TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Assessment of Fiscal Year 2024 Compliance With Improper Payment Reporting Requirements

May 9, 2025

Report Number: 2025-400-025

TIGTACommunications@tigta.treas.gov | www.tigta.gov

Why TIGTA Did This Audit

This audit was initiated because agency Inspectors General are required to annually assess and report on improper payment requirements contained in the Payment Integrity Information Act (PIIA).

The objective of this review was to determine whether the IRS complied with annual improper payment reporting requirements for Fiscal Year (FY) 2024.

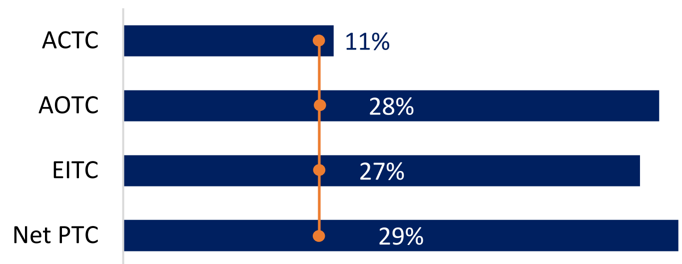
Impact on Tax Administration

The PIIA and the Office of Management and Budget (OMB) define an improper payment as any payment that should not have been made, was made in an incorrect amount, or was made to an ineligible recipient. For FY 2024, the IRS calculated improper payment estimates for four programs that meet the OMB's definition of a high-priority program susceptible to improper payments. The OMB defines high-priority programs as programs with improper payments resulting in monetary losses that exceed $100 million annually.

What TIGTA Found

For FY 2024, the IRS partially complied with the reporting requirements contained in the PIIA. As in prior years, the IRS calculated improper payment rates for the following four high-risk programs: Additional Child Tax Credit (ACTC), American Opportunity Tax Credit (AOTC), Earned Income Tax Credit (EITC), and Net Premium Tax Credit (PTC). However, the IRS still has not satisfied the goal to reduce improper payment rates to less than 10 percent.

Additionally, the IRS is not reporting improper payment rates for pandemic-related programs because they believe it would be an inefficient use of resources given the short-term nature of pandemic programs. However, the IRS continues to assess risk for pandemic-related programs, such as the Employee Retention Credit.



The IRS did not reduce the improper payment rate to less than 10 percent.

The FY 2024 Department of the Treasury Agency Financial Report attributes the causes of refundable tax credit errors to factors such as the complexity of the statutory eligibility rules, inability to verify taxpayer-provided information prior to issuing refunds, lack of correctable error authority, and a requirement to issue refunds within 45 days. For example, when there are taxpayers who claim the same dependent, the IRS cannot determine which taxpayer is eligible at the time a tax return is filed, and the IRS must process both claims and complete post-filing activities such as issuing notices or conducting audits to determine eligibility. For the 2025 Filing Season, the IRS implemented a change that will accept electronically filed individual tax returns when a dependent has already been claimed on another return to reduce the burden on taxpayers and issue their refunds timely. IRS management noted minimal impact of the duplicate dependent condition on total improper payments.

What TIGTA Recommended

We made three recommendations in this report, including that the IRS request additional legislative considerations to help reduce improper payments and analyze the impact of the new processing procedures for returns claiming duplicate dependents.

The IRS agreed with all three recommendations.

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20024

May 9, 2025

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

Diana M. Tengesdal

FROM: Diana M. Tengesdal
Acting Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Assessment of Fiscal Year 2024 Compliance With Improper Payment Reporting Requirements (Audit No.: 2025400001)

This report presents the results of our review to determine whether the Internal Revenue Service (IRS) complied with the annual improper payment reporting requirements for Fiscal Year 2024. This review is part of our Fiscal Year 2025 Annual Audit Plan and addresses the major management and performance challenge of *Tax Fraud and Improper Payments*.

Management's complete response to the draft report is included as Appendix V. If you have any questions, please contact me or Deann L. Baiza, Acting Assistant Inspector General for Audit (Returns Processing and Account Services).

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Background

The Payment Integrity Information Act (PIIA) and the Office of Management and Budget (OMB) define an improper payment as any payment that should not have been made, was made in an incorrect amount, or was made to an ineligible recipient.[1] Agency Inspectors General are responsible for evaluating agency information related to improper payments.

In March 2020, the PIIA repealed several improper payment laws but set forth similar improper payment reporting requirements, and the following remain in effect:[2]

Executive Order 13520, *Reducing Improper Payments,* issued in November 2009, requires federal agencies to provide agency Inspectors General with detailed information on efforts to identify and reduce the number of improper payments in federal programs with the highest dollar value of improper payments.

The *Consolidated Appropriations Act of 2021,* enacted in December 2020.[3] This Act directed the Internal Revenue Service (IRS) to make the elimination of improper payments an utmost priority. In addition, the Act directed the IRS to implement, within 270 calendar days of enactment of the Act, all open and unimplemented recommendations from TIGTA and the Government Accountability Office that address improper payments, or report on impediments to implementation of each open recommendation. We previously assessed the IRS's compliance with this requirement and found the IRS reported all unimplemented recommendations as required.[4]

OMB Circular A-123 Appendix C, *Requirements for Payment Integrity Improvement,* issued in March 2021. Appendix C provides agencies and Inspectors General with guidance on improper payment determinations and reporting. Every year, each agency Inspector General must review its agency's improper payment reporting in the Agency Financial Report (AFR) and any accompanying material, such as that provided on www.paymentaccuracy.gov, to determine if the agency complies with improper payment legislation and OMB guidance.

