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THE PRESIDENT'S FISCAL YEAR 2022 BUDGET

HEARING

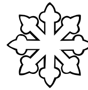
BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

ONE HUNDRED SEVENTEENTH CONGRESS

FIRST SESSION

JUNE 16, 2021



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THE PRESIDENT'S FISCAL YEAR 2022 BUDGET

WEDNESDAY, JUNE 16, 2021

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 10 a.m., via Webex, in the Dirksen Senate Office Building, Hon. Ron Wyden (chairman of the committee) presiding.

Present: Senators Stabenow, Cantwell, Menendez, Carper, Cardin, Brown, Bennet, Casey, Whitehouse, Hassan, Cortez Masto, Warren, Crapo, Grassley, Cornyn, Thune, Portman, Toomey, Lankford, Daines, Young, Sasse, and Barrasso.

Also present: Democratic staff: Adam Carasso, Senior Tax and Economic Advisor; Joshua Sheinkman, Staff Director; and Tiffany Smith, Chief Tax Counsel. Republican staff: Gregg Richard, Staff Director; Don Snyder, Tax Counsel; and Mike Quickel, Policy Director.

OPENING STATEMENT OF HON. RON WYDEN, A U.S. SENATOR FROM OREGON, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. This morning the Finance Committee is pleased to be able to welcome Treasury Secretary Yellen to discuss the President's 2022 budget proposal. There is lots to discuss, and time is tight.

Let's begin with tax. Last Tuesday, Americans woke up to what appeared to be the largest unauthorized disclosure of taxpayer data in history. As I said at the time, the committee takes the confidentiality of taxpayer data very seriously. And I expect that an appropriate investigation is underway. I want to thank Treasury officials who held a briefing with the staff this week on the subject.

This committee takes confidentiality seriously. I also take the issue of economic fairness very seriously. The information in the ProPublica report depicts a tax system in which the wealthiest people in the Nation pay rock-bottom tax rates, sometimes zero. What is worse is that it is all perfectly legal. The details may not have been a surprise to those who file taxes, but they are still a gut punch to read on the page.

Days later, another new report described a second big tax rip-off; in this case, from the people who brought you the carried-interest loophole. This is carried interest on steroids. Wealthy investment managers and their lawyers seem to turn even more of their wage income into tax-preferred capital gains, using legal documents that essentially say "presto change-o" in accounting lingo.

Even after whistleblowers came forward, the IRS enforcement division found itself overmatched and outgunned, the results of years of Republican budget cuts that hobbled their capacity to crack down on corporate cheating.

On its way out the door in January, the Trump administration gutted an effort to put even minor limits on this behavior. Americans also learned that mega-corporations have never contributed less Federal revenues in modern history than they do right now. According to the Congressional Budget Office, corporate tax revenue after the Trump tax law is down nearly 40 percent from the 21st-century average. Many of the largest corporations pay nothing—that is zero.

At the same time, stock buybacks that enrich wealthy investors are through the roof. It was reported that from January through May of this year, the mega-corporations authorized half a trillion dollars in stock buybacks, the most in 22 years. I bet there are going to be a lot of comments today about people's trust in our tax system. What is damaging to people's trust, in my view, is the rotten, cynical unfairness that Americans who work for a living always seem to get the short end of the stick.

The tax code on the books today says that a dollar gained on the trading floor matters less than a dollar earned on the factory floor. So it is not hard to grasp why middle-class wage-earning taxpayers object to that idea. They are paying taxes out of every paycheck to sustain a country whose prosperity is swallowed up so often by wealthy individuals who avoid paying a fair share themselves.

The President, and Democrats in Congress, have a big agenda designed to create jobs, make it easier to raise a family, and help all Americans get ahead. To fund that agenda, the Congress has to make sure that mega-corporations and the wealthy, not just workers, have skin in the game.

I will offer just a few specifics before I close. Senator Brown, Senator Warner, and I recently debuted a plan that would eliminate the Trump-era deduction for shipping manufacturing jobs overseas and make sure that multinationals pay their fair share. I also have a proposal dealing with the core unfairness in the tax code with special rules that allow the wealthiest people in America to pay little or nothing at all.

Democrats are working on a proposal to close the tax gap, because protecting confidential taxpayer data and cracking down on the tax cheats are not mutually exclusive. Congress must do both.

This is a fairness-based approach to revenue, and I look forward to working with Secretary Yellen, our guest today, on these issues in the weeks and months ahead.

Finally, I want to thank Secretary Yellen for leading the battle with respect to a minimum tax for mega-corporations around the world. What the Secretary is working to do is to stop the race to the bottom on taxes for the most powerful corporations.

The key to moving forward, colleagues—and we will talk about it today—is putting a quick stop to discriminatory digital service taxes which unfairly target American workers and American employees. I will have a question for Secretary Yellen on that.

In the Rescue Plan passed in March, the Congress created a major new economic lifeline for rural communities, and it is all

about making sure that people in these communities have resources for schools, roads, and health care. Implementation is underway, and I want to work with the Department and my colleagues to get the job done.

One last bit of news. The Treasury Department and IRS are getting ready to send the first Advance Child Tax Credit payments out to American families. There has been a lot of hard work, and I want to commend my colleagues—especially on the committee, Senator Brown and Senator Bennet—for all their work to get this program up and running for payments that have the potential to cut child poverty in half if everybody does their part to reach the vulnerable.

The committee will be talking about how to ensure that that happens.

Secretary Yellen, thank you for joining us. We will hear from Senator Crapo, and then we will have your opening statement, Madam Secretary.

[The prepared statement of Chairman Wyden appears in the appendix.]

OPENING STATEMENT OF HON. MIKE CRAPO, A U.S. SENATOR FROM IDAHO

Senator CRAPO. Thank you, Mr. Chairman. And thank you, Secretary Yellen, for joining us today. Today we will discuss the President's Fiscal Year 2022 budget and proposals for Treasury and its agencies.

The administration's proposals to increase spending that hit Americans with higher taxes and strangle the economy with regulations and red tape are not a path to prosperity. The President's budget envisions deficits of $14.5 trillion over the next decade, with debt exploding to more than $39 trillion, or 117 percent of GDP, by the end of Fiscal Year 2031.

Such high debt is risky, especially in the current high-inflation environment. Consumer price inflation from April to May was 7.7 percent at an annualized rate. And inflation for durable goods was 36 percent at an annualized rate. With inflation expectations becoming unanchored—which no one can credibly claim cannot happen—the resulting increased interest rates can turn Federal debt service costs into budget busters.

Treasury's top-line budget request of $22 billion is an 11.3-percent increase over Fiscal Year 2021. And Treasury asked for outsized increases across the board in its various agencies and programs. I look forward to hearing more about Treasury's budget proposals, and general explanations of tax proposals in the so-called Green Book. Both proposals are heavy on tax hikes, introducing new tax ideas of questionable merit and seeking to inject more social policy goals into the income tax system.

They also call for a mandatory financial information reporting regime. Under this regime, financial institutions would become agents of the IRS, tasked with monitoring and reporting flows into and out of personal and business accounts above a mere $600 threshold. The proposal, which is sold under the guise of trying to close the tax gap, is very concerning and pulls almost all taxpayers into a surveillance dragnet. The era of big data should not be

viewed as an opportunity for Big Brother. I do not agree with some high-tax advocates that private tax information should be a public good, with governments and the public knowing every private aspect of individual and business income and assets.

An overwhelming majority of taxpayers in this country are law-abiding and pay the taxes they owe. My concerns are amplified by the egregious apparent leak of private taxpayer information out of the IRS, with the data ending up at ProPublica, which reported sensationalized and misleading claims about taxes paid by named individuals. While ProPublica focused on wealthy people, an IRS leak may involve personal information on American taxpayers across the income spectrum.

Secretary Yellen, it would be helpful for you to share what is known at Treasury and the IRS about this apparent massive data breach. I also look forward to hearing about the political agreements struck by the administration and the G7.

A recent G7 communiqué reflects a shift in the U.S. position in OECD negotiations that appears driven by the administration's plans to significantly increase taxes on U.S. businesses. The United States already has a robust global minimum tax, GILTI, and no other country has moved to enact one since. If Treasury envisions hiking taxes on U.S. businesses domestically, including onerous changes to the minimum tax, GILTI, before other countries adhere to global minimum taxes, the U.S. could suffer from a first-mover disadvantage.

Higher U.S. tax rates instituted before other countries move pose the risk of others not following through and a new wave of inversion and foreign acquisition, arising because U.S. businesses are once again unable to compete. Congress needs to understand the analysis behind these proposals and whether any agreement would allow foreign targeting of U.S. companies, or special carve-outs for particular jurisdictions, including China.

The G7 understandings also advocate for new mandatory financial disclosures and funding for multilateral financial institutions, including a new $650-billion general allocation at the IMF of special drawing rights.

I am interested to hear about the outreach you have done with congressional Republicans on both fund increases. Additionally, I again ask that Treasury work to improve its responsiveness to this committee.

Secretary Yellen, I look forward to learning more from you today in our discussion.

Thank you, Mr. Chairman.

[The prepared statement of Senator Crapo appears in the appendix.]

The CHAIRMAN. Thank you, Senator Crapo.

Secretary Yellen, the floor is yours.

STATEMENT OF HON. JANET L. YELLEN, SECRETARY, DEPARTMENT OF THE TREASURY, WASHINGTON, DC

Secretary YELLEN. Chairman Wyden, Ranking Member Crapo, members of the committee, it is a pleasure to be with you.

When I took office back in January, the first and most urgent problem confronting our economy was obviously the pandemic,

helping people make it to the other side of the crisis, and ensuring they were met there by a robust recovery.

Thanks to this Congress and its passage of the American Rescue Plan, we are well on our way towards that goal. But we have to be clear-eyed about something. The pandemic is not our only economic problem. Long before a single American was infected with COVID–19, millions of people in this country were running up against a series of long-term structural economic challenges that undermined their ability to make a good living.

For instance, wage inequality. In healthy economies, we see wage growth across the distribution for workers making the highest incomes and those making the lowest. But over the past several decades, that has not been the case in our economy. Where the highest earners have seen their income grow, families at the bottom end of the distribution have seen their pay stagnate. Gender and racial pay gaps also persist.

At the same time, the labor force participation has been dropping. Even before the pandemic, the share of American women in the workforce lagged far behind many other wealthy nations. These trends have coincided with the reordering of the economic map. There have always been richer areas of the country and poorer areas, but for most of the 20th century, the latter were catching up with the former. The country was rising together, and today this is less true. There is a divergence among local economies. Some areas are growing more prosperous, and others are stagnating.

Climate change adds a fresh layer of crisis on top of this. The average cost of climate-related disasters is expected to double every 5 years.

