

Payment Integrity Scorecard

Program or Activity

Internal Revenue Service - American Opportunity Tax Credit

Reporting Period

Q3 2024

FY 2023 Overpayment Amount (\$M)*

\$1,651

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



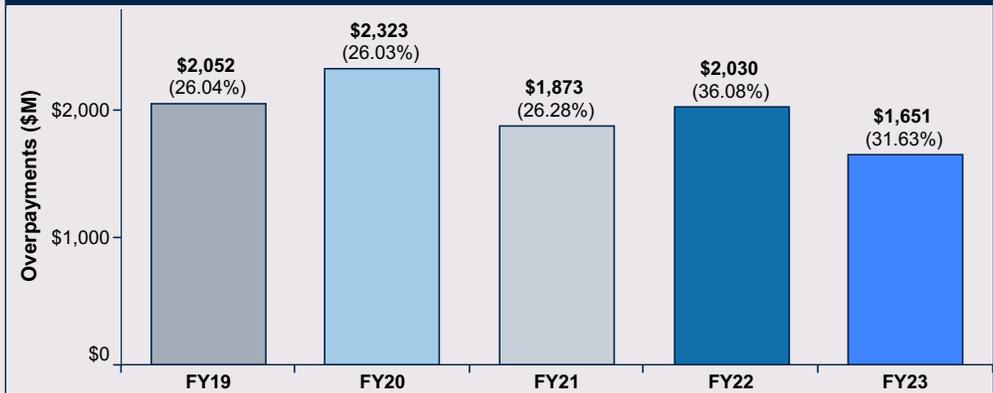
Department of the Treasury

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 Ten-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 - This is an 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	Software Developer Working Group (SDWG) - The IRS continued its partnership with members of key tax software associations to reduce refundable credit errors, including those related to AOTC and to assist preparers in meeting their due diligence requirements.	Mar-24
2	Annual Dependent Database (DDb) Meeting - The IRS held its annual DDb meeting in June 2024 with stakeholders to evaluate the value of prior-year compliance filters for AOTC audit selection and identify improvement opportunities for the next filing season.	Jun-24
3	Latino Tax Fest - The IRS presented 'ABC's of Due Diligence' at the 2024 Latino Tax Fest in June 2024. The presentation included information specific to understanding eligibility rules for the refundable credits, including AOTC.	Jun-24

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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-refund audits.	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.	Through the third quarter of FY24, the IRS completed examinations of nearly 24,000 returns claiming the AOTC, protecting more than \$50M.
				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.	Through the third quarter of FY24, the IRS completed document matching assessments on more than 15,000 returns claiming the AOTC, protecting more than \$21M.
2	Reject electronic returns with missing or inconsistent information via math error.	On-Track	Sep-24	3	Recovery Activity Two- and Ten-Year Bans" The IRS imposed two and ten-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 third quarter of FY24, the IRS has imposed two-year bans on 65 taxpayers deemed to have claimed the AOTC in reckless and intentional disregard of the law, and 15 ten-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
\$1,040M	Overpayments outside the agency control that occurred because of an Inability to Access the Data/Information Needed.	~ \$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 or when the IRS does not have authority to enforce eligibility.	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.	~ \$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 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.