



Office of Audit

**Treasury
Inspector
General for Tax
Administration**



Recovery Act

- 250 prisoners erroneously received \$255,879 in education credits.

In addition, TIGTA identified that a valid Social Security Number is required for Federal student aid but not for education credits. Our review identified 84,754 students who did not have a valid Social Security Number but were claimed by taxpayers who received \$103 million in education credits.

BILLIONS OF DOLLARS IN EDUCATION CREDITS APPEAR TO BE ERRONEOUS

Issued on September 16, 2011

Highlights

Highlights of Report Number: 2011-41-083 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

The American Recovery and Reinvestment Act of 2009 (Recovery Act) amended the Hope Scholarship Credit to provide for a refundable tax credit called the American Opportunity Tax Credit. This credit is to help taxpayers offset the costs of higher education.

WHY TIGTA DID THE AUDIT

Recovery Act activities require agencies to ensure appropriate measures are taken to prevent fraud, waste, and abuse. This audit was initiated because TIGTA is required to monitor the Internal Revenue Service (IRS) implementation of Recovery Act provisions. Our overall objective was to assess the effectiveness of IRS processes to identify erroneous American Opportunity Tax Credit claims from January 1 through May 28, 2010.

WHAT TIGTA FOUND

As of May 28, 2010, TIGTA identified 2.1 million taxpayers receiving \$3.2 billion in education credits that appear to be erroneous, and at least 1.1 million (52 percent) had tax returns prepared by a paid tax return preparer. Specifically:

- 1.7 million taxpayers received \$2.6 billion in education credits that appear to be erroneous based on IRS records.
- 370,924 individuals were claimed as students but were not eligible for education credits because they did not attend the required amount of time and/or were postgraduate students. This resulted in an estimated \$550 million in erroneous education credits.
- 63,713 taxpayers erroneously received \$88.4 million in education credits for students claimed as a dependent or spouse on another taxpayer's tax return.

WHAT TIGTA RECOMMENDED

TIGTA made numerous recommendations. The most significant included that the IRS revise the current Education Credits (American Opportunity and Lifetime Learning Credits) (Form 8863), coordinate with the Department of Education to assess feasibility of using its data files in tax return processing, initiate a recovery program for erroneously paid claims, and coordinate with the Department of the Treasury to determine whether legislation is needed to clarify whether or not the American Opportunity Tax Credit may be claimed for students without a valid Social Security Number and, if needed, to provide the IRS math error authority to disallow associated claims for these credits.

In its response to the report, the IRS agreed with 10 of our 11 recommendations and partially agreed to the remaining recommendation. The IRS disagreed with our recommendation to initiate a Tax Return Preparer Project to address those preparers associated with large volumes of erroneous education credit claims.

The IRS did not agree with the amount of erroneous claims identified by TIGTA. However, in subsequent communications, IRS management has informed us that they have found a high percentage of the claims TIGTA identified to be erroneous. As of July 2011, IRS audit results showed that 72 percent of the claims reviewed were erroneous, and it has proposed assessments totaling over \$2.2 million for 1,477 tax returns it has audited so far. IRS management noted that they expect the percentage found to be erroneous to further increase and, as a result, have increased the number of tax returns that they plan to review with this condition in Fiscal Year 2012.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2011reports/201141083fr.pdf>

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