

Discussion Points for EITC Audits

- Stabilizing scope of EITC Audits
- Selection of EITC audits
- Notice timeframe
- Efforts to curb fraudulent behavior
- Use of Judgment in audit process



IRS is shifting examination resources to areas which will more significantly impact the Tax Gap and ensure balanced individual coverage

Individual Examinations

	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
Total Individual	1,215,308	1,283,950	1,385,650
EITC Exams	527,969	517,617	503,267
% EITC Exams	43%	40%	36%

Tax Returns with EITC Are Scored for Audit Potential

- Third-party information is related against a tax return to determine the validity of dependent and EITC claims
 - Federal Case Registry (FCR)
 - The FCR information provides custody orders for children receiving public assistance as well as those arising from private divorce cases.
 - Social Security Administration
 - Validates the Social Security Number for the Qualifying Child and provides names of parents
- Results of prior audits are used to project potential of an EITC disallowance
- Once scored, returns are ranked for selection

Case Selection – Key Points

- If a return is selected, the EITC portion of the refund will be held.
 - The non-EITC amount will be immediately refunded to the taxpayer.
- A letter will generate to alert the taxpayer that the refund is being held pending an examination.
- The letter will contain specific paragraphs that explain the issues being examined.
- Cases are worked through an automated system.
- The case will be assigned to an examiner only if correspondence is received from the taxpayer.

Example:

Joseph files a return claiming Billy as a qualifying child for EITC purposes.

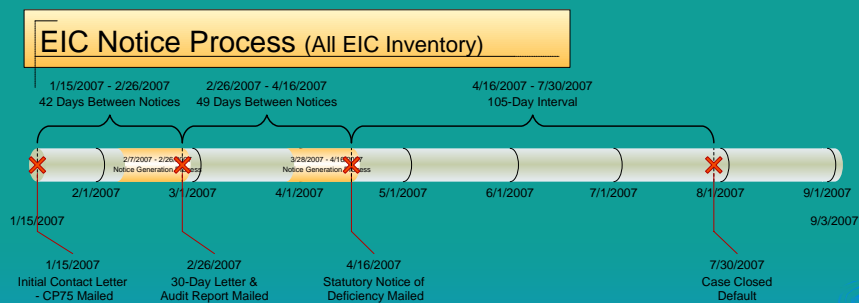
The Dependent Database (DDb) shows:

- Mary is the custodial parent.
- Mary is listed as Billy's mother.
- No father is listed.

Joseph would have to send documentation to prove:

- His relationship to Billy, and
- Billy lived with John for more than half the year.

EITC Notice Timeline



Fraud is aggressively pursued in all Campus Examination Audits

- Returns are scrutinized for a determination of an “Affirmative Act of Fraud”
- The EITC 10-Year Ban is asserted concurrently with the Civil Fraud Penalty
- Growth in the assertion of CFPs and 10-Year Bans is anticipated as the programs become more integrated

Professional Decision Making (PDM)

- PDM Training was delivered to all Campus Examination employees
 - Case examples showcased each month
 - Concept integrated into Training Materials
- Tax Examiner’s encouraged to use judgment
 - Establish taxpayer’s credibility and diligence in providing requested documentation
 - Relevance of missing
- Use of judgment addressed during operational reviews