

Payment Integrity Scorecard

Program or Activity

Internal Revenue Service - American Opportunity Tax Credit

Reporting Period

Q2 2025

FY 2024 Overpayment Amount (\$M)*

\$1,431

*Estimate based a sampling time frame starting 1/2020 and ending 12/2021



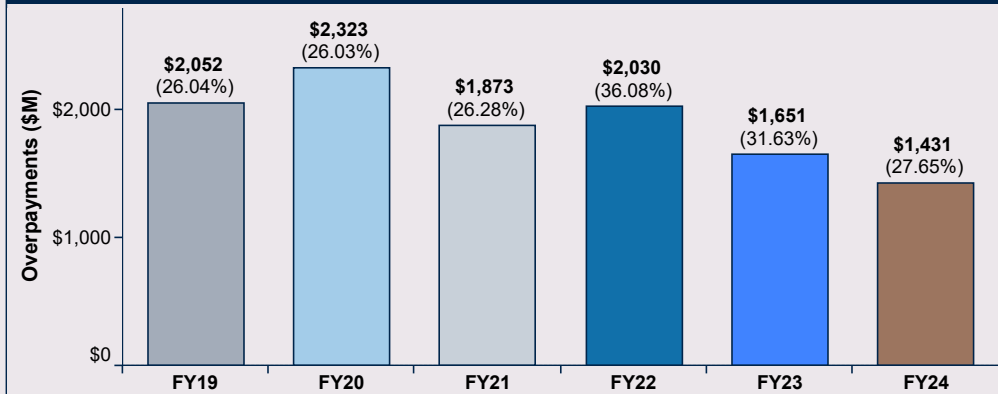
Treasury

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 \$0.53B 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. Approximately \$0.90B 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. 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 – Automated program designed to protect revenue by covering returns that are currently untreated or undertreated by other available programs across the IRS. • Return Preparer Strategy Program – The IRS administers a program to help address issues related to high- risk preparers and improve compliance. The program identifies preparers who submit significant number of tax returns with over-claimed refundable credits or errors related to the head of household filing status.

Accomplishments in Reducing Overpayment

Date

1	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 2025 Return Preparer Strategy treatment.	Oct-24
2	Education Credit Microsites Updates– The IRS recently updated the Education Credit microsites on irs.gov, which is a digital platform for taxpayers and tax professionals. The microsite updates included user friendly enhancements and clarification on the education credits.	Dec-24
3	Due Diligence Webinars – The IRS presented two due diligence webinars to educate the tax preparer community. More than 11,900 tax professionals attended the sessions which included FAQs about requirements for tax benefits subject to paid preparer due diligence.	Jan-25

Payment Integrity Scorecard

Program or Activity

Internal Revenue Service - American Opportunity Tax Credit

Reporting Period

Q2 2025

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-25	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 second quarter of FY25, the IRS completed examinations of 14,471 returns claiming the AOTC, protecting more than \$31.5M.
				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 second quarter of FY25, the IRS completed document matching assessments on 6,650 returns claiming the AOTC, protecting more than \$11M.
2	Reject electronic returns with missing or inconsistent information via math error.	On-Track	Sep-25	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 second quarter of FY25, the IRS has imposed two-year bans on 87 taxpayers deemed to have claimed the AOTC in reckless and intentional disregard of the law, and 4 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
\$902M	Overpayments outside the agency control that occurred because of an Inability to Access the Data/Information Needed.	Approximately \$0.53B of the 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) meeting 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.
\$530M	Overpayments outside the agency control that occurred because the Data/Information Needed Does Not Exist.	Approximately \$0.90B of the 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.