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June 30, 2025

Mr. Tyler Curtis, Director
Ms. Nora Esposito, Senior Advisor
Office of Consumer Policy
U.S. Department of Treasury

RE: Response to Request for Information on Implementation of Executive Order 14247, "Modernizing Payments To and From America's Bank Account"

Dear Mr. Curtis and Ms. Esposito,

The Federal Tax Policy Committee of the Texas Society of Certified Public Accountants appreciates the opportunity to provide input with respect to President Trump's Executive Order (EO) 14247 requiring the Treasury to cease issuing paper checks and transition to the use of electronic payments for all federal disbursements where feasible.

We commend Treasury and the IRS for seeking public input on this important process. We are commenting herein on certain aspects of payment to and from the Treasury for federal tax matters. The order requiring payments to and from the IRS by electronic funds transfer (EFT) as opposed to paper checks aligns with modern financial practices, enhances efficiency, reduces administrative costs, and minimizes the risk of fraud and lost checks. However, there are drawbacks that must be taken into consideration, particularly in the early years of implementation. Treasury should take a balanced approach in adopting mandatory EFT payments that acknowledge the transitional challenges taxpayers may face.

We agree that targeted outreach and education, especially for vulnerable populations, is essential to ensure a smooth and equitable rollout. Also, the Treasury and the IRS should devote additional resources to its legacy infrastructure to efficiently manage such an undertaking. The timing and comprehensiveness of the education campaign are critical to the success of the Treasury's efforts to implement this program. We strongly suggest that the Administration communicate with current and past IRS Commissioners, leaders and managers in the Department of Treasury in evaluating practical considerations in directing this project.

Request for Start-Date Delay and Transaction Threshold Phase-In

We urge Treasury to delay the implementation of mandatory electronic payments from Sept. 30, 2025, to payments made after Jan. 15, 2026, to allow ample time for both the government and taxpayers, especially vulnerable citizens, to prepare for digital compliance. This change has particular impact on disadvantaged (and often unbanked) citizens who the programs administered through the IRS are intended to benefit.

The proposed implementation date of Sept. 30, 2025, is unfeasible due to inadequate publicity for taxpayers and tax professionals. There are still many taxpayers who are cash based, lack the technology or the ability to make electronic payments or choose to avoid electronic transactions due to security concerns. The amount of publicity, news articles or notifications about this proposed change has been scant at best. A delay would avoid creating similar issues that surrounded the Beneficial Ownership Information (BOI) reporting enactment. While we agree with the goal of reducing the use of paper payments, we do not see the urgency for setting a deadline for full implementation without ensuring that further problems are not created.

Furthermore, we suggest a $10,000 transaction threshold through Dec. 31, 2026. Tax payments below this amount could still be made by paper check, while any payment over $10,000 would be required to be made electronically. This would allow more time for the taxpayer to adjust to the mandate, for the payment system to be tested and modified for optimum security and use, and for the Treasury to notify the public of this change.

Responses to Treasury's Request for Information

In response to your specific questions, we are limiting our comments to transactions between taxpayers and the Treasury on behalf of the IRS, and not all the transactions envisioned in the EO. (Please note that the committee did not respond to all questions available.)

A. Paper Check Usage for Government Collections and Disbursements

1. *What are some of the factors causing individuals and organizations to continue to use paper checks to receive or make payments to the federal government?*

   For payments from taxpayers, many may not feel comfortable sharing their bank routing account numbers with the IRS. The Treasury should clarify situations in which it will debit or credit an individual's bank account, as many may fear that it will be used to collect child support, tax debts or other outstanding payments. There may also be a concern that this information could be shared or available to non-governmental organizations, for instance, for debt collection purposes.

   For payments to taxpayers, many may lack adequate internet access, or the technology to install and set up web applications, direct deposits and other electronic payment systems. For some individuals and small businesses, digital payments may be more difficult to track and audit. The IRS should consider sending documentation along with any debit card or other form of payment so that this can be more easily accounted for by the recipient.

   There are also instances in which taxpayers wish to make specifically designated payments toward liabilities that the online system does not allow. For example, taxpayers sometimes choose to make payments toward the trust fund portion of employment taxes to limit liability for trust fund recovery penalties. The only way to make those payments is via check with a designation on the memo line. There is no similar option online, unless the trust fund recovery penalty has already been assessed against a responsible individual's account.

Taxpayers also sometimes choose to designate a payment toward a tax liability rather than penalties because they intend to dispute the penalty portion. The online system does not allow for such a distinction and the IRS instead exercises its discretionary authority to apply payments toward any portion of the tax liability within the designated tax period as it sees fit.

There are also many instances where taxpayers desire to have their duly authorized power of attorney submit payments in order to ensure that proper and enforceable instructions regarding allocation of payments are received and complied with by the IRS.

