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# Revenue Protection Strategy

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Messages for the 1999 Filing Season

**Q&A's**  
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## INTERNAL REVENUE SERVICE

### REVENUE PROTECTION STRATEGY

#### Public Messages for the 1999 Filing Season

##### Introduction

Each year the Internal Revenue Service adjusts the Revenue Protection Strategy (RPS) to focus on various problematic areas to protect the integrity of the tax system. As part of an increased emphasis on customer service, the IRS is releasing the 1999 Revenue Protection Strategy communications package at the beginning of the filing season. This document communicates filing guidelines to taxpayers, practitioners, and other external stakeholders. By following the guidelines, taxpayers may address problem areas before, rather than after, the return is filed. Prevention of questionable or fraudulent returns ensures consistency in application of the tax laws and fairness to all taxpayers.

This information is intended for both internal and external audiences. The contents may be used in press releases, speeches, responses to media or Congressional inquiries, practitioner newsletters, employee newsletters, or other methods of communication intended for the education of employees, taxpayers and practitioners related to the Revenue Protection Strategy (RPS).

### REVENUE PROTECTION STRATEGY

For the past five filing seasons, the Internal Revenue Service (IRS) has continually increased its efforts to guard against problematic returns. The RPS is built on a four-pronged approach to address the problems associated with fraudulent and questionable returns:

**Understanding**--Research and analyze data in an ongoing effort to understand fraud and the various methods of abuse, with a special emphasis on emerging trends.

**Prevention**--Validate return information up-front to prevent fraudulent or questionable claims from entering the filing system.

**Detection**--Develop improved detection systems to identify multiple-return fraud schemes and patterns of abuse among groups of taxpayers.

**Enforcement**-- Pursue criminal investigation and prosecution of fraudulent refund claims. In addition, conduct pre-refund audits to determine eligibility for certain tax benefits.

## **PRIORITY MESSAGES FOR 1999**

### **Social Security Numbers No Longer on Tax Package Labels**

To protect the privacy of all taxpayers, the social security numbers (SSNs) will no longer be printed on the peel-off label included in the tax packages. It is all the more important to clearly and accurately enter the SSNs in the spaces provided on page 1 of the tax return. Accurate entries will prevent delays in processing returns and also in issuing tax refunds.

### **Earned Income Tax Credit Awareness Days**

The IRS will sponsor six Earned Income Tax Credit (EITC) Awareness Days to provide assistance to EITC filers early in the filing season. These EITC Awareness Days are scheduled for six consecutive Saturdays, starting January 16, 1999, in more than 250 locations nationwide. Times and locations will be announced through each IRS district office.

### **Earned Income Tax Credit Recertification**

For the first time, tax return filers will be prohibited from receiving EITC on their 1998 tax returns if their 1997 tax returns were audited and they were not eligible for the EITC. Before receiving the EITC again, these taxpayers must provide additional information on Form 8862, Information To Claim Earned Income Tax Credit After Disallowance, and attach it to their 1998 tax return. Letter 3094 was mailed to inform taxpayers of the recertification requirements after the completion of the tax year 1997 audit. In some instances, the taxpayers will be requested to provide documents to verify eligibility prior to receiving their refund. This process is known as Earned Income Tax Credit "recertification."

In cases of a more serious nature as determined by auditing the tax year 1997 return, taxpayers may be prohibited from receiving EITC for two or ten years; negligence and fraud penalties may also be applicable. If it is determined that the taxpayer is not entitled to EITC due to reckless or intentional disregard of the rules, the credit cannot be claimed by the taxpayer for the next two years. If the taxpayer fraudulently claimed EITC, the taxpayer cannot claim EITC for the next ten years.

### **Due Diligence**

Paid preparers of Federal income tax returns (both paper and electronically filed returns) and claims for refund involving the EITC must now meet due diligence requirements in determining if the taxpayer is eligible for the EITC and also in determining the correct amount of EITC. Failure to do so could result in a \$100 penalty for each failure. Preparers will meet the due diligence requirements if they:

- Complete Form 8867, Paid Preparer's Earned Income Credit Checklist, or the preparer's own form provided it contains the same information as Form 8867,
- Complete the EITC worksheet(s) in the Form 1040, 1040A or 1040EZ instructions, or the preparer's own worksheets if the same information is included,

- Have no knowledge that any of the information used to determine EITC eligibility is incorrect, and
- Retain for three years Form 8867 (or their own form), the EITC worksheets(s) (or their own worksheets), and a record of how, when, and from whom the information used to prepare the form and worksheets was obtained.

