 provided by the taxpayer or reasonably obtained by you? Yes No N/A

2 If credits are claimed on the return, did you complete the applicable EIC and/or CTC/ACTC/ODC worksheets found in the Form 1040, 1040-SR, 1040-PR, or 1040-SS instructions, and/or the AOTC worksheet found in the Form 8863 instructions, or your own worksheet(s) that provides the same information, and all related forms and schedules for each credit claimed?

3 List those documents provided by the taxpayer, if any, that you relied on:

4 Did you, when you asked, when you asked, the information that was provided, and the impact the information had on your preparation of the return?

5 Did you satisfy the record retention requirement? To meet the record retention requirement, you must keep a copy of your documentation referenced in 4), a copy of this Form 8867, a copy of any applicable worksheets, a record of how, when, and from whom the information used to prepare Form 8867 and any applicable worksheets was obtained, and a copy of any documents provided by the taxpayer that you relied on to determine eligibility for the credits and/or HOH filing status on its return.

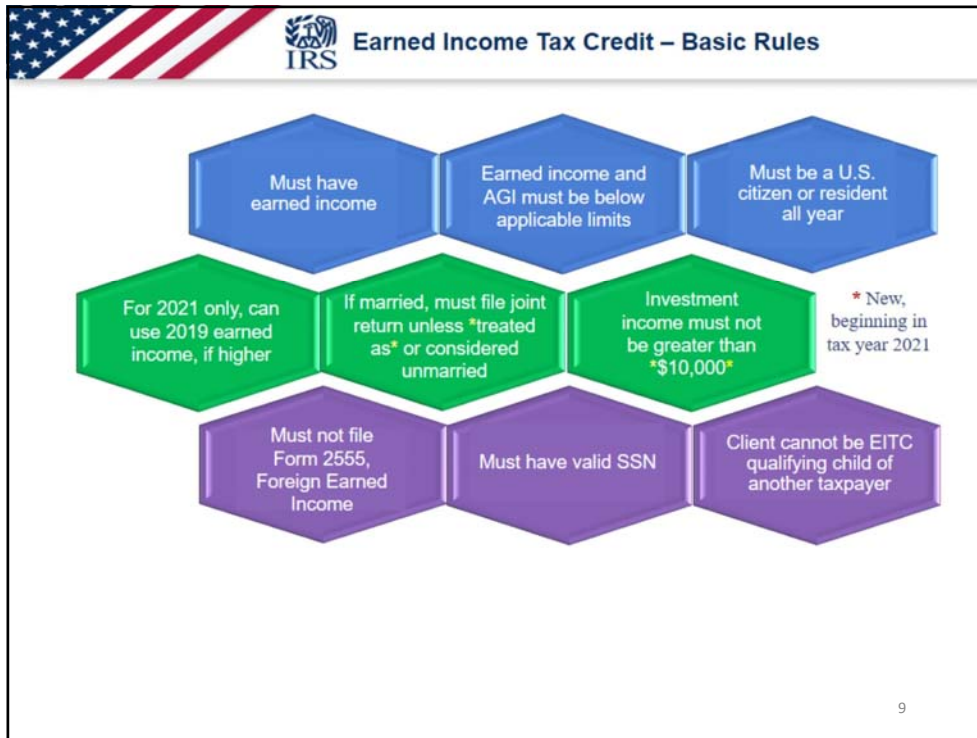
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ITIN ATIN

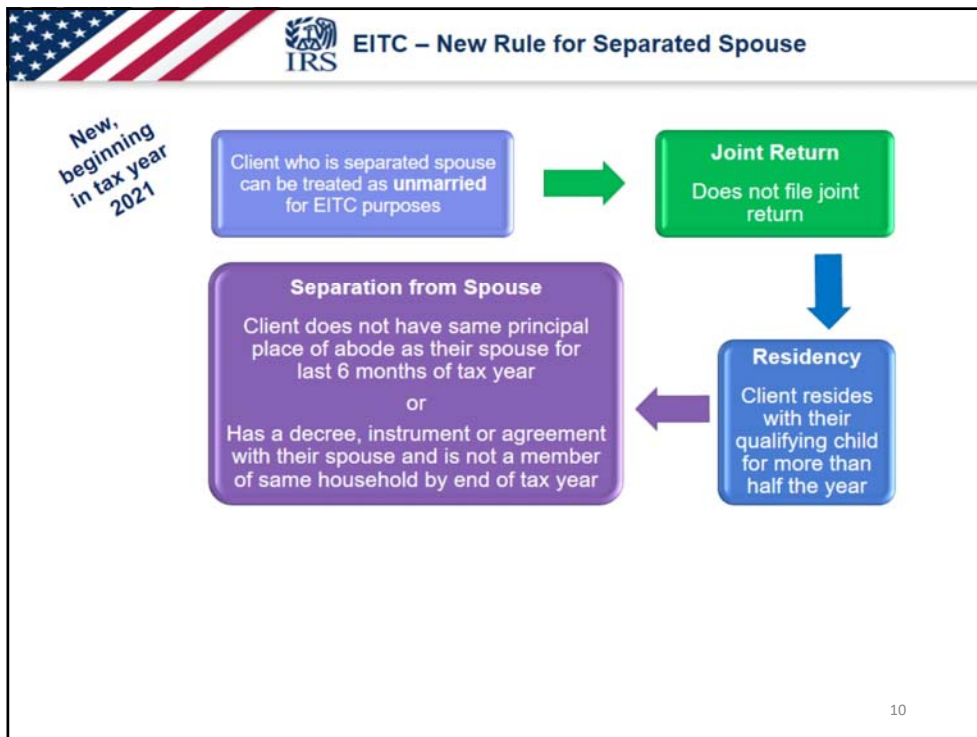
EITC	All Parties *				
	Taxpayer				
CTC	Child				
	All Parties *				
AOTC	All Parties *				
HOH	All Parties *				

