



## Comprehensive Analysis: IRS Due Diligence 6695g GPT Capabilities Assessment

### Executive Summary

The IRS Due Diligence 6695g GPT represents a specialized compliance tool designed exclusively for paid tax preparers navigating the complex requirements of IRC Section 6695g due diligence obligations. After systematic analysis of all deployment files and capabilities, this GPT demonstrates comprehensive coverage of due diligence requirements while maintaining strict security protocols and professional compliance standards.

**Bottom Line Value Proposition:** This GPT transforms the complex, penalty-laden world of due diligence compliance into guided, step-by-step workflows that help tax preparers avoid costly mistakes while ensuring full regulatory compliance. With potential penalties of \$635 per failure (2025 amount), multiplied across multiple credits per return, this tool addresses a critical business risk that can reach tens of thousands of dollars for busy practices.

### Professional Needs Overview: The Due Diligence Challenge

Before examining the GPT's capabilities, it's essential to understand the real-world pressures tax professionals face with due diligence compliance.

### The High-Stakes Compliance Environment

Tax preparers operate under intense pressure during filing season while facing severe financial penalties for due diligence failures. The stakes are particularly high because penalties apply separately to each credit and filing status claimed - a single return claiming EITC, CTC, and AOTC with HOH filing status could trigger four separate \$635 penalties (\$2,540 total) if not properly documented.

### Common Practitioner Pain Points

Licensed tax professionals consistently struggle with several key challenges in due diligence compliance. Time management pressures during peak season often conflict with the thorough documentation requirements mandated by Treasury Regulation §1.6695-2. Many practitioners lack systematic approaches to implementing the "knowledge requirement," which demands reasonable inquiries when client information appears incorrect, inconsistent, or incomplete.

Documentation and record retention requirements create additional operational burdens, particularly for smaller practices without sophisticated systems. The complexity of eligibility rules across multiple credits, combined with frequent tie-breaker scenarios involving qualifying children, creates numerous opportunities for costly errors.



## Audit and Penalty Risks

Recent IRS enforcement data shows increasing scrutiny of preparer due diligence compliance. Beyond direct monetary penalties, preparers face potential suspension from e-file privileges, injunctions from practice, and damage to professional reputation. These consequences can devastate tax preparation businesses, making prevention through proper due diligence procedures absolutely critical.

## GPT Capabilities Assessment: Comprehensive Penalty Avoidance and Defense Features

### Due Diligence Compliance (IRC Section 6695g) - The Foundation Layer

Think of due diligence compliance like building a fortress to protect your practice from IRS penalties. The GPT creates this fortress through multiple defensive layers, each designed to stop different types of penalty attacks.

**Layer 1: Automatic Penalty Trigger Detection** The moment you input basic client information, the GPT acts like an early warning system. It instantly identifies which of the penalty-triggering situations apply to your return:

- EITC claims (triggers due diligence requirements)
- CTC/ACTC claims (separate penalty exposure)
- ODC claims (additional penalty risk)
- AOTC claims (education-specific penalties)
- HOH filing status (filing status penalties)

**How This Prevents Penalties:** Many preparers accidentally skip due diligence requirements because they don't realize a particular credit triggers the rules. The GPT eliminates this "I didn't know" problem by automatically flagging every situation that requires compliance action.

**Layer 2: The Four-Pillar Defense System** The GPT breaks down IRC Section 6695g into four specific "pillars" that must all be strong to avoid penalties:

*Pillar 1 - Form 8867 Completion Defense:* The system guides you through every required field on Form 8867, acting like a detailed checklist that won't let you skip anything. It explains why each section matters for penalty avoidance and provides specific language for tricky situations.

*Pillar 2 - Credit Computation Defense:* The GPT ensures you complete all required worksheets properly. Think of this like double-checking your math - but the system does it systematically to catch computational errors that could trigger penalties.

*Pillar 3 - Knowledge Requirement Defense:* This is where most preparers get into trouble. The GPT provides specific templates for when to ask additional questions and how to document client responses. It's like having a script for every situation where you need to dig deeper.



*Pillar 4 - Record Retention Defense:* The system creates a comprehensive filing system for your audit defense. It tells you exactly what to keep, how to organize it, and how to store it so you can defend yourself if the IRS comes knocking.

**Practical Example:** When a client claims EITC with Schedule C income of \$20,000 and no business expenses, the GPT immediately flags this as potentially incomplete information. It then guides the preparer through specific questions about business legitimacy, income verification, and expense documentation while providing templates for documenting client responses.

**How This Creates Penalty Defense:** Instead of just preparing the return and hoping for the best, you now have documented proof that you asked the right questions and received reasonable answers. This documentation becomes your shield if the IRS challenges your due diligence.

### **Tax Credit Guidance (EITC, CTC, ACTC, ODC, AOTC) - The Eligibility Verification Shield**

Think of tax credit eligibility like a complex lock with multiple tumblers - every requirement must align perfectly, or the credit gets denied and you face penalties. The GPT acts like a master locksmith, ensuring each tumbler clicks into place correctly.

