



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

The Honorable Mike Crapo
United States Senate
Washington, DC 20510

Dear Senator Crapo:

Thank you for your letter dated February 12, 2021. Specifically, you shared your concerns about proposed changes and challenges to the administration of the child tax credit (CTC), including the establishment of a program to distribute advanced CTC payments on a monthly basis beginning in July 2021. You asked us to answer several questions by February 19, 2021. I apologize for our delay in responding.

The IRS plays a critical role in providing financial help to low-income households. Each year, the CTC lifts approximately 4.3 million people out of poverty and lessens poverty for another 12 million people. During tax year 2018, nearly 20 million taxpayers received over \$35 billion in refundable CTC benefits, making the credit one of the largest anti-poverty programs in the United States.

The IRS has been programming and testing our systems, and recently opened the 2021 Filing Season. We have not yet developed a detailed plan to execute the changes in the proposed budget reconciliation bill. We continue to monitor the various versions of the legislation and review them to determine how best to administer the proposed provisions. To facilitate the distribution of advanced monthly CTC payments, we'll need to build a system that will compute (and recompute) payments as taxpayers provide new information. This system must also issue, track, and reconcile the payments at the end of each tax year to ensure taxpayers file income tax returns that accurately include all advanced CTC payments received during the tax year.

If this legislation is enacted, the IRS will begin developing a portal for taxpayers to opt out of the advanced payment or provide new information that is relevant to determining their eligibility and advance payment amount. The current draft language bases the payments on a processed tax year 2020 tax return (or tax year 2019 if the tax year 2020 tax return has not been filed).

The draft language of the legislation also assumes the IRS has filtered the return using our identity theft and fraud detectors. Based on the latest draft bill, the IRS presently estimates a total implementation cost of \$393.1M. This estimate includes cost of technology changes, staffing for service, and outreach.

Unfortunately, until we have the final language and we have an opportunity to evaluate the requirements, it's difficult to estimate how long it will take for us to implement all the required components of the proposed program. If the final language allows the IRS the flexibility to adjust the interval of payments, this latitude will assist the IRS in making these payments as soon as practicable. Once there is final language and we have completed our evaluation, we can better inform you and the public of when and how frequently payments will be made. We'll also be able to provide you with more specific information about recurring annual cost and the personnel required to administer the program.

In lessening improper payments, one of the risks the IRS faces is eligibility authentication because complex statutory eligibility requirements and limited IRS resources hinder the process.

The Taxpayer First Act Report to Congress provides a more streamlined structure for the IRS and considers the need for agility and flexibility in administering the new laws the Congress enacts. The report also proposes an IRS division that focuses on taxpayer experiences and relationships. If enacted this year, a program to distribute advanced CTC payments would be assigned to the proper operating division within the IRS and will transition appropriately in the new organizational structure.

We are committed to serving the American taxpayers and we appreciate this opportunity to speak on the proposals included in the House Ways and Means Chairman's mark released on Monday, February 8, 2021.

I hope this information is helpful. I am sending a similar letter to Senator Grassley. If you need a briefing, we would be happy to do so. If you have questions, please feel free to contact me, or a member of your staff may contact Amy Klonsky, Chief, National Congressional Affairs Branch, at 202-317-6985.

Sincerely,

Charles P. Rettig