# TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

# Assessment of Fiscal Year 2025 Compliance With Improper Payment Reporting Requirements

July 27, 2026

Report Number: 2026-400-039

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# HIGHLIGHTS: Assessment of Fiscal Year 2025 Compliance With Improper Payment Reporting Requirements

**Final Audit Report issued on July 27, 2026** **Report Number 2026-400-039**

## Why TIGTA Did This Audit

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

We assessed whether the IRS complied with annual improper payment reporting requirements for Fiscal Year (FY) 2025.

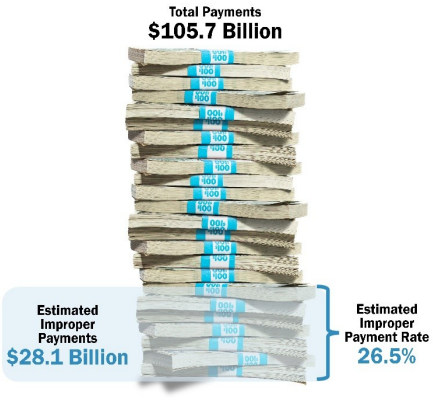
## Impact on Tax Administration

An improper payment is any payment that should not have been made or that was made in an incorrect amount.

The IRS has four programs that they have deemed susceptible to improper payments. All four programs are refundable tax credits and include the Additional Child Tax Credit, American Opportunity Tax Credit, Earned Income Tax Credit, and Net Premium Tax Credit. A refundable tax credit can result in a refund even if the taxpayer does not have a tax liability. Therefore, improperly issuing these credits to taxpayers represents a significant financial loss to the government.

For FY 2025, the overall improper payment rate for the four refundable tax credits was 26.5 percent and the total estimated improper payments were approximately $28.1 billion.

## What TIGTA Found




For FY 2025, the IRS did not comply with all PIIA requirements because it did not reduce the improper payment rate to less than 10 percent for the 4 high-risk refundable tax credit programs. Additionally, the IRS's overall improper payment rate increased from 21.9 percent in FY 2024 to 26.5 percent in FY 2025.

For the IRS to effectively reduce improper payment rates and prevent financial loss to the government, it would need to prevent refunds from being issued during return processing. The IRS runs various automated checks on a tax return before paying a refund, but it has limited ability and information to timely verify taxpayer eligibility. For example, the IRS reported that from FYs 2023 through 2025, it used math error authority to reduce total claims by approximately 2 percent ($7.6 billion), adjusting claims from $330.5 billion to approximately $322.8 billion.

Outside of its existing math error authority, however, the IRS does not have sufficient or reliable data to systemically prevent ineligible individuals from receiving refundable credits. For example, relationship eligibility criteria cannot be verified at the time of filing. Therefore, the IRS generally must examine questionable refundable tax credit claims before issuing a refund to prevent financial loss to the government. However, the IRS reported that it examines less than one percent of returns claiming these credits. Additionally, in the past three FYs, prerefund examinations of refundable credits have declined by approximately 70 percent.

The IRS indicated that it would continue to focus on outreach and education in lieu of increasing examinations in a prerefund environment. However, these strategies make little impact on the IRS's overall improper payment rate. Without legislative intervention, it is likely the IRS's improper payment rate will continue to remain above the 10 percent threshold.

## What TIGTA Recommended

We made five recommendations to the IRS including: work with Office of Tax Policy and Congress to request legislative changes to refundable credits eligibility; increase correctable error authority; create data sharing agreements with external partners to systemically verify refundable credit eligibility; and improve its social media strategies. IRS management agreed with all of our recommendations.

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

**U.S. DEPARTMENT OF THE TREASURY**

**WASHINGTON, D.C. 20024**

July 27, 2026

**MEMORANDUM FOR:** COMMISSIONER OF INTERNAL REVENUE

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

**SUBJECT:** Final Audit Report – Assessment of Fiscal Year 2025 Compliance With Improper Payment Reporting Requirements (Audit No.: 2026400001)

This report presents the results of our review to determine whether the Internal Revenue Service complied with the annual improper payment reporting requirements for Fiscal Year 2025. This review is part of our Fiscal Year 2026 Annual Program Plan and addresses the major management and performance challenge of *Ensuring Tax Compliance*.