Process to identify IRS programs for improper payment risk assessment

Agencies must conduct an improper payment risk assessment at least once every 3 years for each program with annual outlays over $10 million. The Department of the Treasury (hereafter referred to as the Treasury Department) identifies the programs that the IRS must assess for the risk of improper payments each fiscal year. The IRS must also complete a Treasury Certification for each program that was not identified as needing a risk assessment stating there were no

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[1] Payment Integrity Information Act of 2019, 31 U.S.C. §§ 3351-3358 (2020). See Appendix VI for a glossary of terms.

[2] See Appendix III for a list of improper payment laws repealed by the PIIA.

[3] Pub. L. No. 116-260, 134 Stat. 1182.

[4] TIGTA, Report No. 2021-40-036, *Improper Payment Rates for Refundable Tax Credits Remain High* (May 2021) and TIGTA, Report No. 2022-40-037, *Programs Susceptible to Improper Payments Are Not Adequately Assessed and Reported* (May 2022).

material changes to the program since the last risk assessment was completed. For Fiscal Year (FY) 2024, the Treasury Department selected 6 program fund groups that required certification and 12 IRS programs that required a risk assessment.[5]

The IRS can use one of two types of risk assessments:

Qualitative Risk Assessment – used to assess the risk that a program's internal controls could make the program susceptible to improper payments. The OMB requires agencies to conduct qualitative assessments after the first 12 months of the program and at least once every 3 fiscal years thereafter. Once the IRS determines that a program is susceptible to improper payments, it must produce a statistically valid estimate of the improper payments the following fiscal year.

Quantitative Risk Assessment – used to review a sample of disbursements to formulate the overall estimated improper payment rate. In cases in which a quantitative risk assessment is conducted, it could take one of several forms, such as a statistical assessment similar to what is required for the regular improper payment estimate or a nonstatistical assessment in which its ratio of improper payments and unknown payments is projected to the annual outlays.

In addition, the IRS must provide the following information as part of an improper payment estimate for any program identified as susceptible to significant improper payments as a result of a risk assessment in the Treasury Department's next fiscal year AFR:

- The rate and amount of improper payments.
- The root causes of the improper payments.
- The actions taken to address the root causes.
- The annual improper payment reduction targets.
- A discussion of any limitations to the IRS's ability to reduce improper payments.

Results of Review

The OMB defines high-priority programs as programs with improper payments resulting in monetary losses that exceed $100 million annually. For FY 2024, the IRS estimated an overall improper payment rate of 21.9 percent and estimated improper payments totaling approximately $21.4 billion for the following credits: Additional Child Tax Credit (ACTC); American Opportunity Tax Credit (AOTC), Earned Income Tax Credit (EITC) and Net Premium Tax Credit (PTC). See Figure 1 for details.

[5] See Appendix II for the list of the 12 IRS programs identified by the Treasury Department for improper payment risk assessments in FY 2024.

Figure 1: FY 2024 Improper Payments and Rates[6]

IRS Program	Total Claims (in billions)	Improper Payment Rate	Improper Payments (in billions)
ACTC	$32.1	10.7%	$3.4
AOTC	$5.2	27.7%	$1.4
EITC	$58.4	27.3%	$15.9
Net PTC	$2.3	28.5%	$0.7
Totals	**$98.0**	**21.9%**	**$21.4**

Source: FY 2024 Treasury Department AFR.

Assessment of Fiscal Year 2024 Compliance With Improper Payment Reporting Requirements

We determined that the IRS partially complied with reporting requirements contained in the PIIA for FY 2024. The IRS complied with improper payment reporting compliance on the four main high-risk programs: ACTC, AOTC, EITC, and the Net PTC. However, the IRS has still not satisfied the PIIA goal of reducing the overall improper payment rate to less than 10 percent.

In May 2021, we reported that the OMB provided the IRS an alternative to reducing the improper payment rate to less than 10 percent. This included noting that if a reduction target remained constant due to the complexities of the programs, this situation should be explained in the Treasury Department AFR, which the IRS did.[7] Figure 2 provides a summary of our evaluation of the IRS's compliance with the various improper payment reporting requirements for FY 2024.[8]

Figure 2: Compliance With Improper Payment Requirements for FY 2024

Improper Payment Requirement	IRS Compliance
Published payment integrity information with the annual financial statement.	✓
Posted the annual financial statement and accompanying materials to agency website.	✓

[6] For presentation purposes, the improper payment rates, total claims, and estimated improper payments as presented may be impacted by rounding. Further detail is available within the datasets found on www.paymentaccuracy.gov.

[7] TIGTA, Report No. 2021-40-036, *Improper Payment Rates for Refundable Tax Credits Remain High* (May 2021).

[8] The Executive Order 13520 requirements are incorporated into Appendix C of OMB Circular A-123 which align with the PIIA.