For tax year 1998 returns and claims for refund, the preparer will satisfy the first due diligence requirement by using Form 8867, or a modified version of the eligibility checklist attached to Notice 97-65, 1997-51 I.R.B. 14 (December 22, 1997). The modifications consist of replacing \$9,770, \$25,760, \$29,290, and \$2,250 each time these figures appear on the 1997 Eligibility Checklist with \$10,030, \$26,473, \$30,095, and \$2,300, respectively.

Paid preparers may avoid imposition of the penalty with respect to a particular return if the preparer can satisfactorily demonstrate that the preparer's standard office procedures are reasonable and routinely followed and that the particular failure was isolated and inadvertent.

After a return preparer determines that all eligibility criteria\* are met to claim someone as a dependent or as an EITC qualifying child, **carefully** enter full names and identifying numbers (SSNs [Social Security Numbers], ITINs [Individual Taxpayer Identification Numbers], and ATINs [Adoption Taxpayer Identification Numbers]) on tax forms. Be sure that all required information is present and that the numbers entered are **accurate**. In the case of SSNs, copy the name (first, middle and last) and the SSN exactly as shown on the social security card. (For detailed information on the specific tests and eligibility criteria, refer to the instructions included in the tax package, Publication 17, Your Federal Income Tax, or Publication 596, Earned Income Credit.)

**\*EITC Note:** ITINs and ATINs may not be used to claim the earned income tax credit. Also, "non-work" SSNs--SSNs issued by the Social Security Administration (SSA), with the phrase "NOT VALID FOR EMPLOYMENT" printed on the social security card--may not be used to claim EITC. This also applies to non-work SSNs issued to children.

### **Emphasis on Research**

For the 1999 filing season, increased emphasis will be placed on research. Ongoing efforts, such as the 1998 study to measure EITC compliance levels, will continue. This study, consisting of approximately 2,500 1997 tax returns, is nearing completion. Plans call for a similar study of about 3,400 returns to be conducted during 1999. Other research efforts will focus on various segments of non-compliant and problematic EITC returns as well as the effectiveness of IRS programs. Earned Income Tax Credit assistance/educational visits to return preparers will be conducted on a test basis. It should be noted that the research component of RPS also includes developing and testing alternative educational and outreach efforts to influence taxpayers' behavior in lieu of the traditional enforcement and compliance methods used to increase voluntary compliance.

## 1999 Revenue Protection Strategy

As in past years, the Service will not disclose detailed information concerning its plans for fraud control and revenue protection. However, there are broad pieces of the strategy that we will disclose to help taxpayers and practitioners avoid unnecessary problems in meeting their filing obligations.

During 1999, validation of SSNs and other tax identification numbers will continue to be a very noticeable portion of our fraud and abuse prevention efforts. We are expanding the validation of SSNs/TINs from virtually all forms and schedules requiring identification numbers. We will identify dependent SSNs claimed on more than one return and improper claiming of children for the dependency exemption and/or EITC. Taxpayers with incomplete returns, invalid or duplicate SSNs, or returns evidencing patterns consistent with suspicious claims or profiles can expect their refunds to be delayed or disallowed pursuant to "math error" procedures or audits.

Starting in 1999, math error notices will be issued if EITC is claimed on the return AND recertification is required, but Form 8862, Information To Claim Earned Income Tax Credit After Disallowance, is not attached to the return. Recertification is required if the tax year 1997 return was audited and EITC was not allowed. Letter 3094 was mailed to inform taxpayers of the recertification requirements after conclusion of the tax year 1997 audit in 1998. The entire refund, or in some cases, only the EITC portion of the refund will be held until the recertification form is reviewed, or until an audit is conducted to verify entitlement. Both processes provide an opportunity for taxpayers to furnish the necessary information or documents to prove EITC eligibility. On returns where only the EITC portion of the refund is held and the taxpayer has requested direct deposit, a direct deposit refund will be issued for the non-EITC portion of the refund. If it is subsequently determined that the taxpayer is entitled to the EITC, a paper check refund will be issued. Starting in January 2000, the EITC portion will be issued as a direct deposit if the taxpayer is entitled to the EITC.

The Service will maintain the enforcement segment of the RPS by maintaining the resource levels dedicated to the investigation and prosecution of taxpayers and tax return preparers involved in fraudulent refund schemes. Resources remain available to audit returns in specific problem categories as well as for those individuals required to recertify entitlement to EITC. Monitoring visits to Electronic Return Originators (EROs) will continue to ensure compliance.