And of course, there is racial inequality. When I started studying economics in 1963, the average black family's wealth was about 15 percent of the average white family. Maybe that is not surprising. Jim Crow laws were still in effect. But what is surprising is, it is almost 60 years later, and that ratio has barely changed.

These destructive forces—the divergence in wages and in geographic areas, the declining labor force participation, the rise of climate change, and the persistence of racial inequality—all these are combining to block tens of millions of Americans from the prosperous parts of our economy.

There are clear reasons why these destructive forces have festered. The private sector does not make enough of the types of investments needed to reverse them: training programs that can lead to higher wages, child care and paid leave that would help people rejoin the workforce, or infrastructure that would lower carbon emissions and spur growth in neglected communities.

For 40 years we have not done that, not as much as we should have. We need to remedy this lack of investment. We need ambitious fiscal policy to start unwinding these trends. And if there is a short summary of the President's budget, that is it.

The budget, which includes both the American Jobs and American Families Plans will repair the fractured foundations of our economy. It does it through a series of smart policies, including child care and paid leave so more parents can join the workforce; a mass modernization in greening of America's infrastructure to

spur commerce and reduce emissions; an investment to make housing and education available for all; and the list goes on.

We need to make these investments at some point, and now is fiscally the most strategic time to make them. We expect the cost for these will remain well below historic levels through the coming decade. We have a window to invest in ourselves.

In fact, this budget is both fiscally strategic and fiscally responsible. It pays for itself through a long-overdue reformation of the tax code that will make it fairer, without touching the vast majority of Americans, those who earn less than $400,000 a year.

There are some tough tradeoffs in fiscal policy, but a fairer tax code for a structurally sound economy is not one of them.

With that, I am happy to take your questions.

[The prepared statement of Secretary Yellen appears in the appendix.]

The CHAIRMAN. Thank you very much, Secretary Yellen. And a fairer tax code for a structurally sound economy sounds like a pretty good deal for the American people, and thank you for your leadership.

First, Secretary Yellen, I appreciate the President's opposition to raising gas taxes. And the fact is that indexing the gas tax is just a way to start raising taxes on working people next year, rather than this year.

I want to now move to questions. And let me start with congratulations. A ground-breaking G7 agreement that helps halt the race to the bottom on corporate taxes is extraordinarily important, and you have moved these negotiations forward in a way that would have just been implausible even 6 months ago. And so, I want to commend you for that. They are a shared goal of ensuring mega-corporations pay their fair share of taxes to fund the investments.

Now, I remain concerned about how long digital service taxes are going to stay in place once an agreement is struck. Our foreign counterparts have often put in place discriminatory taxes that target American workers and American employers. And these discriminatory taxes I consider to be digital daggers aimed at some of our most successful, high-skill workers and the places that employ them. They should never have been put in place, and yet they remain and even grow.

How are you working to put an end to these digital service taxes in the negotiations?

Secretary YELLEN. Thank you, Senator Wyden. We share your goal of making discriminatory digital services taxes a thing of the past. And we have made substantial progress here. At the G7, we have achieved agreement that there will be a removal of all DSTs and other relevant similar measures on all companies. This relates to our insistence at the OECD on both the standstill and rollback of DSTs. The steering group member countries have accepted that DSTs need to be rolled back, and that is important progress.

Additionally, we have changed the norms surrounding DSTs, conveying to our trading partners that the discriminatory nature of these taxes is unacceptable to the United States. By conveying this message multilaterally, rather than through threats and retaliation, we have also prevented a series of trade disputes that are harmful to U.S. businesses, workers, and consumers.

That being said, we are also retaining all options for discouraging the use of DSTs. The U.S. Trade Representative has started trade retaliation procedures via investigation and sanctions under section 301. And we are keeping that tool available to use if it were to become necessary to get prompt action to eliminate DSTs. While we very much hope to avoid trade conflicts, this tool remains a useful lever, and it brings countries to the bargaining table.

The CHAIRMAN. I need to get to another area, Madam Secretary. And your statement sounds constructive to me. What the American people want to know is, when are these discriminatory taxes going to go away?

So, I would like to close this questioning out. Can you commit to a swift resolution to get rid of these discriminatory taxes that are so bad for our high-skill, high-wage workers?

Secretary YELLEN. We are pursuing absolutely every avenue toward a swift and comprehensive standstill and rollback of our DSTs. We are well aware of the importance of this issue, and we are exploring numerous options in this space, recognizing that foreign sovereigns have political concerns in this space that frankly are every bit as heartfelt as ours.

But let me emphasize again, we share your goals here. We are committed to resolving this issue both on its merit, and because it was standing in the way of a once-in-a-generation opportunity to create a new international tax system to end this spurious and longstanding problem of profit shifting and corporate tax——

The CHAIRMAN. I have one other question. But for purposes of shorthand, these discriminatory taxes against our workers and our employers have got to go. And we will continue that discussion to make sure that that happens quickly.

With respect to my last question, you and I have talked about my view that congressional oversight is so important. Three months ago, I wrote to you requesting information relating to Treasury's handling of the Halkbank/Erdogan investigation during the Trump administration.

I have sent a number of requests. I know your team has a lot on its plate, but we have not gotten what we need. And here is what the question is about. Your team seems to believe that we want all kinds of information relating to a DOJ investigation. That is not what we are interested in.

We want to see how Treasury and your predecessor handled the matter with Erdogan and Halkbank. So my question to you is, can you commit to me that the committee will have substantive production on those requests by the time we start our July session? These are matters in front of Treasury, not Justice.

Secretary YELLEN. I promise to discuss this with my staff and get back to you promptly.

The CHAIRMAN. Good. I just want to emphasize: we are not asking for documents that relate to DOJ and DOJ's investigation. We need Treasury documents to get to the bottom of this major scandal and examine Halkbank and Erdogan.

I am over my time.

Senator Crapo?

Senator CRAPO. Thank you, Mr. Chairman.

And, Secretary Yellen, continuing to focus on the OECD international tax negotiations, the administration has proposed a 15-percent global minimum tax at the OECD. However, the administration's domestic tax agenda includes raising our current global minimum tax, the GILTI tax effective rate, to more than 26 percent. And the administration appears to be pushing for changes to U.S. law before any other country has even enacted a global minimum tax.

A number of countries have pushed back on the idea, including Ireland, Hungary, and India, and most notably China. In fact, there are even reports that China will not sign a global minimum tax without carve-outs for its companies and tax policies.

So my first question is, is the administration's position that the U.S. should increase its global minimum tax, the GILTI for its minimum tax, to an effective rate of 26 percent before others, including China, enact a minimum tax themselves?

Secretary YELLEN. Well, we have proposed a global minimum tax effective rate of 21 percent, not 26 percent. And what we are working toward internationally is a global minimum tax that is at least 15 percent, and hopefully higher than that. What the G7 agreed to in London last week was that they would adopt a global minimum tax of at least 15 percent—not 15 percent but hopefully higher than that. And I think if we are able to make progress domestically on reforming our GILTI, which needs to be on a country-by-country basis rather than a blended basis, and ourselves move it into the same territory we are asking other countries to do, I think we have a very good chance of getting them to agree. And we are really looking for agreement on this by the time of the leaders' G20 summit next October. I think we have a very good chance of getting very broad-based agreement on this in the OECD and——

Senator CRAPO. It sounds to me like you are saying that you think the United States should move first, regardless of whether there is a global agreement.

Secretary YELLEN. Well, I think we are trying to move these things in tandem. We feel very good about the progress that we are making internationally and feel the United States would be in a better situation, and it would help to fund the important proposals in the President's budget to close tax loopholes that are—if we raise this tax and reform it, we are going to stop incentives that many American firms now have to shift profits and actual production activity away from our shores.

Senator CRAPO. Well, I take it that you are saying that you are not ruling out, at least, that the United States would act first? But even if we acted in conjunction with the OECD, that does not include a number of critical other nations, some of which have already signaled that they will not do a global minimum tax.

Secretary YELLEN. Well, Senator——

Senator CRAPO. Go ahead.

Secretary YELLEN. You mentioned Ireland and a few other countries. I had very constructive bilateral conversations with the Irish Finance Minister and believe that he is going to be working with us to try to raise the global minimum tax, even though that is a highly consequential matter for Ireland.

I believe the entire EU will, in the end, go along with higher minimum taxes. Now if there are a few countries—we do need global agreement on this. But we do not need every country to go along with it, because the Pillar 2 minimum taxes contain an enforcement mechanism whereby we will be able to incent hold-out tax havens that do not want to go along with this deal to come onboard and establish a global minimum tax. And if they are unwilling even so to do so, we are proposing changes to the BEAT to make it more effective and to deny foreign corporations in the United States the deductions that enable them to shift their profits offshore.

Senator CRAPO. Well, thank you. My time is up. I think you are referring to what has been called the "SHIELD" concept——

Secretary YELLEN. That's correct.

Senator CRAPO. I do not have time to get into it with you right now, but I will, in questions submitted, ask you to explain that concept and how it is that you believe it will work to force other nations to turn it around.

I understand the basics of what it is, and I do not see personally how that is going to work. But I will ask you to clarify that in your written responses.

Secretary YELLEN. I will.

The CHAIRMAN. Thank you, Senator Crapo. And let me also say to colleagues that Secretary Yellen has a hard stop time, and so we are going to have to stick to 5 minutes.

Senator Stabenow?

Senator STABENOW. Well, thank you very much, Mr. Chairman and Ranking Member. Secretary Yellen, it is always wonderful to have an opportunity to see you. And thank you so much for your incredible service.

I just want to start with a general comment, Mr. Chairman. I think probably today, as I have heard in other committees as well, we are going to hear a lot about deficits being out of control. And I just always have to put this in some context.

I was in the House of Representatives in 1997 when we balanced the budget for the first time in 30 years under a Democratic President, Bill Clinton. I went into the Senate. We started exploding deficits under a Republican President, for a number of different reasons, but ended his tenure with a financial crisis.

Then the Democratic President comes in, President Obama, and he has to dig our way out of a financial crisis. By the time he leaves, we are bringing down the deficit. We go into the next President, President Trump, who explodes the deficit again. Now we have a Democratic President who is having to dig us out of a different kind of crisis, which is the health pandemic, and trying to right-size things.

So from my perspective in working with Democratic Presidents, we have tried step by step to do the right policies to not only bring down the deficit, but to make sure that things are being done right for people in our country.

So, Secretary Yellen, I wanted to talk to you specifically about that, in terms of the tax code, because there are clear differences between what President Biden wants, what we want as the Democratic majority, what our Republican colleagues did in their time

in charge, the largest tax cuts for the wealthiest in our country in 2017.