Improper Payment Requirement	IRS Compliance
Conducted improper payment risk assessments for each program with annual outlays greater than $10 million at least once in the last 3 years.	✓
Adequately concluded whether programs are likely to make improper payments and unknown payments above or below statutory threshold.[9]	✓
Published improper payment and unknown payment estimates for programs susceptible to significant improper payments and unknown payments in the accompanying materials to the annual financial statement.	✓
Published corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement.	✓
Published an improper payment and unknown payment reduction target for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement.	✓
Demonstrated improvements to payment integrity or to reach a tolerable improper payment and unknown payment rate.	✓
Developed a plan to meet the improper payment and unknown payment reduction target.	✓
Reported an improper payment and unknown payment estimate of less than 10% for each program for which an estimate was published in the accompanying materials to the annual financial statement.	✗

Source: Analysis of the IRS's compliance with improper payment requirements for FY 2024.

IRS improper payment rate reporting does not extend to pandemic-related credits

In June 2020, the OMB issued guidance directing all agencies to apply payment integrity requirements to any new program created or significant new funding provided by pandemic legislation. Subsequently, in August 2022, the Treasury Department informed the OMB that due to the short-term nature of pandemic-related programs, estimating the amount and rate of improper payments, assessing the root cause, and developing corrective action plans to reduce payment errors in the future would provide minimal value and be an ineffective use of resources. The memorandum noted that it will continue to assess risk for programs deemed susceptible to significant improper payments. However, the Treasury Department indicated that it will not plan to report an improper payment estimate of such programs either in its AFR or on paymentaccuracy.gov.

[9] Unknown payments are payments made by a program where it is still unknown whether the payment is proper or improper. Payments are reported as unknown so that a program does not unintentionally over or under report the payment type results.

For FY 2024, the IRS completed the required risk assessments for the Economic Impact Payments and Recovery Rebate Credits and the Employee Retention Credit (ERC)/Paid Sick and Family Leave Credit after determining that these programs are susceptible to significant improper payments. As indicated in the Treasury Department memorandum, the IRS did not calculate or report improper payment rates for the ERC/Paid Sick and Family Leave Credit as high-risk and susceptible to improper payments.

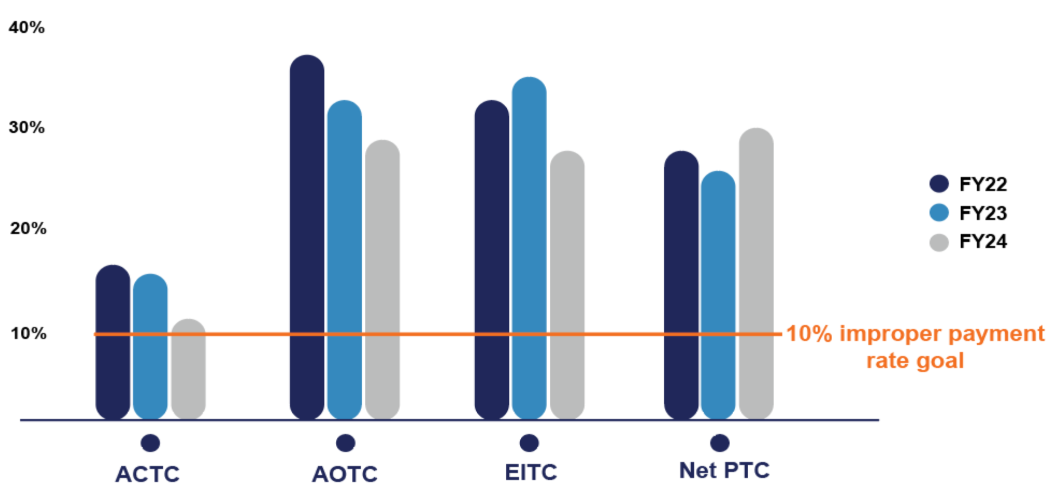
The FY 2024 Treasury Department AFR noted that the ERC was the most significant component of the pandemic refundable credit fund expenditures. However, the IRS recognizes the risk for fraud for these claims and has reported that the ERC increasingly became the target of aggressive marketing by unscrupulous promoters who caused some businesses to claim the credit when they were not eligible. The IRS took steps to address this by placing a moratorium on processing ERC claims, implementing a voluntary disclosure program, allowing taxpayers to withdraw their claims, *etc*. In September 2024, we reported that these initiatives prevented the issuance of $1.6 billion in ERCs and allowed the IRS to recapture $573 million in ERCs.[10] As of January 2025, the IRS still has over 1 million unprocessed ERC claims in inventory.

The Strategies for Reducing Improper Payments May Not Significantly Reduce Error Rates

The IRS has not reduced the improper payment rate estimates to less than 10 percent for any of its reported high-risk programs. According to the FY 2024 Treasury Department AFR, to meet this metric the IRS would need to reduce erroneous payments for its refundable tax credit programs by $11.7 billion. Figure 3 provides a comparison of the improper payment rates for FYs 2022 through 2024.

The IRS would need to reduce erroneous payments by $11.7 billion to meet PIIA requirements.