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

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# Background

An improper payment is any payment that should not have been made or that was made in an incorrect amount (including both overpayments and underpayments). The Payment Integrity Information Act of 2019 (PIIA) requires agencies to annually report on all programs and activities and identify those that may be susceptible to significant improper payments.[1] Agencies must estimate annual improper payments in susceptible programs and activities and report the results of their efforts to address improper payments.

Further, the Office of Management and Budget (OMB) Circular A-123 Appendix C, *Requirements for Payment Integrity Improvement*, directs agencies to conduct an improper payment risk assessment at least once every three years for programs with annual outlays of more than $10 million. The Department of the Treasury (herein referred to as the Treasury Department) identifies the programs that the IRS must assess for the risk of improper payments each fiscal year (FY). The IRS must also complete a Treasury certification for each program that was not identified as needing a risk assessment stating there were no material changes (*e.g.*, legislative changes, internal control changes, or audit reports impacting improper payments) to the program since the last risk assessment was completed.[2] Every year, Inspectors General must review agency compliance with improper payment legislation and guidance.

For FY 2025, the IRS completed 12 certifications and 9 risk assessments for the required programs.[3] If a program is identified as susceptible to significant improper payments, the following must be reported:

- The rate and dollar 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.

The IRS has identified four programs as being susceptible to improper payments. All four programs are refundable tax credits and include the Additional Child Tax Credit (ACTC), American Opportunity Tax Credit (AOTC), Earned Income Tax Credit (EITC), and Net Premium Tax Credit (PTC). A refundable tax credit can result in a refund even if the taxpayer does not have a tax liability. As a result, improperly issuing these credits to taxpayers represents a significant financial loss to the government.

For FY 2025, the overall improper payment rate for the four refundable tax credits was 26.5 percent and the total estimated improper payments were approximately $28.1 billion. The improper payment rates for these four programs ranged from 13.6 percent for the ACTC to

[1] 31 U.S.C. §§ 3351-3358.

[2] See Appendix II for a list of additional legislation governing improper payments.

[3] See Appendix III for a detailed list of the nine programs that had risk assessments.

32.7 percent for the EITC. Figure 1 provides a breakdown of the total payment amount for each of the refundable credits and the estimated improper payment amount and rate.

**Figure 1: FY 2025 IRS Estimated Improper Payment Rates for Refundable Credits**

| IRS Program | Estimated Improper Payment Rate | Total Payments (in Billions) | Estimated Improper Payments (in Billions) |
|---|---|---|---|
| ACTC | 13.6% | $33.4 | $4.5 |
| AOTC | 30.7% | $5.0 | $1.5 |
| EITC | 32.7% | $64.7 | $21.1 |
| Net PTC | 31.6% | $2.6 | $0.8 |
| **Total[4]** | **26.5%** | **$105.7** | **$28.1** |

*Source: FY 2025 Treasury Department Agency Financial Report. For FY 2025, the IRS reported on claims and improper payments associated with Tax Year 2023 tax returns filed in 2024 and 2025. Total amounts may not add up due to rounding.*

# Results of Review

## Fiscal Year 2025 Assessment of the IRS's Compliance With Improper Payment Reporting Requirements

For FY 2025, we determined that the IRS did not comply with all PIIA requirements. The IRS did not meet the PIIA goal of reducing the improper payment rate to less than 10 percent for the 4 high-risk refundable tax credit programs. Additionally, the IRS failed to demonstrate improvements to payment integrity. The IRS's overall improper payment rate increased from 21.9 percent in FY 2024 to 26.5 percent in FY 2025. Figure 2 summarizes our evaluation of the IRS's compliance with the FY 2025 improper payment requirements.

[4] The Total Improper Payment Rate is calculated by dividing the total estimated improper payment by the total payment amount.

**Figure 2: Compliance With Improper Payment Requirements for FY 2025**

| Improper Payment Requirement |
|---|
| **IRS Compliance Met – Yes** |
| Published payment integrity information with the annual financial statement. |
| Posted the annual financial statement and accompanying materials to agency website. |
| 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.[5] |
| 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. |
| Developed a plan to meet the improper payment and unknown payment reduction target. |
| **IRS Compliance Met – No** |
| Demonstrated improvements to payment integrity or reached a tolerable improper payment and unknown payment rate. |
| 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 2025.*

