

# Payment Integrity Scorecard

**Program or Activity**

Internal Revenue Service - American Opportunity Tax Credit

**Reporting Period**

Q2 2024

**FY 2023 Overpayment Amount (\$M)\***

**\$1,651**

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



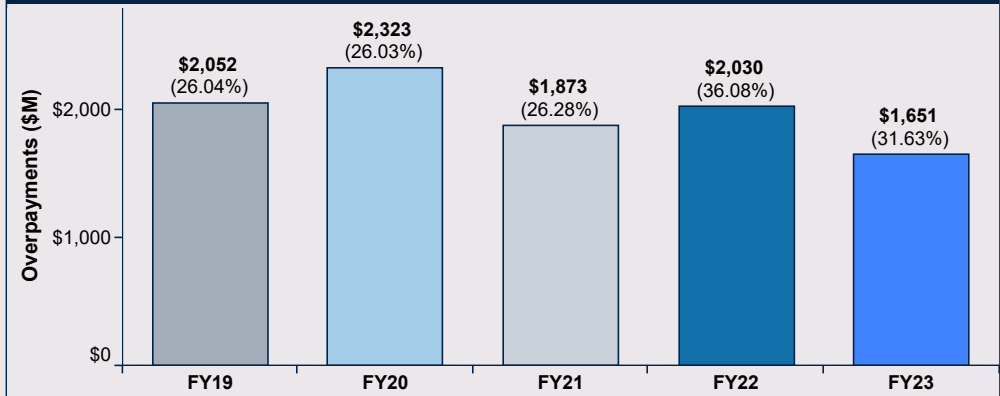
**Department of the Treasury**

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.

**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**

		Date
1	Due Diligence Webinars - The IRS presented two due diligence webinars targeting the Tax Preparer Community: Answering Your Frequently Asked Questions on Due Diligence and Due Diligence for Paid Preparers.	Jan-24
2	Filing Season Readiness Webinars - The IRS presented Sailing Through the Rules of Refundable Credits to an audience of 7,000 tax professionals, providing the most up to date information about the latest changes to the rules for refundable tax credits, including the AOTC.	Jan-24
3	Software Developer Working Group- The IRS continued its partnership with members of key tax software associations to reduce refundable credit errors, assist preparers in meeting their due diligence requirements, and to discuss FY 2024 Return Preparer Strategy treatment.	Mar-24

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Q2 2024

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-refund audits.	On-Track	Sep-24	1 <b>Recovery Activity</b>	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.	Through the second quarter of FY24, the IRS completed examinations of nearly 18,000 returns claiming the AOTC, protecting more than \$40M.
2	Reject electronic returns with missing or inconsistent information via math error.	On-Track	Sep-24	2 <b>Recovery Activity</b>	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.	Through the second quarter of FY24, the IRS completed document matching assessments on more than 8,500 returns claiming the AOTC, protecting more than \$12M.
				3 <b>Recovery Activity</b>	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.	Through the second quarter of FY24, the IRS has imposed two- and 10-year bans on nearly 30 taxpayers deemed to have claimed the AOTC in reckless and intentional disregard of the law or due to fraud.

Amt(\$)	Root Cause of Overpayment	Root Cause Description	Mitigation Strategy	Brief Description of Mitigation Strategy and Anticipated Impact
<b>\$1,040M</b>	Overpayments outside the agency control that occurred because of an Inability to Access the Data/Information Needed.	Approximately \$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.	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 outreach venues, including annual Filing Season Readiness Webinars and the Nationwide Tax Forums.
<b>\$611M</b>	Overpayments outside the agency control that occurred because the Data/Information Needed Does Not Exist.	Approximately \$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 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 in the Wage & Investment, Small Business & Self Employed, and IT divisions, to evaluate the value of prior-year compliance filters for audit selection of returns claiming the AOTC.