* Taxpayer, spouse, if any, and any qualifying person claimed
 If issued to get federally funded benefit, SSN is not valid for EITC



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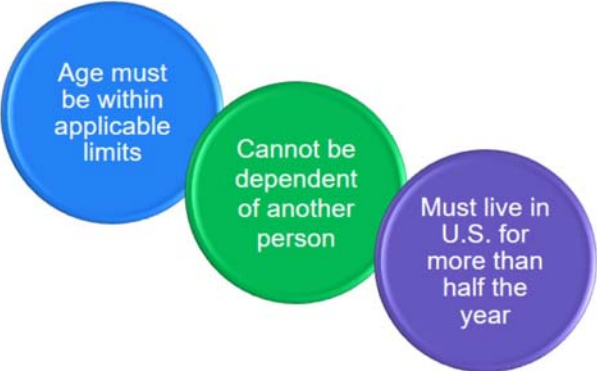


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  **Childless EITC – Basic Rules**




- Age must be within applicable limits
- Cannot be dependent of another person
- Must live in U.S. for more than half the year

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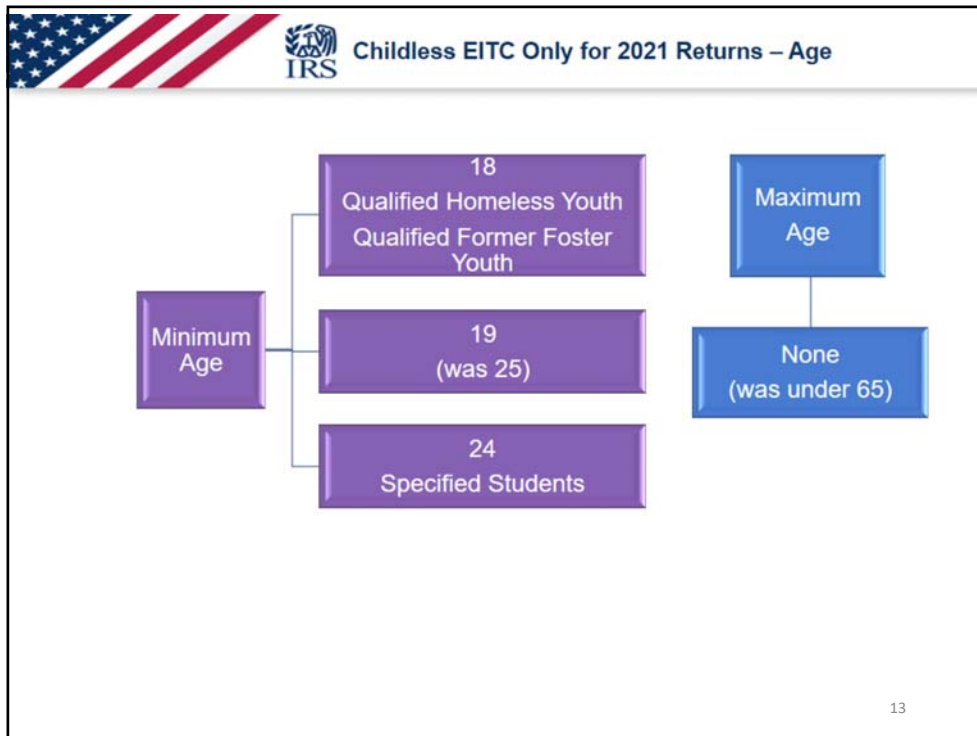
  **Childless EITC – Only for 2021 Returns**