The EITC Communications Strategy will be continued in 1999 and is composed of:

Awareness	Taxpayers and practitioners need to understand the EITC eligibility rules and the consequences of non-compliance.
Deterrence	Inform taxpayers and practitioners of planned compliance and the penalties for intentional non-compliance.
Prevention	Publicize availability of free return preparation assistance and electronic filing provided on a pro-bono basis or through VITA and Tax Counseling for the Elderly.

A major component of the communications strategy, an in-depth review of EITC related forms, schedules, worksheets, instructions and publications, is currently underway. This process is a joint effort with IRS and an external consultant. The goals are to revise and simplify the forms and instructions to increase understanding and awareness of eligibility rules and to streamline the process to compute the EITC amount accurately.

### **1998 Revenue Protection Strategy Results**

The Service believes that the 1998 RPS was successful in reducing the tax system's vulnerability to fraud and abuse, particularly in the area of EITC, and in preventing substantial dollars in erroneous refunds from being issued.

Although our efforts are currently focused on the EITC since additional funding was provided to reduce the high levels of fraud, abuse and ineligibility, the RPS also includes questionable motor fuel tax credits, and other credits based on valid identification numbers. Future plans call for the expansion of the RPS to other areas.

Our prevention efforts for 1998 were most apparent to taxpayers with SSN problems and their practitioners because of the continuing validation of SSNs. On the electronic filing system, 3.4 million occurrences of missing, invalid or duplicate uses of SSNs caused tax returns to be rejected back to the transmitter.

Another major prevention effort was implemented prior to the 1998 filing season and consisted of sending several million "advisory" notices to taxpayers who filed two types of problematic returns for the 1996 tax year. The first type of problem return involved the use of an "invalid" SSN entered on the return for the primary taxpayer. In this context, an "invalid" SSN occurs when the Social Security Number and the individual's name in SSA's records do not match the name and SSN shown on the tax return. The second type of problem return was caused by more than one taxpayer filing a return and claiming the same individual as their dependent or as their EITC-qualifying child. Although the data analysis is incomplete, the intent was to reduce the potential for filing an incorrect return by providing advance notice and avoiding the delays associated with the math error correction process.

Subsequent to the pre-filing season notification, approximately 1.7 million returns were subjected to math error procedures as a result of missing, invalid or ineligible TINs included on the return. Refunds were reduced until taxpayers could provide the correct information. The net effect was to prevent the issuance of approximately \$1.3 billion in erroneous refunds.

We continued our suitability requirements for practitioner entry into the electronic filing system. Over 14,000 quality applicants were approved for admission under suitability requirements. And just as importantly, we denied over 450 applicants admittance because of problems with personal or business tax obligations, criminal histories, serious financial difficulties, or failure to meet other requirements.

We performed over 1,600 compliance reviews of EROs during the filing season. As expected, the vast majority of these practitioners were complying with the Revenue Procedure governing electronic filing. However, we issued 174 warnings to participants for violations, and suspended 51 participants for serious breaches of the requirements. These reviews have also proven to be an excellent opportunity to provide assistance and answer practitioner questions.

For the fiscal year ending September 30, 1998, Examination closed approximately 295,000 cases with recommended assessments of \$454 million. Fewer resources were expended to collect these assessments since many of the returns claimed refunds, which were not issued until, or unless eligibility was verified. Also, at the end of the fiscal year, approximately 500,000 returns identified during the 1998 filing season were still in the audit process.

Through September 30, 1998, the Questionable Refund Detection Teams identified over 2,800 fraudulent refund schemes involving multiple returns for paper and/or electronically filed returns. We detected more than 26,000 fraudulent returns and prevented the issuance of over \$65 million in refunds. Furthermore, over 400,000 questionable returns that did not warrant criminal investigation were referred to Examination.

The Compliance divisions were enlisted to pursue appropriate enforcement on suspect returns. The Criminal Investigation Division initiated 239 criminal investigations involving refund fraud schemes during the fiscal year ending September 30, 1998. Prosecution recommendations were forwarded in 154 investigations, and we obtained indictments on 169 individuals and convictions in 171 investigations.\*

In addition, the Criminal Investigation Division initiated 118 criminal investigations involving return preparers. Prosecution recommendations were forwarded in 119 investigations, and indictments obtained on 105 individuals, and convictions in 92 cases.\*

\*These totals include investigations initiated in prior fiscal years and some are still pending.

