

COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515

April 11, 2021

The Honorable Charles P. Rettig
Commissioner
Internal Revenue Service
1111 Constitution Avenue, NW
Washington, DC 20224

Dear Commissioner Rettig:

We write to express serious concern about the expansion of the Child Tax Credit (CTC) in the American Rescue Plan Act (ARP) and the related provision that requires the IRS to develop a system to administer periodic payments rather than payments once per year. While this provision expires at the end of the year, Democrats in Congress have made clear in public statements that they intend to make these provisions permanent and that they intend that “periodic” payments will eventually be “monthly” payments.¹ Our concern focuses on the problem of improper payments and the IRS’s ability to create a secure and effective payment system in such short period of time, given that this program expires at the end of 2021. Press reports indicate that President Biden and congressional Democrats plan to introduce significant tax increases in connection with the CTC expansion and numerous other spending priorities. The claim that tax increases are necessary is dubious given the apparent lack of concern with expanding programs that have significant erroneous payments and fraud at the same time.

According to reports from the Treasury Inspector General for Tax Administration (TIGTA), the Earned Income Tax Credit (EITC) and the Additional Child Tax Credit (ACTC) have a long history of very high improper payment rates arising from both errors and fraud. Back in 2015, the IRS made \$15.6 billion (23.8% of all payments) in improper EITC payments.² That number increased over time to \$17.4 billion (25.3% of all payments) in improper EITC payments in 2019.³ In other words, not much improvement has been shown on this issue in recent years. A concerning pattern also exists for ACTC. Improper payment estimates for ACTC for fiscal year 2020 are approximately \$4.5 billion (12% of all payments).

¹ Jason DeParle, *In the Stimulus Bill, a Policy Revolution in Aid for Children*, N.Y. TIMES (Mar. 7, 2021), <https://www.nytimes.com/2021/03/07/us/politics/child-tax-credit-stimulus.html>.; Daniel Han, *Booker Says He’s Trying to Permanently Expand Enhanced Child Tax Credit*, POLITICO (Mar. 12, 2021), <https://www.politico.com/states/new-jersey/story/2021/03/12/booker-says-hes-trying-to-permanently-expand-enhanced-child-tax-credit-1368045>.

² Treasury Inspector Gen. for Tax Admin., *Without Expanded Error Correction Authority, Billions of Dollars in Potentially Erroneous Earned Income Tax Credit Claims Will Continue to Go Unaddressed Each Year*, Ref. No. 2016-40-036, available at <https://www.treasury.gov/tigta/auditreports/2016reports/201640036fr.pdf>.

³ Treasury Inspector Gen. for Tax Admin., *Improper Payment Reporting Has Improved; However, There Have Been No Significant Reductions to the Billions of Dollars of Improper Payments*, Ref. No. 2020-40-025, available at <https://www.treasury.gov/tigta/auditreports/2020reports/202040025fr.pdf>.

Expanding advanceable tax credits such as these without safeguards to address payment integrity problems will surely lead to expansions in improper payments. A monthly cash payment system that allows individuals to update eligibility information in a real-time basis could create significant opportunities for additional fraud and errors. We are very concerned that the IRS is being asked to stand up a brand-new payment system in an extremely rushed manner. For example, former Taxpayer Advocate Nina Olsen estimated that it would take 12-18 months to create a sufficient monthly payment system.⁴

Given the significant problems with improper payments involving refundable tax credits and the rushed nature of this new payment system, we ask that you provide answers to the following questions:

1. What is the agency's estimated time frame for standing up a new periodic payment system?
2. Has the IRS ever developed and implemented a complex system in this short a period of time where the payment is made in advance of a taxpayer providing precise information to the agency? If so, please explain?
3. Can the IRS guarantee that the improper payment rate will not increase under the new system? If not, what steps is the IRS taking to enhance payment integrity?
4. What will the IRS do to reduce the already high rate of error and fraud under the current systems for making refundable tax credit payments?

Please provide answers to these questions by April 24, 2021. If you have any questions, please contact Rachel Kaldahl or Sean Clerget on the Ways and Means Oversight Subcommittee staff.

Sincerely,



KEVIN BRADY
Ranking Member
Committee on Ways and Means



MIKE KELLY
Ranking Member
Ways & Means Oversight Subcommittee

⁴ Bernie Becker, *What's Next on the Child Tax Credit?*, POLITICO (Feb. 8, 2021), <https://www.politico.com/newsletters/weekly-tax/2021/02/08/whats-next-on-the-child-tax-credit-793236>.