

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



Recovery Rebate Credit Payments Were Issued to 300,000 Ineligible Taxpayers

February 23, 2026

Report Number: 2026-406-007

HIGHLIGHTS: Recovery Rebate Credit Payments Were Issued to 300,000 Ineligible Taxpayers

Final Audit Report issued on February 23, 2026

Report Number 2026-406-007

Why TIGTA Did This Audit

This audit was initiated to ensure that the Recovery Rebate Credit (RRC) payments were sent to eligible taxpayers.

The American Rescue Plan Act of 2021 created a refundable RRC of up to \$1,400 per eligible individual taxpayer for Tax Year 2021. The Act also directed the IRS to make advance payments of the RRC, otherwise known as Economic Impact Payments (EIPs). The advance payments were to be made as soon as possible but no later than December 31, 2021. Most eligible taxpayers have already filed their Tax Year 2021 tax return claiming the RRC or received the credit through an advance EIP. However, eligible taxpayers who did not receive an EIP or RRC had until April 2025 to claim the credit.

Impact on Tax Administration

At the direction of the Department of the Treasury, in December 2024, the IRS announced they would begin issuing payments to eligible taxpayers who did not claim the RRC on their Tax Year 2021 tax return or did not receive an EIP.

In January 2025, the IRS issued 1.2 million payments totaling \$2.4 billion to taxpayers who the IRS determined were eligible for the RRC.

What TIGTA Found

Our review identified that 300,843 ineligible taxpayers received \$447.8 million in erroneous RRC payments. In January 2025, we began alerting Taxpayer Services management of the erroneous payments. Taxpayer Services management stated that they were aware of the 225,028 erroneous payments issued to nonresident aliens. For the remaining 75,815 erroneous RRC payments, Taxpayer Services management stated that they resulted from incomplete data and other eligibility requirements that were not included in the analysis to determine who should receive the payments.

The 300,843 taxpayers had the following characteristics that made them ineligible:

| Description | Taxpayers | Total of Payments |
|--|----------------|-------------------|
| Nonresident aliens, <i>i.e.</i> , filed Form 1040-NR, <i>U.S. Nonresident Alien Income Tax Return</i> . | 225,028 | \$317.1M |
| Taxpayers who already received the EIP or RRC for Tax Year 2021. | 68,071 | \$117.1M |
| Individual Taxpayer Identification Number holders who did not claim a dependent with a valid Social Security Number for Tax Year 2021. | 4,880 | \$7.5M |
| U.S. Territory residents. | 2,350 | \$5.1M |
| Taxpayers whose adjusted gross income exceeded the income levels for Tax Year 2021. | 514 | \$1.1M |
| Total | 300,843 | \$ 447.8M |

Totals may not add due to rounding. M = Million.

Since these payments were issued through a one-time batch process, no computer programming changes are needed at this time. However, the IRS should consider our concerns if similar types of advanced payments are issued in the future.

The IRS will issue a letter to the impacted taxpayers asking them to return the payment. The IRS will also use refund offsets to recover these erroneous payments. A refund offset means that when the taxpayer files their next individual tax return, the IRS will offset any refund due until the erroneous payment is recovered or the two-year recovery period has ended, whichever occurs first.

What TIGTA Recommended

We recommended the IRS ensure that appropriate steps are taken to recover the erroneous payments. IRS management agreed with the recommendation and initiated a process to recover the erroneous payments.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20024

February 23, 2026

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

A handwritten signature in black ink, reading "Diana M. Tengesdal".

FROM: Diana M. Tengesdal
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Recovery Rebate Credit Payments Were Issued to
300,000 Ineligible Taxpayers (Audit No.: 2025406021)

This report presents the results of our review to ensure that automatic Recovery Rebate Credit (RRC) payments were sent to only eligible taxpayers who missed claiming this credit on their Tax Year 2021 tax return. This review was part of our Fiscal Year 2025 discretionary audit coverage and addresses the major management and performance challenge of *Improving Taxpayer Service and Protecting Taxpayer Rights*.