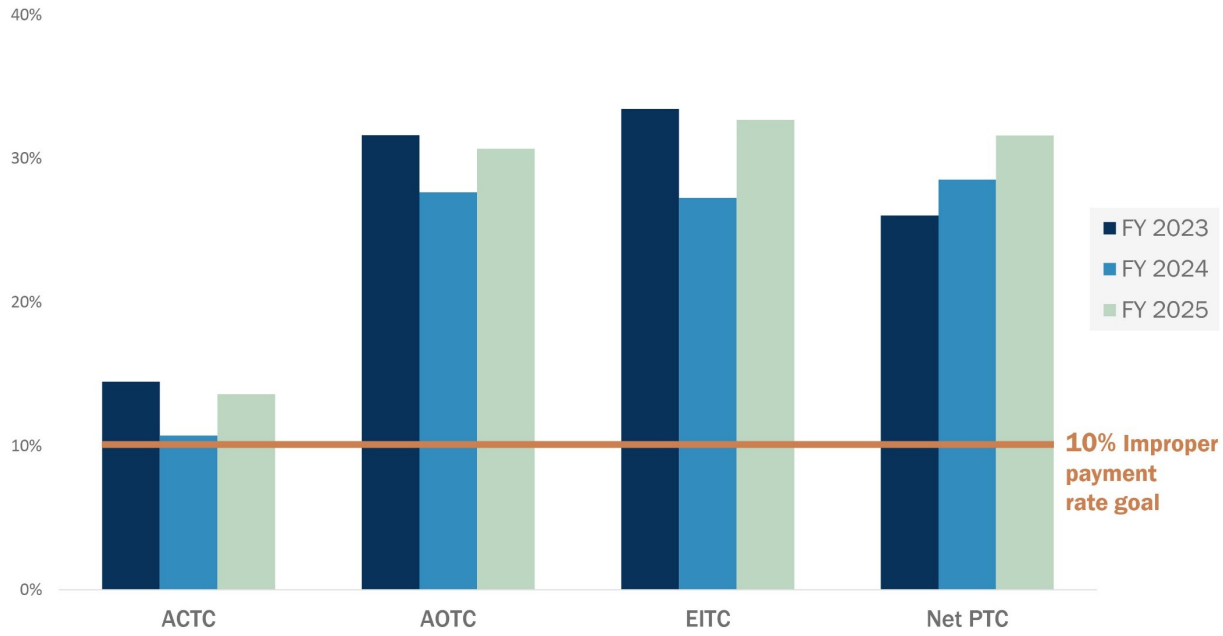
## Legislative Changes Are Needed to Reduce Refundable Tax Credit Improper Payments

The IRS has not been able to reduce its improper payment rate estimates to less than 10 percent for each of its high-risk refundable tax credit programs, and in FY 2025 these rates increased. However, we do not believe the IRS can achieve this goal with its current authority and resources.

According to the FY 2025 Treasury Department Agency Financial Report (AFR), to meet this target, the IRS would need to reduce refundable credit improper payments by $17.5 billion to reach the goal of 10 percent. Figure 3 provides a comparison of the improper payment rates for FYs 2023 through 2025.

[5] 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.

**Figure 3: FYs 2023 Through 2025 Improper Payment Rates**




*Source: FYs 2023 through 2025 Treasury Department AFRs.*

## Factors that contribute to improper payments of refundable credits

The FY 2025 Treasury Department AFR explains the complexities of the IRS's refundable tax credit programs and notes that errors are not caused by internal control weaknesses. Rather, they are mostly due to factors beyond the IRS's control. Our independent reviews of IRS refundable tax credit programs support the Treasury Department's assessment.[6]

The agency continues to report the following as the primary causes of refundable tax credit errors.

- **Complex statutory eligibility rules.** Refundable tax credits generally have complex eligibility rules, often relating to personal family and living arrangements. These eligibility rules can vary across the refundable tax credits and can change from year to year. The eligibility rules contribute to errors by taxpayers when claiming these credits.
- **Inability to verify taxpayer-provided information.** Taxpayer information, especially relating to eligibility rules, is difficult for the IRS to verify at the time a taxpayer files a return. Much of the information necessary to validate the accuracy of a refundable tax credit claim before issuing a refund is not comprehensively available in any U.S. government database.
- **Limited correctable error authority**. The IRS has limited authority, referred to as math error authority, to correct mismatches at filing. Math error authority allows the IRS to

[6] 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), and TIGTA, Report No. 2026-4S0-022, *Reliable Data is Needed to Effectively Reduce Improper Earned Income Tax Credit Payments for Nonwork Social Security Numbers* (May 2026). Additional reports assessing the IRS's administration of refundable tax credits can be found at www.oversight.gov.

systemically correct mathematical errors, certain scenarios related to Taxpayer Identification Numbers, or entries on a tax return exceeding the statutory limit of the credit claimed. However, this authority cannot be used to systemically evaluate refundable credit claims for ineligibility. For example, the IRS cannot use math error authority to systemically deny a claim if the taxpayer does not meet the required relationship criteria. Therefore, outside of math error authority, the IRS must examine the tax return when it has indications that the taxpayer is ineligible to claim refundable credits.

