

Payment Integrity Scorecard

Program or Activity

Internal Revenue Service - American Opportunity Tax Credit

Reporting Period

Q3 2025

FY 2024 Overpayment Amount (\$M)*

\$1,431

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



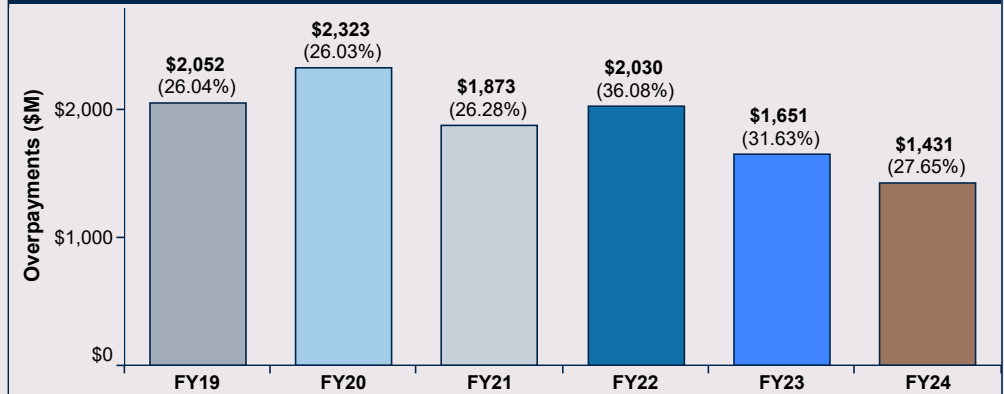
Treasury

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. \$0.53B of AOTC overclaims are caused when information needed to authenticate eligibility does not exist at the time of filing. Automated compliance checks cannot provide validation without the necessary data causing IRS to verify eligibility via audit. \$0.90B of AOTC overclaims are caused when validation data is not available to confirm payment accuracy at the time the tax 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 and 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 (SDWG) – The IRS continued its partnership with software associations by holding its quarterly meeting to reduce refundable credit errors and improve software-driven accuracy and claim validation, including those related to the AOTC.	May-25
2	Annual Dependent Database (DDb) Meeting – The IRS held its annual DDb meeting to assess prior- year compliance filters for AOTC claims. The review identified improvements to enhance audit selection to reduce improper payments.	Jun-25
3	IRS Nationwide Tax Forum – The IRS developed two presentations for delivery at its annual Tax Forum to increase paid tax preparers' understanding of the eligibility rules for the refundable credits, including AOTC, and their due diligence requirements.	Jun-25

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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-25	1 Recovery Activity	Examination Closures – The IRS uses the DDb, a risk-based scoring and selection application that is designed to identify potentially ineligible tax returns claiming refundable credits.	Examination Closures – Through the third quarter of FY25, the IRS completed examinations of nearly 17,000 returns claiming the AOTC, protecting more than \$0.04B.
2	Reject electronic returns with missing or inconsistent information via math error.	On-Track	Sep-25	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.	Document Matching – Through the third quarter of FY25, the IRS completed document matching assessments on more than 9,900 returns claiming the AOTC, protecting more than \$0.01B.
				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.	Two- and Ten-Year Bans – Through the third quarter of FY25, the IRS has imposed two- and 10-year bans on 113 taxpayers deemed to have claimed the AOTC in reckless and intentional disregard of the law and due to fraud.

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.	\$0.53B of the AOTC overclaims are from the inability to authenticate because the claim eligibility and validation data is not available. 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 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.	\$0.90B of the AOTC overclaims are from program design limitations where errors are caused 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.