Figure 3: FY 2022 Through FY 2024 Improper Payment Rates

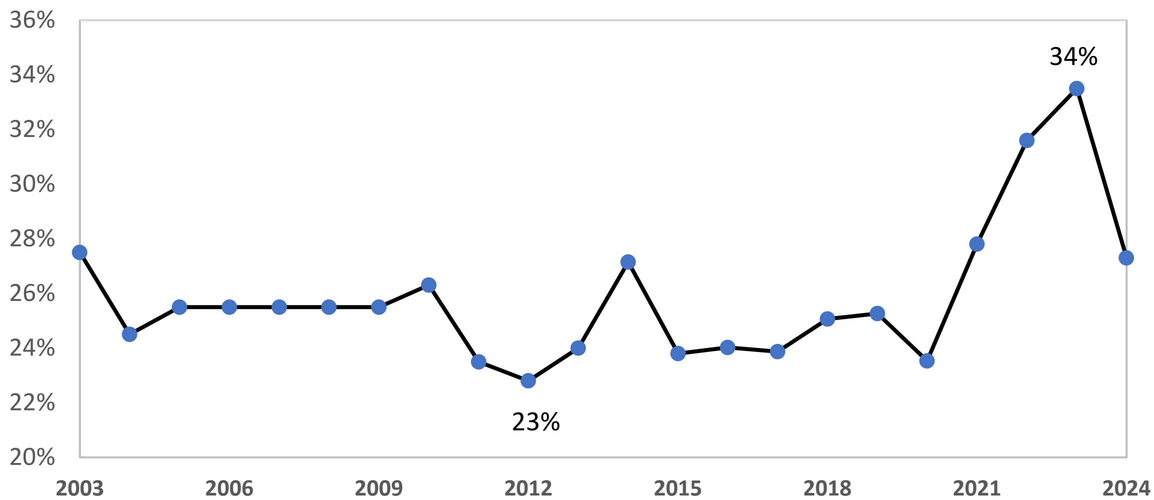


Source: FYs 2022 through 2024 Treasury Department AFRs.

[10] TIGTA, Report No. 2024-400-068, *Management Took Actions to Address Erroneous Employee Retention Credit Claims; However, Some Questionable Claims Still Need to Be Addressed* (September 2024).

The IRS has reported a reduction in some improper payment rates in recent years. However, the EITC improper payment rate has been consistently above 22 percent despite the IRS's efforts over the years to reduce these rates. Figure 4 shows that the EITC estimated error rates have ranged from 23 percent to 34 percent from FYs 2003 to 2024.

Figure 4: EITC Improper Payment Rates From FYs 2003 Through 2024



Source: Improper payment rates were pulled from various Treasury Department and TIGTA reports.

Factors beyond the IRS's control contribute to improper payments

The FY 2024 Treasury Department AFR attributes the causes of refundable tax credit errors to factors such as the complexity of the statutory eligibility rules, inability to verify taxpayer-provided information prior to issuing refunds, lack of correctable error authority, and a requirement to issue refunds within 45 days of the filing deadline to prevent paying interest. The FY 2024 Treasury Department AFR also notes that refundable credit improper payments are not primarily the result of internal control weaknesses that the IRS can address. Eligibility rules differ for each credit and are often complex because they address complicated family relationships and residency arrangements to determine eligibility. The IRS noted that a meaningful reduction in the estimated error rate is unlikely without independent data sources that the IRS can use to verify taxpayer-provided information. For example, EITC overclaims are from the IRS's inability to verify qualifying child eligibility requirements and taxpayers misreporting certain types of income which the IRS has difficulty verifying at the time of filing.

In addition, the IRS needs the resources, both time and people, to address improper payments. According to the FY 2024 Treasury Department AFR, reducing the improper payment rates for refundable credits would require increasing audits. However, the IRS recently reduced the number of refundable tax credit audits because these taxpayers are primarily low-income individuals and historically, they were disproportionately audited. Further, if the IRS reallocated enforcement resources from other examination programs to comply with the PIIA, it would lose substantial revenue.

The IRS stated that an over-reliance on pre-refund audits to resolve basic errors results in delayed refunds to taxpayers and additional interest payments made by the federal government. To address this, the IRS previously requested but has not been provided with additional correctable or math error authority, which allows the IRS to correct certain mathematical or clerical errors on returns at filing.[11] We agree that if the IRS had this additional authority, it could help address improper payments. As such, we continue to recommend that the IRS work with the Treasury Department's Office of Tax Policy to request additional correctable error authority.[12]

The IRS continues its focus on outreach and education to reduce improper payment error rates

In May 2024, we reported on the various strategies that the IRS has in place to educate both taxpayers and tax preparers about the eligibility requirements for refundable credits and identifying the most common errors.[13] The FY 2024 Treasury Department AFR notes that preparer outreach and education continue as part of the IRS's overall strategy to raise public awareness and encourage eligible taxpayers to claim refundable credits. This includes things like:

- Nationwide Tax Forums and the Refundable Credits Summit.
- Technical Training and Tax Preparer Toolkits.
- Webinars and Tax Preparer Alerts.

