

Compliance Risk & EFIN Protection

Master Study Guide

1. Why Compliance Matters

Core Principle

- The EFIN is one of the most valuable assets in an ERO's business.
- An EFIN allows the office to electronically file tax returns with the IRS.
- Growth, recruiting, and marketing do not replace compliance.
- Compliance should be built into the business from day one.

Compliance Protects

- Your EFIN
- Your PTIN
- Your reputation
- Your clients
- Your revenue

Possible Consequences of Ignoring Compliance

- IRS penalties
- Return audits
- EFIN suspension
- EFIN revocation
- Civil penalties
- Criminal investigations

Key Takeaway

- A successful tax office is built on compliance first and revenue second.

2. Due Diligence

What Due Diligence Means

- Due diligence means making reasonable efforts to verify information provided by taxpayers.
- Preparers should not simply accept information without asking questions.
- If something does not make sense, ask more questions.

Due Diligence Applies To

- Earned Income Credit (EIC)
- Child Tax Credit (CTC)

- Additional Child Tax Credit (ACTC)
- American Opportunity Tax Credit (AOTC)
- Head of Household filing status

IRS Expectations

- Ask questions
- Verify information
- Review documentation
- Maintain records

Key Takeaway

- Preparers have a responsibility to verify information, not just enter information.

3. Form 8867

Purpose

- Form 8867 is commonly referred to as the Paid Preparer's Due Diligence Checklist.
- It helps document that required due diligence steps were performed.

Form 8867 Is Used When Claiming

- Earned Income Credit
- Child Tax Credit
- Additional Child Tax Credit
- Other Dependent Credit
- American Opportunity Credit
- Head of Household filing status

What It Documents

- Questions asked
- Information verified
- Due diligence performed

Important Reminder

- Completing Form 8867 does not replace the actual due diligence process.

4. Documentation Standards

Documents to Collect

- Government-issued ID
- Social Security cards
- W-2s
- 1099s

- Business records
- Birth certificates when applicable
- School records when applicable
- Medical records when applicable

Why Documentation Matters

- Documentation supports information reported on the return.
- If a position cannot be supported, do not file until additional documentation is obtained.

Key Takeaway

- Good documentation creates strong files.

5. Head of Household Review

General Qualification Factors

- Taxpayer is unmarried or considered unmarried.
- Taxpayer pays more than half the cost of keeping up the home.
- Taxpayer has a qualifying person living with them for more than half the year.

Questions to Ask

- Who lived in the home?
- Who paid the household expenses?
- How long did the dependent live there?

Red Flags

- Multiple people claiming the same child
- Unclear residency situations
- Inconsistent information

Key Takeaway

- Never assume a taxpayer qualifies for Head of Household.

6. Earned Income Credit Review

Verify

- Residency
- Relationship
- Age requirements
- Income requirements

Common Red Flags

- Dependents who do not live with the taxpayer
- Inconsistent information

- Missing documentation

Key Takeaway

- Ask questions before claiming credits.

7. Child Tax Credit and AOTC

Child Tax Credit - Verify

- Age requirements
- Relationship
- Residency
- Support

American Opportunity Tax Credit - Verify

- Form 1098-T
- Qualified education expenses
- Student eligibility requirements

Best Practice

- Keep supporting documentation within the client file.

Key Takeaway

- Documentation is your first line of defense.

8. Return Review Procedures

Review Checklist

- Names
- Dates of Birth
- Social Security Numbers
- Filing Status
- Dependents
- Credits
- Income Documents
- Bank Information
- Signatures

ERO Best Practice

- Every return should be reviewed before transmission.
- Never allow preparers to transmit returns without oversight.

Key Takeaway

- Review procedures reduce errors and protect the EFIN.

9. Identity Theft Prevention

Warning Signs

- Missing Social Security cards
- Altered documents
- Information that does not match
- Multiple returns for the same dependents
- Clients unwilling to provide documentation

Questions to Ask

- Can you provide your Social Security card?
- Can you provide last year's return?
- Have you ever received an IRS identity theft letter?
- Do you use an IP PIN?

Key Takeaway

- Trust your instincts and verify information.

10. IP PIN

What It Is

- An IP PIN is a six-digit number assigned by the IRS to help prevent identity theft.

Important Questions

- Did you use an IP PIN last year?
- Have you received an IRS notice regarding identity theft?
- Do you currently have an IP PIN?

Why It Matters

- Returns requiring an IP PIN may reject if the PIN is missing or incorrect.

Best Practice

- Ask every returning client whether they have received an IP PIN.

11. EFIN Protection

Never Allow

- Untrained preparers to work unsupervised
- Returns to be transmitted without review
- Shared logins
- Missing documentation
- Poor record keeping

Best Practices

- Review returns
- Monitor team activity
- Conduct quality reviews
- Train the team regularly
- Maintain organized records

Key Takeaway

- The IRS ultimately holds the EFIN holder responsible.
- Protect the EFIN like you would protect the business bank account.

12. Penalties and Prevention

Possible Consequences

- Monetary penalties
- Increased IRS scrutiny
- Audits
- Suspension of filing privileges
- EFIN revocation
- PTIN sanctions

Prevention Strategies

- Follow procedures
- Document everything
- Review returns
- Train team members
- Stay current on tax law changes

Final Takeaway

- Compliance is far less expensive than non-compliance.