- **Statutory Refund Issuance Deadline.** To prevent improper payments on refundable credits, the IRS would need to stop refunds before they are paid to taxpayers. However, this creates a challenge for the IRS given the statutory requirement to pay interest on refunds that are issued more than 45 days from the return due date. Holding all refundable credit claims to verify eligibility before refunds are issued would increase the costs of interest payments on valid refund claims that could not be verified within the 45-day period. Consequently, the IRS is balancing the need to detect and prevent improper payments and the requirement to timely issue refunds on valid claims.

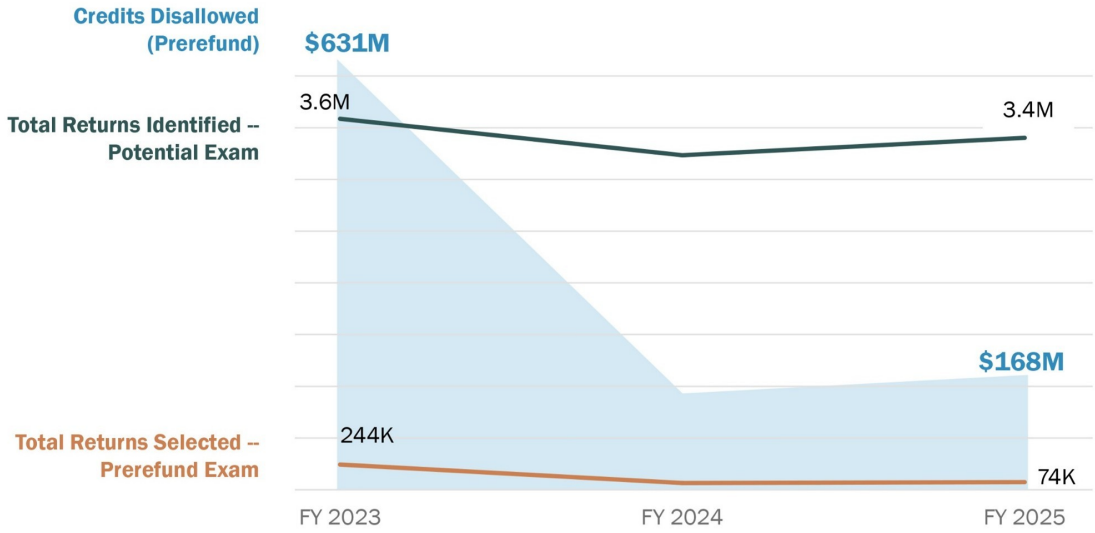
## Significantly reducing improper payments through prerefund examinations is unachievable

The IRS runs various automated checks on a tax return before paying a refund. For example, the IRS reported that from FYs 2023 through 2025, it used math error authority to reduce refundable credit claims by approximately 2 percent ($7.6 billion). Using this authority, it adjusted total claims from $330.5 billion to approximately $322.8 billion.[7]

The IRS also conducts prerefund and post refund examinations. However, these processes only address a small percentage of refundable tax credit claims. The IRS examined less than one percent of refundable credit claims for FYs 2023 through 2025. Also, during this same period, prerefund examinations of refundable credits decreased approximately 70 percent along with the total credits that were disallowed. For example, in FY 2025, the IRS reported that for pre and post refund examinations it selected 79,000 (0.3 percent) of the 24.6 million tax returns claiming EITC. Figure 4 provides a detailed breakdown of the IRS's efforts to reduce refundable tax credit improper payments through prerefund examinations.

[7] Figures surrounding math error authority are rounded and may not reconcile.