## **Questions and Answers about Revenue Protection in 1999**

### **1. What is "EITC Recertification" and who is required to recertify when claiming EITC in 1999?**

EITC recertification is a new process designed to prevent tax return filers from receiving EITC in 1999 if their 1997 tax returns were audited and they did not prove they met all EITC eligibility requirements. Before receiving the EITC again, these taxpayers must provide additional information on Form 8862, Information To Claim Earned Income Tax Credit After Disallowance, when they file their 1998 tax return. In some instances, taxpayers will be requested to provide documents to verify eligibility prior to receiving their refund.

In cases of a more serious nature as determined by auditing the tax year 1997 return, taxpayers may be prohibited from receiving EITC for two or ten years; negligence and fraud penalties may also be applicable. If it is determined that the taxpayer is not entitled to EITC due to reckless or intentional disregard of the rules, the credit cannot be claimed by the taxpayer for the next two years. If the taxpayer fraudulently claimed EITC, the taxpayer cannot claim EITC for the next ten years.

After the 1997 audit was completed, Letter 3094 was mailed to inform taxpayers of the EITC recertification requirements.

### **2. Is Revenue Protection expected to delay as many refunds in 1999 as it did in 1998?**

The actual number of delayed refunds will depend upon taxpayers' and return preparers' actions. Errors in identification numbers will cause delay or disallowance, but many of these problems should have been resolved in prior years. Resources are available to follow up on



returns with missing and invalid TINs, multiple use of individual SSNs for dependents and EITC qualifying children on more than one tax return, returns where EITC eligibility is questionable, and returns claiming EITC requiring recertification.

Prior to claiming someone as a dependent or as an EITC qualifying child on a return, the taxpayer/return preparer must be certain that all of the required “tests” are met for eligibility purposes. (For detailed information on the specific tests and eligibility criteria, refer to the instructions included in the tax package, Publication 17, Your Federal Income Tax, or Publication 596, Earned Income Credit.)

### **3. What is the main reason that Revenue Protection delays refunds?**

The biggest reason for a refund delay is problems with SSNs listed on returns. The criteria for a “valid” SSN are the combination of the SSN issued by the SSA, the last name of the individual, and the date of birth for certain age-related tax benefits. Social security numbers reported on tax returns are validated by comparing them to the information provided by SSA. Other reasons causing refund delays include more than one taxpayer claiming a child as a dependent or as an EITC qualifying child, and improperly claiming children as dependents or as EITC qualifying children.

The impact of EITC recertification on refund delays is unknown at this time.

Remember that only SSNs issued by SSA (without employment restrictions) qualify for claiming EITC. Individual Taxpayer Identification Numbers, ATINs, and SSNs “Not Valid For Employment” cannot be used to claim EITC.

### **4. Is Revenue Protection more likely to delay my return if I file electronically?**

No. Electronic filing confirms acceptance of your return within two workdays. If there is a problem with the social security numbers on your return, in most cases, you will be notified of the problem right away. This quick notice gives you more time to correct the problem and re-file your return. Depending on the date you file, paper filing can take several weeks to get notice of problems because so much of the work has to be done by hand.

### **5. What new controls are in place for the 1999 filing season?**

Although the Service will not disclose detailed information concerning plans for fraud control or revenue protection, the EITC recertification process will probably be the most visible enhancement. The intent of this legislation is to cost effectively prevent ineligible filers from receiving EITC. Legislative changes require taxpayers to certify that they are eligible for EITC for tax year 1998 and subsequent years before receiving EITC if their 1997 tax return was audited and they did not or could not provide proof that they qualified for EITC. Before receiving the EITC in the future, taxpayers must attach Form 8862, Information To Claim Earned Income Tax Credit After Disallowance, to their 1998 tax return. In some instances, taxpayers will be required to provide documentation to verify eligibility. In cases of a more serious nature, negligence and fraud penalties may also be applied, in addition to not being able to claim EITC for two or ten years.

## 6. How can I be sure that the social security numbers being used on my return won't cause problems?

**First**, make sure that you have listed all SSNs and full names of each individual. Verify that the names and numbers are accurate and agree with the information on file with SSA by checking the information displayed on the social security card. If you or someone else listed on your tax return does not have an SSN, apply for one with SSA. Contact SSA to find out what information is required to obtain an SSN. The Social Security Administration's toll-free telephone number is 1-800-772-1213.