We put in place the Child Tax Credit. We want to extend that further. The President extends it for 5 years. I would love to see it, as well, extended permanently, the idea of a tax cut for working families. And then you juxtapose that whole discussion of what we want to do with what we have talked about and have had hearings on in the committee, on what is called the tax gap, the difference between what people owe and what people pay. And when we look more closely at that—and the former IRS Commissioner calls that gap as large as $1 trillion a year. I do not know if that is accurate. It is certainly, I think, believable. It is several hundred billion. But when you look at that, again from a fairness standpoint—a study in 2019 found that Humphreys County in Mississippi was the most heavily audited county in America—mostly African American, a third under the poverty line, mostly focused on the Earned Income Tax Credit—rather than wealthy people with complicated tax forms with ways to hide their income, and so on. So we see tax rates that are unfair, and then we see not reporting income, hiding income, and so on.

So could you just speak broadly about what the President is talking about with tax cuts for working people, and then asking everybody to pay their fair share—and frankly, I do not think it is a tax increase to ask a billionaire to pay more than zero on their taxes. People in Michigan do not think that. But could you speak, just in the big picture, about right-sizing the tax system and making sure that everybody pays what they are supposed to be paying?

Secretary YELLEN. Thank you for that question, Senator. President Biden feels that it is crucial that we have a tax system that is fair, and one where we enforce tax laws so that individuals and corporations pay what they owe. And we really need to do that in order to assist hardworking low-income families, for example with the Child Tax Credit that you mentioned that is working now to reduce child poverty by almost 50 percent and give children and families the opportunities they need to succeed in America, and to get ahead.

As you pointed out, there is an enormous tax gap. One number we have been using, one estimate is that it will amount to at least $7 trillion over the next decade. And it largely reflects shortfalls in collections for high-income individuals and corporations.

And we have proposed—the Biden budget proposes to close this tax gap by giving the IRS the resources and the technology, and the money and long-term time perspective, they need to recruit and train and retain qualified staff that can conduct specialized, complicated audits.

We have also proposed to give the IRS a bit more information that will greatly enhance its ability to target those audits at those who are noncompliant, and not at taxpayers who are obeying the law and paying what they owe.

The CHAIRMAN. I thank my colleague from Michigan. We have 25 Senators waiting to ask questions.

Next is Senator Grassley.

Senator GRASSLEY. Thank you, Mr. Chairman.

I want to talk about stepped-up basis—and this is a hot topic in every one of the town meetings I have had across Iowa ever since the President proposed it. And I know that the President has said, well, there is going to be some sort of special rule to protect family operations by allowing them to delay payment of the tax. But farmers do not buy farmland to buy it one day and sell it the next day.

Farmers in Iowa and throughout the Midwest, the family farmers, they do it to pass down their family operations from one generation to another generation. And sometimes I run into farmers who are in the fourth or fifth generation of farming; even six or seven generations occasionally you run into.

So I want to quote what the Democrat Chairman of the House Agriculture Committee, David Scott, said recently about this administration's proposed exceptions, quote: "Could still result in significant tax burdens on family farming operations."

So my question is, isn't Chairman Scott correct in regard to that? Is it really your point that family farms of several generations ought to be broken up because of doing away with the stepped-up basis to raise money for this?

Secretary YELLEN. Senator Grassley, the President's proposal would enable a family to hold onto its farm, and to pass it down through generations without paying any tax on that. And so the same would be true for small businesses. As long as the property remains within the family, there would be no taxes collected. Only if the farm were eventually sold would there be taxes. And that would not be on the value of the farm, it would only be on gains in the value of the farm.

We feel that eliminating stepped-up basis in death is an important way of closing what is really a significant loophole, which is that capital gains can escape taxation entirely if individuals hold property until death. And the President's proposal includes an exclusion of $1 million in capital gains for an individual, and $2 million for a couple, and an additional up to $500,000 for a couple if a primary residence is involved. And in the case of family farms and businesses, there would be no tax levied as long as it stays in the family.

Senator GRASSLEY. Okay.

On another question, you were recently quoted as saying, quote, "I don't think there's going to be an inflationary problem, but if there is, the Fed will be counted on to address it."

I find this nonchalant approach to the risk of inflation very troubling. As we know from the 1970s, once inflation takes off, getting it back under control can require very painful measures. The early 1980s proved that. As former Treasury Secretary Summers recently stated in an interview with *Time* magazine, quote, "The Fed has had almost no success in gently bringing down inflation once an economy has started to overheat."

Isn't it incumbent upon the President, you as Secretary of Treasury, and even us in the Congress, to take inflationary risks seriously by pursuing responsible fiscal policies and not just expect the Fed to clean up a mess after the fact?

Secretary YELLEN. Senator Grassley, we are monitoring inflation very carefully, and we do take it very seriously. No one wants to return to the bad time of inflation of the 1970s. And I have put for-

ward the view previously—I think this is what most economists think—that the current burst of inflation we have seen reflects the difficulties of reopening an economy that has been shut down, that has seen huge swings in spending patterns, and is experiencing bottlenecks.

And we are taking steps, those we can, to deal with the bottlenecks that are affecting the economy now. It is critically important that fiscal policies be put on a responsible course. As Treasury Secretary, I take that responsibility very seriously, and I believe that the budget that the President has proposed is indeed fiscally responsible. And I would be glad to—I see you are running out of time, but I would be glad to explain in detail why I hold that view.

The CHAIRMAN. Thank you, Senator Grassley.

Senator Cantwell is tied up in a hearing. The next two are Senator Cornyn and Senator Menendez.

Senator Cornyn, and then Senator Menendez.

Senator CORNYN. Thank you, Madam Secretary, for joining us today.

First of all, I want to ask you, when it comes to negotiating a global minimum tax with the G7, what do you and the administration see the role of Congress as being?

Secretary YELLEN. Well, any agreement that we are able to reach—and the G7 is just one group, an important group that has expressed support for this approach. The largest group involved is the OECD. Negotiations have been going on there for many years. Anything that affects U.S. tax law must be enacted by the U.S. Congress. So, Congress plays a critical role.

Senator CORNYN. Thank you.

The administration has proposed to make spending for the IRS mandatory spending. But as you know, the appropriations process is an important part of congressional oversight into an agency like the IRS.

Are you endorsing this idea that Congress will be removed from oversight of the Internal Revenue Service?

Secretary YELLEN. No; I have no such thought. I think it is important that Congress have oversight of all the executive branch activities and of agencies like the IRS. We have proposed an increase in mandatory spending because the IRS really does not have the kind of budget certainty that it needs to undertake long-term programs of modernization of their technology, and hiring and training and retaining the qualified cadre of staff that are needed to improve their audit performance, and trying to close the tax gap. And we think the certainty that comes with a long period of assured funding—and what we have proposed, we think, is within IRS's wheelhouse to practically increase their expenditures at a pace of around 10 percent a year.

Senator CORNYN. How is that different, Madam Secretary, from every other Federal Government agency?

Secretary YELLEN. Well, really these are long-term investments that are just required. We are seeing a 20-percent real shrinkage of IRS's budget, and——

Senator CORNYN. I understand. I understand your argument, but how does that differ from any other government agency? I am sure all Federal Government agencies would like to have mandatory

spending and diminished congressional control over their budget. How is that different?

Secretary YELLEN. Well, it is not inherently different, and most of IRS's budget would continue to go through an annual appropriation.

Senator CORNYN. On another matter, Madam Secretary, my constituents have expressed concern about the retroactive nature of the administration's proposal to increase the capital gains tax. The administration's Green Book notes that the proposal would, quote, "be effective for gains required to be recognized after the date of announcement."

First, a clarification. What date does this refer to, "the date of announcement"?

Secretary YELLEN. I will have to get back to you on that, Senator.

Senator CORNYN. Fair enough. And the other concern that I have heard from my constituents is the fundamental unfairness to people making long-term plans, whether as individuals or small businesses or the like, to basically change the rules of the game on capital gains after they have relied upon existing rules in order to plan their affairs, whether it is a business or an individual or the like.

So do you think it is fair to basically retroactively change the rules of the game when it comes to capital gains?

Secretary YELLEN. I—you know, Congress has the ability to change the tax laws, and has done so on many, many different occasions. And I do not see a prospective change in rules pertaining to the taxation of future realizations of capital gains as being a retroactive feature.

Senator CORNYN. Let me ask you one last question about the Foreign Investment Risk Review Modernization Act. As you know, Congress has given Treasury new responsibilities under CFIUS, the Committee on Foreign Investment and, as I understand it, is working with some of our allies to create a similar policy within their jurisdiction.

I think it would be helpful for the U.S. to create a multilateral mechanism to address predatory practices by countries like China and the other countries where our national security interests are involved.

Is there a process in place to discuss with our allies a mechanism to create a CFIUS-type process so that China and other countries could not basically exploit the gaps in that sort of coverage and scrutiny?

Secretary YELLEN. So I agree with you that that would be a very desirable thing for other countries to do. And I do not know that I would say there is a process in effect, but I know that we have had conversations with many different countries about putting in place such a process or enhancing processes that they may already have. They have indicated a willingness, and I have worked jointly with them, and I think it is something we absolutely should be encouraging.

The CHAIRMAN. The time of the Senator has expired.

Senator Menendez?

Senator MENENDEZ. Prior to the Trump corporate tax giveaway bill in 2017, the corporate rate was 35 percent, the tax rate. After this giveaway, the corporate tax rate was lowered to 21 percent.

Secretary Yellen, as a result of the Trump tax cuts in 2017, what is the new average effective corporate tax rate that U.S. corporations are paying?

Secretary YELLEN. Um, I believe the number that I have seen on an all-inclusive corporate tax rate that would include also State corporate taxes is a little bit under 26 percent, maybe 25.8 percent. And if you look at other G7 countries, our effective tax rate is a little bit below theirs. Theirs is something closer to 28 percent.

Senator MENENDEZ. Well, I think the average effective tax rate paid by U.S. corporations, as I have seen it, dropped after the Trump tax bill, the effective rate, by nearly half, to almost 8 percent. And in New Jersey, the average rate for a hardworking family was double that of the U.S. corporations at about 15 percent.

Isn't it fair to say that the cost of the Trump corporate tax cuts was a whopping $1.5 trillion unpaid for?

Secretary YELLEN. It was very expensive. And really, I did not see any—and I believe most economists saw very little evidence of a boom in investment spending or productivity that resulted from it. So——

Senator MENENDEZ. So——

Secretary YELLEN. The reason our deficits are as large as they are now—of course the pandemic contributed, but the 2017 law made a big contribution.

Senator MENENDEZ. So only the previous administration could manage to lose $1.5 trillion in tax revenue while still raising taxes on millions of hardworking families. You know, rather than provide much-needed relief to hardworking families that already paid too much in taxes, the 2017 Trump corporate tax bill actually made things worse as it imposed an arbitrary $10,000 cap on State and local tax deductions, one of the oldest deductions in the code.