In addition, many taxpayers are rightfully concerned about the security of providing bank account information to the IRS, since prior years' data breaches have compromised so many taxpayers' personal information.

2. *What barriers exist for transitioning individuals and organizations to EFT options?*

There are many unbanked taxpayers who, due to language, education or qualification barriers, or personal choice, have never had a bank account. Although they are paid by check, they use check cashing services and pay all bills by cash or money order. These same people also generally do not have credit cards. It will be practically impossible to convince or compel these taxpayers to open bank accounts. This population of taxpayers may lack technological knowledge and accessibility to internet resources, so they have few payment alternatives.

Some individuals who have bank accounts, due to trust or confidentiality concerns, are reluctant to allow their accounts to be drafted. Payment by credit card is possible but involves a processing fee with payment gateways to which taxpayers are resistant.

The use of debit cards to make Treasury payments has been successful in the past and should be a part of this program. Accepting debit card payments for a minimal (or no) fee by banked individuals should be included as a permissible payment method since the apparent goal of the proposed regulation is merely to minimize the volume of paper transactions. Allowing payment by money order may be essential for the unbanked community.

Converting individual payments to EFT for those who are or can be banked should involve a media-based public education program explaining both the security and rapidity of clearing payments benefits of EFT. Problems resulting from delayed, stolen, or lost checks should be emphasized. Converting banked individuals should be achievable, but allowances should be made for the unbanked and unbankable taxpayers by distributing alternative payment types (debit cards or cashier's checks) or providing a payment mechanism using a taxpayer's power of attorney as an intermediary.

This policy has significant implications for executors and trustees, some of which are beyond the control of the estates and trusts. The IRS tax Form 1041 does not provide for entering direct deposit information; Direct Pay is not currently available for estates and trusts, they must use EFTPS which is more difficult; bank corporate trustees/executors are impacted by Office of the Comptroller of the

Currency regulations, do not normally have separate bank accounts for each trust or estate, and would have a problem processing direct deposit refunds for a particular trust or estate into a common trust fund account. Implementation of the EO for such entities should be deferred until all these issues, particularly those which involve banking regulations, can be addressed.

C. Preferred EFT Methods

1. *Which electronic payment methods are typically used to make or receive payments by the general public, unbanked individuals, and individuals who rely on paper checks from the federal government? Why do individuals choose these payment methods?*

   According to an FDIC national study of unbanked and underbanked households (https://www.fdic.gov/household-survey), in 2023, 4.2% of households (5.6 million households) had no checking or savings account, and one in six households (22 million households) had no mainstream credit. These are primarily lower income individuals who may also not have reliable access to the internet or technology. These individuals will be able to receive payments from the IRS by prepaid debit card (as was done successfully with COVID-related Economic Impact Payments) to individuals for whom the IRS did not have bank account information (from tax returns) or by other means that have adequate security and protections against loss or theft.

   While taxpayers will generally be able to figure out how to receive payments from the government, they may be disinclined to undertake the extra work required to make payments to the IRS. The IRS should make it as easy as possible for taxpayers to pay the IRS amounts owed with provisions such as allowing the individual to order an electronic payment, to take effect on the due date or even a period after the due date, to equal the treatment of a payment made by check and sent through the mail.

   For those who have bank accounts, credit cards and access to technology, there are currently many methods for taxpayers to make tax payments to the IRS. These include EFTPS, Direct Pay options on the IRS.Gov website, and options to pay by credit card, debit card or digital wallet. These have varying degrees of complexity and costs to the taxpayer.

   Of these, the most cost-efficient method of making income tax payments is the Direct Pay option. This should be the simplest for the taxpayer to use; however, this option is difficult for many taxpayers to understand. Some problems with this process:

   - Many taxpayers do not understand the language used, for instance, the "reason for payment" window offers the following options (this list is not complete):
     - amended return,
     - application for extension,
     - balance due,
     - estimated tax, and
     - many others, mostly obscure.

- The authentication page is based on a previously filed tax return, is cumbersome, and the instructions are not clear. This is particularly cumbersome for taxpayers seeking to become compliant while filing and paying multiple years of delinquent returns.

  Enhancements that would make the process more useful include:
  - Provide a unique reference number on notices so the taxpayer can enter just that number and make a payment on that notice.
  - Provide a layperson-level explanation of the options for and easily understandable step-by-step instructions for implementation of various types of payments.
  - Instead of using previously filed tax returns for authentication, provide an alternative to use either knowledge-based authentication (credit bureau information) or multifactor authentication (text to known mobile phone) to verify the identity of the taxpayer.