**Figure 4: IRS Prerefund Examinations and Refundable Credits Disallowed Have Decreased Substantially From FYs 2023 Through 2025**




*Source: The IRS's examination metrics for FYs 2023 through 2025, M=million, K=thousand. Multiple refundable credits can be claimed on a tax return.*

One reason examinations are decreasing is due to reductions in staffing. Specifically, in FY 2025, the IRS's Refundable Credits Examination Operations Unit lost about 20 percent (86 examiners) of its 439 examiners. The IRS has also reported that budget reductions resulted in decreased examination staffing. Moreover, when the IRS received additional funding through the Inflation Reduction Act, the Secretary of Treasury directed the IRS not to increase examinations for taxpayers earning $400,000 per year or less.[8] For example, the EITC is an anti-poverty credit established by Congress for working families and is available to low and moderate-income taxpayers.

In October 2020, the IRS estimated it would need to examine 4.2 million more tax returns before issuing the refunds to be compliant with this goal. This is more than the IRS identifies annually for potential examinations. At the time, the IRS estimated that the additional examinations would cost more than $2.5 billion (an average of $595 per exam). Applying the IRS's current average cost of $804 for prerefund examinations, we estimate the cost to conduct 4.2 million additional examinations has increased to $3.4 billion a year. In addition, we estimate that the IRS would need 12,700 more examiners to conduct the additional examinations the IRS estimates are needed.

The IRS could allocate examiners from other functions to conduct refundable tax credit examinations. However, doing so would negatively affect the IRS's ability to balance its enforcement efforts across tax administration. We are conducting a separate review to assess the IRS's plans to improve the efficiency and effectiveness of the examination function with fewer employees and enhanced technology.

Recently proposed legislation to address improper payments in federal programs indicates that reducing financial loss to the government should be preventative in nature and that agencies

[8] Inflation Reduction Act of 2022, Pub. L. No. 117-169, 136 Stat. 1818.

should have access to appropriate records and data assets.[9] In May 2025, we recommended that the IRS work with the Office of Tax Policy to request additional legislative considerations that will help the IRS reduce improper payments of refundable tax credits.[10] Accordingly, the IRS submitted to the Treasury Department a proposed legislative change addressing duplicate dependent claims, which are associated with refundable credit noncompliance. However, there has not been any progress with these proposed changes.

Legislative changes to simplify refundable credit requirements will make it easier for taxpayers to correctly determine whether they are eligible and could reduce taxpayer errors. Ensuring that the simplified requirements can be verified to reliable government data and providing the IRS access to that data will enable it to accurately verify refundable credit claims when they are filed. Finally, authorizing the IRS to systemically correct refundable credit claims when reliable data indicates the taxpayer is ineligible will enable it to efficiently prevent the issuance of erroneous refunds.

The Chief, Taxpayer Services, should:

**Recommendation 1:** Request that the Office of Tax Policy and Congress work on legislative changes that would simplify and streamline refundable credit eligibility.

> **Management's Response:** IRS management agreed with this recommendation and will share the report and recommendation with the Office of Tax Policy for consideration.

**Recommendation 2:** Identify specific areas within refundable credit tax administration where additional correctable error authority could be requested. Once identified, request these increased authorities via the Office of Tax Policy and Congress.

> **Management's Response:** IRS management agreed with this recommendation and will identify the specific areas within refundable credit tax administration where additional correctable error authority would be helpful and will share the information and this report with the Office of Tax Policy.

**Recommendation 3:** Identify opportunities to work with external partners (*i.e.*, other federal agencies, states, and private institutions) and leverage available data to systemically verify refundable credit eligibility. This should include working with the external partners to establish data sharing agreements, and with the Office of Tax Policy and Congress to obtain access to the data, if needed.

> **Management's Response:** IRS management agreed with this recommendation and will identify opportunities to work with external partners and evaluate where sharing agreements could leverage available data to systemically verify refundable credit eligibility.

[9] H.R. 8467, 119th Cong. (Introduced in House April 23, 2026), Zeroing Out Monetary Benefits Improperly Expended Act (ZOMBIE Act).

[10] TIGTA, Report No. 2025-400-025, *Assessment of Fiscal Year 2024 Compliance With Improper Payment Reporting Requirements* p. 8 (May 2025).

## The IRS Could Expand Social Media Outreach to Increase Awareness for Refundable Credit Eligibility

The IRS indicates in its corrective action plans that it will continue to focus on outreach and education to reduce improper payments in lieu of increasing examinations. The IRS balances its outreach strategies by focusing on reaching eligible taxpayers who are not claiming credits and educating taxpayers and tax return preparers on the eligibility requirements.