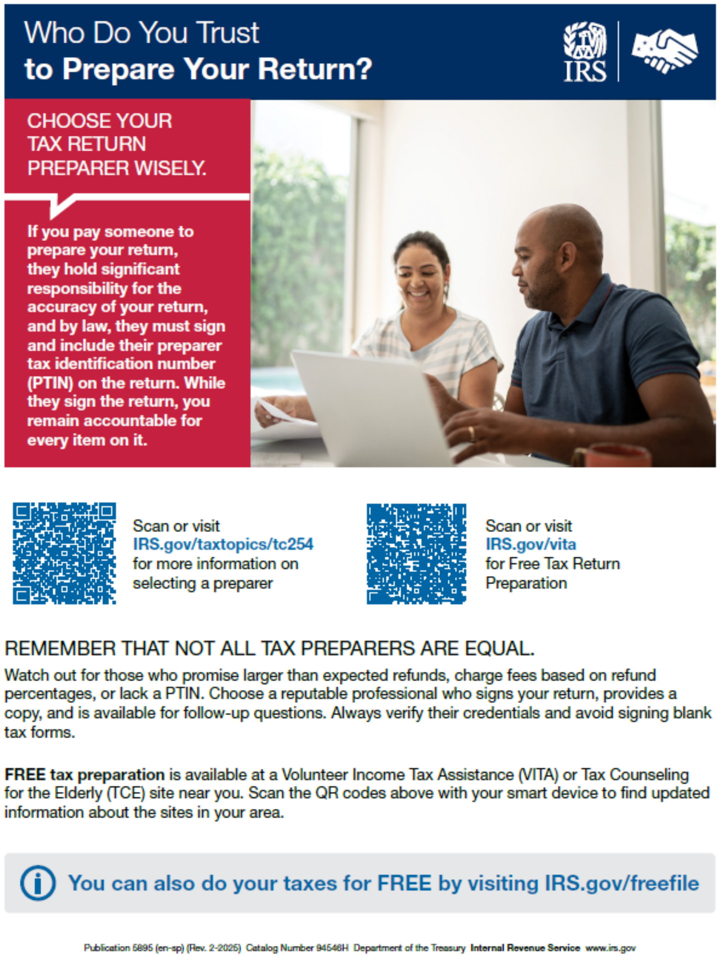
Additionally, the IRS created a "Who Do You Trust" flyer and distributed this content via its social media platforms, to its partners in the community, and on televisions at various Taxpayer Assistance Center sites. Figure 5 provides an example of the flyer.

[11] These requests have been made throughout the years in the Treasury Department's General Explanations of the Administration's Revenue Proposals that can be found on treasury.gov.

[12] See Appendix IV for prior TIGTA reports addressing refundable tax credits and math error authority.

[13] TIGTA, Report No. 2024-400-026, *Assessment of Fiscal Year 2023 Compliance With Improper Payment Reporting Requirements* (May 2024).

Figure 5: IRS Who Do You Trust Flyer



Source: IRS Publication 5895.

The IRS's FY 2025 budget submission also included two legislative proposals specific to paid preparers. One proposal focuses on increasing penalties against and addressing noncompliance or inappropriate behavior by paid preparers and the other proposal would establish mandatory minimum competency standards for paid preparers. While the IRS may be adjusting its strategic priorities to focus on tax preparer education and outreach, these efforts alone may not be sufficient to significantly impact taxpayer and preparer behavior and reduce the refundable credit improper payment rates.

Recommendation 1: The Commissioner, Taxpayer Services, should work with the Office of Tax Policy to request additional legislative considerations that will help the IRS reduce improper payments associated with refundable tax credits.

> **Management's Response:** The IRS agreed with the recommendation and will work to request additional legislative considerations that will help the IRS reduce improper payments associated with refundable tax credits.

The IRS is Testing a New Process to Avoid Refund Delays for Certain Taxpayers, But the Impact on Improper Payments is Unknown

As previously mentioned, one of the challenges to reduce improper payments is determining who is truly eligible for a credit. For example, multiple taxpayers may try to claim the same dependent(s) for the EITC and Child Tax Credit. One example would be a divorced couple that each file a tax return and claim the same dependent(s). Another example could be a fraudster who uses a stolen identity to claim another person's dependent to get a credit.

In the divorced couple example, the IRS ultimately must determine which parent is eligible to claim the dependent. This determination cannot be done when returns are filed. [redacted] However, because only one parent is eligible to claim the dependent, the other payment is an improper payment.

After both tax returns are processed, the IRS places codes on both taxpayer accounts where a duplicate dependent is present. This information is used to help determine if the returns will be selected for an audit or if the IRS will send a soft notice providing information on accurately claiming dependents. IRS management indicated that it is still necessary to conduct an audit when a duplicate dependent is claimed because it cannot be presumed that all refundable credits claimed by the taxpayer are improper and attributable to the duplicate dependent.

The IRS is piloting a new process for taxpayers who claim dependents who have already been claimed on another taxpayer's return

Prior to Filing Season 2025, the IRS rejected an electronically filed (e-filed) tax return if a dependent was already claimed by another taxpayer to help minimize improper payments and potential fraud. When this happened, the taxpayer whose return was rejected then had to file their tax return by paper. This can be a burden to both the taxpayer and the IRS, since paper tax returns require more resources to process. To determine the impact of this process, the IRS analyzed taxpayers' filing behaviors when their Tax Year 2022 tax return was rejected because of a duplicate dependent. The IRS found taxpayers in this situation responded in one of three ways:

- The taxpayer e-filed again, removing the duplicate dependent.
- The taxpayer filed again but by paper, claiming the duplicate dependent.
- The taxpayer did not file a subsequent tax return.

Taxpayers whose returns were rejected for claiming a duplicate dependent had their refund delayed. For Filing Season 2025, the IRS will accept an e-filed tax return even if the dependent has already been claimed on another return as long as the primary taxpayer on the second return includes a valid Identity Protection Personal Identification Number (IP PIN).[14] The IP PIN gives the IRS a reasonable assurance that the second filer has been authenticated because the application process requires an individual to verify their identity with the IRS. According to the IRS, this change will make it easier for taxpayers to claim important credits like the EITC and Child Tax Credit.