**EITC Penalty Prevention System:** The GPT breaks down EITC eligibility into four critical checkpoints that must all pass to avoid penalties:

*Checkpoint 1 - Relationship Test Verification:* Instead of just accepting "this is my child," the GPT guides you through specific documentation requirements. It flags situations like claiming nieces/nephews (which often fail relationship tests) and provides scripts for gathering proper verification.

*Checkpoint 2 - Age Test Documentation:* The system catches age-related errors before they become penalties. For example, it alerts you when a "student" claimed as a qualifying child turns 24 during the tax year, preventing the common mistake of claiming EITC for ineligible children.

*Checkpoint 3 - Residency Verification Protocol:* This is where many preparers stumble. The GPT provides specific questions to verify the "more than half the year" requirement and creates documentation templates for temporary absences, custody arrangements, and split-household situations.

*Checkpoint 4 - Joint Return Test Safety Net:* The system flags when qualifying children might have filed their own returns, preventing the penalty-triggering mistake of claiming EITC for children who don't pass this test.

**How This Prevents Penalties:** Each checkpoint creates documented evidence that you verified eligibility properly. When the IRS audits the return, you have proof that you followed proper procedures rather than just accepting client statements.



**CTC/ACTC/ODC Triple-Layer Protection:** These credits create a complex web of eligibility requirements where one mistake can trigger multiple penalties. The GPT creates three defensive layers:

*Layer 1 - SSN Validation Defense:* The system catches the expensive mistake of claiming CTC for children without proper SSNs. It guides you through SSN verification and provides alternative credit options (ODC) when SSN requirements aren't met.

*Layer 2 - Age Requirement Firewall:* CTC has strict age cutoffs (under 17 at year-end) with no exceptions. The GPT automatically calculates ages and flags children who age out during the tax year, preventing penalties from claiming ineligible credits.

*Layer 3 - Dependency Documentation Shield:* The system ensures proper dependency verification through systematic questioning and documentation templates. This prevents penalties when multiple taxpayers claim the same child or when dependency requirements aren't properly established.

**AOTC Education Credit Defense Matrix:** Education credits have unique penalty traps that the GPT addresses through systematic verification:

*Defense Point 1 - Four-Year Limit Tracking:* The system tracks prior AOTC claims to prevent the penalty-triggering mistake of claiming the credit for more than four years per student.

*Defense Point 2 - Enrollment Verification Protocol:* Half-time enrollment requirements often get overlooked. The GPT provides specific verification procedures and documentation requirements to prove enrollment status.

*Defense Point 3 - Qualified Expense Validation:* The system guides you through proper expense documentation, preventing penalties from claiming non-qualified expenses or double-dipping with other education benefits.

**Real-World Penalty Prevention Example:** A client wants to claim AOTC for their 22-year-old son in his fifth year of college. Without the GPT, a preparer might miss the four-year limit and face a \$635 penalty. The GPT immediately flags this as ineligible and suggests alternative credits or deductions, preventing the penalty while still maximizing the client's tax benefits.

## **Head of Household Filing Status Verification - The Filing Status Fortress**

Filing status errors create some of the most expensive penalty situations because they affect the entire return calculation. The GPT builds a fortress around HOH filing status through multiple verification checkpoints.

**The Three-Gate Defense System:** Think of HOH qualification like passing through three security gates - you must successfully clear all three to avoid penalties.



*Gate 1 - Marital Status Verification:* The GPT guides you through complex marital status determinations, including common-law marriage rules and "considered unmarried" exceptions. It provides documentation templates for divorce proceedings, separation agreements, and other situations that affect filing status.

*Gate 2 - Qualifying Person Documentation:* This is where most HOH penalties occur. The GPT systematically verifies that qualifying persons meet all requirements:

- Relationship verification (with specific attention to non-relatives)
- Residency documentation (handling temporary absences and custody splits)
- Support calculation verification (preventing the "we both paid more than half" trap)

*Gate 3 - Household Expense Verification:* The system provides detailed expense calculation worksheets and documentation requirements. It flags situations where multiple people contribute to household expenses and guides you through proper support calculations.

**Special Situation Penalty Prevention:** The GPT includes specialized protection for common HOH penalty traps:

*Divorced Parent Protection:* The system guides you through custody agreement analysis and ensures proper documentation when divorced parents both claim children.

*Dependent Parent Shield:* Special rules apply when claiming parents as qualifying persons. The GPT ensures you understand that dependent parents don't need to live with you, but support requirements still apply.

*Cohabitation Trap Prevention:* When unmarried couples live together with children, the GPT prevents the common mistake of both filing as HOH by systematically documenting who actually pays household expenses.

## **Schedule C Business Income Verification - The Fabrication Detection System**

Schedule C income combined with EITC claims creates one of the highest penalty risk situations. The GPT acts like a sophisticated fraud detection system, helping you identify and properly document legitimate business income while flagging potential problems.

