

Payment Integrity Scorecard

Program or Activity
Internal Revenue Service - American Opportunity Tax Credit

Reporting Period
Q4 2023

FY 2022 Overpayment Amount (\$M)* **\$2,030**

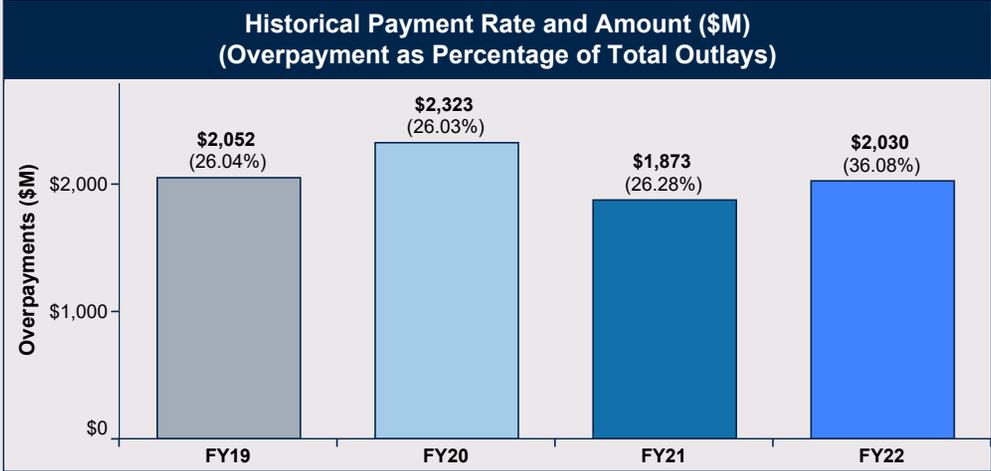
*Estimate based a sampling time frame starting 1/2019 and ending 12/2019



Treasury
Internal Revenue Service - American Opportunity Tax Credit

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

The American Opportunity Tax Credit (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 at the time returns are processed.



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**

	Accomplishments in Reducing Overpayment	Date
1	IRS Nationwide Tax Forum – The IRS hosted its annual tax forum in July 2023 to increase paid tax preparers' understanding of the eligibility rules for the refundable credits, including AOTC, and their due diligence requirements.	Jul-23
2	Latino Tax Fest – The IRS presented 'Answering Your Frequently Asked Questions about Due Diligence' at the 2023 Latino Tax Fest in July 2023. The presentation included information specific to understanding eligibility rules for the refundable credits, including AOTC.	Jul-23
3	Software Developers Working Group (SDWG) – The IRS continued its partnership by holding its fourth quarter meeting in August 2023 with members of key tax software associations to reduce refundable credit errors, including those related to the AOTC.	Aug-23

Payment Integrity Scorecard

Program or Activity
Internal Revenue Service - American Opportunity Tax Credit

Reporting Period
Q4 2023

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.	Completed	Sep-23	1	Recovery Activity	Examination Closures – The IRS uses the Dependent Database (DDb), a risk-based scoring and selection application that is designed to identify potentially ineligible tax returns claiming refundable credits.	Examination Closures – Through the fourth quarter of FY23, the IRS completed examinations of more than 30,000 returns claiming the AOTC, protecting more than \$82M.
				2	Recovery Activity	• Document Matching – IRS matches payer information in the Information Returns Master file with taxpayer return information in the Individual Master File to verify the taxpayer reported all income as required.	Document Matching – Through the second quarter of FY23, the IRS has completed document matching assessments of more than 10,500 returns claiming the AOTC, protecting more than \$14.5M.
2	Reject electronic returns with missing or inconsistent information via math error.	Completed	Sep-23	3	Recovery Activity	• Two- and 10-Year Bans – The IRS to imposed 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.	Two- and 10-Year Bans – Through the fourth quarter of FY23, the IRS has imposed two-year bans on 102 taxpayers deemed to have claimed the AOTC in reckless and intentional disregard of the law, and 44 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 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.	Training – teaching a particular skill or type of behavior; refreshing on the proper processing methods.	Training – The IRS will continue to educate tax professionals on their due diligence requirements regarding the AOTC.
\$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.	Change Process- The IRS will continue to hold its annual Dependent Database (DDb) meetings with 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.