

Claiming the Earned Income Tax Credit Fraudulently Will Get You Audited

Updated on February 15, 2018



shuck72 ▶ more

Shuck72 has over 17 years of experience working in the child support industry and working with clients on tax issues.



Source

The earned income tax credit is designed for the working poor struggling to make ends meet. The IRS encourages everyone making less than \$49,078 per year to see if they qualify to claim the EITC. In 2012, the EITC disbursed over \$59 billion dollars to those who claimed the EITC. The amounts vary but the average filer received \$2,200. The maximum EITC amount for 2018 is a whopping \$6,444.

As you can see, there are substantial amounts of money flowing through the EITC program. Therefore, it is also fertile ground for

tax fraud. It's estimated that 1 out of 3 EITC claims is fraudulent. Fraudulent filing of the EITC is so rampant in fact that the IRS implemented a specific clause that prohibits a filer from claiming the EITC for two years if they are caught claiming it erroneously.

“A person or couple will be disallowed EIC for two years if they claim EIC when not eligible and the IRS determines the 'error is due to reckless or intentional disregard of the EIC rules.' A person or couple will be disallowed for ten years if they make a fraudulent claim. Form 8862 is required after this time period in order to be reinstated. However, this form is not required if EIC was reduced solely because of a math or clerical error.”

Who Qualifies for the Earned Income Tax Credit?

If your income is under a certain threshold, you may qualify for the earned income tax credit. Use the table below to see if you qualify.

EITC Eligibility Requirements

Three or More Qualifying Children	Two Qualifying Children	One Qualifying Child	No Children
Income: less than \$49,298	Income: less than \$45,898	Income: less than \$40,402	Income: less than \$15,310
Income if Married and Filing Jointly: less than \$54,998	Income if Married and Filing Jointly: less than \$51,598	Income if Married and Filing Jointly: less than \$46,102	Income if Married and Filing Jointly: less than \$21,000
Maximum Refund: \$6,444	Maximum Refund: \$5,728	Maximum Refund: \$3,468	Maximum Refund: \$520

Example

A single person getting paid minimum wage at Walmart would likely qualify for a \$520 credit. If that same person had three children, they would likely qualify for a \$6,444 credit.

Where Do People Make Mistakes?

They claim children they don't have the right to claim. For instance, in the example above the guy may, in fact, have three kids, but they may live with their mother and not him. He may look at the EITC and think claiming the three kids is the difference between getting the \$520 he is entitled to or \$6,444 he is not entitled to if the kids are not his dependents. That's a lot of money and can be quite tempting, especially to someone struggling to make ends meet on minimum wage. In fact, it's so tempting that some people who don't even have children say they do to try and bump up their EITC.

Another common error is several filers claiming the same child. A dad may claim his son for purposes of the EITC, and the aunt, for instance, claims the same child on her EITC as the child lived with her for part of the year.

Will I Get Caught If I Claim a Tax Credit?

It depends on your level of fraud. If you don't have children but claim you do, then, yes, most certainly. In the age of computers, social security numbers are easy to track and verify. It's not like the 70s where people got away with claiming their dogs as dependents and stood a good chance of getting away with it.

If you are claiming a child that's not your dependent and nobody else also claims the child on their tax return, you may escape detection. The IRS audits less than 1% of returns so if there are not any blatant red flags, such as more than one filer claiming the same child, the odds of going undetected go up.

Do you think anyone you know would tip off the IRS about your fraud? This is a very real way many people get caught committing tax fraud. Your significant other may know all about your dirty laundry and the fact that you fudged your EITC claim. If that

significant other at some point then becomes angry and spiteful, they may call the IRS to inform them of your misdeed.

What If I Do Get Caught?

The short answer is you're screwed.

You will have to pay back all of the refunds and credits you received. In addition, you will be assessed interest, penalties, late-payment fees and possibly under-reported fines. The total you will owe them will be staggering, and you will have to pay it. You can't wipe it out in a bankruptcy.

The IRS knows many people get away with tax fraud. They simply have too many returns to process each year to scrutinize each of them. On the one hand, this is good if you are a would-be cheater. On the other hand, this is very bad if you get caught.

You see, the IRS not only wants to punish you for cheating on your taxes by fining you into oblivion, but they also want you to tell everyone you know about your horror story with the IRS—how they are fining you \$10,000, garnishing half your paycheck, and don't care if you have enough money to pay your rent.

You will, in fact, be a walking, talking public service announcement regarding the pitfalls of cheating on your taxes.

That said, if you are entitled to the EITC, you should claim it. It has been found to be one of the most effective weapons in fighting poverty and encourages many to enter the workforce when they otherwise may not.

If you're not entitled to it, then claiming it is tax fraud pure and simple, and if you get caught, you will pay.

It's just not worth the risk.



This article is accurate and true to the best of the author's knowledge. Content is for informational or entertainment purposes only and does not substitute for personal counsel or professional advice in business, financial, legal, or technical matters.

QUESTIONS & ANSWERS

Ask the author a question

Ask

