



## Treasury Inspector General for Tax Administration Office of Audit

### IMPROVEMENTS ARE NEEDED IN THE ADMINISTRATION OF EDUCATION CREDITS AND REPORTING REQUIREMENTS FOR EDUCATIONAL INSTITUTIONS

Issued on September 30, 2009

## Highlights

Highlights of Report Number: 2009-30-141 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

### IMPACT ON TAXPAYERS

Tax credits are available to help taxpayers offset the costs of higher education. These credits are available to certain taxpayers who pay qualified education expenses for higher education. The Hope Credit is limited to eligible students enrolled in their first 2 years of post-secondary education and can only be claimed for 2 tax years. The Lifetime Learning Credit is also available for the first 2 years of post-secondary education as well as an unlimited number of years in the future. Some taxpayers are claiming Hope Credits to which they are not entitled. In addition, educational institutions are spending millions of dollars and staff hours each year to provide taxpayers and the Internal Revenue Service (IRS) with copies of Tuition Statements (Form 1098-T). However, the IRS does not use this Form in its compliance programs, or accept the Form as documentation to support education credit claims.

### WHY TIGTA DID THE AUDIT

This audit was part of our discretionary audit coverage and was included in the TIGTA Annual Audit Plan. The overall objective of this audit was to determine whether taxpayers are properly claiming education credits and whether IRS controls are properly identifying those taxpayers who are not.

### WHAT TIGTA FOUND

IRS controls over the Hope Credit were not functioning effectively to ensure that all criteria for claiming the credit were being met. TIGTA determined that taxpayers were allowed to take erroneous credits because 1) the IRS does not have math error authority to immediately disallow ineligible claims for the Hope Credit and 2) the IRS Examination function scrutinizes these cases after refunds are issued, and the criteria the function

applies only identifies a small fraction of the erroneous cases.

TIGTA also performed a computer analysis of all Forms 1098-T filed for Tax Years 2005 through 2007 and found that the amount necessary for the IRS and taxpayers to compute the amount of education credit allowed is not included on the Form 1098-T close to 80 percent of the time. In addition, the IRS does not use the Form 1098-T to match or confirm the amount of the claim. As a result, educational institutions are needlessly expending approximately 5.1 million hours each year to complete Forms 1098-T and an estimated \$3.8 million to mail the Forms to students.

### WHAT TIGTA RECOMMENDED

TIGTA made two legislative recommendations to 1) provide the IRS with math error authority to disallow ineligible claims for the Hope Credit and 2) enact legislation to either make Form 1098-T useable to the IRS and taxpayers by requiring educational institutions to report amounts paid rather than allowing them to choose between amounts paid and amounts billed, or relieve educational institutions of the burden of producing the Form. TIGTA also recommended that if legislation is enacted that requires educational institutions to report amounts paid, the IRS should ensure that the Education Credits (Hope and Lifetime Learning Credits) (Form 8863) is matchable to Form 1098-T.

IRS management agreed with all three of the recommendations. Management said it was pleased that TIGTA is requesting congressional consideration for two legislative recommendations that they believe will make their administration of these credits more productive. Pending the enactment of the legislation, the IRS plans to make the necessary changes to the Form 1098-T and Form 8863 to comply with the legislation and plans to take the action necessary to ensure the changes made are useful to taxpayers and for tax administration purposes.

### READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2009reports/200930141fr.pdf>

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