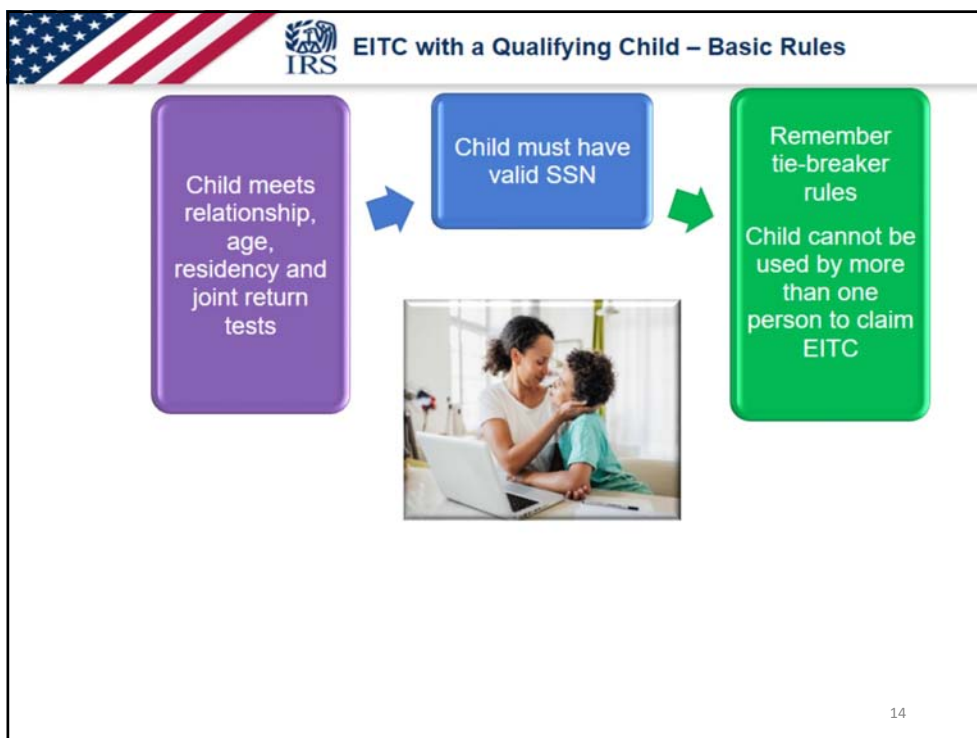
- Age Limits Modified
- Credit Amount More Than Doubles
- Earned Income Limit Increases
- Higher Income for Credit Phase-out

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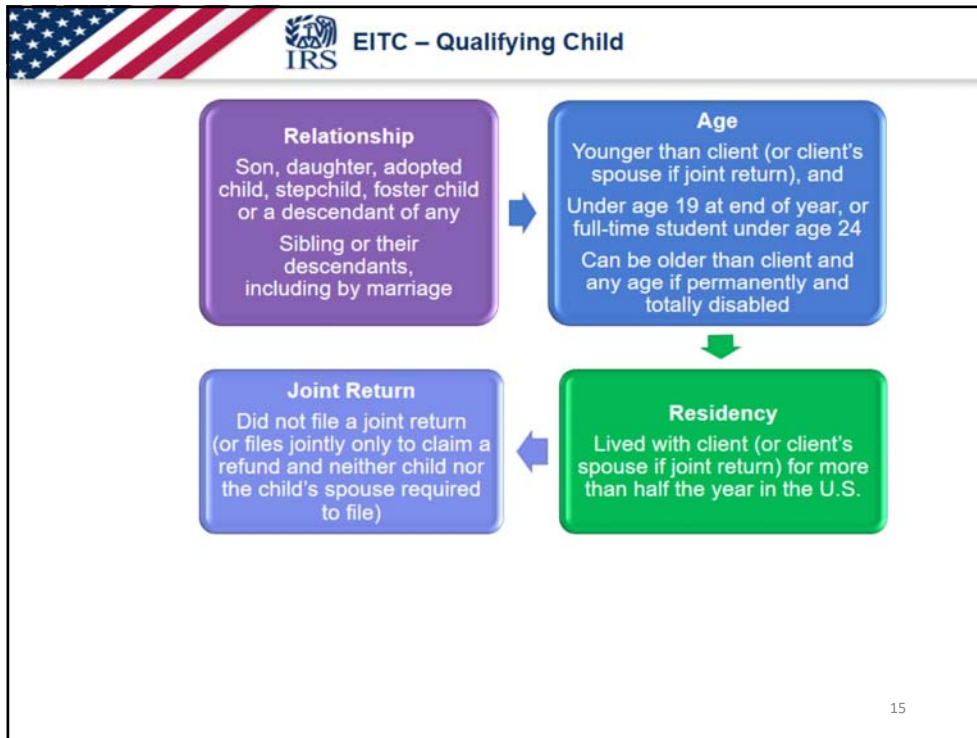
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EITC – Taxpayer Identification Numbers

				ITIN ATIN
EITC	Taxpayer Spouse Child	✓	✗ !	✗


! If issued to get federally funded benefit, SSN is not valid for EITC

- SSN must be issued *on or before* due date of return, including extensions


Generally, your client can be eligible for childless EITC if none of their children meet 'valid SSN' requirement.