This provision disproportionately impacts New Jersey and other States that make investments in our public schools, roads, bridges, other critical infrastructures. Do you think it is a coincidence that States hardest hit by the SALT cap like New Jersey are also the States that have invested the most in public education systems, and their roads, and transit and highways?

Secretary YELLEN. Well, I mean that is one reason that these States have higher State and local taxes, is to invest in public infrastructure. And as you know, the Biden administration thinks those investments are critically important.

Senator MENENDEZ. Yes. And of course, this is why States like New Jersey contribute more to the Federal Treasury than they receive, while other States receive far more from the Federal Treasury than they donate.

And so it does not make sense, I think, to punish taxpayers in States like New Jersey that choose to make investments in their people and in their infrastructure that make it a blue chip State, that make it a maker State that therefore contributes to the Federal Treasury.

But in reviewing the Treasury's Green Book—which I have here with me—which provides an explanation of the President's revenue

proposals including for infrastructure, I was disappointed to see that the SALT deduction is not discussed anywhere in the President's tax proposals.

Now you and I discussed this at length during your confirmation. I discussed the same with your deputy. Both of you committed during your confirmation hearing to do a study and evaluate the SALT deduction. Yet, there is nothing in that book. So I expect much more. I expect to see what that commitment is going to yield.

And finally, your office responded to me yesterday, 6 months later, to my questions in your nomination hearing about the question of how many Latinos were hired, what is the overall inclusion. The fact is that we see very little progress being made in new hires.

The Office of Minority and Women Inclusion at Treasury has identified that over the past 5 years—which of course precedes this administration—there remains a consistent underrepresentation of Hispanic employees. I hope you are aware that, according to industry publications, the largest money managers have nearly $54 trillion under their management. And of those, minority and women managers represent less than 1 percent. And yet research by the Knight Foundation shows that diverse managers perform the same, if not better, than mainstream managers.

So I would like to see the Treasury Department as a force, both in its representation in its department and in creating this access to capital and opportunities. I do not know—when we have billions in Federal pension funds and other funds—why it is that only 1 percent of minorities and women get to manage that money, and this other group of individuals gets to manage 99 percent.

I want to see some real change, and I hope you will be committed to that.

Secretary YELLEN. I am committed to it. I have met with our OMWI officer, and diversity and inclusion in our contracting and in hiring is a very high priority. I am committed to working hard to change these numbers.

The CHAIRMAN. Thank you. Thank you, Senator Menendez. I also want to say, on Senator Menendez's important point about corporate taxes, according to the Congressional Budget Office, corporate income tax revenue after the Trump tax law is down nearly 40 percent from the 21st-century average. I thank my colleague.

Next is Senator Thune.

Senator THUNE. Thank you, Mr. Chairman.

Madam Secretary, welcome back to the committee. As you can tell, I am in another committee room marking up a bill at the Commerce Committee. But let me ask a question about this issue of inflation, which I am sure has been talked about a good bit already today, but it is the highest, as I think you know, in 13 years. Consumer prices are rising at 5 percent, and according to the latest Consumer Price Index, the indexes for all items except food and energy are up 3.8 percent, which is the largest yearly increase in almost 30 years.

The energy index rose 28.5 percent over the last year, and according to a survey by the Federal Reserve Bank of New York, fears of inflation a year ahead hit their highest level on record, with a consumer expectation of 4 percent.

Do you view this inflationary trend as transitory, or do you expect an extended period of raised inflation?

Secretary YELLEN. Well, I previously said that I see important transitory influences at work, and I do not anticipate that it will be permanent. But we continue to monitor inflation data very carefully and, importantly, for the long-run inflation outlook, we see inflation expectations by most measures—there are many different measures—but by most measures we see those expectations as being well anchored. And I think the consensus of forecasters is that this bout is temporary.

Partly what we are seeing is that prices had just collapsed at the onset of the pandemic in the service sector, where demand collapsed. As the economy is opening back up again, prices are now moving back to a normal level in leisure, hospitality, air fares, and the like. In most cases, prices remain below pre-pandemic levels, but they are rising. And that is some of what is going on here.

But there are also bottlenecks, and clearly firms are having difficulty hiring workers. I believe our economy is on track to get back to a more normal operation, and that inflation will decline over time. But we are going to monitor this very, very carefully.

Senator THUNE. Do you still agree with the administration's projection of 2 percent for the year?

Secretary YELLEN. Well, the projections that we made were back in February. And what we said agreed very closely with the blue chip at the time. We are going to be doing a mid-session review and coming out with a new forecast, as certainly for this year inflation will be higher than that.

Senator THUNE. Let me switch gears here for a minute. The Biden administration has proposed having banks report to the IRS, both inflows and outflows, of business and personal accounts, which would be a significant new intrusion into taxpayers' lives.

Yet just last week the IRS had one of the most widespread breaches in the agency's history in order to advance a political agenda. And this apparent leak, a targeted leak—a targeted attack, I should say—on a select few Americans undermines the heart of public trust between taxpayers and the IRS's ability to safeguard private information.

Can you tell me how the Treasury and the IRS hold individuals accountable who break Federal law by sharing confidential tax information and tax returns? And will you commit to updating us immediately on what steps the administration is taking to ensure this does not happen again? And can you maybe tell us what steps you have taken so far?

Secretary YELLEN. Yes. This was a very serious situation, and I and the Treasury Department take very seriously the protection of government data. We have referred this matter to the Treasury Inspector General and to the Department of Justice.

The IRS Commissioner is looking into the matter, as is the Treasury Inspector General for Tax Administration. But we are only one week out on this, and I really want to emphasize we do not know what happened. We do not have any facts at this point.

I promise to keep you updated on what we find. But it is absolutely top priority to safeguard taxpayer data. When we see the results of the investigations that are done, if there are actions that

we need to take to shore up the protection of this information, you have my absolute word that we will do so, and we will keep you and Congress informed on what we are doing and what we are finding on this.

Senator THUNE. Mr. Chairman, my time has expired, but I will submit a question for the record dealing with the issue of the stepped-up basis tax proposal as it pertains to a family-owned business or farms and ranches. I am very interested in what the administration's proposals are to exempt—or protect, I should say—those types of entities from what would be an incredibly crushing and onerous tax.

The CHAIRMAN. Thank you very much, Senator Thune.

Senator Carper is next.

Senator CARPER. Thanks, Mr. Chairman. Madam Secretary, thanks very much for joining us today, and for your extraordinary leadership over all these years.

My colleagues have heard me say more than a few times, whenever someone is offering changes to the tax code, I ask four questions with respect to those changes. Is it fair? Does it enhance or diminish economic growth? Does it simplify the tax code or make it more complex? And lastly I ask, what is the effect on the budget deficit and the fiscal situation?

The first of those guiding principles deals with fairness. It is my experience that people are generally willing to pay their fair share of taxes as long as they are convinced that others are doing the same. And I am pleased that many of the proposed investments in the Treasury Department's budget are designed to reflect that principle of fairness.

For example, I have been a long-time proponent of providing greater funding and resources for IRS enforcement operations. Each dollar spent on IRS enforcement generates, I am told, a return on investment of at least $5, and some say it may be higher. That is a pretty decent return on our investment. And I support those proposals very strongly.

The budget proposal from the administration will help close the tax gap and ensure that large corporations and high-income individuals will be more likely to pay their fair share. Another principle that guides my decision-making is the need for fiscal responsibility, and I believe things worth having are worth paying for, and that must be a consideration.

The CHAIRMAN. Good.

Senator CARPER. Mr. Chairman, you said "good"?

The CHAIRMAN. Sorry; I just wanted to cheer you. Your points are very important. Go ahead.

Senator CARPER. Very good. Thank you. The administration includes many options to make the tax code fair and fiscally responsible, including reversing parts of the 2017 tax law, and we should definitely consider these ideas as well as other options to level the playing field, such as lowering the exemption level on the estate tax.

A question, Madam Secretary. Can you highlight some of the provisions in your budget request that most effectively strengthen the fairness of our tax system? And would you share with us your

thoughts on how we can make these investments while ensuring that our decisions are fiscally responsible, please?

Secretary YELLEN. Yes. We have tried to make the tax system fairer in our proposals. The President has pledged that no taxpayer earning under $400,000 will see their taxes raised by as much as a penny. And he has been absolutely scrupulous in adhering to that promise.

So the tax proposals on the individual side would target only very high-income taxpayers by raising the top rate back to where it was, but it would only apply to joint filers earning over about $509,000.

He proposes to raise rates on dividends and capital gains on the principle that it is not fair for workers to pay a larger share of their wage income than wealthy individuals pay on their rewards, their income from capital.

So he proposes to equalize that, equalize those rates on income from capital gains and dividends, and from work. And he has proposed to—in the step-up of basis at death, or when gifts are given, that also was unfair that by holding an asset throughout one's life it can completely escape taxation—capital gains taxation—totally.

And fairness also means collecting what is owed under our tax code from everyone, rich or poor. And wage income which is reported to the IRS is accurately reported to a level of 97, 98 percent on tax returns, so those earning W–2 wage income do pay what they owe. The tax gap really reflects shortfalls in reporting by high-income individuals and by companies. And the President's proposal would seek to remedy that by providing the IRS the resources they need to audit high-income individuals and companies that are responsible for that tax gap to improve tax compliance, to make the tax system fairer, and to collect the information.

There is enough information to give a guide as to where the auditing resources should be used so that we do have fairer tax collection.

The CHAIRMAN. Thank you, Senator Carper. We still have 16 Senators to ask questions.

And next is Senator Portman.

Senator PORTMAN. Thank you, Mr. Chairman, and thank you, Secretary Yellen, for joining us again. I have found this a fascinating dialogue this morning. I am going to ask questions I had not planned to ask because it seems like everybody on the Democratic side has decided that the 2017 tax reform bill had a negative impact on our economy and on the opportunity for people to get ahead. So let me just ask a few questions to be sure we are working from the same facts, because it seems like this is kind of a fact-free zone on that particular topic.

Do you agree that—with regard to the tax bill which was implemented in 2018, and then of course COVID–19 hit in early 2020, so let's say in the 18 months prior to February of 2020, which was when the COVID pandemic hit and affected our economy in such negative ways—would you agree that, during that time period, we had significant improvements to the economy and to the equality that we all seek, meaning that lower-income individuals have a better shot. And in particular, do you agree that the poverty rate during that period was the lowest it has been in the history of our

country since we began keeping track back in the 1950s? Yes, or no?