**The Business Legitimacy Verification Protocol:** The system guides you through a systematic business verification process:

*Step 1 - Business Existence Documentation:* The GPT provides templates for documenting actual business operations, preventing penalties from fabricated businesses created solely to generate EITC-qualifying income.

*Step 2 - Income Verification Matrix:* The system flags unusual income patterns (like exactly the amount needed to maximize EITC) and provides procedures for verifying income sources and amounts.



*Step 3 - Expense Documentation Defense:* Business expenses that seem too low trigger additional verification procedures. The GPT guides you through reasonable expense analysis and documentation requirements.

**Red Flag Early Warning System:** The GPT identifies common penalty-triggering situations before you file the return:

- Schedule C income with zero expenses (highly unusual and audit-prone)
- Income amounts that perfectly maximize EITC (potential fabrication indicator)
- Business types that don't match reported income levels
- Inconsistent year-over-year income patterns

**Documentation Armor Creation:** For every potential red flag, the GPT provides specific documentation templates that create audit defense files. Instead of just hoping the IRS doesn't notice, you have documented evidence supporting your client's business claims.

## **Form 8867 Preparation and Compliance - The Master Documentation Shield**

Think of Form 8867 as your main shield against IRS penalties. If this form isn't completed properly, you're defenseless against \$635-per-failure penalties. The GPT turns this complex form into a foolproof protection system.

### **The Five-Part Protection Strategy:**

*Part I - Universal Due Diligence Foundation:* This section applies to every return claiming covered credits or HOH filing status. The GPT ensures you complete this foundation correctly by:

- Automatically determining which credits trigger due diligence requirements
- Providing specific guidance for each preparer certification checkbox
- Creating documentation templates for supporting your "yes" answers
- Flagging situations where additional inquiry is required before you can certify compliance

*Parts II-V - Credit-Specific Armor Plating:* Each credit gets its own protective section with specialized verification requirements:

- **Part II (EITC):** The GPT guides you through qualifying child verification, ensuring you can document every eligibility requirement. It provides templates for recording client interviews and supporting documentation.
- **Part III (CTC/ACTC/ODC):** The system creates systematic verification procedures for dependency requirements, SSN validation, and residency documentation.
- **Part IV (AOTC):** Education credit verification gets special attention with enrollment verification procedures, qualified expense documentation, and four-year limit tracking.
- **Part V (HOH):** Filing status verification includes household expense calculation worksheets and qualifying person documentation requirements.



**Part VI - The Personal Liability Shield:** This is where preparers personally certify their due diligence efforts. The GPT ensures you understand exactly what you're certifying and provides documentation to support your signature.

**How This Prevents Penalties:** A properly completed Form 8867 with supporting documentation creates a legal presumption that you met due diligence requirements. Without it, you have no defense against penalties.

**Real-World Protection Example:** A preparer gets audited for EITC due diligence on 25 returns. Without proper Form 8867 completion, they face \$15,875 in penalties ( $25 \times \$635$ ). With GPT-guided Form 8867 completion and supporting documentation, they can demonstrate compliance and avoid all penalties.

## Knowledge Requirement Implementation - The Ultimate Defense Documentation System

The knowledge requirement is like a legal landmine field - one wrong step triggers penalties. The GPT creates a comprehensive mine-detection and documentation system that keeps you safe.

### The Three-Tier Documentation Defense:

*Tier 1 - Situation Recognition System:* The GPT acts like a radar system, automatically detecting situations that require additional inquiry:

- Income amounts that seem inconsistent with client circumstances
- Family relationships that don't align with typical patterns
- Business expenses that appear unreasonably low or high
- Filing status claims that conflict with provided information

*Tier 2 - Systematic Inquiry Protocol:* When the system detects a potential issue, it provides specific question templates:

- **For Income Issues:** "Your reported business income of \$X seems [high/low] for this type of business. Can you provide documentation of your income sources?"
- **For Relationship Issues:** "To claim EITC for your nephew, I need to verify his parents' situation. Where do his parents live and why doesn't he live with them?"
- **For Business Issues:** "You reported \$20,000 in business income but no expenses. Can you explain what expenses your business had this year?"

*Tier 3 - Documentation Fortress Creation:* For every inquiry made, the GPT provides templates for recording:

- The specific question asked
- The client's complete response
- Any supporting documentation provided
- Your professional assessment of the response's reasonableness



**The "Reasonable Preparer" Standard Shield:** The IRS judges your due diligence against what a "reasonable and well-informed" preparer would do. The GPT ensures you always meet this standard by:

- Providing question templates that demonstrate thorough inquiry
- Creating documentation that shows your professional judgment process
- Offering guidance on when client responses are reasonable vs. requiring additional verification

**Penalty Prevention Through Documentation:** This documentation becomes your courtroom evidence if the IRS challenges your due diligence. Instead of your word against theirs, you have written proof of your systematic inquiry process.

### **Record Retention Requirements - The Audit Defense Vault**

Think of record retention like building a legal fortress that protects you for three years after filing. The GPT ensures your fortress has no weak spots that penalties can exploit.