Management's complete response to the draft report is included as Appendix III. 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

The American Rescue Plan Act of 2021 (ARPA) created a refundable Recovery Rebate Credit (RRC) of up to \$1,400 per eligible individual taxpayer for Tax Year 2021.¹ The ARPA also directed the Internal Revenue Service (IRS) to make advance payments of the RRC, also known as Economic Impact Payments (EIP). The advance payments were to be made as soon as possible but not later than December 31, 2021. Figure 1 lists the eligibility requirements for the RRC.

Figure 1: Eligibility Requirements for the Recovery Rebate Credit

| | Eligibility Requirements |
|--|---|
| Payment Amount | <p>\$1,400 for individual taxpayers.</p> <p>\$2,800 for married filing joint taxpayers.</p> <p>Additional \$1,400 for each dependent, including older children and adult dependents.</p> |
| Identification Requirements | <p>The ARPA allowed taxpayers with an Individual Taxpayer Identification Number (ITIN) to claim the RRC for their dependents who have a valid Social Security Number (SSN).² A qualifying dependent may also have a valid Adoption Taxpayer Identification Number.</p> |
| Adjusted Gross Income Phase-Out | <p>Total payment phases out ratably between the following income levels:</p> <p>\$75,000 - \$80,000 for Single filing status.</p> <p>\$112,500 - \$120,000 for Head of Household filing status.</p> <p>\$150,000 - \$160,000 for Married Filing Joint and Qualifying Widow or Widower filing status.</p> |
| Eligibility | <p>Everyone except:</p> <ul style="list-style-type: none"> • Nonresident aliens. • Dependents of other individuals. • Estates and trusts. • Individuals who died before January 1, 2021. <p>U.S. Territories are responsible for determining who is eligible to receive an EIP or RRC payment and the amount of the payment as well as issuing the payment.</p> |

Source: Analysis of ARPA provisions.

Most eligible taxpayers have already filed their Tax Year 2021 tax return claiming the RRC or received the credit through an advanced EIP. Eligible taxpayers who did not receive an EIP or RRC had until April 2025 to claim the credit by filing an original or amended Tax Year 2021 tax return.

The Department of the Treasury directed the IRS to issue payments to eligible taxpayers who did not claim the RRC. In December 2024, the IRS announced plans to issue automatic payments to eligible taxpayers who did not claim the RRC on their Tax Year 2021 tax returns or did not receive an EIP.

¹ Pub. L. No. 117-2, 135 Stat. 4.

² See Appendix IV for a glossary of terms.

Results of Review

Incomplete Data and Analytical Errors Resulted in Some Erroneous Recovery Rebate Credit Payments

In January 2025, the IRS issued 1.2 million payments totaling \$2.4 billion to individual taxpayers who the IRS determined were eligible for the RRC. However, we identified that 300,843 of these payments (25 percent of all payments) totaling \$447.8 million were issued to ineligible taxpayers. Figure 2 identifies the characteristics of the ineligible taxpayers identified. As of May 2025, the IRS recovered 28,798 of the 300,843 erroneous payments. The recovered payments total \$42.2 million.

Figure 2: Characteristics of Taxpayers Who Received Erroneous Recovery Rebate Credit Payments

| Description | Taxpayers | Total of Payments |
|---|----------------|-------------------------|
| Nonresident aliens, <i>i.e.</i> , filed Form 1040-NR, <i>U.S. Nonresident Alien Income Tax Return</i> . | 225,028 | \$317.1 million |
| Taxpayers who already received the EIP or RRC for Tax Year 2021. | 68,071 | \$117.1 million |
| ITIN holders who did not claim a dependent with a valid SSN for Tax Year 2021. | 4,880 | \$7.5 million |
| U.S. Territory residents. | 2,350 | \$5.1 million |
| Taxpayers whose adjusted gross income exceeded the income levels for Tax Year 2021. | 514 | \$1.1 million |
| Total | 300,843 | \$ 447.8 million |

Source: Analysis of RRC payments issued in January 2025 and tax account information on TIGTA's Data Center Warehouse. Totals may not add up due to rounding.

