



Treasury Inspector General for Tax Administration Office of Audit

BILLIONS OF DOLLARS IN POTENTIALLY ERRONEOUS EDUCATION CREDITS CONTINUE TO BE CLAIMED FOR INELIGIBLE STUDENTS AND INSTITUTIONS

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Highlights

Highlights of Report Number: 2015-40-027 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

The Taxpayer Relief Act of 1997 created two permanent education tax credits, the Hope Credit and Lifetime Learning Credit. The American Recovery and Reinvestment Act of 2009 temporarily replaced the Hope Credit with a refundable tax credit known as the American Opportunity Tax Credit (AOTC). The AOTC was initially set to expire at the end of Calendar Year 2010 but has since been extended through Calendar Year 2017. These credits help taxpayers offset the costs of higher education.

WHY TIGTA DID THE AUDIT

Prior TIGTA audits have reported that taxpayers have claimed billions of dollars of erroneous education credits. TIGTA has made a number of recommendations to the IRS to help reduce the number of these erroneous claims. This audit was initiated to assess the IRS's efforts to improve the detection and prevention of questionable education credit claims.

WHAT TIGTA FOUND

The IRS still does not have effective processes to identify erroneous claims for education credits. Although the IRS has taken steps to address some of our recommendations, many of the deficiencies TIGTA previously identified still exist. As a result, taxpayers continue to receive billions of dollars in potentially erroneous education credits. Based on our analysis of education credits claimed and received on Tax Year 2012 tax returns, TIGTA estimates that more than 3.6 million taxpayers (claiming more than 3.8 million students) received more than \$5.6 billion in potentially erroneous education credits (\$2.5 billion in refundable credits and \$3.1 billion in nonrefundable credits). Specifically, TIGTA estimates:

- More than 2 million taxpayers received more than \$3.2 billion in education credits for students with no Form 1098-T, *Tuition Statement*.
- More than 1.6 million taxpayers received approximately \$2.5 billion in education credits for students attending ineligible institutions.
- 419,827 taxpayers received more than \$650 million for students who were used to claim the AOTC for more than four tax years.
- 427,345 taxpayers received approximately \$662 million in AOTCs for students who attended school less than half-time.

Further analysis of the more than 3.6 million taxpayers TIGTA identified as claiming education credits for ineligible students or ineligible institutions showed that 765,943 (21 percent) claimed both a student for which the IRS has no Form 1098-T and listed an ineligible institution on their Form 8863, *Education Credits (American Opportunity and Lifetime Learning Credits)*.

WHAT TIGTA RECOMMENDED

TIGTA made five recommendations to the IRS to improve the detection and prevention of erroneous education credit claims, including that the IRS work with the Department of the Treasury to consider a legislative proposal to move the required filing date for Forms 1098-T to January 31 so that this information can be used at the time tax returns are processed to help identify improper education credit claims.

The IRS agreed to implement two of the recommendations but did not agree to implement the other three. TIGTA notes its concern with the IRS's response to the recommendations in the report.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2015reports/201540027fr.pdf>