**Second**, make sure that all the numbers you enter are valid. A "valid SSN" is the combination of the individual's number, names, and date of birth for certain age-related tax benefits. If you, your spouse, or any of your dependents have changed your name, make sure to register this change with SSA prior to filing your 1998 tax return.

**Third**, if you had a problem with a number last year, find out if the problem was caused by an error in recording or copying the number on your return. If the number was recorded correctly, then the record at SSA may not have name changes or other identifying information. Contact SSA to correct this problem before you file your return.

**NOTE:** To avoid one of the most common mistakes, make sure that when children file their own tax return, especially their first tax return, that they do not take an exemption for themselves if the parents (or someone else) can claim them as a dependent.

Before preparing the tax return, determine if all eligibility criteria are met to claim someone as a dependent or as an EITC qualifying child. (For detailed information on the specific tests and eligibility criteria, refer to the instructions included in the tax package, Publication 17, Your Federal Income Tax, or Publication 596, Earned Income Credit.)

Then, **carefully** enter full names and identifying numbers (SSNs, ITINs and ATINs) on tax forms. Be sure that all required information is present and that the numbers entered are **accurate**. In the case of SSNs, copy the name (first, middle and last) and the SSN exactly as shown on the social security card.

Reminder, since the pre-printed labels included with the tax packages no longer reflect your social security number (and your spouse if you are filing a joint return), it is essential that the numbers are entered accurately. This will prevent processing and refund delays.

## 7. When should I contact Social Security with a social security number problem?

In order to avoid delays in filing your return, contact SSA before the filing season:

If you don't know or don't have good records of your own, your spouse's, or your dependents' numbers, contact SSA to apply for a replacement social security card, which is the official verification of a person's name and number in SSA's records.

If you, your spouse, or any of your dependents have changed names, make sure to register this change with SSA prior to filing your 1998 tax return. Keep in mind that a new application for a number or a name change in SSA's records takes three weeks to be updated in IRS' records. This means that you should wait three weeks from the time you contact SSA before filing or re-filing your tax return if you have applied or changed your Social Security record.

If you are unable to obtain an SSN, you must apply for an Individual Taxpayer Identification Number (ITIN) from IRS by filing Form W-7 (or Form W-7SP), Application for IRS Individual Taxpayer Identification Number, with the necessary identification documents. In the case of children being adopted and not yet eligible for an SSN, you must apply for an Adoption Taxpayer Identification Number (ATIN) from IRS by filing Form W-7A, Application for Taxpayer Identification Number for Pending U.S. Adoptions, with the necessary documentation. You may file electronically with a valid ITIN or ATIN for 1998. However, you cannot claim EITC if you, your spouse or the dependent you claim has an ITIN. A child in the process of being adopted who has an ATIN does not qualify you for claiming EITC; an amended return, Form 1040X can be filed to claim EITC after the adoption process is complete and an SSN is obtained.

**EITC Note:** Individual Taxpayer Identification Numbers and ATINs may not be used to claim the earned income tax credit. Also, “non-work” SSNs--SSNs issued by the Social Security Administration (SSA), with the phrase “NOT VALID FOR EMPLOYMENT” printed on the social security card--may not be used to claim EITC. This also applies to non-work SSNs issued to children.

## **8. What is an ITIN and what is its purpose?**

An ITIN, or Individual Taxpayer Identification Number, is a tax processing number that became available on July 1, 1996, for certain nonresident and resident aliens, their spouses and dependents. The ITIN is only available from IRS for those individuals who cannot obtain an SSN.

Individuals who must file a U.S. tax return or are listed on a tax return as a spouse or dependent, and who do not have and cannot obtain a valid SSN must apply for an ITIN. Each person on the return must have a valid number, either an SSN or an ITIN.

ITINs are only used to process U.S. federal income tax returns. The issuance of an ITIN has no effect on an individual's immigration status or authorization to work in the U.S. When completing the tax return, the individual must enter the ITIN in the space for the SSN. An ITIN cannot be used to obtain EITC benefits.

## **9. What if I file without the number?**

A return submitted without a valid SSN or ITIN for the primary taxpayer and/or the spouse will be delayed; any expected refund will not be issued until the identification number is obtained. If a dependent on the return does not have an SSN or an ITIN, the return will be processed; however, the exemption for the dependent will not be allowed and that portion of the refund will not be allowed.