In January 2025, we began alerting Taxpayer Services management of the erroneous payments we identified. In February 2025, Taxpayer Services management stated that they were aware of the 225,028 erroneous payments issued to nonresident aliens, *i.e.*, filed a Form 1040-NR. Taxpayer Services management stated that they identified nonresident aliens as ineligible in the criteria. However, Taxpayer Services management learned after the payments were issued that they had not excluded nonresident aliens from the payments.

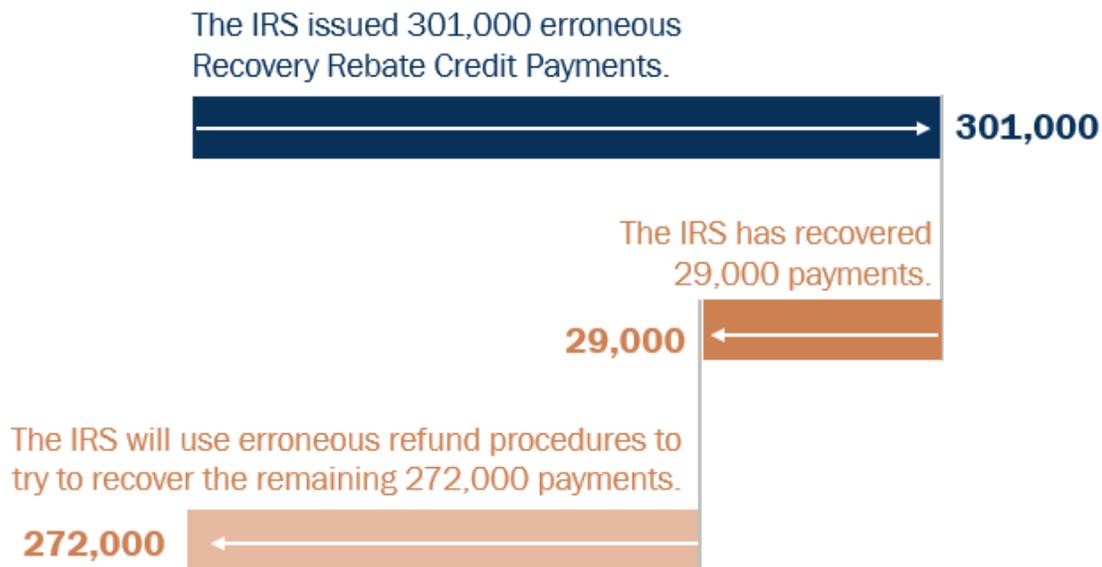
Taxpayer Services management agreed with the remaining 75,815 erroneous RRC payments we identified, stating that incomplete data caused some of the RRC payments to be issued to taxpayers who already received the EIP or RRC for Tax Year 2021. Specifically, Taxpayer Services management indicated that they used data from the IRS's data repository that was incomplete. In addition, other eligibility requirements provided by Taxpayer Services such as ITIN, U.S. Territory residents, and adjusted gross income, were not included in the analysis to determine who should receive the payments. Since these payments were issued through a one-time batch process and there are no plans to issue future RRC payments, no computer

programming changes are needed at this time. However, the IRS should consider our concerns if similar types of advanced payments are issued in the future.

Some erroneous payments have already been recovered

As of May 2025, our analysis determined that nearly 29,000 of the erroneous payments had already been recovered by other processes or controls, *e.g.*, voluntary repayment, cancelled checks, undeliverable mail, *etc.* The IRS will use erroneous refund procedures to recover the remaining 272,045 erroneous RRC payments. Generally, the IRS has two years from the date of the erroneous refund check or direct deposit to recover an erroneous refund. Figure 3 shows the number of payments the IRS recovered as of May 2025.