Secretary YELLEN. I agree that that was a period of good economic performance in the ways you just said. But it was a continuation of trends we had seen in the prior years, with recovery——

Senator PORTMAN. Let's talk about that for a second, if we could, Madam Secretary. It was the lowest poverty rate in the history of our country. You said it continued a trend. That is not true. With regard to wages, when you take inflation into account, wages had been going down in my home State and nationally. In the 18 months prior to February of 2020, we had 19 straight months, actually, in 2020 February, of wage gains of 3 percent or more on an annualized basis. Isn't that true?

Secretary YELLEN. I agree that there were good wage gains, especially at the bottom of the income spectrum——

Senator PORTMAN. You've just said what I was going to add, which is the lower quartile particularly benefited, as well as a lot of middle-income Americans. And that was a huge relief for us in my home State and elsewhere in the unemployment numbers. Do you agree unemployment was at a 50-year low?

Secretary YELLEN. Absolutely. But I would——

Senator PORTMAN. For Hispanics and blacks and other marginalized groups, it was the lowest ever in history.

Secretary YELLEN. Yes. And I think those were wonderful——

Senator PORTMAN. What were——

Secretary YELLEN. Those were wonderful developments. We had a full employment economy, tight labor markets. And, just as a weak economy imposes the largest losses on disadvantaged groups or minorities, on low-income workers, a strong labor market does exactly the opposite. And we had a good, strong labor market that was conferring those benefits.

I simply would argue that this was largely a continuation of trends that had been in place and continued. I do not believe that was caused by the 2017 tax act. It certainly was not harmed by that act, either. Those trends were very favorable.

Senator PORTMAN. Yes, well, many economists would differ, including the Congressional Budget Office, which is a nonpartisan group up here that says that the corporate tax reform that you apparently oppose allowed for workers to gain a lot of benefits. In fact, they said 75 percent of the benefits went to workers' salaries, wage gains we just talked about, and went to workers' benefits, 75 percent of it.

They also said that $1.6 trillion—this is a Joint Tax number as well—came back into the U.S. economy in terms of repatriation, $1.6 trillion. And you made the point earlier that somehow everybody was leaving the United States during that time period. That is not true. In fact, inversions flipped; we did not have any inversions virtually in that time period I am talking about as compared to previously when we had a lot of them.

So in terms of advances, we were going the wrong way in terms of losing jobs and investments overseas. Anyway, I appreciate your background and experience, but I just think that we have misinformed the public as to what happened in 2017 in the interest of somehow raising taxes on the workers I represent, who are going

to be hit by these higher corporate taxes that you would like to put in place.

I am also very concerned about the budget. You said this morning—I heard you saying that you are proposing ambitious fiscal policy. It is ambitious, taking the country's debt to historic levels as a percentage of GDP, which is how we measure it, and a $14-trillion increase in spending over the next 10 years.

So as you know, during your nomination I supported you and I said, "Would you commit to me to be the fiscally responsible one?" And you said you would. So I hope that you will begin to do that and get us back on track.

Secretary YELLEN. I believe we are getting back on track because, for 15 years, every dollar of spending proposed in this budget is paid for. And over 20 years, there is a substantial reduction in outstanding debt. Over the next decade, the real interest cost on the debt is projected to be either negative or just barely positive. And in the interest rate environment that we are in now and have been in before the pandemic, we have had an opportunity to finance critical investments that will make our economy grow more quickly and be more productive and fairer and have the ability to pay for them. And we will end up with more tax revenue from the changes to the tax code that will benefit our economy into future decades when problems of aging populations will get to our entitlement program——

The CHAIRMAN. The time——

Secretary YELLEN. And I believe this is fiscally very responsible.

The CHAIRMAN. The time of the——

Senator PORTMAN. We can disagree about that.

Thanks, Mr. Chairman.

The CHAIRMAN. Our next Senator will be Senator Cardin.

[No response.]

The CHAIRMAN. Senator Toomey?

[No response.]

The CHAIRMAN. Senator Brown?

[No response.]

The CHAIRMAN. Senator Scott?

[No response.]

The CHAIRMAN. Senator Bennet is next.

Senator BENNET. Hello, Mr. Chairman. Can you hear me?

The CHAIRMAN. Yes, we can hear you fine.

Senator BENNET. Thank you very much.

Madam Secretary, I want to thank you and your team very much for the work that they have done to get ready for the monthly distribution of the Child Tax Credit. We are very grateful for that.

I wonder if you could talk a little bit about what that work has looked like and where we are in that process?

Secretary YELLEN. So first of all, Senator Bennet, thank you so much for your leadership on this issue. I think putting this Child Tax Credit in place really is an important step, and we are proposing to continue it, to make the nonrefundablity permanent and the increase in the size of it.

We have worked very hard with the IRS to begin monthly payments to eligible families, starting July 15th. The IRS, I believe, is ready to make those distributions. Special attention has gone to

how to create awareness and make sure that the families that did not file a tax return this year or last year know about their eligibility for the Child Tax Credit, and to apply for it.

The IRS opened a Non-filer portal yesterday, and it will take some time to fully develop. It will be necessary to collect more information about individuals than the IRS needed for the first rounds of Economic Impact Payments. But they are developing that portal, and it will be available to non-filers. And we are working hard with members of Congress and through many different areas to get the word out into those communities and the nonprofit organizations that work with individuals—low-income individuals who really need that money, are eligible for it, but do not file taxes.

Senator BENNET. I appreciate it, the Non-filer portal and everything, so much. I also—I have another question on another topic I want to address but, Madam Secretary, I know you know how important this is to working families in this country. And there are a lot of us who have not given up hope that we can find a way to work together to make the Child Tax Credit permanent. It does not make any sense to me that we would do something that was this valuable and then turn around and raise taxes basically on working people who can least afford it.

So we are going to fight hard through this process to try to make it permanent, and I hope we will be able to persuade the administration at the moment to do it.

I want to just shift gears, with what little time I have left. In May, this committee held a hearing on financing options to bolster American infrastructure. And I was pleased with the response and support from my colleagues on both sides of the aisle for bringing back a taxable bond option similar to Build America Bonds created in the 2009 Recovery Act to help State and local governments with critical public projects. My colleague, Senator Wicker, and I recently introduced our bipartisan American Infrastructure Bond Act to do just that. The bill would create a new class of direct-pay taxable bonds that would be attractive to investors who do not benefit from traditional tax-exempt bonds, such as pension funds and institutional investors.

And the President has proposed creating a similar type of bonds called Qualified School Infrastructure Bonds, which would be limited to construction and repair of schools.

I am interested in your views on tools like American Infrastructure Bonds that States and local governments could use for infrastructure projects that could include, but not necessarily be limited to, public schools.

Secretary YELLEN. Senator Bennet, I think it is an important and interesting proposal. As you mentioned, our budget proposal does use a tool like that for schools. There is also an additional $15 billion proposed for Private Activity Bonds to support transportation infrastructure. But this is an important area where we would definitely be willing to work with you and your staff to understand how a tool like this could help broadly with the Nation's infrastructure, and how it could be coordinated with the infrastructure spending proposals we have made.

Senator BENNET. Thank you, Mr. Chairman.

The CHAIRMAN. I thank my colleague.

Senator Cardin is next.

Senator CARDIN. Thank you, Mr. Chairman. And, Secretary Yellen, thank you very much for your service.

I want to get your view as to how we can use the tax code more effectively to deal with investment of resources to build wealth and equity in communities across the country that have been traditionally underserved.

We have several tools that are available. We have the Low-Income Housing Tax Credit. We have the historic tax credits. We have now the Opportunity Zones. I want to talk about two that are in the President's budget and get your view as to how you intend to use these tools to deal with the lack of housing opportunities in underserved communities.

The New Markets Tax Credit, which I have sought to be made permanent, is made permanent under the President's budget. So that is one tool that has been very effective in Maryland and throughout the country. So I am interested in your views as to how you would utilize the New Markets Tax Credit.

And then there is the new program, the Neighborhood Homes Investment Act, which I am a proud sponsor of, along with Senator Portman, that deals with the tax credits to deal with the appraisal gap between the value and needs in underserved communities. In the President's budget, you also have funding for that new tool to deal with underserved communities.

Could you just share with our committee how the Biden administration intends to use the tax code to help serve communities that have been left behind in the past?

Secretary YELLEN. Well, Senator Cardin, we certainly share the broad aim of trying to help communities that have been left behind. And we have the toolkit that has a number of important elements in it. And you have mentioned two that we think can make a real contribution.

The New Markets Tax Credit—as you mentioned, the President has proposed an additional allocation. And we think that it is an important way of channeling funds to qualified community development entities that, in turn, can make investments in low-income communities.

And we will work through, if this proposal is enacted into law, to get that money out and make sure that it is used effectively.

And I think the second proposal that you mentioned, the Neighborhood Homes Investment Act, also fills a need that is really not addressed anywhere else, as far as I know, in our tax structure. We have credits to encourage the construction and rehabilitation of rental properties, but this would encourage construction and rehabilitation of owner-occupied housing in distressed neighborhoods.

And if this is enacted, we would—Treasury would write rules to make sure that this money is used effectively and is awarded on a competitive basis.

Senator CARDIN. Thank you for that. We recognize that, in regard to the new program, the Neighborhood Homes Investment Act, we do not have a track record on that. On the New Markets Tax Credits, we have a track record. So I would just urge you to work with us as we look to give you that authority as to how it

would be implemented so that we can maintain the broad bipartisan support we have.

I think it can play a critically important role in reaching a gap that we have today in neighborhoods that are great neighborhoods, but the appraised values just do not allow for the traditional financing.

So I thank you for your commitment, and, Mr. Chairman, I will yield back. Thank you.

The CHAIRMAN. Thank you, Senator Cardin. And your good work on the Neighborhood Homes Investment Act and Secretary Yellen's support are clearly paying off. And I am going to put it in my big housing bill that I will be introducing shortly—credit to you and the Secretary, Senator Cardin.

Next will be Senator Brown.

Senator BROWN. Thank you, Mr. Chairman.

Madam Secretary, it is nice to see you again as always. I will echo the words of a number of my colleagues, Senator Bennet most recently, about the Child Tax Credit. I remember when you and I talked soon after your nomination, and I asked you about this, and you promised that—you said it would be a challenge, but you promised that the IRS would find a way to make the monthly disbursal of $250 or $300 for a child happen, and you did it even earlier than we, with your immense talents and persuasive ability, thought you could.

So apparently, 65 million kids across the country will get this financial boost. It will help parents. Senator Casey and I have talked about this, and when we sat together on the Senator floor when we voted on this package, that was the best day—certainly I cannot speak for him, but the best day of my career was seeing these 10 years of work come forward in this way. And the temporary expansion of the EITC and CTC is so important, and I appreciate your commitment to work with us to make this permanent. So thank you again for that.

