

Payment Integrity Scorecard

Program or Activity
Internal Revenue Service - American Opportunity Tax Credit

Reporting Period
Q1 2024

FY 2023 Overpayment Amount (\$M)* **\$1,651**

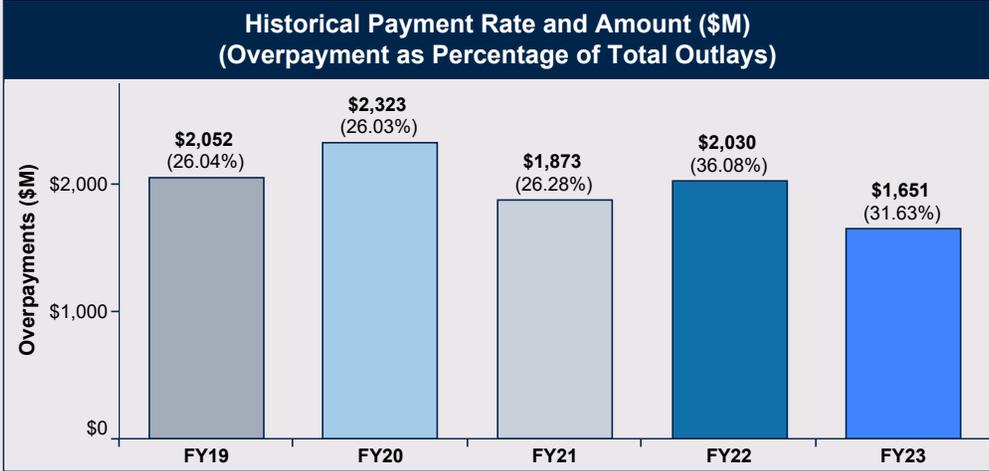
*Estimate based a sampling time frame starting 1/2020 and ending 12/2020



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. ~\$0.61B 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. ~\$1.04B 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.



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	Tax Professional Awareness Week (TPAW) - IRS planned its inaugural Tax Professional Awareness Week to begin January 8, 2024. TPAW is designed to equip tax professionals with tools and information to help them prepare accurate returns.	Oct-23
2	Refundable Credits Summit – The objectives of the 2023 Summit were to share information on current IRS compliance and outreach activities and to solicit input on ways to increase participation, improve administration and reduce overclaims with respect to the AOTC.	Nov-23
3	Software Developer Working Group – The IRS continued its partnership with members of key tax software associations to reduce refundable credit errors, including those related to the AOTC, and assist preparers in meeting their due diligence requirements.	Nov-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-24	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.	In the first quarter of FY24, the IRS completed examinations of nearly 11,000 returns claiming the AOTC, protecting more than \$23M.
2	Reject electronic returns with missing or inconsistent information via math error.	On-Track	Sep-24	2 Recovery Activity	Document Matching – The 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.	In the first quarter of FY24, the IRS completed document matching assessments on nearly 4,300 returns claiming the AOTC, protecting more than \$5.5M.
				3 Recovery Activity	Two- and 10-Year Bans – The IRS 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.	In the first quarter of FY24, the IRS has imposed two-year bans on 12 taxpayers deemed to have claimed the AOTC in reckless and intentional disregard of the law.

Amt(\$)	Root Cause of Overpayment	Root Cause Description	Mitigation Strategy	Brief Description of Mitigation Strategy and Anticipated Impact
\$1,040M	Overpayments outside the agency control that occurred because of an Inability to Access the Data/Information Needed.	This root cause includes 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 the IRS does not have authority to enforce eligibility requirements.	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.
\$611M	Overpayments outside the agency control that occurred because the Data/Information Needed Does Not Exist.	This root cause of AOTC overclaims are from the inability to authenticate eligibility because the data needed does not exist. This includes errors that the 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 (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.