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EITC Due Diligence

<p>Earned income AGI Valid SSN Filing status Form 2555 Investment income</p>		<p>Qualifying Child: Relationship Age Residency Joint return Valid SSN Tie-breaker rules</p>
<p>Client not a qualifying child Lived in U.S. more than half of year U.S. citizen or resident all year Childless – Client not a dependent Childless – Age limits (modified for 2021)</p>	<p>Common Errors: Child doesn't meet relationship or residency tests Income and expenses – over or under-reporting, especially on Schedule C Filing status incorrect</p>	

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EITC – Preparer Toolkit Resources

EITC.IRS.gov

Earned Income Tax Credit & Other Refundable Credits

EITC Central **Tax Preparer Toolkit** Partner Toolkit Other Refundable Credits

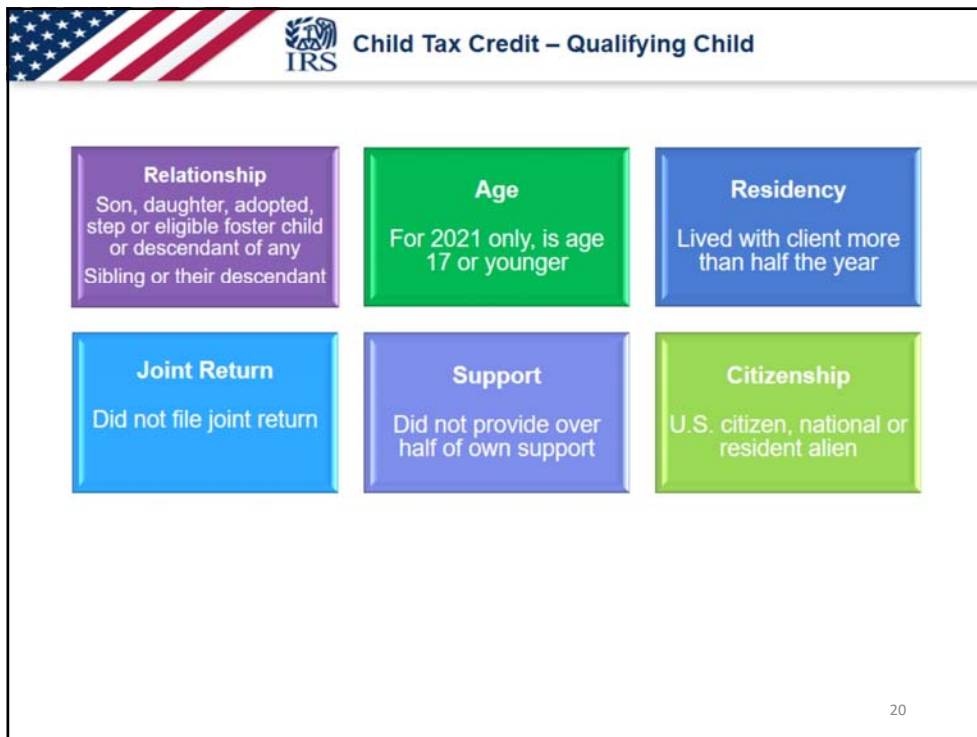
<p>Hot Topics for Return Preparers</p>	<p>Tools and Tips</p>
<p>Preparer Due Diligence</p>	<p>Handling Processing Errors</p>
<p>Due Diligence Training Module</p>	<p>Handling the Most Common Due Diligence Situations</p>
<p>Form 886-H-EIC Toolkit</p>	<p>Handling the Most Common Errors</p>
<p>Tools and Tips</p>	<p>Form 886 Can Assist You</p>
<p>Child Related Tax Benefit Comparison</p>	<p>Publications 4687</p>
	<p>Form 8867</p>

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 **CTC – Taxpayer Identification Numbers**




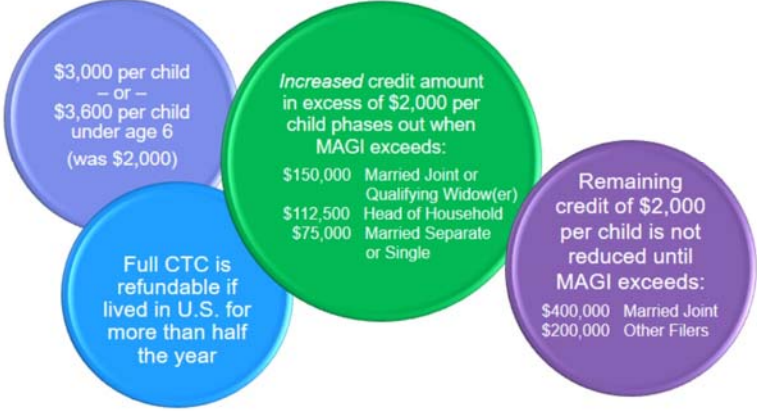
CTC	Taxpayer	✓	✓	✓
	Child	✓	✗	✗

- Client's taxpayer ID number, and spouse's if filing jointly, must be issued *on or before* due date of return, including extensions
- Child's SSN must be issued *before* due date of return, including extensions