My first question is about your efforts on international tax. People in Ohio are furious that our tax code rewards companies when they ship jobs overseas and stick profits in a tax haven. I am working with Chairman Wyden and Senator Warner to fix that. The agreement you secured with the G7 could help us reverse that race to the bottom on corporate taxes.

If you would, speaking of that, how will that help workers in my State, especially workers who live in fear that their factory will be shuttered and their jobs shifted overseas?

Secretary YELLEN. So I think workers, Senator, in Ohio are right to worry that our tax system contains incentives that make it profitable, in some cases, for American firms to move jobs overseas, and also sometimes to move income overseas to deprive the U.S. of tax revenue we could use and absolutely need for things like the Child Tax Credit, and for education, research and development, manufacturing, and other things that would be very positive for them.

So I was pleased that, at the G7, we were able to get a unanimous support on the part of our allies for creating a global minimum tax of at least 15 percent. We are hoping that by the time

this is finalized, we can get countries to agree to a higher rate than that.

And what we have had is a race to the bottom in corporate taxes that has just cannibalized tax bases in the United States and around the world, depriving us of the revenue to invest in good jobs and education and addressing climate change and the like. And I am hopeful that Congress will adopt changes to make—we have a global minimum tax, but we need to make changes to make it more effective. And establishing a global agreement will definitely address incentives that firms now have to shift jobs abroad, and will really address unfair competition that American businesses face from foreign-based corporations that are based in low-tax areas or make use of tax havens.

Senator BROWN. The other frustration—well, anger is probably a better word—that so many Ohioans exhibit about the tax system is how they pay their taxes every week, every month, every paycheck, at the end of the year, whatever, but they also see so many who do not. And the so many who do not are so often some of the wealthiest people in the country. And I think people recognize the problem is that the IRS is underfunded on the one hand, and also outmatched by sophisticated actors whose money is hard to follow.

Tell us, if you would, briefly—and my last question, Mr. Chairman—how does the President's compliance proposal benefit honest taxpayers who currently have to compete with dishonest cheats?

Secretary YELLEN. So, with proposed and substantial investments in the IRS to improve their ability to collect taxes from high-income earners and companies, where audit rates have diminished more than 80 percent over the last decade—and that is where the tax gap is that we propose collecting. Having the IRS collect just a few additional pieces of information that will be simple for financial institutions to provide will help the IRS target their audits on the individuals who are not paying their fair share and who lead honest taxpayers—who earn mainly wage income that is accurately reported to the IRS—lead them to feel that they are not getting fair treatment because high-income individuals and companies, either because of our tax laws or because they do not accurately report their income, are able to evade their responsibilities.

The CHAIRMAN. The time has expired.

And the next two are Senator Lankford and Senator Casey.

Senator LANKFORD. Madam Secretary, thank you for your testimony today. I do want to make just a couple of quick statements. You made the comment earlier about a fiscally responsible budget.

This budget does spend almost 25 percent of GDP. That is well above the 50-year average. That is even above the amount during the 2009 stimulus time period, when there was a very large jump. It assumes a very large increase in spending. And one other corrective statement that I want to be able to make, you talked about the difference in wages for the different types of earners.

The lowest quartile of income earners, after the 2017 tax changes, actually went up faster than all the rest. I noticed you went back and looked at a 20-year average, rather than actually looking at what happened since the 2017 tax change. After the 2017 tax change—I know you know this statistic—but the lowest

quartile of earners actually went up faster than all other quartiles of earners. So I do want to make that correction.

I want to go back to something Senator Brown just mentioned as well, about trying to gather information. You mentioned getting information on more high-income earners, that if the IRS had that, they would be able to do a better job of actually closing the tax gap.

But in your budget request, you actually are asking for information for every transaction for every individual of $600 or more. Now, when I asked the Commissioner about this—currently banks turn in information of $10,000 or more, and the IRS has a difficult time processing that much data.

Now we are talking about individuals with $600 or more in transactions. Can you tell me why you need that information, that level of granularity? That is not about high-income earners, that's about getting more information on everyone.

Secretary YELLEN. We are asking financial institutions that already have an obligation to report on the 1099–INT form interest earned by individuals if it amounts to more than a minimal amount—I cannot remember, maybe there is a $10 cutoff. We are simply asking to add two boxes to that form, one that would be the aggregate inflows into the account over the course of the year, and the second would be the aggregate outflows from the account. So it is not detailed information. It is for accounts where there is already a provision of information from financial institutions directly to the IRS.

And we are proposing two additional bits of data that are easily accessible and involve essentially no additional burden on financial institutions. Those pieces of information are not actionable. They are not taxable items in their own right. But they will greatly assist the IRS in knowing where to target their audit resources.

Senator LANKFORD. So here is the challenge that I have. As recently as last week—obviously there was an enormous leak from the IRS that we have seen. We do not know how many documents have been leaked out, and an institution has started publishing private tax information for individuals. I know there are a lot of individuals who say those are wealthy people, so stick it to them; we will put the wealthy information out there.

The problem is, it is a violation of Federal law. And your request is to get a lot more information from private individuals. We also need to see what the IRS is doing. And I heard your answer earlier to Senator Thune, because publishing that data is against Federal law as well.

So it is not just an instance of, if you release the data that that is also a felony, but actually publishing that data is also a felony, if they know it is tax data. And from the ProPublica article, they know it is tax data. It was quote, end quote, "given to them anonymously." We do not know that to be true. But we do know that it is a Federal offense for them to be able to do that.

So what we want to know is, what is the IRS doing about this? And you have said you are going to give that to Senator Thune. Thank you for that. How are they actually following up on it? We will ask the DOJ what they are actually doing as well. But gathering that kind of data on every single individual and then to have this large a breach from the IRS reminds me of old times in the

IRS when, quite frankly, Congress gave them less money until they actually took care of all their internal issues.

So it does not help us or actually encourage us to help with the tax gap. I do want to mention one other issue, though, and I am looking forward to that information and getting back to Senator Thune on what is happening on this breach.

Secretary YELLEN. Senator, I just want to make one thing clear. We do not know what the source of this information was. And we do not know that it was a leak from the IRS. We are investigating this. It is a very serious matter. We have referred it to DOJ, the Inspector General, the FBI. But we do not know it was a leak from the IRS.

Senator LANKFORD. I have one more question that I need to state, and that is on the energy issue side. I was very surprised, because you talked about the fiscal responsibility side of this, but you're talking about, at the end of this year, wiping out every kind of tax treatment, even normal tax treatment for businesses that do oil and gas, by the end of 2021.

I do not know if the IRS has done any kind of study on what that would do for jobs, or what that would do for the price of gasoline across the United States and how that would increase the inflation rate across the country; if that would make us more energy independent or more energy dependent, what that would do to the smallest mom and pop companies that do oil and gas, because they have percent depletion. Those are a lot of family businesses.

Has there been any study from IRS on any of those issues? And you can get this back to me in writing. The proposals that you made even for normal tax treatment for oil and gas companies look like they will have a dramatic effect on the price of gasoline for individuals all over the country and would be a huge hit on jobs and energy independence.

The CHAIRMAN. My colleague's time has expired. And, Secretary Yellen, he indicated it would be acceptable to answer in writing. We will get that, Senator Lankford.

Next is Senator Casey.

Senator CASEY. Mr. Chairman, thanks very much for this opportunity. And, Secretary Yellen, we are honored to have you with us today. And thank you for, really, two things: one, for your ongoing public service at a challenging time for the Nation; and secondly, the way you have done throughout your career of making the connection between economic policy and the betterment of our families, and making that connection over and over again.

Secretary YELLEN. Thank you.

Senator CASEY. And I especially appreciate the work you have done to lift up the provisions in the Rescue Plan in your conversations with Senator Bennet, Senator Brown, and others who have done so much for our children.

I wanted to ask you, first and foremost, about women's rights. You have discussed your objective with respect to promoting full legal rights, and greater economic and education opportunities for both women and girls, not just here at home, but around the world. I share those goals, and I know a lot of the members of our committee do.

The Senate recently advanced legislation that Senator Cortez Masto and I worked on to ensure that our trade and development programs, and particularly GSP, include measures on nondiscrimination, measures on women's economic empowerment, people protection, and human rights as criteria.

So would you discuss how you intend to engage with the IMF, the World Bank, and the interagency here at home to support the objective of inclusive recovery in the U.S. and around the world?

Senator YELLEN. Well, thank you, Senator, for that question. I think this just simply has to be a very important priority. And it has been a priority for President Biden in thinking about how we need, here in the United States, to recover from the pandemic. When you see the disproportionate negative effect that this pandemic has had on women, and often minority and low-income women, it motivates both features of the American Rescue Plan and it has also motivated many of the proposals in the President's budget that would address wages and working conditions in the care economy, child care and the like.

And as you said, in our international work, this is something that we want to see promoted around the world. And we are working with the IMF, the Multilateral Development Banks, the World Bank, to ensure that for the kinds of goals that you mentioned—women's rights, nondiscrimination—we examine every project that we vote on at these organizations with that perspective in mind.

And increasingly this has become a feature of the programs that these institutions run. But it is just as important, and in many countries more important, to promote women's rights and their participation in the economy as in the United States.

Senator CASEY. Thank you. And in light of the recent developments we have had around the Child Tax Credit expansion and the Earned Income Tax credit, as well as the Child and Dependent Care Tax credit—all of which contributed to the conclusion reached by those who spend their lives analyzing child poverty, that that combined effect of those Rescue Plan provisions would cut child poverty in half—I wish those who have been touting the 2017 tax cut would have voted for the Rescue Plan, and maybe they will vote for it when we make some of the provisions that lift up families permanent.

The purpose of this—and I know we have a vote on. I will send you a written question, Madam Secretary, regarding some of these issues that we are going to try to extend beyond the Rescue Plan to lift up families. One of them involves not just children, but an additional policy on homeless services and for people with disabilities. But I will send that to you in writing, and I yield back to the chairman 7 seconds. Thanks very much.

Secretary YELLEN. Thank you, Senator Casey.

The CHAIRMAN. Colleagues, we want to keep going. I believe Senator Crapo is with us.

Senator CRAPO. That is correct, Mr. Chairman.

The CHAIRMAN. Wonderful. Thank you, Senator Crapo. Next in line is Senator Warner. I do not believe he is here. Senator Young is next, and he is here. And with Senator Crapo's graciousness, I will run over and vote and come right back, and we will keep this going. And we will meet your timetable, Secretary Yellen.

Senator Crapo, Senator Young is recognized.

Senator YOUNG. Well, thank you to the chairman.

Madam Secretary, welcome. One major incentive for domestic investment is section 174 of the Internal Revenue Code, allowing U.S. businesses to immediately deduct R&D costs. This provision has historically received bipartisan support, as it incentivizes research investment and job creation here in the United States.