## **10. What if I already have an IRS temporary number?**

Taxpayers who were previously assigned an IRS temporary identification number--which begins with a “9” must now apply for an ITIN, only if they are unable to obtain an SSN. The temporary number previously assigned by the IRS will no longer be valid.

## **11. How can I apply for an ITIN?**

To obtain an ITIN, you must complete IRS Form W-7, Application for IRS Individual Identification Number. A Spanish version, Form W-7SP, is also available. The W-7 is an application form and requires documentation substantiating foreign/alien status as well as proof of identity of the individual. The original documentation, along with the Form W-7 can either be presented at an IRS Customer Service office or mailed to the Philadelphia Service Center. The mailing address is:

Internal Revenue Service-Philadelphia Service Center  
PO Box 447 ATTENTION: Drop Point 426  
Bensalem, PA 19020

In addition, the IRS has designated acceptance agents for ITIN applications. These acceptance agents may also be tax return preparers who can verify that all of the required documents were submitted by the taxpayer.

## **12. What is an ATIN and what is the purpose of an ATIN?**

An ATIN, or Adoption Taxpayer Identification Number, is a tax processing number issued by the IRS as a temporary taxpayer identification number for a child in the domestic adoption process and who is not yet eligible for an SSN. An ATIN is not a permanent identification number and is only intended for temporary use. Upon finalization of the adoption process, an SSN for the child must be obtained. The individual(s) adopting the child must use the ATIN to claim the child as a dependent and to claim the child and dependent care credit. An ATIN can not be used to claim EITC for the child being adopted. An amended return claiming EITC may be filed once the adoption is complete and an SSN is assigned.

## **13. How can I obtain an ATIN for my child?**

To obtain an ATIN, you must complete IRS Form W-7A, Application for Taxpayer Identification Number for Pending U.S. Adoptions. The W-7A is an application form and requires copies of documents validating the child's identity, the fact that the child was placed in your home for adoption, and the placing agency. The Form W-7A and copies of the original documentation, must be mailed to:

Internal Revenue Service-Philadelphia Service Center  
ATIN Unit PO Box 447  
Bensalem, PA 19020

#### **14. How long does it take to get an ATIN or ITIN?**

It will generally take six to eight weeks to get an ATIN or an ITIN once the IRS receives a completed Form W-7 or Form W-7A, and the required documentation. After eight weeks, if you have not heard from the IRS about your application, you may call the Philadelphia Service Center at (215) 516-4846. (Not a toll-free call.)

### **Practitioner Questions and Answers about Revenue Protection in 1999**

#### **1. What is “EITC Recertification” and how can I determine if my client is required to recertify when claiming EITC in 1999?**

EITC recertification is a new process designed to prevent tax return filers from receiving EITC in 1999 if their 1997 tax returns were audited and they did not prove they met all EITC eligibility requirements. Before receiving the EITC again, these taxpayers must provide additional information on Form 8862, Information To Claim Earned Income Tax Credit After Disallowance, when they file their 1998 tax return. After the tax year 1997 audit was completed, Letter 3094 was mailed to inform taxpayers of the EITC recertification requirements.

In some instances, taxpayers will be requested to provide documents to verify eligibility prior to receiving their refund. In cases of a more serious nature as determined by auditing the tax year 1997 return, taxpayers may be prohibited from receiving EITC for two or ten years; negligence and fraud penalties may also be applicable. If it is determined that the taxpayer is not entitled to EITC due to reckless or intentional disregard of the rules, the credit cannot be claimed by the taxpayer for the next two years. If the taxpayer fraudulently claimed EITC, the taxpayer cannot claim EITC for the next ten years.

#### **2. What is necessary to meet the due diligence requirements when preparing a return with Earned Income Tax Credit?**

Preparers of EITC returns (both paper and electronically filed returns) are expected to exercise due diligence in obtaining accurate information to determine eligibility and correctly computing the EITC amount. Form 8867, Paid Preparer’s Earned Income Credit Checklist, or an equivalent form, must be filled out and maintained for three years. Failure to comply with these requirements could result in a \$100 penalty for each failure.

#### **3. Will the Service conduct monitoring visits to electronic filing participants during the upcoming filing season?**

**Yes.** The Service will again visit the business locations of electronic filing participants. During these visits, the Service personnel will provide assistance and review the practitioner’s compliance with requirements of Revenue Procedure 98-50 and other publications governing participation in the electronic filing system.