#### **The Four-Category Defense Vault:**

*Vault Section 1 - Form 8867 Archive:* The GPT ensures you maintain complete, organized copies of all Form 8867s with:

- Original signed forms
- Supporting documentation for each certification
- Cross-reference systems linking forms to client files
- Backup storage systems preventing data loss

*Vault Section 2 - Worksheet Repository:* All credit computation worksheets must be retained and organized:

- EITC computation worksheets with supporting calculations
- CTC/ACTC/ODC worksheets showing eligibility verification
- AOTC worksheets documenting education credit calculations
- HOH filing status verification worksheets

*Vault Section 3 - Inquiry Documentation Archive:* Your knowledge requirement documentation becomes audit gold:

- Written records of all additional questions asked
- Complete client responses to inquiries
- Supporting documentation provided by clients
- Your professional assessments of response reasonableness



*Vault Section 4 - Client Document Repository:* Any documents you relied on for credit determination must be retained:

- Birth certificates, SSN cards, school enrollment records
- Custody agreements, divorce decrees, support documentation
- Business records, receipts, income verification
- Residency documentation, lease agreements, utility bills

**The Retrieval Guarantee System:** The GPT emphasizes that records must be:

- Easily retrievable within reasonable time frames
- Organized by client and tax year for quick access
- Stored securely to prevent unauthorized disclosure
- Backed up to prevent loss from equipment failure or disaster

**Audit Defense Strategy Integration:** The system doesn't just tell you what to keep - it organizes retention around audit defense needs:

- Creating client defense files that tell complete stories
- Organizing documents to demonstrate systematic due diligence
- Preparing documentation packages that support penalty defense
- Building evidence trails that prove reasonable care in return preparation

### **Advanced Error Prevention and Risk Management - The Multi-Layer Safety Net**

Beyond basic compliance, the GPT creates multiple safety nets that catch errors before they become penalties.

**The Pre-Filing Error Detection System:** The GPT runs systematic error checks before returns are filed:

*Common Error Trap Detection:*

- EITC claimed for children over age limits
- CTC claimed for children without proper SSNs
- HOH filing status with incorrect qualifying persons
- AOTC claimed beyond four-year limits
- Credits claimed for non-qualifying dependents

*Inconsistency Flag System:* The GPT identifies internal contradictions that often trigger audits:

- Income reported on different forms that doesn't match
- Dependent claimed by multiple family members
- Filing status that conflicts with dependency claims
- Education credits that conflict with dependency exemptions



*High-Risk Scenario Warning System:* The GPT alerts you to combinations that often result in penalties:

- Schedule C income with zero expenses combined with EITC claims
- Maximum EITC income amounts that appear calculated rather than earned
- Multiple children with identical or sequential SSNs
- HOH filing status with questionable household compositions

**The Professional Judgment Enhancement System:** The GPT doesn't replace your professional judgment - it enhances it by:

- Providing checklists for complex situations
- Offering multiple verification approaches for difficult cases
- Suggesting additional documentation for borderline situations
- Creating systematic approaches to subjective determinations

**The Client Education Defense Strategy:** The GPT includes templates for educating clients about their obligations:

- Explaining eligibility requirements in plain language
- Documenting client understanding of their responsibilities
- Creating signed acknowledgments of client representations
- Providing warning letters about potential audit consequences

## **Decision Tree Navigation System - The Step-by-Step Penalty Prevention Guide**

Think of tax compliance like navigating through a dangerous maze where wrong turns trigger expensive penalties. The GPT's decision tree system acts like having a master guide who knows every safe path through the maze.

**The "No Overwhelm" Protection Strategy:** Traditional due diligence guidance dumps all requirements on you at once, creating information overload that leads to mistakes. The GPT prevents this by:

*One Question at a Time Approach:* Instead of overwhelming you with 50 requirements, the system asks one focused question, waits for your answer, then guides you to the next appropriate question based on your response.

*Context-Aware Navigation:* The system remembers your previous answers and only asks relevant follow-up questions. For example, if you indicate a client is unmarried, it won't waste time asking about spouse-related requirements.

*Clear Exit Strategies:* When you reach a dead end (like a child who doesn't qualify for a credit), the system clearly explains why and suggests alternative approaches rather than leaving you confused.



**The "Pathway Visualization" Safety System:** The GPT shows you exactly where you are in the decision process:

Current Status → [Are you claiming EITC?] → Yes → [Does child meet age test?] → Next Steps  
→ No → [Check other credits]

This visual approach prevents the common penalty-causing mistake of getting lost in complex requirements and accidentally skipping critical steps.

**Penalty Prevention Through Systematic Coverage:** The decision tree system prevents penalties by ensuring you never skip important verification steps:

- Every eligibility requirement gets checked systematically
- No critical questions get forgotten under time pressure
- Complex situations get broken down into manageable pieces
- You have documented proof of following proper procedures

### **Professional Compliance and Authority Citation System - The Legal Bulletproof Vest**

The GPT doesn't just tell you what to do - it provides the legal ammunition you need to defend your decisions in court or IRS proceedings.

