

Payment Integrity Scorecard

Program or Activity

Internal Revenue Service - American Opportunity Tax Credit

Reporting Period

Q3 2023

FY 2022 Overpayment Amount (\$M)*

\$2,030

*Estimate based a sampling time frame starting 1/2019 and ending 12/2019



Treasury

Internal Revenue Service - American Opportunity Tax Credit

Brief Program Description & summary of overpayment causes and barriers to prevention:

AOTC is a credit for qualified education expenses paid for an eligible student for the first four years of higher education. Approximately \$0.75B of AOTC overclaims are from the inability to authenticate eligibility because the data needed does not exist. This includes errors that IRS can only verify via audit since no data exists to support automated compliance checks. Approximately \$1.28B of AOTC overclaims are from program design limitations. Errors caused by program design occur when information needed to confirm payment accuracy is not available at the time the return is processed or when IRS does not have authority to enforce eligibility requirements when it does have the necessary information at the time returns are processed.

**Historical Payment Rate and Amount (\$M)
(Overpayment as Percentage of Total Outlays)**



Discussion of Actions Taken in the Preceding Quarter and Actions Planned in the Following Quarter to Prevent Overpayments

- Pre-Refund Examinations – The IRS identifies tax returns and amended returns for examination. For pre-refund examinations, the IRS holds the refundable portion of the refund (or, in the case of amended returns, prevents the issuance of the refund) until an audit can be completed.
- Two- and 10-Year Bans – The IRS embargoes taxpayers from claiming credits if the taxpayers' previous claims were due to reckless or intentional disregard of the rules and regulations or to fraud.
- Pre-Refund Automated Questionable Credit Program – Automated program designed to protect revenue by covering returns that are currently untreated or undertreated by other available programs across the IRS.

Accomplishments in Reducing Overpayment

		Date
1	The IRS recently updated Publication 5075, Maximize Your Tax Refund by Claiming Refundable Tax Credits, to include links, tools and IRS social media outlets.	Apr-23
2	The IRS held its annual Dependent Database meeting in June 2023 with IRS stakeholders, to evaluate the value of prior-year compliance filters for audit selection and identify improvement opportunities for the next filing season.	Jun-23
3	The IRS held its annual Return Preparer Strategy meeting in June 2023 with stakeholders in the Wage & Investment division to evaluate the value of prior-year preparer treatments and identify improvement opportunities for the next filing season.	Jun-23

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Goals towards Reducing Overpayments		Status	ECD	Recovery Method	Brief Description of Plans to Recover Overpayments	Brief Description of Actions Taken to Recover Overpayments	
1	Conduct pre- and post-refund activities to recapture overclaims.	On-Track	Sep-23	1	Recovery Activity	The IRS uses the Dependent Database, a risk-based scoring and selection application which is designed to select audits to recapture payments that were made to ineligible taxpayers or payments for the wrong amount that were made to eligible taxpayers.	Examination Closures – Through the third quarter of FY23, the IRS has completed examinations of more than 29,000 returns claiming the AOTC, protecting more than \$72M.
				2	Recovery Activity	IRS matches information in the Information Returns Master file with information in the Individual Master File to verify income. An Underreporter case results if there is a discrepancy. Post refund adjustments recapture refundable credits paid when the income is adjusted.	Through the third quarter of FY23, the IRS has completed document matching assessments of more than 10,000 returns claiming the AOTC, protecting more than \$14.5M.
2	Reject electronic returns with missing or inconsistent information via math error.	On-Track	Sep-23	3	Recovery Activity	The IRS imposes two and 10-year bans on taxpayers if the IRS determines that the taxpayers' claims were due to reckless or intentional disregard of the regulations or to fraud, respectively.	Through the third quarter of FY23, the IRS has two-year bans on 67 taxpayers deemed to have claimed the AOTC in reckless and intentional disregard of the law, and 29 10-year bans on taxpayers deemed to have claimed the AOTC fraudulently.

Amt(\$)	Root Cause of Overpayment	Root Cause Description	Mitigation Strategy	Brief Description of Mitigation Strategy and Anticipated Impact
\$1,279M	Overpayments outside the agency control that occurred because of an Inability to Access the Data/Information Needed.	Approximately \$1.28B of AOTC overclaims are from program design limitations. Errors occur when return information is not available or when IRS does not have the authority to enforce eligibility when it does not have the information at the time return is processed.	Training – teaching a particular skill or type of behavior; refreshing on the proper processing methods.	The IRS will continue to educate tax professionals on their due diligence requirements regarding the AOTC, through venues such as the annual IRS Nationwide Tax Forums.
\$751M	Overpayments outside the agency control that occurred because the Data/Information Needed Does Not Exist.	Approximately \$0.75B of AOTC overclaims are from the inability to authenticate eligibility because the data needed does not exist. This root cause includes errors that IRS can only verify via audit since no data exists to support automated compliance checks.	Change Process – altering or updating a process or policy to prevent or correct error.	The IRS will continue to hold its annual Dependent Database meetings with IRS stakeholders to evaluate the value of prior-year compliance filters for audit selection of returns claiming the AOTC and identify improvement opportunities for next filing season.