Strategies include the Nationwide Tax Forum, targeted communication and education, updates to guidance, and expanded engagement with tax professionals. As part of the outreach and education strategies, the IRS has a Return Preparer Strategy Program, which combines education and enforcement of tax return preparers. The treatment of return preparers is based on egregiousness and may lead to barring preparers from preparing or filing tax returns. In FY 2025, the Return Preparer Strategy Program reported protecting $467 million in revenue through its various treatment strategies.

Moreover, the IRS generally uses the same strategies year after year. While these strategies are helpful, they are not effective in significantly reducing the improper payment rate. As noted previously, the improper payment rate for FY 2025 increased from the prior year. Figure 5 provides a comparative list of outreach and education strategies for the last three fiscal years.

**Figure 5: IRS Outreach and Education Strategies**

| FY 2023 | FY 2024 | FY 2025 |
|---|---|---|
| Nationwide Tax Forums | | |
| Interactive Due Diligence Training Module | | |
| Tax Preparer Toolkit | | |
| Software Developers Working Group | | |
| Tax Preparer Alerts | | |
| Refundable Credits Summit | | |
| Filing Season Readiness Webinars | | Filing Season Readiness Webinars |
| | Tax Professional Awareness Week | |
| | Dependent Database Meeting | |

*Source: FYs 2023 through 2025 Treasury Department AFRs.*

Additionally, the IRS uses social media to share updates on tax changes and scam alerts, promote online account tools, and provide other informational content regarding refundable credit eligibility. We found that the IRS can improve its use of social media strategies by leveraging paid services to reach additional taxpayers and expand its messaging surrounding refundable credit eligibility and compliance.

As of May 2025, the IRS indicated that it had approximately 1.5 million followers on its various social media platforms. Additionally, for FY 2025, the IRS reported that 2 percent of posts (178 out of 8,246 posts) on five different social media platforms were related to the refundable credit programs.

The IRS Communications and Liaison's Social Media Branch does not pay social media platforms for visibility, promotion, outreach, or activity of any kind. The Social Media Branch indicated it does not have the legislative authority to use appropriated funds for social media promotion or paid marketing to disseminate information. Additionally, the IRS indicated that Communications and Liaison does not have funding allocated for paid marketing purposes.

The annual appropriations language states that,

> No part of any appropriation contained in this or any other Act shall be used directly or indirectly, including by private contractor, for publicity or propaganda purposes within the United States not heretofore authorized by Congress.

While the appropriations language does not provide a definition of either term (*i.e.*, publicity or propaganda), the Government Accountability Office has identified three activities that are prohibited by the annual appropriation's language, including: 1) self-aggrandizement, 2) covert propaganda, and 3) purely partisan materials. It is not clear if paying to disseminate informational content to taxpayers would fall into these categories.

The IRS General Legal Services indicated that so long as there is a logical relationship between the IRS's mission and outreach activities and the activities would not fall within any of the above three prohibitions, the IRS generally has flexibility to spend money on advertisement for public outreach. They indicated that fact-specific determinations could be made accordingly for the purposes of paid social media outreach.

We believe the IRS is missing the opportunity to expand its reach to taxpayers via social media. If complex eligibility requirements are a factor in the IRS's improper payments error rates, increasing communications to taxpayers beyond those who currently follow its social media platforms, may help reduce improper claims.

In 2024, research indicated that 68 percent of Americans (232 million) used social media. Additionally, social media has become a growing channel of communication and information sharing. According to the Pew Research Center, about half of U.S. adults report getting news from these platforms. Increasing the IRS's social media content and expanding its distribution to educate taxpayers on refundable credit eligibility increases awareness and potentially compliance in these areas.

The Chief, Communications and Liaison, should:

**Recommendation 4:** Use funding to distribute social media content for refundable credits beyond current followers and increase taxpayer and preparer awareness of the refundable tax credit eligibility requirements.

> **Management's Response:** IRS management agreed with this recommendation and will analyze and assess current social media content to determine if funding is necessary to increase taxpayer and preparer awareness of refundable tax credit eligibility requirements.

**Recommendation 5:** Monitor the paid social media distributions to determine the impact and effectiveness, and inform future decisions on educational outreach.

> **Management's Response:** IRS management agreed with this recommendation. If funds are expended on paid social media activity, the IRS will monitor the results to inform future decision-making.