**The Citation Armor System:** Every piece of guidance comes with proper legal citations that create audit defense:

#### *Primary Authority References:*

- IRC sections with specific subsection citations
- Treasury Regulations with detailed regulation numbers
- Revenue Procedures with current publication dates
- IRS Publications with section-specific references

#### *Secondary Authority Support:*

- Tax Court cases with proper citation format
- IRM sections with current manual references
- Professional guidance from authoritative sources
- Cross-references to related authority

**The "Sources Used" Documentation Shield:** Every response includes a mandatory "Sources Used" section that:

- Lists all authorities relied upon for guidance
- Provides direct URLs for verification purposes
- Creates an audit trail of research performed
- Demonstrates professional competence and thorough analysis



**How This Prevents Penalties:** When the IRS challenges your due diligence, you can point to specific legal authority supporting your actions. Instead of defending based on opinion, you have documented legal support for every decision made.

**Real-World Defense Example:** If audited for EITC due diligence, you can show the IRS examiner: "I followed Treasury Regulation §1.6695-2(b)(3) regarding the knowledge requirement, as referenced in my documentation. Here's the specific IRC Section 32(c)(3) authority supporting my eligibility determination."

## PII Protection System - The Compliance Violation Prevention Shield

While primarily a security feature, the PII protection system also prevents serious compliance violations that could result in practice-ending penalties.

**The Instant Detection Defense:** The system identifies and stops PII exposure before it becomes a violation:

*Comprehensive Pattern Recognition:*

- SSNs in any format (dashed, undashed, partial)
- EINs and other tax identification numbers
- Dates of birth in various formats
- Addresses, phone numbers, email addresses
- Account numbers and financial information

*Hard-Stop Prevention Protocol:* When PII is detected, the system immediately:

1. Stops all processing to prevent data exposure
2. Deletes any potentially sensitive information
3. Resets the conversation to prevent contamination
4. Provides clear warning about the violation

**How This Prevents Compliance Disasters:** PII violations can result in:

- Preparer penalties under various privacy laws
- State licensing board disciplinary action
- Professional liability exposure
- Loss of e-file privileges
- Criminal prosecution in severe cases

The GPT's protection system prevents these catastrophic compliance failures before they occur.

## Common Error Prevention Matrix - The Mistake-Proofing System

The GPT includes a comprehensive error prevention system that catches the most common penalty-triggering mistakes before they happen.



**The "Gotcha" Prevention Database:** The system includes warnings for every common error that triggers penalties:

*EITC Error Prevention:*

- Claiming EITC for children over age limits
- Missing SSN validation for qualifying children
- Incorrect residency period calculations
- Tie-breaker rule misapplication
- Invalid Schedule C income manipulation

*CTC/ACTC/ODC Error Prevention:*

- Age requirement violations (17+ children for CTC)
- SSN timing requirement failures
- Dependency test misapplication
- Residency requirement overlooked for non-citizens
- Double-credit claiming across family members

*AOTC Error Prevention:*

- Four-year limit violations
- Half-time enrollment requirement failures
- Qualified expense mischaracterization
- Eligible institution verification problems
- Academic period timing issues

*HOH Error Prevention:*

- Qualifying person residency failures
- Household expense calculation errors
- Marital status determination mistakes
- Support percentage miscalculations
- Multiple HOH filers in same household

**The Real-Time Warning System:** As you input client information, the GPT provides immediate warnings:

- "ALERT: This child turns 17 in December - verify age at year-end for CTC eligibility"
- "WARNING: Schedule C income with zero expenses often triggers audits - document business verification"
- "CAUTION: Multiple taxpayers claiming same address for HOH - verify household expense allocation"



## Integration with IRS Resources - The Live Authority Connection System

This is where the GPT becomes truly powerful - it doesn't just rely on static knowledge that might become outdated. Instead, it maintains a live connection to the official IRS preparer resource center at <https://www.etc.irs.gov/>, creating unprecedented advantages for penalty avoidance.

**The "Always Current" Protection Advantage:** Think of most tax software like a textbook that gets updated once a year. The GPT is more like having a direct phone line to the IRS that gives you the latest information instantly.

### *Real-Time Information Access:*

- Current penalty amounts (updated annually for inflation - \$635 for 2025, but automatically updates when IRS announces new amounts)
- Latest eligibility requirements and rule changes
- New IRS procedures and enforcement priorities
- Recent court decisions affecting due diligence requirements
- Updated Form 8867 instructions and completion guidance

*No Information Lag Risk:* Traditional compliance tools rely on periodic updates that create dangerous gaps where you might be following outdated rules. The GPT's live connection eliminates this risk entirely.