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 **Child Tax Credit – Only for 2021 Returns**



- \$3,000 per child – or – \$3,600 per child under age 6 (was \$2,000)
- Full CTC is refundable if lived in U.S. for more than half the year
- Increased credit amount in excess of \$2,000 per child phases out when MAGI exceeds:
 - \$150,000 Married Joint or Qualifying Widow(er)
 - \$112,500 Head of Household
 - \$75,000 Married Separate or Single
- Remaining credit of \$2,000 per child is not reduced until MAGI exceeds:
 - \$400,000 Married Joint
 - \$200,000 Other Filers

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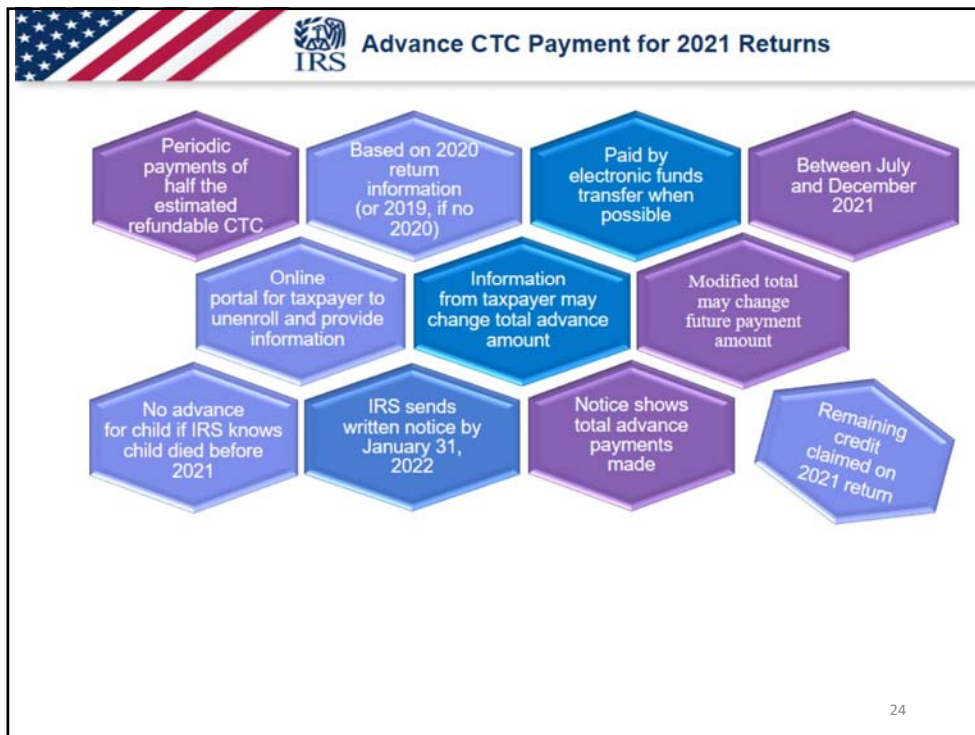


Child Tax Credit Example – Tax Year 2021

	Wages / MAGI	\$40,000	\$125,000	\$220,000
• HOH	Credit (\$3,000 + \$3,600)	\$6,600	\$6,600	\$6,600
	Increased Credit (\$1,000 + \$1,600)	\$2,600	\$2,600	\$2,600
• Two dependent children, ages 10 and 3	MAGI Phase-Out of Increased Credit		$\$125,000 - \$112,500 = \$12,500$ rounded up to \$13,000 $\times 5\%$ Reduction \$650	$\$220,000 - \$112,500 = \$107,500$ rounded up to \$108,000 $\times 5\%$ Reduction \$5,400 Limited to \$2,600
• All have valid SSN	MAGI Phase-Out of Remaining Credit			$\$220,000 - \$200,000 = \$20,000$ $\times 5\%$ Second reduction \$1,000
• Live in U.S.	Refundable CTC	\$6,600	\$5,950	\$3,000

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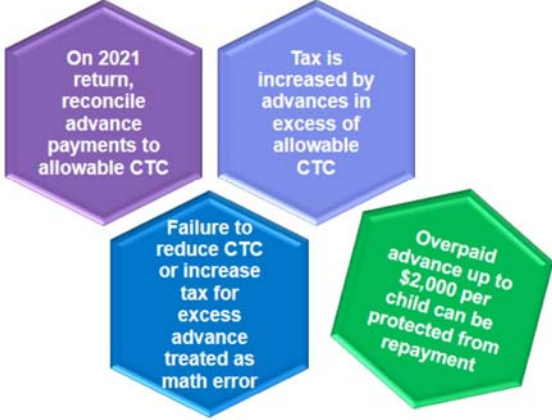
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Advance CTC Payment – Reconciliation



