Payment Integrity Scorecard

Program or Activity	Reporting Period	FY 2025 Overpayment Amount ($M)*	$1,536
Internal Revenue Service - American Opportunity Tax Credit	Q4 2026		

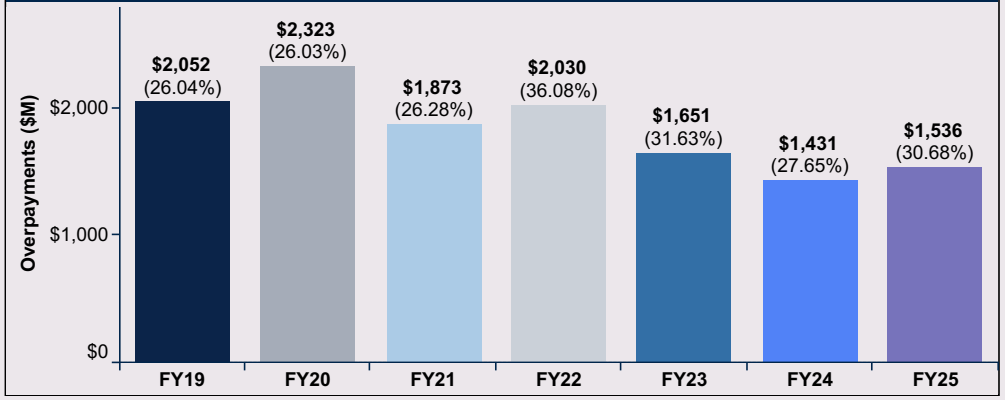
*Estimate based a sampling time frame starting 1/2023 and ending 12/2023

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. $0.6B 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. $1.1B 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 numbers of tax returns with over-claimed refundable credits or errors related to the head of household filing status.

	Accomplishments in Reducing Overpayment	Date
1	The IRS issued Letter 5025, You Prepared Inaccurate Tax Returns - You Risk Penalties from an Audit, to over 12,850 paid tax return preparers who prepared tax returns claiming the AOTC. Our review indicated that the preparer may not have met the due diligence requirements.	Dec-25
2	The IRS released updates to its Interactive Tax Assistant (ITA) to strengthen compliance, generating more than 1.4 million completed sessions. The ITA answers tax law questions and can determine whether a taxpayer is eligible to claim certain credits or deductions.	Dec-25
3	The IRS presented two seminars, 'Law and Audit: The Due Diligence Process' and 'Stand Out as a Trusted Tax Professional', to increase paid tax preparers' understanding of the eligibility and due diligence requirements. Over 10,000 paid tax return preparers attended.	Oct-25

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Reporting Period
Q4 2026

	Goals towards Reducing Overpayments	Status	ECD
1	Reject electronic returns with missing or inconsistent information via math error.	On-Track	Sep-26
2	Conduct pre-refund audits.	On-Track	Sep-26

	Recovery Method	Brief Description of Plans to Recover Overpayments	Brief Description of Actions Taken to Recover Overpayments
1	**Recovery Audit**	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.	Examination Closures — In the fourth quarter of FY26, the IRS completed examinations of more than 28,980 returns claiming high-priority refundable tax credits, including the AOTC, protecting more than $184M.
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 August of FY26, the IRS completed document matching assessments of more than 5,280 returns claiming AOTC, protecting more than $37M. The IRS continues to use document matching as a recovery activity to confirm taxpayer-reported income for AOTC claims, promoting accurate filing and improving complianc..
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 August 2026, the IRS imposed two- and ten-year bans on 584 taxpayers, consisting of 517 two-year bans and 67 ten-year bans on taxpayers deemed to have claimed refundable credits, including 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
$968M	Overpayments that occurred because of an Inability to Access the Data/Information Needed.	Approximately $0.6B 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 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.
$568M	Overpayments that occurred because the Data/Information Needed Does Not Exist.	Approximately $1.1B 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 timely 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.