Figure 3: The IRS Has Recovered Some Erroneous Payments and Will Use Erroneous Refund Procedures to Try to Recover More



Source: Analysis of RRC payments issued in January 2025 and tax account information on TIGTA's Data Center Warehouse as of May 2025.

The IRS will issue a Letter 510C, *Refund in Error; Return Checks*, to the impacted taxpayers asking them to return the payment. The IRS will also use refund offsets to recover these erroneous payments. A refund offset means that when the taxpayer files their next individual tax return, the IRS will offset any refund due until the erroneous payment is recovered or the two-year recovery period has ended, whichever occurs first. However, the IRS cannot use collection procedures such as filing a Notice of Federal Tax Lien or issuance of a levy to recover these payments because the erroneous payment is the result of an IRS administrative error.

In June 2025, the IRS implemented an automated tool to initiate the erroneous refund process. The tool generates a Letter 510C to request the voluntary payment of the erroneous refund within 21 calendar days from the date of the letter. The tool also systemically removes the RRC on the taxpayer's tax account, resulting in a debt owed by the taxpayer. As of June 2025, the IRS issued 42,033 letters 510C to taxpayers who received an erroneous RRC payment.

Recovery Rebate Credit Payments Were Issued to 300,000 Ineligible Taxpayers

Recommendation 1: The Commissioner, Taxpayer Services Division, should ensure that appropriate steps are taken to recover the erroneous RRC payments, including issuing Letter 510C.

Management's Response: IRS management agreed with the recommendation. Unreturned or unrepaid RRC amounts will be recovered through offset of any refund due while the balance remains unpaid. We will continue to monitor accounts and will close this action upon issuance of Form 1099-C, *Cancellation of Debt*, to taxpayers who do not repay the debt by the expiration of the recovery period.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this audit was to ensure that automatic RRC payments were sent to only eligible taxpayers who missed claiming this credit on their Tax Year 2021 tax return. To accomplish our objective, we:

- Evaluated the IRS's process to identify and issue RRC payments to eligible taxpayers as directed by the Department of the Treasury.
- Determined whether the IRS has procedures for recovering erroneously issued RRC payments.

Performance of This Review

This review was performed with information obtained from the Taxpayer Services Division Headquarters located in Atlanta, Georgia, during the period February 2025 through July 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 finding and conclusion based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusion based on our audit objective.

Data Validation Methodology

During this review, we obtained extracts from the Individual Master File for Tax Year 2021, the Individual Return Transaction File for Processing Years 2022 through 2024, and the National Account Profile as of December 2024 and March 2025, that were available on TIGTA's Data Center Warehouse. We obtained the listing of taxpayers who were issued RRC payments as of January 2025. Before relying on the data, we ensured that each file contained the specific data elements we requested. In addition, we selected data from each extract and verified that the data in the extracts were the same as the data captured in the Integrated Data Retrieval System. We also performed analyses to ensure the validity and reasonableness of our data, such as ranges of dollar values and obvious invalid values. 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 process for planning, organizing, directing, and controlling program operations for the issuance of the RRC payments. We evaluated these controls by analyzing the RRC payments, meeting with Taxpayer Services management, and reviewing IRS procedures.

Appendix II

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective action will have on tax administration. This benefit will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measure:

- Funds to Put to Better Use and Taxpayers Impacted – Potential; \$122,494,128 in erroneous RRC payments issued to 71,236 ineligible taxpayers (see Recommendation 1).

Methodology Used to Measure the Reported Benefit:

We obtained extracts from the Individual Master File for Tax Year 2021, the Individual Return Transaction File for Processing Years 2022 through 2024, and the National Account Profile as of December 2024 and March 2025.