On 2021 return, reconcile advance payments to allowable CTC


Tax is increased by advances in excess of allowable CTC

Failure to reduce CTC or increase tax for excess advance treated as math error

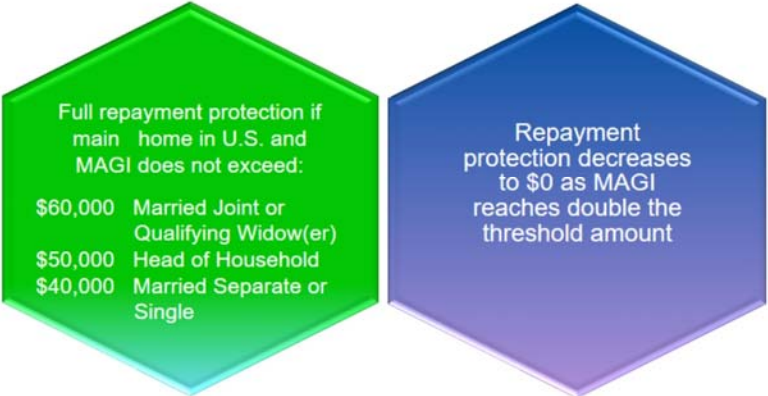
Overpaid advance up to \$2,000 per child can be protected from repayment

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Advance CTC Reconciliation – Repayment Limitation




Full repayment protection if main home in U.S. and MAGI does not exceed:

\$60,000	Married Joint or Qualifying Widow(er)
\$50,000	Head of Household
\$40,000	Married Separate or Single

Repayment protection decreases to \$0 as MAGI reaches double the threshold amount

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 **CTC/ACTC Due Diligence**

<p>Support Required SSN U.S. citizen, national or resident alien</p>	<p>Relationship Age* Residency Joint return</p>
<p>Claimed as a dependent Fully refundable – Lived in U.S. more than half year* Reconcile advance CTC*</p>	<p>Common Errors Child doesn't meet relationship or residency tests</p>

*** Temporary rule enhancement for 2021 returns**

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 **Credit for Other Dependents – Basic Rules for Qualifying Person**

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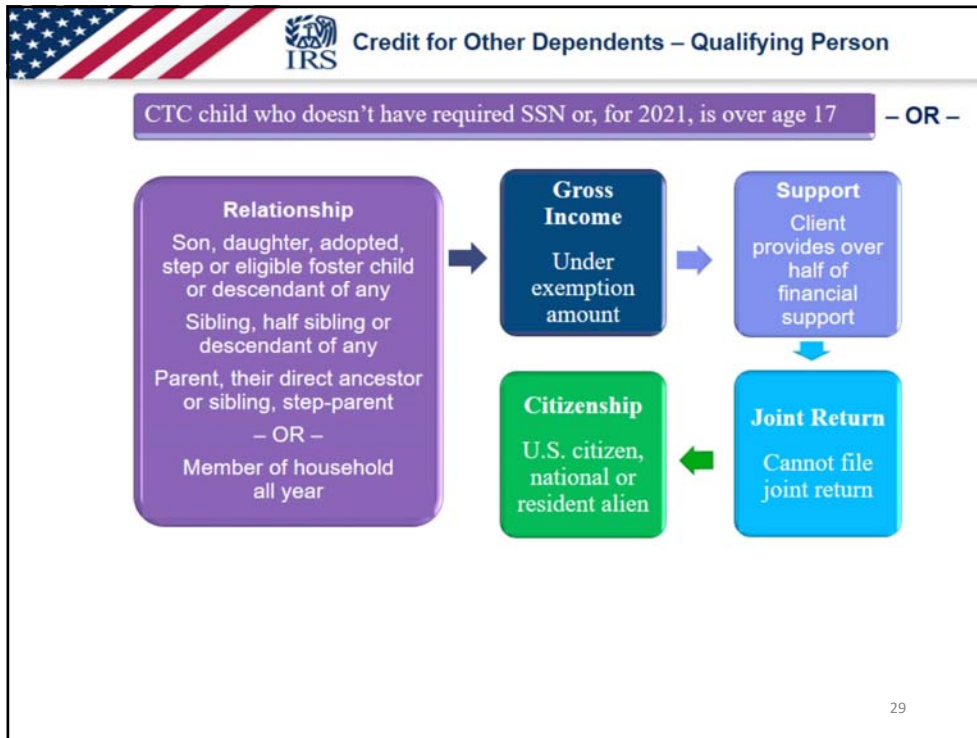
    graph LR
      A[Is claimed as a dependent] --> B[Cannot be used to claim the CTC]
      B --> C[Is a U.S. citizen, national or resident alien]
  