# Appendix I

# Detailed Objective, Scope, and Methodology

The overall objective of this audit is to determine whether the IRS complied with the annual improper payment reporting requirements for FY 2025. To accomplish our objective, we:

- Obtained and reviewed the information the IRS provided to the Department of the Treasury for inclusion in the AFR to determine if information was provided to satisfy the reporting requirements.
- Evaluated the adequacy of the IRS's FY 2025 risk assessment for the IRS revenue program funds identified by the Department of the Treasury.
- Identified the IRS's efforts to reduce improper payment rates.

## Performance of This Review

This review was performed with information obtained from the Office of the Chief Financial Officer, Research Applied Analytics and Statistics, Return Integrity and Compliance Services, and Communications & Liaison located at the IRS National Headquarters in Washington, D.C. during the period October 2025 through July 2026. We conducted this performance audit in accordance with generally accepted government auditing standards. These 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

During this review, we obtained data from the published FY 2025 AFR. We also obtained information from the IRS, which included metrics from Taxpayers Services Refundable Credits Program Management and the Compliance Data Warehouse in the form of analyzed results. We performed tests to assess the reliability of data reported by the IRS. We evaluated the data by (1) reviewing various sources for consistent reporting, (2) evaluating the data logic for accuracy, and (3) interviewing agency officials knowledgeable about the data. We did not test IRS systems or perform data analyses in this audit. We determined that the data were sufficiently reliable for 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 established to ensure IRS compliance with PIIA improper payment reporting requirements. We tested these controls by reviewing reports, analyzing support documents, and meeting with IRS officials.

# Appendix II

## Additional Guidance for Improper Payments

In addition to PIIA, improper payment reporting is also governed by or related to the following guidance:

- **Executive Order 14247, *Modernizing Payments To and From America's Bank Account***, effective March 25, 2025, mandates the transition to electronic payments for all federal disbursements and receipts by digitizing payments to the extent permissible under applicable law. The phase out of paper checks for all federal disbursements and receipts was effective as of September 30, 2025. The executive order addresses the increase in mail-theft complaints since the pandemic. In addition, Department of Treasury checks are 16 times more likely to be reported lost or stolen, returned undeliverable, or altered than Electronic Funds Transfer.
- **Executive Order 14249, *Protecting America's Bank Account Against Fraud, Waste, and Abuse***, effective March 25, 2025, enables the Department of Treasury to more easily conduct improper payment and fraud prevention screening before disbursing funds on behalf of agencies. It requires agencies to provide the Department of Treasury with information needed to track transactions through the United States General Fund in greater detail. This executive order was implemented due to the lack of sufficient controls to track transactions flowing through the General Fund to determine if they were proper. Agencies' past underinvestment in technology and longstanding challenges with access to accurate data have prevented them from more fully safeguarding taxpayer dollars against fraud and improper payments.
- **OMB Circular A-136*, Financial Reporting Requirements***, effective on July 14, 2025, includes guidance to federal agencies that are required to report improper payments. The circular states that agencies must include a link to PaymentAccuracy.gov and provide a summary of its payment integrity activities and results in its AFR or Performance and Accountability Report.
- **OMB Circular A-123 Appendix C, *Requirements for Payment Integrity Improvement*,** issued on March 5, 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 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.

# Appendix III

## Programs Identified for Improper Payment Risk Assessments

The Treasury Department identified the following IRS programs for improper payment risk assessments for FY 2025.

**Figure 1: IRS Programs Identified for Risk Assessments**

| IRS Program | Treasury Fund Symbol | Risk Assessment Determination |
|---|---|---|
| Build America Bonds and Recovery Zone Economic Development Bonds | 20X0935 | Not susceptible |
| Qualified School Construction Bonds | 20X0946 | |
| New Clean Renewable Energy Bonds | 20X0947 | |
| Qualified Energy Conservation Bonds | 20X0948 | |
| Energy Security | 20X0958 | |
| Advanced Manufacturing Investment Credit | 20X0962 | |
| Elective Credit for Energy Property and Electricity Produced | 20X0963 | |
| Clean Vehicle Credit | 20X0964 | |
| Credit for Previously Owned Clean Vehicles | 20X0965 | |

*Source: IRS Office of the Chief Financial Officer.*

# Appendix IV

# Management's Response to the Draft Report




DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, DC 20224

July 17, 2026

MEMORANDUM FOR DIANA M. TENGESDAL
ASSISTANT INSPECTOR GENERAL FOR AUDIT

FROM: Todd R. Newnam
Chief Financial Officer

Todd R. Newnam
Digitally signed by Todd R. Newnam
Date: 2026.07.17 13:30:38 -04'00'