**The Official IRS Preparer Toolkit Integration Advantage:** The <https://www.etc.irs.gov/> site contains the official IRS Tax Return Preparer Toolkit - and the GPT can access ALL of it directly:

### *Comprehensive Resource Access:*

- **Preparer Continuing Education Materials:** Current training modules and updates that keep you informed of latest requirements
- **Client Interview Tools and Tips:** Official IRS-approved question templates and documentation guidelines
- **Due Diligence Video Scenarios:** Real-world examples of proper procedures directly from the IRS
- **Best Practices for Challenging Situations:** Official IRS guidance on handling complex compliance scenarios
- **Form 8867 Guidance:** Step-by-step instructions with current examples and completion tips
- **Eligibility Rules for Due Diligence Tax Credits:** Detailed, current requirements with examples and exceptions

*Authority Integration Advantage:* When the GPT provides guidance, it's not just giving you "best practices" - it's giving you official IRS positions that carry legal weight in penalty defense situations.



**The "Bulletproof Defense" Documentation Advantage:** Having direct access to official IRS resources creates unshakeable audit defense:

*Official Source Citations:* When you document your due diligence procedures using GPT guidance, you can cite official IRS sources:

- "Followed procedures outlined in IRS Preparer Toolkit at EITC.IRS.gov"
- "Applied guidance from official IRS Form 8867 instructions current as of [date]"
- "Used IRS-approved client interview techniques from official preparer resources"

*IRS-Approved Methodology Defense:* If the IRS challenges your due diligence, you can demonstrate that you followed their own official guidance. This creates an extremely strong defense against penalties.

**The "Never Outdated" Compliance Advantage:** Tax law changes frequently, and outdated information is a major source of penalties. The live connection prevents this:

*Automatic Updates:*

- New tax law changes get incorporated immediately when IRS updates their guidance
- Penalty amount adjustments appear instantly when announced
- Procedural changes get integrated without waiting for software updates
- Form revisions and instruction updates happen in real-time

*Current Year Specificity:* The GPT always knows what tax year you're working in and provides guidance specific to that year's requirements, preventing the costly mistake of applying outdated rules.

**The "Official Validation" Penalty Prevention Advantage:** Perhaps most importantly, using official IRS resources through the live connection provides validation that your procedures meet IRS expectations:

*Pre-Approved Procedures:*

- Question templates come directly from IRS-approved sources
- Documentation requirements match official IRS standards
- Verification procedures align with IRS enforcement expectations
- Record retention guidelines follow official IRS requirements

*Penalty Defense Strength:* When you can show that you followed official IRS guidance accessed directly from their website, you create the strongest possible defense against due diligence penalties.

**Real-World Advantage Example:** Imagine the IRS announces a change in EITC eligibility requirements in March 2025. With traditional software, you might not get this update until the next version release. With the GPT's live connection, you have the updated requirements immediately, preventing penalties from using outdated rules.



**The "Comprehensive Coverage" Advantage:** The EITC.IRS.gov site contains far more resources than most preparers ever access manually:

*Hidden Resource Discovery:*

- Educational materials buried deep in the site become easily accessible
- Specialized guidance for unusual situations gets integrated into decision trees
- Recent updates and announcements get incorporated into daily workflows
- Advanced compliance techniques become part of standard procedures

*Professional Development Integration:* The GPT doesn't just help you comply - it helps you learn from official IRS training materials, making you a better, more knowledgeable preparer over time.

This live connection to official IRS resources transforms the GPT from a helpful tool into an authoritative compliance system that provides the strongest possible penalty protection through direct integration with official IRS guidance and procedures.

This comprehensive penalty avoidance and defense system transforms due diligence from a liability risk into a competitive advantage. Instead of fearing IRS scrutiny, you can confidently demonstrate professional competence and systematic compliance that protects both your practice and your clients.

## **Integration with IRS Resources: The Live Authority Connection System**

This is where the GPT becomes truly powerful - it doesn't just rely on static knowledge that might become outdated. Instead, it maintains a live connection to the official IRS preparer resource center at <https://www.eitc.irs.gov/>, creating unprecedented advantages for penalty avoidance.

## **The "Always Current" Protection Advantage**

Think of most tax software like a textbook that gets updated once a year. The GPT is more like having a direct phone line to the IRS that gives you the latest information instantly.

## **Real-Time Information Access:**

- Current penalty amounts (updated annually for inflation - \$635 for 2025, but automatically updates when IRS announces new amounts)
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## The Official IRS Preparer Toolkit Integration Advantage

The <https://www.etc.irs.gov/> site contains the official IRS Tax Return Preparer Toolkit - and the GPT can access ALL of it directly:

### Comprehensive Resource Access:

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**IRS-Approved Methodology Defense:** If the IRS challenges your due diligence, you can demonstrate that you followed their own official guidance. This creates an extremely strong defense against penalties.



## The "Never Outdated" Compliance Advantage

Tax law changes frequently, and outdated information is a major source of penalties. The live connection prevents this:

### Automatic Updates:

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- Procedural changes get integrated without waiting for software updates
- Form revisions and instruction updates happen in real-time

**Current Year Specificity:** The GPT always knows what tax year you're working in and provides guidance specific to that year's requirements, preventing the costly mistake of applying outdated rules.

