

**WRITTEN TESTIMONY OF  
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COMMISSIONER  
INTERNAL REVENUE SERVICE  
BEFORE THE  
HOUSE WAYS AND MEANS OVERSIGHT SUBCOMMITTEE  
ON THE COST-SHARING REDUCTION PROGRAM  
OF THE AFFORDABLE CARE ACT  
JULY 7, 2016**

Chairman Roskam, Ranking Member Lewis and Members of the Committee, as always, I appreciate the opportunity to appear before the Subcommittee today. This hearing marks the 35th time that I have testified before Congress. During my two and a half years as the IRS Commissioner, I have developed a deep respect for this Subcommittee and its primary role in overseeing the work of the IRS. We do not always agree, but you raise important questions, and your requests and suggestions often lead to improvements in our service to American taxpayers. I am scheduled to lead the IRS for another sixteen months but I serve at the pleasure of the President and a new President can always ask me to step aside sooner. As long as I am the Commissioner, I am committed to working with you in pursuit of our common goals and helping you fulfill your important oversight role

The IRS has been charged with implementing the numerous tax-related provisions of the ACA. In focusing on tax administration, one of our implementation efforts has involved supporting the integrated system of federal subsidies designed to help millions of American families afford health insurance coverage purchased through the federal and state Health Insurance Marketplaces.

This system consists of interrelated subsidies. One is the premium tax credit, which is designed to help people pay health insurance premiums for coverage purchased through the Marketplace. The taxpayer may pay for the insurance up front and then claim the credit on his or her federal tax return, or choose to have all or part of the credit paid in advance directly to the health insurance issuer.

Those receiving the advance premium tax credit (APTC) may also qualify for a second subsidy: cost-sharing reduction (CSR) payments, which reduce what an individual pays out of pocket for health care expenses. These payments, made directly to the health insurance issuer, lower the individual's insurance deductibles, copays and annual out-of-pocket maximum.

The Health Insurance Marketplaces, which are overseen by the Centers for Medicare and Medicaid Services (CMS), are responsible for determining whether

an individual is eligible for APTC payments as well as CSR payments. The IRS provides the Marketplaces with data and computational services for use in their determinations about eligibility for financial assistance. CMS certifies the payments using the information it receives from the Marketplaces and notifies the Treasury Department's Bureau of the Fiscal Service, which disburses the payments to the insurers.

The IRS's role in this process involves providing administrative support to ensure proper funding of, and accounting for, the APTC and CSR payments. The source of funding for the payments is a permanent, indefinite appropriation to the Secretary of the Treasury. The IRS manages and administers this appropriation on the Treasury's behalf for various types of payments including CSR payments, premium tax credit refunds and the APTC.

At the beginning of each fiscal year, the IRS ensures that sufficient funding has been transferred into an allocation account for CMS to use in obligating and disbursing payments, including CSR payments. The IRS manages unobligated funds in the account at the end of the fiscal year and performs financial reporting as the parent of the allocation account.

Because the CSR payments are reflected on the IRS's financial statements, the IRS coordinates closely with CMS throughout the year to ensure that CMS has effective controls in place over the integrity of the payment process and amounts. The IRS continually monitors these controls to mitigate any risk to its financial reporting. This includes an independent third-party assessment performed at CMS for the IRS to share with the Government Accountability Office (GAO) for the financial statement audit. The IRS has received a clean audit opinion from the GAO on its accounting and financial reporting with regard to the CSR program for the two years the program has been in operation.

Before the first CSR payments were made in late January 2014, the Treasury Department determined that it would, through the IRS, administer cost-sharing reduction payments pursuant to the Affordable Care Act under the section 1324(b) appropriation. Thereafter, we proceeded with our activities to support implementation and operation of the CSR payments. Chairman Roskam, Ranking Member Lewis and Members of the Committee, this concludes my statement. I would be happy to answer your questions.