

A report to Congressional Committees

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What GAO Found

As of June 2025, the Internal Revenue Service (IRS) processed nearly 5 million Employee Retention Credit (ERC) claims. IRS moved quickly to administer ERC but was less prepared to assess improper payment risks and process a surge in claims. To address improper claims, IRS implemented a processing moratorium in September 2023. IRS closed most claims by December 31, 2025, according to IRS officials. GAO identified six lessons from ERC design and administration.

Lessons Learned from the Design and Administration of Employee Retention Credit

Offering Relief Through Employment Taxes Provides Benefits and Challenges

- Benefits include availability to employers without tax liability. Challenges include interactions with income tax.

Some Design Decisions Increased Complexity and Improper Payment Risk

- Complex and retroactive eligibility criteria complicated eligibility determination.

The Internal Revenue Service (IRS) Would Have Benefitted from a Comprehensive Plan for Managing Employee Retention Credit (ERC) Risks

- Timely implementing a 2022 GAO recommendation on project planning could have better prepared IRS for a later surge in claims.

IRS Would Have Benefitted from Additional Eligibility Reporting

- Key eligibility information was not required on employment tax returns.

Manual Processing for Amended Returns Complicated Compliance Efforts

- Paper-only amended returns limited IRS's ability to capture key data.

ERC Implementation Could Have Benefitted from More Timely and Consistent Communication with Stakeholders.

- IRS did not regularly communicate status of ERC processing.

Source: GAO. | GAO-26-107456

These lessons could help policymakers consider future emergency employment tax relief, and help IRS better prepare for it. IRS did not complete an improper payment estimate for ERC, as required in law. The Department of the Treasury said it would not do so for pandemic programs as they are short term. However, a timely estimate could have helped identify root causes of improper payments earlier and developing one now could guide future decisions on employment tax relief. The statute of limitations for assessing tax on certain paid improper ERCs has expired. However, IRS can still pursue fraud cases indefinitely.

Employers primarily claimed ERC on paper amended returns. IRS enabled electronic filing in mid-2024 but continued to process the returns manually. Automated processing would yield cost savings and expedite refunds. IRS's last public update on ERC processing status was in October 2024, leaving uncertainties about cash flow among some employers. IRS also did not follow all risk management and internal control principles from GAO's *A Framework for Managing Improper Payments in Emergency Assistance Programs*. IRS could reduce future improper payments by incorporating this framework into its policies.

As a consequence of its design and administrative challenges, most ERC claims were not paid in 2020 or 2021, the eligibility period for the credit. About 83 percent of ERC refunds—about \$235 billion—were issued in 2022 through June 2025, well after unemployment had returned to its pre-pandemic level.

Why GAO Did This Study

The ERC—which encouraged employers to keep paying employees during the COVID-19 pandemic—had provided about \$283 billion to employers as of June 2025. GAO previously found that implementing new initiatives—such as the ERC—is a challenge for IRS. A law passed in July 2025 affected ERC by, in part, disallowing certain unpaid claims made after January 31, 2024.

In response to a request, this report presents lessons learned on the ERC's design and administration, examines actions IRS can take to be better prepared for emergency employment tax relief, and describes economic conditions—such as unemployment levels—surrounding ERC.

To identify lessons learned, GAO reviewed literature and interviewed experts and agency officials about the ERC's design and implementation. GAO observed ERC processing at an IRS campus. GAO compared documents with selected practices for managing payments in emergency programs (GAO-23-105876). GAO also analyzed IRS data on ERC processing and compared it with economic data.

What GAO Recommends

GAO is making four recommendations to IRS, including that it develop and report an improper payment estimate for ERC, automate amended employment tax return processing, provide an update to the public on ERC processing, and include key principles on managing improper payments in emergency assistance programs in its policies. IRS agreed with one recommendation, partially agreed with another, and disagreed with two. GAO maintains that all four recommendations are warranted, as explained in the report.