Our analysis identified 300,843 payments totaling \$447,779,609 that were issued to ineligible taxpayers, *i.e.*, nonresident aliens, taxpayers who had previously received their EIP or RRC, taxpayers whose adjusted gross income exceeded the income levels, ITIN holders who did not claim a dependent with a valid SSN, and U.S. Territory residents. Taxpayer Services management had previously identified 225,028 payments to nonresident aliens before our notification. As a result, our analysis identified 75,815 (300,843-225,028) ineligible taxpayers who received an erroneous RRC payment that the IRS was not aware of being issued. These 75,815 payments totaled \$130,690,775.

Additionally, Taxpayer Services management noted that some of the erroneous payments have already been recovered by other processes or controls, *e.g.*, voluntary repayment, cancelled checks, undeliverable mail, *etc.* We analyzed the Individual Master File as of May 2025 for the ineligible taxpayers to remove erroneous payments that were recovered by the IRS. We determined that 4,579 of the 75,815 RRC payments totaling \$8,196,647 were recovered by the IRS. The remaining 71,236 (75,815-4,579) ineligible taxpayers with erroneous payments totaling \$122.5 million have not been recovered as of May 2025.

Type and Value of Outcome Measure:

- Funds to Put to Better Use and Taxpayers Impacted – Actual; \$8,196,647 in erroneous RRC payments issued to 4,579 ineligible taxpayers that were recovered by the IRS (see Recommendation 1).

Methodology Used to Measure the Reported Benefit:

We obtained extracts from the Individual Master File for Tax Year 2021, the Individual Return Transaction File for Processing Years 2022 through 2024, and the National Account Profile as of December 2024 and March 2025.

Our analysis identified 300,843 payments totaling \$447,779,609 that were issued to ineligible taxpayers, *i.e.*, nonresident aliens, taxpayers who had previously received their EIP or RRC,

Recovery Rebate Credit Payments Were Issued to 300,000 Ineligible Taxpayers

taxpayers whose adjusted gross income exceeded the income levels, ITIN holders who did not claim a dependent with a valid SSN, and U.S. Territory residents. Taxpayer Services management had previously identified 225,028 payments to nonresident aliens before our notification. As a result, our analysis identified 75,815 (300,843-225,028) ineligible taxpayers who received an erroneous RRC payment that the IRS was not aware of being issued. These 75,815 payments totaled \$130,690,775.

Additionally, Taxpayer Services management noted that some of the erroneous payments have already been recovered by other processes or controls, *e.g.*, voluntary repayment, cancelled checks, undeliverable mail, *etc.* We analyzed the Individual Master File as of May 2025 for the ineligible taxpayers and determined that 4,579 of the 75,815 RRC payments totaling \$8.2 million were recovered by the IRS. The IRS does not need to issue a Letter 510C to these 4,579 taxpayers since the erroneous refund has been recovered.

Appendix III

Management's Response to the Draft Report

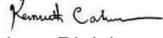


CHIEF
TAXPAYER SERVICES

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

February 9, 2026

MEMORANDUM FOR DIANA M. TENGESDAL
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Kenneth C. Corbin 
Chief, Taxpayer Services Division

DN: c=US, ou=U.S. Government, ou=Department of
the Treasury, ou=Internal Revenue Service,
ou=people, serialNumber=119337, cn=Kenneth C.
Corbin
Date: 20260209075557-0500

SUBJECT: Draft Audit Report – Recovery Rebate Credit Payments Were
Issued to 300,000 Ineligible Taxpayers (Audit No.: 2025406021)

Thank you for the opportunity to review and provide comments on the subject draft report. The Recovery Rebate Credit (RRC) was a refundable credit allowed to eligible taxpayers on their income tax returns for 2020 and 2021 if they had not previously received the corresponding Economic Impact Payments for those years, or if they were entitled to a greater amount when determining eligibility based on the tax return for each respective year. When directed to issue payments to individuals who appeared to be eligible for RRCs but had not claimed them on their returns, a project was initiated to quickly identify those individuals and adjust their accounts to initiate payment for the determined credit.

