DUE DILIGENCE REQUIREMENTS FOR TAX RETURN PREPARERS

Paid preparers who file returns with the 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 — or claims for refunds for clients — must meet due diligence requirements. Those who fail to do so can be assessed a $650 penalty per [Rev. Proc. 2024-40] for each failure.

Requirement	As a paid tax return preparer, you must:
Knowledge	• Have no knowledge that any information used to determine a client's eligibility for a refundable credit, or the amount, is incorrect. • Make additional inquiries about client-provided information if a reasonable and well-informed tax return preparer, knowledgeable in the law, would conclude the information is incomplete, inconsistent, or incorrect. Know the law, and use your knowledge of the law, to ensure you are asking your client the right questions to gather all relevant information. • Document any additional questions you ask at the time of the interview, as well as your client's answers. The Treasury Regulations give application examples of the knowledge requirement. Find the regulations and requirements for tax return preparer due diligence on the Government Printing Office site.
Complete and Submit Form 8867	• Complete Form 8867, Paid Preparer's Due Diligence Checklist, for each EIC, AOTC, CTC, ACTC, ODC, and HOH claim you prepare. • Complete the compliance checklist with due diligence requirements and information provided by your clients. • Submit the completed Form 8867 to the IRS with every electronic return you prepare claiming the EIC, AOTC, CTC, ACTC, ODC, as well as every HOH return. • Attach the completed Form 8867 to every paper return or claim for refund you prepare for the EIC, AOTC, CTC, ACTC, ODC, as well as HOH returns, and stress to your client the importance of sending it with the return or claim for refund to the IRS.
Keep Records	• Keep a copy of Form 8867 and the worksheets used to determine credits. • Keep a record of all additional questions you ask each client (and their answers) that would help you comply with due diligence requirements. • Keep copies of any documents your client gives you that you used to determine eligibility for, or the amount of, the credits. • Keep a record of how, when, and from whom you obtained the information used to complete the return. • Keep your records in either paper or electronic format, and make sure you can produce these records if the IRS asks for them. • Keep these records for three years from the latest date of the following that apply: - The original due date of the tax return. (This does not include any extension of time for filing.) - If you electronically file the return or claim for refund and sign it as the return preparer, the date the tax return or claim for refund is filed. - If the return or claim for refund is not filed electronically and you sign it as the return preparer, the date you present the tax return or claim for refund to your client for signing. - If you prepare part of the return or claim for refund and another preparer completes and signs the return or claim for refund, you must keep the part of the return you were responsible for completing for three years from the date you submit it to the signing tax return preparer. • Keep these records in either paper or electronic format in a secure place to protect your client's personal information.

Source: Internal Revenue Service