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Examples:

- CTC child with an SSN not valid for employment or an ITIN or ATIN
- CTC child (for 2021) over age 17
- Relative who depends on your client for more than half their financial support
- A person not related to your client but lives with client for entire year

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ODC – Taxpayer Identification Numbers

SOCIAL SECURITY
 NOT VALID FOR EMPLOYMENT
 000-00-0000
 VOID
 SAMPLE


ITIN
 ATIN

ODC	Taxpayer Spouse Dependent	✓	✓	✓
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- ID numbers for client, their spouse if filing jointly and dependent must be issued *on or before* due date of return, including extensions


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IRS ODC Due Diligence

<p>Support Taxpayer ID number</p>	<p>Relationship Joint return Qualifying child – Residency and age Qualifying relative – Gross income</p>
<p>U.S. citizen, national or resident alien Claimed as a dependent</p>	<p>Common Errors: Dependent doesn't meet citizenship or relationship tests Qualifying child doesn't meet residency test</p>



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IRS CTC and ODC – Preparer Toolkit Resources
EITC.IRS.gov


IRS Earned Income Tax Credit & Other Refundable Credits

EITC Central **Tax Preparer Toolkit** Partner Toolkit Other Refundable Credits

<p>Hot Topics for Return Preparers</p> <ul style="list-style-type: none"> Preparer Due Diligence Due Diligence Training Module Form 886-H-EIC Toolkit Tools and Tips Child Related Tax Benefit Comparison 	<p>For Advance CTC resources, enter: "advance CTC" in IRS.gov or commercial search engine or URL: irs.gov/credits-deductions/advance-child-tax-credit-payments-in-2021</p>
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AOTC Due Diligence

First 4 years of postsecondary school

No more than 4 tax years per student

Client, spouse or dependent

Taxpayer ID number by return due date, including extensions



Form 1098-T

Student enrolled at least half time pursuing recognized credential

No felony drug conviction

Common Errors:


No Form 1098-T

Expenses don't qualify or aren't considered paid by client

Credit claimed for student for more than 4 tax years


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AOTC – Preparer Toolkit Resources

EITC.IRS.gov



What You Need to Know about AOTC and LLC

Hot Topics for Refundable Credits

Tax Forums

What You Need to Know about AOTC and LLC

Education Credits Products

Avoid Common AOTC Errors

AOTC Key Messages

Compare Education Credits

Know the Questions to Ask about Refundable Credits

The American Opportunity Tax Credit (AOTC) and the Lifetime Learning Credit (LLC) can reduce a taxpayer's income tax liability dollar-for-dollar for qualified education expenses paid. These credits can help offset the cost of higher education.

Here's what tax return preparers need to know:

- Eligibility requirements** – Start with our [comparison credits comparison chart](#) for a quick look or review the [Education Credits](#) page for more details.
- Review Form 1098-T** – Did the student attend at least half time for a full academic period? Is the 'graduate student' box checked? For what academic period are the amounts reported? Remember the amount in Box 1 on Form 1098-T may differ from the amount your client can use to compute a credit on this year's tax return.
- If the student **didn't receive a Form 1098-T**, inform your client that the IRS may ask for documentation to support the credit. See [Forms 866-H, AOC](#) and [866-H-ADC, MAE](#) for examples of helpful documentation. Also available in Spanish, [Form 866-H-AOC\(ESP\)](#).

Resources - Tax Credits for Education


- Find the **latest news for refundable credits** on our [What's New](#) page.
- See the AOTC and LLC criteria side by side on our [Compare Education Credits](#) chart.

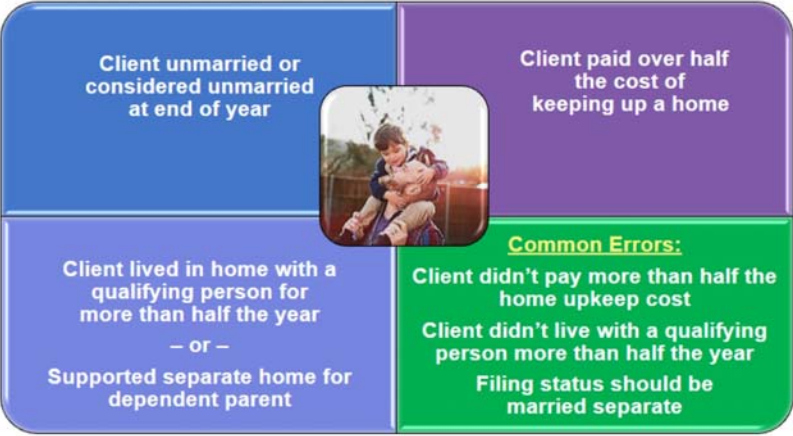
Related Forms and Publications

- [Publication 970](#), Tax Benefits for Education
- [Form 1098-T](#), Tuition Statement