#### **4. Why are these compliance visits considered necessary?**

In the past, we identified electronic filing practitioners who were not complying with the program's requirements. We make compliance visits to ensure that participants adhered to the program's rules and to demonstrate to the participants that we would actively identify and correct non-compliance.

#### **5. What types of problems resulted in the suspension of electronic filing participants?**

Although the reasons for suspension covered a broad spectrum of non-compliance, the following categories were most often cited as the basis for suspension:

- employing currently suspended EROs;

- failing to retain copies of Form 8453 or retaining unsigned Forms 8453;

- redirecting refund checks to the ERO's business address; and

- operating non-disclosed branch locations or accepting returns from businesses not in the program.

#### **6. How are businesses selected for compliance visits?**

A large portion of businesses selected for compliance visits were identified by patterns of questionable conduct. The Service Center personnel identified practitioners with high return reject rates or late filed Forms 8453. We also identified unusual patterns in returns filed from single or related preparer businesses. Internal Revenue Service personnel may identify problems with advertising. We also receive complaints from taxpayers or other tax practitioners concerning apparent problem practitioners.

#### **7. Why can't compliance visits be conducted after the filing season or at least be scheduled in advance.**

Visits must be conducted during the filing season because it is important to identify non-compliant participants and correct their behavior as soon as possible. Advance notification would allow non-compliant businesses to conceal certain types of misconduct. However, some visits will be scheduled in advance. Personnel have been trained and instructed to conduct the visitations as discreetly and quickly as possible in order to minimize disruption of the business' activities.

#### **8. How can I assist my clients in avoiding delays in their refunds caused by the Revenue Protection Strategy?**

**EITC Note:** Individual Taxpayer Identification Numbers and ATINs may not be used to claim the earned income tax credit. Also, "non-work" SSNs—SSNs issued by the Social Security Administration (SSA), with the phrase "NOT VALID FOR EMPLOYMENT" printed on the social security card—may not be used to claim EITC. This also applies to non-work SSNs issued to children.

One key reason for a return to be rejected or delayed is a problem with an SSN listed on the return. First, make sure that all required SSNs are provided on the return.

Check the accuracy of all SSNs, along with the full name by comparing it to the information displayed on the social security card. If the taxpayer does not have a number for themselves, their spouse or their dependents, they should apply for a number with the SSA. If the taxpayer is unable to obtain an SSN, they must apply for an ITIN from IRS by filing Form W-7 with the necessary identification documents. They can file electronically with an ITIN for their tax year 1998 return, but must have a valid SSN or ITIN for the primary and secondary taxpayers, as well as for all dependents claimed.

Secondly, only allow the taxpayer to claim the dependency exemption or EITC based on *the children in their household that meet all of the "tests."* (For detailed information on the specific tests and eligibility criteria, refer to the instructions included in the tax package, Publication 17, *Your Federal Income Tax*, or Publication 596, *Earned Income Credit*.)

Verify that the SSN is valid. Check the accuracy of the SSN, along with the name by comparing it to the information on the social security card. To make sure, also check to determine if the taxpayer or dependents have registered a name change or other information change with the SSA and update the return appropriately. Ask for social security cards or other records to properly record the number. If a client had a problem with a SSN last year, determine if the problem was due to an error in recording or transcribing the number. If the number was correctly recorded, then the record at SSA may not reflect name changes (due to divorce, marriage, adoption, etc.) or other identifying information. The taxpayer should contact SSA to resolve this problem before filing the return.

Lastly, do not automatically rollover the information from the prior year tax return. Check that the address is still current, along with all names and identification numbers by comparing it to the clients' social security cards, driver's licenses, etc. ***Enter the first, middle and last name for each dependent or EITC qualifying child. Use caution with foreign or hyphenated surnames, check the name on the social security card and enter the name exactly as shown.***

Since the pre-printed labels will no longer display the taxpayer's or spouse's SSN, it is very important to accurately enter the taxpayer's SSN of the taxpayer (and the spouse's SSN if a joint return is being filed). Accurate entries will prevent processing and refund delays.

**9. Many of my SSN related rejects for electronically filed returns involved valid SSNs with a mismatch on the name. I have heard of many mismatches caused by incorrect middle initials, hyphenated surnames, etc. How can I avoid mismatches caused by these types of problems?**

To ensure that a valid SSN belongs to the person listed on a tax return, make sure that the full name is correct as is shown on SSA records.