2.c. *How can the government prevent fraud and make payments securely using these EFT options?*

As referenced above, consider using prepaid debit cards similar to COVID-related Economic Impact Payments for those for whom the IRS had no bank account information with recipients able to use them to make payments and even get cash from ATMs. The prepaid debit cards had built-in protections for lost cards and fraud.

3. *What types of organizations or partnerships could be leveraged to provide access to EFT payments for individuals or businesses that do not have bank accounts?*

For low-income taxpayers eager to receive their Earned Income Tax Credit (EITC) payments, some banks offer a temporary bank account for a small fee to facilitate the refund process. Treasury might consider whether it can encourage banks to offer such accounts.

D. General Comments Related to the EO "Modernizing Payments To and From America's Bank Account"

1. *Are there any other issues related to the implementation of this EO that you would like to raise?*

We offer the following safeguards to ease the transition and protect taxpayers' rights.

<u>Offer First-Time Abatement and Payment Correction Windows</u>

- Offer First-Time Abatement of Penalties Associated with Electronic Payment Failures:
  The IRS should extend the existing First-Time Abate (FTA**)** policy to cover penalties arising from failed or delayed electronic payments. Under current IRS guidelines, FTA relief is available for failure-to-file, failure-to-pay and failure-to-deposit penalties if the taxpayer has a clean compliance history over the prior three years. This policy encourages voluntary compliance and recognizes that occasional errors can occur even among diligent taxpayers.

Given the learning curve associated with digital payment systems – especially for older taxpayers, those with limited digital access, or small businesses – the IRS should explicitly include electronic payment glitches (e.g., EFTPS errors, bank rejections or system outages) as grounds for FTA relief. This would ensure fairness and maintain public trust during the transition. Reasonable cause relief should also be available independent of the FTA policy in cases where taxpayers do not qualify for FTA but nevertheless can demonstrate reasonable cause under a facts and circumstances test.

- Correction Window for Rejected Payments:
  In addition to penalty relief, the IRS should establish a correction window for rejected electronic payments, like the correction period currently available for electronic return rejections. For example, under IRS Publication 4164, electronically filed returns that are rejected can be corrected and resubmitted within five calendar days to be considered timely filed.

  A comparable grace period for electronic payments – such as five-to-10 business days from the date of rejection – would allow taxpayers to "perfect" their payment without incurring penalties or interest, provided the original payment attempt was made in good faith and on time.

- Clear Guidance and Outreach:
  To support this transition, the IRS should issue clear guidance on:
  1. What constitutes a valid attempt at electronic payment
  2. How to document and appeal rejected payments
  3. How to request FTA relief in these scenarios

<u>A Robust Exception Accommodation System</u>

Section 4 of the EO affords broad exception accommodations for the unbanked and who face undue hardships, among others. Taxpayers need clear, timely guidance on the exception process. We recommend that eligibility be broadly applied, at least initially, until greater awareness can be raised. These exceptions should emphasis improving, not hindering, the voluntary nature of our tax system.

<u>Use-of-Money Doctrine</u>

The EO raises significant concerns that require careful attention to taxpayers' rights. The IRS should take steps to preserve taxpayers' ability to raise "use of money" arguments that exist under Section 6621(d) via the application of a zero interest rate when netting overpayments with underpayments and in other areas of tax law. A taxpayer is liable for interest only when the government does not have the use of money it is lawfully due.

Without a system in place to preserve this right, taxpayers may lose the ability to return erroneous refunds that result from problems with processing returns or payment errors. When payments are wired, the lack of a physical check can prevent taxpayers from effectively returning the funds without using the money for a brief period, potentially leading to unintended liabilities. To preserve this right, we recommend allowing taxpayers a grace period to promptly re-pay erroneous refunds within 30 days of the later of such notice or receipt.

Closing Remarks

Mandating electronic transfers for tax payments and refunds is a forward-thinking policy that will benefit both taxpayers and the IRS. However, it must be implemented with thoughtful and strategic decision-making, including consideration of a deferral and a phase-in cycle, simplifying the compliance process with taxpayer-friendly instructions, and sensitivity and outreach to unbanked and underserved communities. It should also include appropriate safeguards, including expanded FTA eligibility, a correction window for payment errors, and preserving the use-of-money doctrine. These measures will promote compliance, reduce undue hardship, and support a successful transition to a fully digital tax payment system.

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We would be happy to assist in any way possible. Please feel free to contact me at 214-276-5001 or jsmith@dallascpas.com or TXCPA Staff Liaison Patty Wyatt at 817-656-5100 or pwyatt@tx.cpa.

Sincerely,

James A. Smith

James A. Smith, CPA, CGMA
Chair, Federal Tax Policy Committee

cc: The Honorable Billy Long, Commissioner of Internal Revenue
Erin M. Collins, National Taxpayer Advocate