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 **Head of Household Due Diligence**



Client unmarried or considered unmarried at end of year


Client paid over half the cost of keeping up a home


Client lived in home with a qualifying person for more than half the year
– or –
Supported separate home for dependent parent

Common Errors:
Client didn't pay more than half the home upkeep cost
Client didn't live with a qualifying person more than half the year
Filing status should be married separate

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 **Child and Dependent Care Credit for 2021 Returns**



Maximum eligible expenses for one qualifying individual \$8,000 (was \$3,000)


Maximum eligible expenses for two or more qualifying individuals \$16,000 (was \$6,000)

Credit amount is refundable if taxpayer's principal abode for more than half the tax year is in the U.S.

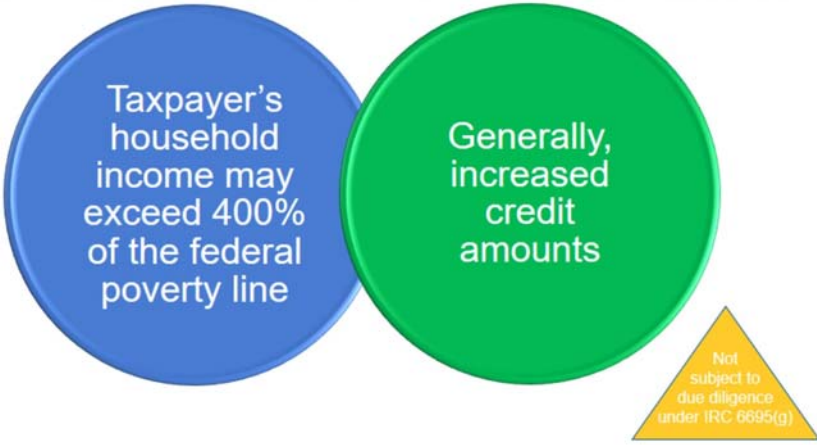
Not subject to due diligence under IRC 6695(g)

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Premium Tax Credit (PTC) for 2021 Returns




Taxpayer's household income may exceed 400% of the federal poverty line

Generally, increased credit amounts

Not subject to due diligence under IRC 6695(g)

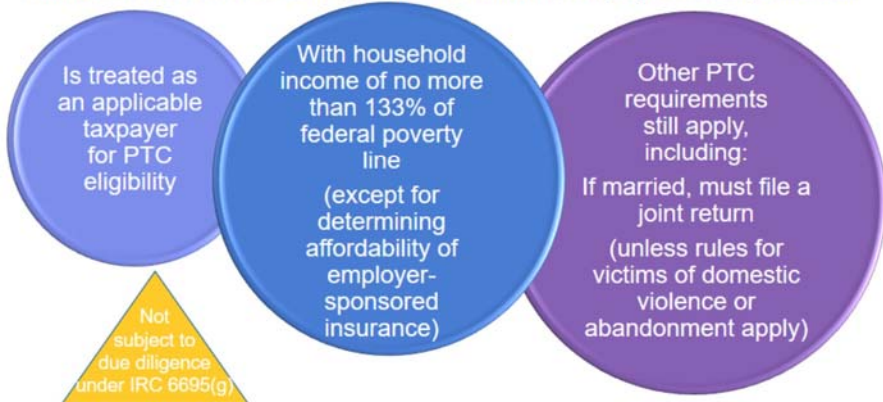
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PTC for 2021 – Unemployment Compensation

Your client who receives or is approved to receive unemployment compensation:



Is treated as an applicable taxpayer for PTC eligibility

With household income of no more than 133% of federal poverty line
(except for determining affordability of employer-sponsored insurance)

Other PTC requirements still apply, including:
If married, must file a joint return
(unless rules for victims of domestic violence or abandonment apply)

Not subject to due diligence under IRC 6695(g)

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  **Key Points**



IRS.gov/toolkit
EITC.IRS.gov

Use the return preparer toolkit as a due diligence resource





Due Diligence Requirements

Know the rules for tax benefits subject to due diligence


Review your procedures to ensure you comply with the four requirements

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  **Key Points (continued)**



EITC



- Separated spouse can be treated as unmarried (new)
- Can use 2019 earned income, if higher (for tax year 2021 only)
- Childless EITC age rule modified (for tax year 2021 only)

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  **Key Points (cont.)**

CTC

For 2021 only:

- Child can be age 17 or younger
- Enhanced credit amounts: \$3,000 or \$3,600 under age 6
- Full credit refundable if lived in U.S. more than half the year
- Reconcile advance payments on 2021 return
- Certain overpaid advances may be protected from repayment



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