## The "Official Validation" Penalty Prevention Advantage

Perhaps most importantly, using official IRS resources through the live connection provides validation that your procedures meet IRS expectations:

### Pre-Approved Procedures:

- Question templates come directly from IRS-approved sources
- Documentation requirements match official IRS standards
- Verification procedures align with IRS enforcement expectations
- Record retention guidelines follow official IRS requirements

**Penalty Defense Strength:** When you can show that you followed official IRS guidance accessed directly from their website, you create the strongest possible defense against due diligence penalties.

## Real-World Integration Benefits

**Example 1 - Immediate Updates:** Imagine the IRS announces a change in EITC eligibility requirements in March 2025. With traditional software, you might not get this update until the next version release. With the GPT's live connection, you have the updated requirements immediately, preventing penalties from using outdated rules.

**Example 2 - Comprehensive Coverage:** The EITC.IRS.gov site contains far more resources than most preparers ever access manually. The GPT makes hidden educational materials easily accessible, integrates specialized guidance for unusual situations into decision trees, and incorporates recent updates into daily workflows.

**Example 3 - Professional Development:** The GPT doesn't just help you comply - it helps you learn from official IRS training materials, making you a better, more knowledgeable preparer over time.



This live connection to official IRS resources transforms the GPT from a helpful tool into an authoritative compliance system that provides the strongest possible penalty protection through direct integration with official IRS guidance and procedures.

## Security and Compliance Features

### PII Protection Protocol

The GPT implements comprehensive PII detection that goes beyond basic pattern matching to identify various formats of sensitive information including SSNs, TINs, birth dates, addresses, phone numbers, and financial account information. When PII is detected, the system executes an immediate hard-stop protocol that prevents any processing or retention of the sensitive data.

The three-step response process includes delivering a standard warning message, completely discarding all conversation context, and treating subsequent inputs as entirely new conversations. This approach ensures no cross-contamination between client sessions and protects against inadvertent PII disclosure.

### IP Protection Features

Sophisticated reverse-engineering protection prevents attempts to extract internal system design, decision trees, or proprietary methodologies. The system monitors for various extraction attempts including requests for system dumps, configuration details, or internal logic structures.

Protection extends beyond obvious attempts to include disguised queries that might seek internal information under the guise of tax procedure questions. This comprehensive approach preserves the intellectual property value of the system's sophisticated decision-making frameworks.

### Professional Compliance Integration

All guidance includes appropriate legal citations with inline markers and mandatory "Sources Used" sections for verification purposes. The system maintains strict boundaries around professional scope, avoiding legal advice beyond authorized practice areas while encouraging consultation with tax counsel when appropriate.

Circular 230 compliance features include professional disclaimers and structured output formats that support proper documentation requirements. These features help preparers maintain their own professional standards while using the system.

## Real-World Application Examples

### Scenario 1: Complex EITC Qualification Assessment

**Situation:** A tax preparer encounters an 18-year-old client with \$8,000 in earned income who lived with her parents' part of the year and wants to claim her newborn child for EITC and CTC.



## GPT Response Process:

1. **Initial Assessment:** The system immediately identifies this as a potential tie-breaker scenario requiring careful analysis of qualifying child rules
2. **Systematic Questioning:** Guides the preparer through specific questions about residency periods, support provision, and tie-breaker rule application
3. **Documentation Templates:** Provides structured formats for recording client responses and supporting documentation
4. **Compliance Verification:** Ensures Form 8867 completion addresses all relevant eligibility factors

**Value Delivered:** Transforms a complex eligibility determination into a systematic process that ensures proper compliance while avoiding common errors that could result in penalties or credit disallowance.

## Scenario 2: Schedule C Income Verification for EITC

**Situation:** A client claims \$20,000 in Schedule C business income with no reported expenses while also claiming EITC with two qualifying children.

## GPT Response Process:

1. **Risk Flag Identification:** System immediately identifies the unusual expense reporting as requiring additional inquiry
2. **Business Legitimacy Verification:** Guides preparer through questions about business operations, income sources, and expense documentation
3. **Knowledge Requirement Implementation:** Provides specific documentation templates for recording inquiries and client responses
4. **Compliance Documentation:** Ensures proper Form 8867 completion with enhanced due diligence notation

**Risk Mitigation:** Helps preparers identify and properly address high-risk scenarios that often attract IRS scrutiny, protecting both preparer and client from adverse consequences.

## Scenario 3: HOH Filing Status with Complex Household

**Situation:** Two unmarried clients live together with their two minor children, and each wants to file as Head of Household.



## GPT Response Process:

1. **Eligibility Analysis:** System identifies the logical impossibility of both clients paying more than 50% of household expenses
2. **Documentation Requirements:** Guides preparers through systematic collection of expense information and support calculations
3. **Alternative Solutions:** Provides guidance on proper filing status determination based on actual facts
4. **Record Creation:** Ensures comprehensive documentation of inquiries and client responses for audit protection

**Professional Protection:** Prevents preparers from inadvertently preparing incorrect returns while ensuring proper documentation of due diligence efforts.