[14] A unique six-digit number that only the taxpayer and the IRS knows. The IP PIN is primarily used to protect the taxpayer from identity theft.

However, the impact of this new process on improper payment rates is unknown. In Tax Year 2022, there were 751,000 taxpayers whose returns were rejected because of a duplicate dependent condition. If the IRS denied half of the credits originally claimed by these taxpayers, it would only lower improper payments from $21.4 billion to $20 billion. As previously mentioned, the IRS would need to reduce erroneous payments by $11.7 billion to comply with the PIIA requirements. This illustrates how difficult it is for the IRS to reduce improper payment rates to less than 10 percent.

The Commissioner, Taxpayer Services, should:

Recommendation 2: Conduct an analysis of the new IP PIN procedures to 1) identify the impact on taxpayer filing behavior and refundable credits claimed; 2) evaluate the number of returns selected for post-refund review; and 3) measure the dollar impact to tax administration/improper payments.

> **Management's Response:** The IRS agreed with the recommendation and will conduct an analysis of the cases selected for post-refund review and determine the impact the new IP PIN procedures had on taxpayer filing behavior, issuance of improper payments, and the dollar impact to tax administration.

Recommendation 3: Upon completing the analysis noted in Recommendation 2, determine if the new IP PIN procedures should be continued.

> **Management's Response:** The IRS agreed with the recommendation and will make a determination about continuing the new IP PIN procedures after the analysis from Recommendation 2 is complete.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this audit was to determine whether the IRS complied with the annual improper payment reporting requirements for FY 2024. To accomplish this objective, we:

- Obtained and reviewed the information that the IRS provided to the Treasury Department for inclusion in the AFR to determine if the information provided satisfied the requirements.
- Evaluated the adequacy of the IRS's FY 2024 risk assessments for the IRS revenue program funds identified by the Treasury Department.
- Reviewed the IRS's methodology to calculate the ACTC, AOTC, EITC, and Net PTC improper payment rates for FY 2024.
- Evaluated the impact of accepting e-filed tax returns with duplicate dependents on improper payments.

Performance of This Review

This review was performed with information obtained from Office of the Chief Financial Officer located at the IRS Headquarters in Washington, D.C., and the Return Integrity and Compliance Services function located in Atlanta, Georgia, during the period November 2024 through March 2025. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Data Validation Methodology

We presented data as reported in Treasury Department AFRs and internal metrics from the IRS Office of Taxpayer Services. This information was reported without additional analysis. We believe it is reliable for the purposes of this report.

Internal Controls Methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: the controls in place to ensure that the IRS met the annual improper payment reporting requirements established in the PIIA. We tested these controls by reviewing and analyzing relevant documents and holding discussions with IRS management.

Appendix II

Programs Identified for Improper Payment Risk Assessments

The following IRS programs were identified by the Treasury Department for improper payment risk assessments for FY 2024.

IRS Program	Treasury Fund Symbol	Risk Assessment Determination
Refund Collection, Interest	20X0904	Non-susceptible
Qualified Zone Academy Bonds	20X0945	Non-susceptible
Taxpayer Services	20X0912	Non-susceptible
Tax Law Enforcement	20X0913	Non-susceptible
Operations Support	20X0919	Non-susceptible
Business Systems Modernization	20X0921	Non-susceptible
Private Collection Agent Program	20X5510	Non-susceptible
Alternative Minimum Tax – Corporate	20X0931	Non-susceptible
Special Compliance Personnel Program Account	20X5622	Non-susceptible
Informant Reimbursement	20X5433	Non-susceptible
U.S. Coronavirus Payments - Economic Impact Payments and Recovery Rebate Credits	20X0905	Susceptible
U.S. Coronavirus Refundable Credits - Sick and Family Leave Credit and Employee Retention Credit	20X0936	Susceptible

Source: IRS Office of the Chief Financial Officer.

Appendix III

Improper Payment Laws Repealed by the Payment Integrity Information Act

Improper Payment Law	Description
Improper Payments Information Act [1]	Enacted on November 26, 2002, the law requires federal agencies, including the IRS, to estimate the dollar amount of improper payments and report to Congress annually on the causes of and the steps taken to reduce improper payments.
Improper Payments Elimination and Recovery Ac [2]	Enacted July 22, 2010, the Act redefined what "significant improper payments" are; strengthened agency reporting requirements and defined significant improper payments as exceeding either 1.5 percent of program outlays and $10 million of all program activities or $100 million.
Improper Payments Elimination and Recovery Improvement Act [3]	Enacted on January 10, 2013, the Act codifies many parts of Executive Order 13520 and requires the OMB Director to identify a list of high-priority federal programs and agencies to develop additional or supplemental measures for tracking progress in reducing improper payments in these programs.
Fraud Reduction and Data Analytics Act [4]	Enacted on June 30, 2016, the Act requires the OMB to establish guidelines to identify and assess fraud risks and design and implement control activities to prevent, detect, and respond to fraud, including improper payments.

Source: Analysis of legislation related to improper payments.

[1] Pub. L. No. 107-300, 116 Stat. 2350.
[2] Pub. L. No. 111-204, 124 Stat. 2224.
[3] Pub. L. No. 112-248, 126 Stat. 2390.
[4] Pub. L. No. 114-186, 130 Stat. 546.