When eligible accounts were identified, an oversight in interpreting the eligibility requirements resulted in filers of Form 1040-NR, *U.S. Nonresident Alien Income Tax Return*, being included in the adjustments file that generated the refund transactions. These taxpayers were not eligible for the RRC and should have been excluded from consideration. Additionally, one week of tax year 2021 data had not been loaded to the archives that were used by our research staff to identify eligible taxpayers and calculate the credit due. Consequently, taxpayers who had already received the EIP or the RRC and whose returns were processed during that one week were also erroneously included in the adjustments file.

Since becoming aware of the erroneous payments, we have taken steps to correct the affected accounts, notify taxpayers of the error, and initiate recovery procedures for those accounts where refund checks were not returned or repayments have not yet been received.

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Our response to your recommendation is enclosed. If you have any questions, please contact me, or a member of your staff may contact Joseph Dianto, Director, Customer Account Services, at 470-639-3504.

Attachment

Attachment

Recommendations

RECOMMENDATION 1

The Commissioner, Taxpayer Services Division, should ensure that appropriate steps are taken to recover the erroneous RRC payments, including issuing Letter 510C.

CORRECTIVE ACTION

We agree with the recommendation. Unreturned or unrepaid Recovery Rebate Credit amounts will be recovered through offset of any refund due while the balance remains unpaid. We will continue to monitor accounts and will close this action upon issuance of Form 1099-C, *Cancellation of Debt*, to taxpayers who do not repay the debt by the expiration of the recovery period.

IMPLEMENTATION DATE

May 15, 2027

RESPONSIBLE OFFICIAL

Director, Customer Account Services, Taxpayer Services Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.

Appendix IV**Glossary of Terms**

| Term | Definition |
|---|--|
| Adjusted Gross Income | Gross income minus adjustments to income. Gross income includes wages, dividends, capital gains, business income, and retirement distributions as well as other income. Adjustments to income include such items as educator expenses and student loan interest. |
| Adoption Taxpayer Identification Number | A number developed for issuance as a temporary tax identification number until an SSN can be obtained for a child in the process of being adopted. |
| Data Center Warehouse | A collection of IRS databases containing various types of taxpayer accounts and IRS and TIGTA employee information that is maintained by TIGTA to analyze data for ongoing audits. |
| Individual Master File | The IRS database that maintains transactions or records of individual tax accounts. |
| Individual Return Transaction File | A database the IRS maintains that contains information on the individual tax returns it receives. |
| Individual Taxpayer Identification Number | Individual Taxpayer Identification Numbers are issued by the IRS to individuals who are required to have a Taxpayer Identification Number for federal tax purposes but do not have and are not eligible to receive an SSN. |
| Integrated Data Retrieval System | An IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records. |
| National Account Profile | A compilation of selected entity data from various IRS Master Files and the Social Security Administration. |
| Nonresident Alien | For federal tax purposes, a nonresident alien is an individual who (1) does not possess a permanent resident card, known as a green card, or (2) has not established a substantial presence in the U.S., <i>e.g.</i> , foreign athlete or entertainer performing or competing in the U.S., foreign student in the U.S. on scholarship, employee of a foreign government or international organization, <i>etc.</i> |
| Processing Year | The calendar year that the tax return or document is processed by the IRS. |
| Social Security Number | A nine-digit number issued to an individual by the Social Security Administration. The IRS uses this number to process tax documents and returns. |
| Tax Year | A 12-month accounting period for keeping records of 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. |

Abbreviations

| | |
|-------|---|
| ARPA | American Rescue Plan Act of 2021 |
| EIP | Economic Impact Payment |
| IRS | Internal Revenue Service |
| ITIN | Individual Taxpayer Identification Number |
| RRC | Recovery Rebate Credit |
| SSN | Social Security Number |
| 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.