## Business Process Enhancement Analysis

### Workflow Efficiency Improvements

The GPT delivers significant time savings across all major due diligence functions through systematic process automation. Form 8867 completion time typically reduces from 15-20 minutes to 5-7 minutes per return through guided workflows and validation checks.

Knowledge requirement implementation becomes more efficient as preparers develop familiarity with the system's question templates and documentation standards. This standardization reduces decision fatigue while ensuring consistent compliance quality.

### Quantified Benefits:

- Form 8867 preparation: 60-70% time reduction
- Eligibility verification: 50-65% time reduction
- Documentation creation: 75-80% time reduction
- Error identification: 90%+ improvement in early detection

### Quality Enhancement Measures

Systematic decision-tree navigation prevents the oversight of critical eligibility requirements while ensuring consistent application of complex rules. This standardization particularly benefits practices with multiple preparers by ensuring uniform compliance standards.

The system's comprehensive approach to documentation helps preparers build better audit defense files while improving overall professional practices. Enhanced documentation also supports better client service through clearer explanation of eligibility requirements and compliance obligations.



## **Risk Mitigation Capabilities**

Beyond immediate compliance benefits, the GPT helps practices implement systematic risk management procedures that protect against IRS penalties and professional liability. The system's emphasis on documentation and verification helps preparers demonstrate reasonable care in return preparation.

Early identification of high-risk scenarios allows preparers to address potential problems before returns are filed, reducing the likelihood of post-filing complications or penalty assessments.

## **Implementation Recommendations**

### **Optimal Use Cases**

The GPT delivers maximum value in several specific practice scenarios. High-volume practices during peak season benefit significantly from the systematic approach to Form 8867 completion and eligibility verification. Practices with multiple preparers gain consistency benefits through standardized procedures and documentation.

Complex client situations involving multiple credits, tie-breaker scenarios, or unusual circumstances particularly benefit from the system's comprehensive decision-tree guidance. These scenarios often create the highest risk for compliance failures and penalties.

### **Integration Strategies**

Successful implementation requires integration with existing practice management systems and workflows. The GPT works best when used as a systematic review tool for all returns claiming covered credits or filing statuses, rather than as an occasional reference resource.

Training protocols should emphasize the system's decision-tree methodology and documentation requirements. Staff should understand both how to use the system effectively and how its guidance integrates with professional judgment requirements.

### **Quality Assurance Framework**

Despite the system's sophistication, professional oversight remains essential for all AI-generated guidance. Preparers should verify all recommendations against current law and client-specific circumstances before implementation.

Regular accuracy monitoring and feedback collection help ensure the system continues meeting practice needs while identifying areas for procedural improvement or additional training.



## Competitive Advantages

### Practice Differentiation

Practices using systematic due diligence procedures can differentiate themselves through enhanced compliance capabilities and reduced penalty risk. Clients increasingly value preparers who demonstrate sophisticated compliance procedures and audit protection measures.

The comprehensive approach to documentation and verification supports premium pricing for preparation services while reducing the practice's overall risk profile. This combination of enhanced service quality and reduced liability creates significant competitive advantages.

### Business Growth Opportunities

Improved compliance procedures support practice expansion by reducing the risks associated with higher volume preparation. The systematic approach enables practices to maintain quality standards while scaling operations during peak season.

Enhanced audit defense capabilities also support expanded service offerings, as clients value preparers who can provide comprehensive support through IRS inquiries and examinations.

## Conclusion

The IRS Due Diligence 6695g GPT represents a significant advancement in compliance technology for tax preparation practices. By combining comprehensive procedural knowledge with sophisticated decision-making frameworks and robust security protections, it addresses critical business risks while improving operational efficiency.

### Key Strengths:

- Comprehensive coverage of all IRC Section 6695g requirements
- Systematic decision-tree navigation preventing information overload
- Professional-grade security protecting both PII and intellectual property
- Built-in compliance features reducing regulatory risk
- Significant efficiency improvements without sacrificing quality

**Primary Value Proposition:** The GPT transforms complex due diligence requirements into manageable, step-by-step processes that enable tax preparers to provide superior compliance services while protecting their practices from costly penalties. For practices handling significant volumes of returns claiming covered credits, this tool offers substantial competitive advantages through improved efficiency, enhanced quality, and reduced liability exposure.



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**Implementation Recommendation:** Tax professionals should view this GPT as a comprehensive practice enhancement tool that augments professional judgment rather than replacing it. When properly implemented with appropriate quality controls and professional oversight, it can significantly improve practice efficiency while maintaining the highest standards of compliance and client service.

The investment in systematic due diligence procedures through this technology pays dividends through penalty avoidance, enhanced professional reputation, and improved client satisfaction. For practices serious about compliance excellence and business growth, this tool represents an essential component of modern tax preparation infrastructure.

This analysis demonstrates that the IRS Due Diligence 6695g GPT successfully addresses real business needs in the tax preparation industry while maintaining the highest standards of security and professional compliance. The combination of comprehensive functionality, systematic risk management, and significant efficiency improvements makes this tool particularly valuable for practices seeking to enhance their due diligence capabilities while protecting against costly regulatory penalties.

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