IRS and Improper Payments

The Treasury Inspector General - Tax Administration (TIGTA) released its report on IRS' Improper Payments. These are payments that:
-- Should not have been made,
-- Were made in an incorrect amount, or
-- Were made to an ineligible recipient.

IRS identified four programs that are susceptible to improper payments with monetary losses in excess of $100,000,000 per year.

The four programs are:
1) Additional Child Tax Credit ACTC).
2) American Opportunity Tax Credit (AOTC).
3) Earned Income Tax Credit (EITC).
4) New Premium Tax Credit (PTC)

Congress set a goal of "less than 10%" for each of these. TIGTA found the rates and estimated dollars involved in improper payments were about:
1) ACTC – 14%, approximately $.5 billion
2) AOTC – 32%, $1.7 billion
3) EITC – 33%, $21.9 billion
4) PTC – 26%, $1.0 billion

IRS noted that part of its actions to reduce these rates is to do outreach to taxpayers and tax preparers in lieu of conducting pre-refund audits. At the same time, IRS is doing several different outreaches to raise public awareness of the programs and encouraging eligible taxpayers to claim the refundable credits.

IRS also intends to focus on unscrupulous preparers who contribute to the noncompliance. This includes:
-- focused correspondence examinations, outbound calls, and post-refund client audits of up to 23,865 tax return preparers with patterns of noncompliance.
-- "Knock and Talk" visits. These include Revenue Agents or special agents with IRS' Criminal Investigation Division . The plan is to have 426 "Knock and Talk" visits this year.
-- "Ghost preparers". IRS is contacting approximately 1,000 taxpayers to try to obtain information on preparers who didn't sign the taxpayers' returns.

In IRS reply to TIGTA regarding this report, it said, "To improve fairness in tax administration, starting in FY 2024, the IRS will be reducing the number of correspondence audits focused on the EITC and the ACTC, PTC, and AOTC. The IRS will be focusing more attention on reaching underserved communities to provide education and real-time assistance in claiming available credits and incentives."

Editorial comment – We read these statistics to say roughly 1/3 of all EITC and AOTC claims are improper, with the PTC not too far behind. Of course, the EITC is, by far, the largest dollar amount of these four.

Congress appears to be sending a mixed message. It wants IRS to reduce any delays or audits related to getting these monies out to taxpayers AND it wants IRS to reduce the number of improper payments going out. ("Send it out quick," but "stop improper payments.") Obviously IRS can't do both of these because those receiving improper payments cannot be determined and stopped as quickly as Congress wants the monies sent out. We're happy we don't work for IRS given these apparent opposing directions.

This text has been shared courtesy of: David & Mary Mellem, EAs & Ashwaubenon Tax Professionals, 920-496-1065 (fax 920-496-9111).