September 17, 2021

DISSENTING VIEWS ON SUBTITLE H BUDGET RECONCILIATION LEGISLATIVE RECOMMENDATIONS RELATING TO THE SOCIAL SAFETY NET
PART 1. CHILD TAX CREDIT

Committee Republicans oppose Part 1 of Subtitle H. In Subtitle H, Democrats are turning the Child Tax Credit on its head by completely de-linking the credit from earnings and work in an unprecedented attempt to start using the IRS to distribute cash welfare – at a cost of $556 billion. This is the most expensive item on the Democrat's tax hikes and spending spree wish list. These monthly payments will flow, no strings attached, regardless of whether the recipient earned any income or worked.

This policy originated in the partisan American Rescue Plan Act (ARPA) (P.L. 117-2), where Democrats increased the child tax credit by 80 percent, from $2,000 to $3,600, and made the credit fully refundable regardless of income or earnings. In addition, the bill required the IRS to advance payments on a monthly basis. These changes were set to expire at the end of 2021. Prior to ARPA, in order to receive the child tax credit, families had to report at least $2,500 in income and the credit was refundable up to $1,400. Subtitle H provides an additional year extension through 2022 and then extends the CTC to 2025 with several changes that make it more susceptible to fraud and abuse.

America's struggling families need good-paying jobs, not more emergency spending and endless government checks. Democrats are using temporary emergency COVID relief as a backdoor to create permanent new welfare-without-work programs that foster greater dependence on government and pay people more not to work. According to scholars at the American Enterprise Institute, by ending CTC work requirements, Democrats will destroy up to 451,000 jobs.[1]

With more than 10 million job openings and national worker shortage in a post-COVID economy, the country can't afford to relegate an entire generation of workers to the sidelines. A Wall Street Journal Op-Ed laid out the big picture well:

> *"Under the guise of pandemic relief, the federal government would give a nonworking single parent with two preschool-age children and one in grade school $850 a month. This would come on top of other government benefits, including $680 a month in food stamps, amounting to $18,360 in combined annual income.*
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> *That's the equivalent, without accounting for taxes, of working 28 hours a week at $12.50 an hour. On top of that, the family would receive health insurance from Medicaid, and it may also receive housing and child-care assistance. Government benefits to nonworking households that are this generous are bound to reduce employment."*[2]

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[1]American Enterprise Institute, "Unintended Consequences: Democrat's child tax credit will cost jobs," April 22, 2021.
[2] Wall Street Journal, "Democrats' Stealth Plan to Enact Universal Basic Income," Robert Doar and Matt Weidinger, March 2, 2021.

It is especially pernicious that Democrats have been champions of the policy in this subtitle – to send monthly checks to non-earner, non-working households with children – as a way to decrease child poverty. Democrats' version of the CTC will hold people down by keeping them reliant on government handouts. This is the opposite of how a safety net should work. No amount of endless government checks —no matter how well-intentioned—can address the underlying challenges that could be holding a family back from success and economic independence.

Democrats big spending proposals in this bill, like the CTC, equate to turning a blind eye on America's most vulnerable families – what Arthur Brooks so artfully phrased as the "soft bigotry of low expectations." Families in poverty almost always face multiple challenges, such as a skills gap, language barriers, or lack of access to education, and/or have underlying problems that perpetuate the cycle of poverty – from domestic violence, addiction, and abuse and neglect, to unaddressed mental health problems. In Subtitle H, Democrats would create a system of automatic benefits that send poor families a check and walk away, as if the absence of money were the only obstacle families in poverty face. The human connection is pivotal.

Americans are a generous people. In fact, American taxpayers fund a social safety net of more than 80 programs to the tune of $1 trillion a year as a commitment to reducing child poverty and helping those in need. But there's one fundamental value American's have consistently held across the political spectrum. It's about personal responsibility and work in exchange for benefits. We all know that families, particularly the children in those families, do best when parents are connected to jobs and moving up the economic ladder. This subtitle goes in the opposite direction.

Instead of anchoring those in poverty to endless checks—Republicans believe we should be empowering them to seize greater opportunity and success for themselves and their children by linking them to jobs and the supportive services they need. The human connection is pivotal. Case management practices that promote work and focus on people, not programs, can help families set goals, connect them to needed services, and show them a path forward.

Committee Republicans offered an amendment to re-instate the $2,500 earnings work requirement and ensure that income from CTC counts towards eligibility for federal means-tested benefit programs. Democrats unanimously rejected this amendment to link federal benefits to the pursuit of work and the skills that lead to work.

Subtitle H, like many of the new programs in this bill, also is not well-targeted and would benefit high-earner households. Wealthy Americans earning well over $200,000 a year will receive checks whether they want them or not. In addition, the new monthly cash payment system of CTC will serve as a powerful magnet for fraudsters and identity thieves. We know that improper payments have persisted in Earned Income Tax Credit payments, rising from $15.6 billion (23.8 percent) in 2015 to $17.4 billion (25.3 percent of all payments) in 2019. A concerning pattern also exists for Additional Child Tax Credit (ACTC).

House and Senate Democrats should take a closer look at this bill. In the rush to claim ownership, Committee Democrats have created a shoddily constructed program with serious design flaws. The subtitle makes a number of eligibility changes to CTC beginning in 2023 that raise even more concerns about the susceptibility to fraud and abuse.

First, the bill would change the definition of "qualified child" to "specified child." Broadly, the definition in the draft text is based on who the child lives with during the month and who provides care for the child during that month. This is a broader definition of a qualifying child which may allow non-relatives (i.e., kinship caregivers) and other relatives who care for the child to receive the benefit, again <u>with no safeguards in place to prevent identity theft or assurances that the child actually lives with the person claiming the credit</u>.

The bill would also allow for the Secretary of Treasury to provide "presumptive eligibility" to families on a monthly basis. Subtitle H outlines methods for the IRS to estimate the monthly benefit amount as well as procedures to issue the payment to the taxpayer who is deemed "presumptively eligible" for the benefit during a specified period of time. The exact details of how "presumptive eligibility" would work in practice are not entirely clear, as the language provides the Treasury Secretary with discretion in developing these processes within the bounds of the legislative text.

Committee Republicans offered a good governance amendment to address several of these weaknesses with common sense fixes. The amendment would have:

- Maintained the Social Security number requirement for the CTC;
    - U.S. Citizens, and people lawfully admitted to the U.S. on a permanent basis, including Permanent Residents, refugees, and asylees are all eligible for Social Security numbers.
    - Republican tax reform closed off a significant opportunity for fraud by requiring a social security number for each child claimed under the child tax credit. In Subtitle H Democrats seek to eliminate this requirement.
- Strike the section allowing presumptive eligibility for the CTC;
- Maintain the tax filing requirement for Obamacare's Advanced Premium Tax Credit;
    - This restores the requirement for people to file their tax returns at the end of the year. The IRS itself deems the premium tax credit program "high risk" and estimated that 27.4% of the total PTC payments in FY2019 were improper. The equivalent of $4.3 billion in a single year;
- Re-name the IRS the "Internal Revenue and Welfare Office" to reflect their new mission as a welfare agency disbursing checks and entitlement benefits to Americans.
    - Democrats want the IRS to run a new $500 billion paid family and medical leave entitlement program and expects them to turnaround applications in 15 days.
    - The IRS would also now be in charge of distributing monthly CTC welfare checks to every person with children who earn under $400,000 a year.
- Biden's Treasury Department has already rejected the idea of running a new benefit entitlement program.

Democrats unanimously rejected this amendment to protect the CTC from fraud and abuse and add simple common sense integrity measures.