Mismatches are likely to be caused by an error in recording the name control part of the record. Most errors identified in our reviews are caused by transpositions of letters or numbers. Other common causes of mismatches include entering identifiers (like Jr., Sr., III) in the name field. For hyphenated surnames, make sure the hyphenated name is the way the name is recorded with SSA.

A detailed discussion of surname entry formats can be found in Publication 1346 (Electronic Return File Specifications and Record Layouts for Individual Income Tax Returns). The specific references can be located in Part I, Validation—Form 1040 Required Field Entries. If your software product “interprets” the name control from entries in the full name field, entries in the full name field should also conform to the name control format.

## **10. When should I refer a client to the Social Security Administration with an apparent SSN problem?**

The return should be prepared based on information and the personal records readily available to the taxpayer (for example: the individual’s social security number card; prior year tax returns; W-2s; birth certificates, employment, school and medical records; etc.)

Individuals who do not know nor have any suitable record of their own, their spouse’s, or their dependents’ SSNs, should be referred to SSA to request a replacement social security card, **prior** to filing their return. The social security card is the official verification of an individual’s name and SSN on SSA’s records. Also, those who have recently changed their names and have not yet advised SSA should be referred.

If the taxpayer provides Social Security cards (for the taxpayer, the taxpayer’s spouse, or for a child) with the words “Not Valid for Employment,” but states their employment status has changed, he or she can be referred to SSA to update their information and request a new card.

If a return is rejected due to a mismatch of name, SSN, or age of the taxpayer or dependent, the tax preparer should carefully review the transmitted return information and reject codes and compare the problem entries with the taxpayer. Most of the problems referred to SSA in previous years were in fact transcription/transposition errors made by the taxpayer or tax preparer. Most mismatches can be resolved directly with the taxpayer, avoiding the inconvenience and delay of a referral to SSA. The social security card is the official verification of an individual’s SSN. If a tax preparer needs proof of the SSN, but the individual has lost his or her card, refer the individual to SSA for a replacement card. Replacement cards should be received within two weeks.

Tax preparers who experience a significant number of rejects should promptly discuss the situation with the local IRS Electronic Filing representative to ensure that any systemic problems are identified and quickly resolved.

## **11. Are my clients more likely to experience Revenue Protection delays if they file electronically?**

**No.** In fact, the electronic filing alternative offers a quick confirmation (within two workdays) that the return has been accepted. And just as importantly, if there are problems with the social security numbers listed on the return, you will usually receive a quick identification of the problem number and the nature of the error. This permits a prompt resolution and retransmission of recording or transcription based errors. If the problem is a name control mismatch with SSA records, you should resolve the difference with SSA and resubmit the return. Depending on the date filed, paper filing can take several weeks to get notice of problems to the taxpayer.



**12. Does the Service expect to delay as many taxpayer refunds in 1999 as it did in 1998?**

The actual number of delayed refunds will be greatly influenced by the behavior of taxpayers and return preparers. As noted previously, errors in SSNs/identification numbers and corresponding names will cause delays for taxpayers, as well as the improper use of children claimed as dependents or as an EITC qualifying child.

Based on current plans, the annual compliance study will consist of no more than approximately 3,400 returns.

**13. What should I do if I think a client or another return preparer is filing fraudulent returns or participating in a fraud scheme?**

The tax professional has a vested interest (both as a taxpayer and tax preparer) in the protection of the filing system. Report your suspicions by calling 1-800-829-0433. The tax professional has a vested interest (both as a taxpayer and tax preparer) in the protection of the filing system. Report your suspicions by calling 1-800-829-0433. The tax professional has a vested interest (both as a taxpayer and tax preparer) in the protection of the filing system. Report your suspicions by calling 1-800-829-0433.

**14. I have clients who need an ATIN or ITIN. How can I help them obtain the Form W-7 or W-7A?**

Call 1-800-TAX-FORM. Bulk quantities may be ordered through this number.

Form W-7 is the application for the ITIN and Form W-7A is the application for the ATIN.

You may use a personal computer to download the proper Form W-7 from the IRS Bulletin Board; for access, call 703-321-8020. Both Form W-7 and Form W-7A are also available on the IRS World Wide Web site at <http://www.irs.ustreas.gov>. These forms may also be obtained at the nearest IRS office.

**15. How long will it take to get an ITIN or ATIN?**

It takes about six to eight weeks to receive a number. Your clients should apply at least 6-8 weeks before the tax return is due, or 6-8 weeks prior to when they plan to file their tax return. Do **NOT** attach the Form W-7 or Form W-7A to the tax return at the time of filing.