SUBJECT: Response to Draft Audit Report – Assessment of Fiscal Year 2025 Compliance With Improper Payment Reporting Requirements (Audit #2026400001)

Thank you for the opportunity to review and comment on your draft audit report entitled *Assessment of Fiscal Year 2025 Compliance With Improper Payment Report Requirements.*

The refundable tax credit (RTC) programs examined in this report provide critical financial support to millions of eligible taxpayers each year. The IRS remains 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 the Payment Integrity Information Act of 2019 (PIIA) reporting requirements.

As your report recognizes, the primary drivers of refundable tax credit improper payments are the complexity of statutory eligibility requirements and the limited ability to verify certain taxpayer self-certified information before refunds are issued. Unlike traditional payment programs, refundable tax credit improper payments generally are overclaims that arise within overall tax administration. These challenges are more appropriately considered within the broader context of tax compliance and the tax gap, where they can be evaluated alongside other forms of noncompliance.

The IRS will continue to strengthen payment integrity through taxpayer outreach and education, data-driven compliance strategies and collaboration with the Department of Treasury and Congress to address the underlying statutory and systemic challenges associated with RTCs.

Our response to each recommendation is attached.

We appreciate your office's thoughtful evaluation of these programs and its recognition of the unique challenges associated with administering RTCs. If you have any questions, please contact me at 202-528-0814, or a member of your staff may contact Jonathan L. Edelson, Associate Chief Financial Officer for Internal Controls, at Jonathan.L.Edelson@irs.gov or 202-317-3546.

Attachment

Attachment

**RECOMMENDATION 1**
The Chief, Taxpayer Services, should request that the Office of Tax Policy and Congress work on legislative changes that would simplify and streamline refundable credit eligibility.

**CORRECTIVE ACTION**
We agree. We will share the report and recommendation with the Office of Tax Policy for consideration.

**IMPLEMENTATION DATE**
October 15, 2026

**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 Chief, Taxpayer Services, should identify specific areas within refundable credit tax administration where additional correctable error authority could be requested. Once identified, request these increased authorities via the Office of Tax Policy and Congress.

**CORRECTIVE ACTION**
We agree. We will identify the specific areas within refundable credit tax administration where additional correctable error authority would be helpful and will share the information and this report with the Office of Tax Policy.

**IMPLEMENTATION DATE**
October 15, 2026

**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 Chief, Taxpayer Services, should identify opportunities to work with external partners (*i.e.*, other federal agencies, state, and private institutions) and leverage available data to systematically verify refundable credit eligibility. This should include working with the external partners to establish data sharing agreements, and with the Office of Tax Policy and Congress to obtain access to the data, if needed.

**CORRECTIVE ACTION**
We agree. We will identify opportunities to work with external partners and evaluate where sharing agreements could leverage available data to systemically verify refundable credit eligibility.

**IMPLEMENTATION DATE**
October 15, 2026

**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 4**
The Chief, Communications and Liaison, should use funding to distribute social media content for refundable credits beyond current followers and increase taxpayer and preparer awareness of the refundable tax credit eligibility requirements.

**CORRECTIVE ACTION**
The IRS agrees to analyze and assess current social media content to determine if funding is necessary to increase taxpayer and preparer awareness of refundable tax credit eligibility requirements.

**IMPLEMENTATION DATE**
October 30, 2026

**RESPONSIBLE OFFICIAL**
Chief, Communications and Liaison

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

**RECOMMENDATION 5**
The Chief, Communications and Liaison, should monitor the paid social media distributions to determine the impact and effectiveness, and inform future decision on educational outreach.

**CORRECTIVE ACTION**
The IRS agrees. If funds are expended on paid social media activity, the IRS will monitor the results to inform future decision making.

**IMPLEMENTATION DATE**
October 30, 2026

**RESPONSIBLE OFFICIAL**
Chief, Communications and Liaison

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

## Appendix V

# Abbreviations

| | |
|---|---|
| ACTC | Additional Child Tax Credit |
| AFR | Agency Financial Report |
| AOTC | American Opportunity Tax Credit |
| EITC | Earned Income Tax Credit |
| FY | Fiscal Year |
| 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**
**TIGTACommunications@tigta.treas.gov.**

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