Appendix IV

Prior Treasury Inspector General for Tax Administration Reports Addressing Refundable Credits and Math Error Authority

- TIGTA, Report No. 2014-40-093, *Existing Compliance Processes Will Not Reduce the Billions of Dollars in Improper Earned Income Tax Credit and Additional Child Tax Credit Payments*, (September 2014).
- TIGTA, Report No. 2016-40-036, *Without Expanded Error Correction Authority, Billions of Dollars in Identified Potentially Erroneous Earned Income Credit Claims Will Continue to Go Unaddressed Each Year*, (April 2016).
- TIGTA, Report No. 2017-40-042, *Processes Do Not Maximize the Use of Third-Party Income Documents to Identify Potentially Improper Refundable Credit Claims*, (July 2017).
- TIGTA, Report No. 2020-40-008, *Authorities Provided by the Internal Revenue Code Are Not Effectively Used to Address Erroneous Refundable Credit and Withholding Credit Claims*, (February 2020).
- TIGTA, Report No. 2021-40-070, *Addressing Complex and Inconsistent Earned Income Tax Credit and Additional Child Tax Credit Rules May Reduce Unintentional Errors and Increase Participation*, (September 2021).
- TIGTA, Report No. 2023-47-037, *American Rescue Plan Act: Assessment of the Expanded Child and Dependent Care and Earned Income Tax Credits* (June 2023).

Appendix V

Management's Response to the Draft Report

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

CHIEF FINANCIAL OFFICER

April 24, 2025

MEMORANDUM FOR DIANA M. TENGESDAL
ASSISTANT INSPECTOR GENERAL FOR AUDIT

FROM: Teresa R. Hunter
Chief Financial Officer

Teresa R. Hunter

Digitally signed by Teresa R. Hunter
Date: 2025.04.24 15:35:49 -04'00'

SUBJECT: Response to Draft Audit Report – Assessment of Fiscal Year 2024 Compliance with Improper Payment Reporting Requirements (Audit #2025400001)

Thank you for the opportunity to review and comment on your draft audit report entitled *Assessment of Fiscal Year 2024 Compliance With Improper Payment Reporting Requirements*. The refundable tax credit (RTC) programs examined in this report are designed to provide critical financial support to eligible taxpayers. The IRS is committed to administering these programs effectively, ensuring that eligible taxpayers receive the credits to which they are entitled while maintaining program integrity and compliance with improper payment reporting requirements.

Further, starting in Filing Season 2025, the IRS has implemented changes to the Identity Protection PIN (IP PIN) process that allow e-filed returns to be accepted even if a dependent already has been claimed on a previously filed return, provided the primary taxpayer includes a valid IP PIN. This change is designed to help taxpayers claim important credits, like the Earned Income Tax Credit (EITC). While the change has minimal impact on improper payments, the IRS is monitoring these developments and will take any corrective actions necessary to ensure payment integrity.

RTCs are not a result of internal control weaknesses within the IRS's processes. Due to the complexity of eligibility requirements and the IRS's reliance on taxpayer self-certification of accurate RTC claims, RTC improper payments do not fit within the traditional improper payment framework. RTC improper payments are actually overclaims of RTCs which are more effectively managed and reported within the broader context of the tax gap, where they can be prioritized alongside other types of tax noncompliance.

The IRS agrees with the three recommendations, and our response to each is attached.

We appreciate your office's conscientious evaluation of these programs and the IRS's continuing efforts to reduce and eliminate erroneous claims within the structure of the tax administration system. If you have any questions, please contact me at 202-317-4147, or a member of your staff may contact Allen Lawrence, Director Outreach and Reporting, at 202-270-2868.

Attachment

Attachment

RECOMMENDATION 1
The Commissioner, Taxpayer Services, should work with the Office of Tax Policy to request additional legislative considerations that will help the IRS reduce improper payments associated with refundable tax credits.

CORRECTIVE ACTION
We agree. We will work to request additional legislative considerations that will help the IRS reduce improper payments associated with refundable tax credits.

IMPLEMENTATION DATE
September 30, 2025

RESPONSIBLE OFFICIAL
Director, Refundable Credits Program Management, Return Integrity and Compliance Services, Taxpayer Services Division

CORRECTIVE ACTION MONITORING PLAN
We will monitor this corrective action as part of our internal management control system.

RECOMMENDATION 2
The Commissioner, Taxpayer Services, should conduct an analysis of the new IP PIN procedures to (1) identify the impact on taxpayer filing behavior and refundable credits claimed; (2) evaluate the number of returns selected for post-refund review; and (3) measure the dollar impact to tax administration/improper payments.

CORRECTIVE ACTION
We agree. We will conduct an analysis of the cases selected for post-refund review and determine the impact the new IP PIN procedures had on taxpayer filing behavior, issuance of improper payments and the dollar impact to tax administration.

IMPLEMENTATION DATE
December 31, 2025

RESPONSIBLE OFFICIAL
Director, Refundable Credits Program Management, Return Integrity and Compliance Services, Taxpayer Services Division

CORRECTIVE ACTION MONITORING PLAN
We will monitor this corrective action as part of our internal management control system.

RECOMMENDATION 3
The Commissioner, Taxpayer Services, should, upon completing the analysis noted in Recommendation 2, determine if the new IP PIN procedures should be continued.