Beginning next year, however, U.S. businesses will be required to capitalize and amortize those costs over 5 years, rather than immediately deducting them. Earlier this summer I reintroduced the American Innovation and Jobs Act, along with Senator Hassan, to prevent the expiration of this important provision. Allowing businesses to continue to deduct their research and experimental costs would be a critical incentive for investment and innovation in the United States. This legislation has received considerable bipartisan support, with many of my esteemed colleagues on this committee, from both sides of the aisle, joining the effort.

In your response to questions for the record at your nomination hearing back in January, you stated that you would carefully consider the concerns raised regarding the deductibility of research expenditures, paying particular attention to any effects on small businesses during the recovery.

So I ask you, Madam Secretary, given President Biden's interest in encouraging investment in manufacturing, jobs, and innovation in the United States, would you encourage Congress to build back better by maintaining the current immediate deductibility of R&D expenses?

Secretary YELLEN. So, Senator Young, thank you for that question. You are absolutely right that promoting innovation is a critical priority for President Biden. And it is a very important contributor to productivity growth in this country.

And we are absolutely looking for ways to do that. And certainly, continuing to allow firms to expense R&D rather than shifting to amortizing would be one very effective way to bring that about. There could also be more generous R&D tax credits. There might be other approaches. But many OECD countries do permit expensing of R&D.

So this is something we certainly would want to work with you on and find a way to be supportive of more tax support for R&D. I would mention that the President's budget proposes to repeal the Foreign-Derived Intangible Income feature of the tax law——

Senator YOUNG. Madam Secretary, could I just interject? Why is our proposal not in the President's Green Book?

Secretary YELLEN. I think the President has proposed to repeal the FDII exemption and to use the money for support of R&D, but he wants to work with Congress to decide on what is the best approach to doing that. Certainly, he is open to this strategy.

Senator YOUNG. Okay. Well, in consultation with other eminent economists and learned individuals and policy experts, and with colleagues alike, they believe that we would get a lot more bang for the buck through the American Innovation and Jobs Act with Senator Hassan than we would through the FDII manipulation that you mentioned. The two are not entirely equivalent. So I am going

to move on, in light of the time limitations here, and other colleagues needing to speak.

I'll just note that the administration's revenue proposals released last month contain over $2 trillion of tax increases on U.S. businesses, including increasing the U.S. corporate tax rate from 21 percent to 28 percent for tax years beginning after 2021. That of course would include a tax itself, somewhat, on workers and consumers.

This proposal would create a 32.5-percent combined U.S. corporate income tax burden when considering State and local taxes. By comparison—and my time is running out—by comparison, China has a 25-percent rate, and the OECD countries have a 23.5 percent average rate. When thinking about American competitiveness, I think it is very important that we focus on this issue.

And I will allow the chairman—the ranking member—to proceed.

Senator CRAPO [presiding]. All right. Thank you, Senator Young.

Next on my list is Senator Whitehouse. Are you there, Senator Whitehouse?

[No response.]

Senator CRAPO. I will move on to Senator Sasse.

[No response.]

Senator CRAPO. All right, rather than just go through the list, are there any Senators—I do not see any Senators. Are there any Senators who are with us?

Senator Cortez Masto just came up. All right, Senator Cortez Masto, you may go.

Senator CORTEZ MASTO. Thank you.

Secretary Yellen, it is great to see you. Thank you for all of your good work. And thank you for the conversations this morning. As I was listening to them—so let me ask a couple of questions that you have not addressed.

This one is around the Financial Crimes Enforcement Network. So there is work that has been done by bipartisan Senators. I joined with Senators Cassidy, Moran, Thune, and Warren. It is the Financial Crimes Enforcement Network Improvement Act. It was included in the Anti-Money Laundering Act. And what the bill does is, it gives them the authority to work with Tribal governments in monitoring digital currency and to investigate financial issues related to domestic terrorism.

My question to you is, how will the President's budget request ensure that the Financial Crimes Enforcement Network meets the requirements of the law? If you can address that, that would be great.

Secretary YELLEN. Well, I will probably have to get back to you with details on that. There is a significant request in the budget for FinCEN. Part of it is to build the beneficial ownership database, which was authorized by the NDAA Act since the beginning, but it needs funds in order to do that. But FinCEN's work is very important, and I can get back to you with details about the specific issue you asked about.

Senator CORTEZ MASTO. Thank you, Madame Secretary. And please include—and I will include this request as well—the geographic targeting orders that require U.S. title insurance companies to identify the actual person behind the shell companies. I am

very interested in that as well. So, please, if you can follow up on that, that would be great.

And then let me just do one final question for you. Again, like my colleagues, I want to thank the administration for including extension of the refundable credits like the Child Tax Credit and the Earned Income Tax Credit in this year's budget proposal.

I am a supporter, along with my colleagues—we support extensions of these. But as we continue to build toward recovery, we need to be as inclusive as possible for all families and children. And the 2017 tax cuts eliminated longstanding access to the Child Tax Credit for over a million immigrant children, despite the requirement to work and pay taxes in order to qualify.

Because of this, working families in my home State lost out on over $36.7 million invested per year they had previously been eligible for. Would you and the Biden administration support restoring eligibility of these children to qualify for the CTC?

Secretary YELLEN. The Biden administration is certainly concerned about these children. I do not know that they have taken a position on this particular issue, but again, I promise to get back to you and would look forward to working with you on this important matter.

Senator CORTEZ MASTO. I appreciate it. It is an important matter. And thank you again, Secretary Yellen, for joining us this morning.

I yield the remainder of my time.

Senator CRAPO. Thank you very much, Senator Cortez Masto. I do not see the cameras on for any other Senators at this point. Are there any other Senators who have made it back from the vote?

[No response.]

Senator CRAPO. All right. Well, not seeing any, Madam Secretary, I want to ask a couple more questions while we are waiting for Senator Wyden to return, or another Senator.

When we concluded our discussion earlier, you had just mentioned the SHIELD concept in terms of assuring that nations who are not willing to join in the global minimum tax agreement are pressured into joining that agreement.

Could you describe a little more clearly how that is intended to work?

Secretary YELLEN. Yes. It is intended to counter foreign company profit shifting by denying deductions to firms operating in the United States when they make deductions that reflect payments to their own affiliates, a parent or another affiliate, if that affiliate is based in a tax haven that does not have a global minimum tax.

So that is a way that foreign companies operating in the United States make use of tax havens. And by denying those deductions, it makes it impossible for these firms to shift income derived from U.S. activities into tax haven countries.

In addition, given that a tax haven would be able to see that its failure to adopt a global minimum tax is depriving them—and this is a tool that is not only something that we are proposing in the Biden budget, but it is also embodied in the OECD agreement that is being worked out. It is intended—it is called "an under-tax payment rule." And a mechanism of this sort is one that every country will have available to it to deal with tax havens, countries that do

adopt the global minimum tax. And it should incent tax havens to want to adopt a global minimum tax, because it is going to deprive them of the benefits that they seek to gain by having yet lower tax rates.

So we think that the SHIELD proposal will more effectively counter this incentive than the current system, the BEAT system that is in place.

Senator CRAPO. Thank you. I still have more questions and concerns about it, but I see that a couple of my colleagues have returned from the vote. And, Senator Sasse, you are next.

Senator SASSE. Thank you, Senator Crapo.

Secretary Yellen, thank you for being here. Sorry we are popping in and out on you during this vote.

Secretary YELLEN. That's okay.

Senator SASSE. I am glad to get a little time with you. Before you were confirmed, I wrote to you about the strategic perils of economic and broader interdependence with the Chinese Communist Party. And now that you have been in office for, I guess pushing 6 months, and have had a chance to read intelligence products consistently since then, I would just be curious as to an update on your current thinking about whether some degree of financial and technological decoupling from the CCP will be required over the next 4 years?

Secretary YELLEN. So that is a really big question. You know, we certainly recognize in the Biden administration that China is our most serious competitor, and that it poses challenges to our security and our democratic values.

We are looking at the full range of tools that we have to push back, and to address practices that harm us, our national security, and our broader economic interests. You know, it is conceivable— certainly our process denies, through CFIUS, China's ability to make investments in the United States that would harm national security.

You know, I would worry somewhat about complete technological decoupling, which our conflict with China could result in, a growing decoupling of technologies between the United States and China. I worry that if we are too broad in our policies in terms of how we approach this, that we can lose the benefits that come from having globally integrated technology systems where advances in one country benefit countries worldwide.

The globe has benefited substantially from spillovers of technological development in one place to other places. I would worry about a decoupled global system. And many of our allies would be very reluctant, I think, to all but stop doing business in China.

So you know, this is a difficult issue. It is one we are concerned about, but protecting our national security and economic security is paramount.

Senator SASSE. So let me pull on the word "complete," about complete decoupling, because I agree with you that is not where we are headed. Obviously agricultural and industrial engagement is nearly inevitable. I live on the bread basket of the world. On a per-acre basis, the Ogallala Aquifer in Nebraska right now is probably the most productive farm and ranch land anywhere in all of human history.

We need export markets. There are not enough folks to consume all the protein. Nebraska is the largest cattle State in the Union now, as well as in corn and beans. So obviously we want foreign markets. But if you move up the complexity ladder from agricultural and industrial goods to the technological goods and services, obviously you are right. The supply chains are going to remain integrated globally. But there are some aspects of technologies that are uniquely dangerous, and huge parts of the future of the world are going to be U.S./democratic capitalist free nations that believe in open navigation of the seaways, human rights, the rule of law, et cetera. Or there is going to be more of a CCP, digital authoritarian-led Internet in portions of the technological world.

So, short of complete technological decoupling, which surely you are right about, what are some mid-points that you envision as plausible stopping points and scenarios over the next 3 or 4 years?

Secretary YELLEN. Well, I think national security has to be a key concern. And we have to be assiduous in evaluating economic policies that—for example, through monitoring of individual data—can pose risks to our national security. And so some technology in those areas.

I expect that we will have decoupling, because we have to protect our national security.

Senator SASSE. There is—am I out of time?

Senator CRAPO. Yes, your time is up, Senator. Sorry.

Senator SASSE. Gotcha. Thank you, Secretary Yellen. I will follow up as well.

Thanks, Mike.

Senator CRAPO. Thank you.

And I saw Senator Barrasso, but he stepped away from his desk. Are you there, Senator Barrasso?

[No response.]

Senator WARREN. I am here.

Senator CRAPO. I see you, Senator Warren. Senator Warren, you may go next.

Senator WARREN. Thank you.

So welcome, Chair Yellen. It is good to see you—or Secretary Yellen. It is good to see you here.

Last week, ProPublica published an investigation into some of the wealthiest American tax returns showing that year after year, multibillionaires paid basically no Federal income taxes. And here is the worst part: it is possible that they did it all legally.