2

CORRECTIVE ACTION
We agree. We will make a determination about continuing the new IP PIN Procedures after the analysis from Recommendation 2 is complete.

IMPLEMENTATION DATE
December 31, 2025

RESPONSIBLE OFFICIAL
Director, Refundable Credits Program Management, Return Integrity and Compliance Services, Taxpayer Services Division

CORRECTIVE ACTION MONITORING PLAN
We will monitor this corrective action as part of our internal management control system.

Appendix VI

Glossary of Terms

Term	Definition
Additional Child Tax Credit	A credit for individuals who receive less than the full amount of the nonrefundable Child Tax Credit. The ACTC may result in a refund even if no tax is owed.
Agency Financial Report	Presents the Treasury Department's financial and performance information for the fiscal year, with comparative prior year data where appropriate.
American Opportunity Tax Credit	A credit for qualified education expenses paid for an eligible student for the first four years of higher education. A partially refundable federal tax credit used to help parents and college students offset the costs of college.
Earned Income Tax Credit	A refundable tax credit for low-income to moderate-income workers.
Employee Retention Credit	A refundable tax credit for certain eligible businesses and tax-exempt organizations that had employees and were affected during the pandemic.
Filing Season	The period from January 1 through mid-April when most individual income tax returns are filed.
Fiscal Year	Any yearly accounting period, regardless of its relationship to a calendar year. The federal government's fiscal year begins on October 1 and ends on September 30.
Government Accountability Office	An independent, nonpartisan agency that works for Congress. It reports to Congress on how well government programs and policies are meeting their objectives. It advises Congress and the heads of executive agencies about ways to make the government more efficient, effective, ethical, equitable, and responsive.
High-Priority Program	Program identified as susceptible to significant improper payments.
Improper Payment	Any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements (including both overpayments and underpayments).
Improper Payment Rate	Amount in improper payments divided by the amount in program outlays.
Net Premium Tax Credit	When the PTC exceeds the Advance PTC (PTC minus Advance PTC equals Net PTC). The Net PTC reduces a taxpayer's tax liability and, if it is more than the tax liability, results in a refundable tax credit.
Outlay	A payment to liquidate an obligation generally equal to cash disbursements (the measure of government spending).
Payment	Any disbursement or transfer of federal funds to any non-federal person, non-federal entity, or federal employee that is made by a federal agency, contractor, grantee, or a governmental or other organization administering a federal program or activity.

Term	Definition
Program	Activities or sets of activities recognized as programs by the public, the OMB, or Congress as well as those that entail program management or policy direction.
Qualitative Risk Assessment	A technique used to quantify risk associated with improper payments and unknown payments. For example, a qualitative improper payment risk assessment methodology prioritizes the identified improper payment and unknown payment risks using a predefined rating scale. Risks will be scored based on their probability or likelihood of occurring and the impact on improper payments and unknown payments in the program should they occur.
Quantitative Risk Assessment	A risk assessment technique that focuses on measurable data such as improper or unknown payment amount. For example, a quantitative improper payment risk assessment will provide numerical improper payment amounts and assess the probability of their occurrence. The assessment may be similar to the regular improper payment estimate.
Refundable Tax Credit	Refundable tax credits can be used to reduce a taxpayer's tax liability to zero. Any excess of the credit beyond the tax liability can be refunded to the taxpayer. A taxpayer can receive a refund even if he or she did not owe taxes or earn income.
Risk Assessment	The process of identifying risks to organizational operations (including mission, functions, image, reputation), organizational assets, individuals, other organizations, and the nation, resulting from the operation of an information system. Incorporates threat and vulnerability analyses and considers mitigations provided by security controls planned or in place.
Significant Improper Payment	Annual improper payments and unknown payments, *i.e.*, the sum of monetary loss improper payments, non-monetary loss improper payments, and unknown payments, in the program exceeding 1) both 1.5 percent of program outlays and $10 million of all program or activity payments made during the fiscal year reported or 2) $100 million (regardless of the improper payment percentage of total program outlays).
Tax Year	A 12-month accounting period for keeping records on income and expenses used as the basis for calculating the annual taxes due. For most individual taxpayers, the tax year is synonymous with the calendar year.
Voluntary Disclosure Program	IRS program that allows businesses that claimed the ERC in error to return the money. The first Voluntary Disclosure Program ran from December 2023 to March 2024 and set a voluntarily repayment of only 80 percent of the amount claimed for the ERC. The second Voluntary Disclosure Program, which started in August 2024 and expired in December 2024, set a pay back of 85 percent of the amount claimed.

Appendix VII

Abbreviations

ACTC	Additional Child Tax Credit
AFR	Agency Financial Report
AOTC	American Opportunity Tax Credit
E-filed	Electronically Filed
EITC	Earned Income Tax Credit
ERC	Employee Retention Credit
FY	Fiscal Year
IP PIN	Identity Protection Personal Identification Number
IRS	Internal Revenue Service
OMB	Office of Management and Budget
PIIA	Payment Integrity Information Act
PTC	Premium Tax Credit
TIGTA	Treasury Inspector General for Tax Administration

To report fraud, waste, or abuse,
contact our hotline on the web at
https://www.tigta.gov/reportcrime-misconduct.

To make suggestions to improve IRS policies, processes, or systems affecting taxpayers, contact us at www.tigta.gov/form/suggestions.

Information you provide is confidential, and you may remain anonymous.