That is because, year after year, lobbyists and members of Congress have worked together to hollow out the tax code. So, take Jeff Bezos. He is the second richest person in the world, whose net worth is nearly $195 billion, but his salary is about the same as the average public-school teacher in Massachusetts: $80,000.

So, Secretary Yellen, I want to ask about who our tax code is structured to benefit—Jeff Bezos, or our Massachusetts public school teacher? The average family in America pays about 7.2 percent of their total wealth in taxes, and that includes public school teachers. If the same rate applied to Jeff Bezos last year, he would have paid $14 billion in taxes.

So, Secretary Yellen, if all we do is increase the Federal income tax rate, is it ever possible for Mr. Bezos to pay the same proportion of his wealth in taxes as the average public school teacher?

Secretary YELLEN. Well, President Biden is proposing important ways to address this disparity——

Senator WARREN. I understand that. But let's just start with our current tax code. If we continue to focus on the income tax, will Jeff Bezos ever pay a proportionate amount of his wealth as the State of Massachusetts public school teacher?

Secretary YELLEN. Well, if we raise the rate on capital gains, and we eliminate step-up of basis, and regard death as a realization event so that all of those capital gains are taxed and not allowed to permanently—so if we tax capital gains and work——

Senator WARREN. Secretary Yellen, I do not want to interrupt you, but my question was pretty simple. It was about income taxes. I think what you are saying is, the only way we are ever going to get a fair tax rate from Jeff Bezos is if we tax something other than income. His income is only $80,000 a year. And Jeff Bezos uses all the tricks he can to keep his money in the form of what is today tax-free wealth.

So let me ask a different question. If billionaires like Jeff Bezos have wages about like the average public school teacher, how do they have the money to buy mansions and private islands and super-yachts? Well, the answer is, they can borrow against their wealth rather than realize the gains on stock growth.

So, Secretary Yellen, do multimillionaires pay taxes when they borrow against wealth to do things like buy super-yachts?

Secretary YELLEN. Well, to the extent that they avoid capital gains by selling assets to support their spending needs, they avoid paying a capital gains tax. And even if they did, the capital gains tax is lower than what your school teacher in Massachusetts may pay. And so that seems like unfair tax avoidance. And of course, anyone can borrow against assets, but billionaires have lots to borrow against.

Senator WARREN. Well, actually, let me ask you about that, because I think you are going to the heart of the matter. Does the public school teacher in Massachusetts have the same options as Jeff Bezos, that is, the option to collect stock instead of a salary, the option to pay no taxes, the option to accumulate wealth tax-free, and to have plenty of cash flow to pay her bills by engaging in borrowing?

Secretary YELLEN. No. Your school teacher does not have most of those options. And the Biden proposal would end many of these options for very rich individuals, in a whole variety of different ways. The carried interest loophole would be closed. There would be higher capital gains taxes, and no step-up of basis. All of that would——

Senator WARREN. So, under our current law, the teacher is going to pay her taxes year after year to help support her community and to help support the Nation. And Jeff Bezos gets to laugh at her for paying full freight while he keeps his money, and even builds his personal wealth without paying a penny more in taxes.

Our tax code basically lets billionaires like Bezos opt out. It says, once you accumulate enough wealth, you do not have to pay to help

run this country anymore. Jeff Bezos is a billionaire grifter, and so are the rest of these hugely wealthy people who pay next to nothing in taxes.

So, Secretary Yellen, we have a choice. Do you think we should give up trying to tax the ultra-rich like Jeff Bezos? Or should we change our tax laws so billionaires also have to pay to run the country?

Secretary YELLEN. We have proposed to change the tax laws to make them much fairer on all of these dimensions, and that is central to the tax proposals President Biden has put into this budget.

Senator WARREN. I support the President's proposals. They will go a long way to build revenue for everyone by making taxes on millionaires a little fairer. But I want to point out that the easiest, most obvious solution to this system is instituting a wealth tax. A tax on people worth more than $50 million would provide at least $3 trillion in revenue. And that is money for universal child care, for taking on the housing crisis, for rebuilding our infrastructure.

This is about choices. We can fund universal child care, or we can hand Jeff Bezos enough money to build a super-yacht——

Senator CRAPO. Thank you, Senator——

Senator WARREN. Or we can make the tax code work for public school teachers, not Jeff Bezos.

Thank you, Mr. Chairman.

Senator CRAPO. We need to move on. Thank you.

Senator Whitehouse, you are next.

Senator WHITEHOUSE. Great. Thank you very much, Senator Crapo. I appreciate it.

And, Secretary Yellen, we are reaching the end of a long hearing for you, and I appreciate your patience and fortitude with all of us. First, a word of congratulations. I think the global minimum tax agreement is a really big deal——

Secretary YELLEN. Thank you.

Senator WHITEHOUSE [continuing]. And very significant, and a really important stopper against a race to the bottom of corporations competing with each other, and countries competing with each other over tax gimmickry, not on innovation and good management.

So, thank you for that. And anything you can do to push that 15-percent number up, you have a cheering band of enthusiasts in the Senate to urge you on.

Secretary YELLEN. Thank you.

Senator WHITEHOUSE. The second flag I wanted to put in place was with respect to the negotiations that we are going to be coming into on climate internationally. You have expressed your support for putting a price on carbon emissions. A number of, I think we are seven, Senators are filing an updated carbon pricing bill in the Senate tomorrow.

I do not think that a carbon price is "the" solution, but I think it is an irreplaceable part of the solution. And it is the only way I can think of to offset the $600-billion subsidy that the IMF has reported fossil fuel gets every single year just in the United States of America.

So I hope you will stick to your guns to make sure that we are on a safe trajectory to less than 1.5 degrees Celsius global warm-

ing, and stick to your guns on pricing carbon to make sure we get there.

Secretary YELLEN. You know I am supportive of carbon pricing. It is something I have long been in favor of. And President Biden, I believe, is also supportive of using carbon pricing.

He has proposed a clean energy standard that would achieve 100-percent carbon-free electricity production by 2035. That is an important step he wants to take to cut emissions in line with our nationally determined position.

Senator WHITEHOUSE. That is another important part of the solution. But if I may, I would like to go on to my question I have for you.

Secretary YELLEN. Yes, sir.

Senator WHITEHOUSE. You have spoken about the problem that has emerged with 501(c)3 and 501(c)4 organizations. The chairman opened the hearing by talking about the importance of taxpayer confidentiality and his expectation that an investigation was underway. With respect to the 501(c)3s and 501(c)4s, we have seen political abuse. It is, in my view, contrary to law. It has been influenced heavily by special interests, and the result has been corrosive to democracy.

I have asked you to look into this, and I hope that, in the same way that we conduct investigations of leaks of taxpayer information, we can also expect investigation into what went wrong in the 501(c) space. In particular, you mentioned that there has been a referral to DOJ on the taxpayer confidentiality breach.

Secretary YELLEN. Yes.

Senator WHITEHOUSE. I have been pushing for an explanation as to why, for a decade, neither the IRS nor Treasury made a referral to DOJ when 501(c)3 and 501(c)4 forms came in that were patently inconsistent with other forms filed with election agencies, both under oath, which would seem to predicate a simple false statement investigation.

So again, back to this 501(c)3, 501(c)4 mischief, I really hope that you will task some entity within Treasury to report to you and to us on what the heck went wrong? And what produced this miserable decade of 501(c)3 and 501(c)4 abuse?

Secretary YELLEN. I understand the importance of this issue, Senator Whitehouse. We really need to get that money out of politics, and this is an important area. In learning about this issue, I have found out how very complicated it has been. And I know, for example, that the IRS has been prohibited from issuing guidance in this area for a number of years.

I do believe that it deserves serious study, and I promise to do that.

The CHAIRMAN. The time of the——

Senator WHITEHOUSE. Yes, I understand my time is over. I just wanted to add that I think we can solve that problem, and I know we intend to.

The CHAIRMAN. And, Senator Whitehouse, Madam Secretary, apropos of your comment that this is very complicated, Senator Whitehouse has consistently been a voice for transparency and accountability on dark money, and we very much appreciate all his leadership.

We are getting close to the Secretary's stop time, but Senator Hassan is here.

Senator HASSAN. Well, thank you so much, Chair Wyden and Ranking Member Crapo. And, Secretary Yellen, thank you so much for a long morning, but a very fruitful one, and we appreciate it very much.

I wanted to start to just follow up on a conversation you had earlier this morning with Senator Young concerning the R&D tax bill that he and I are co-sponsoring to strengthen R&D tax incentives for startups and innovative American businesses.

In your confirmation hearing, we discussed the importance of promoting domestic R&D, which is key for out-competing China and creating jobs as the economy recovers from COVID–19.

Secretary Yellen, will you continue working with this committee to strengthen R&D incentives in the tax code, including by expanding the R&D credit for startups and small businesses?

Secretary YELLEN. Certainly. It is a high priority of President Biden. It is a priority in the budget. There are some areas that lack specificity, but we want to do more to promote R&D. I am glad to work with you on this and to discuss the specifics.

Senator HASSAN. Well, thank you so much. I appreciate that, and I look forward to it.

Another topic. Madam Secretary, in your confirmation hearing, we also discussed the importance of Treasury programs that combat the financing of terrorist and criminal organizations. I was pleased to see the President's proposed budget included a request for $196 million in funding for the Office of Terrorism and Financial Intelligence, a $10-million increase from last year's funding level.

Can you speak to how this increased funding will help Treasury combat terrorists and organized crime financing?

Secretary YELLEN. Yes. This is a very important office, and it has seen a very big increase in its role and mission over the last 5 or 6 years. Among other things, it manages more than 30 sanctions programs, and sanctions have proven a critical national security tool.

I think imposing sanctions has advanced U.S. national security and foreign policy interests in areas including counterterrorism, protection of human rights, combating drug trafficking, anticorruption, and nonproliferation. And the request for additional funds is to support an increase in staffing for OFAC and for IT infrastructure.

Senator HASSAN. Well, thank you for that clarification. And I am also glad to hear about the IT infrastructure piece, because it is so critically important in Treasury, as well as so many other agencies across government.

I also want to turn to the issue of unfair trade and supply chains. I was encouraged to see that, as part of the President's supply chain review, the administration recommended creating a strike force led by the U.S. Trade Representative that would address unfair trade practices that impact the domestic supply chain.

In the bipartisan U.S. Innovation and Competition Act, I pushed for a similar amendment that is now in there that would strength-

en investigations of major trading partners whose unfair practices systemically affect U.S. supply chains and workers.

Secretary Yellen, how is the Treasury supporting broader efforts to combat unfair trade practices and strengthen supply chain resiliency?

Secretary YELLEN. Well, Senator, immediately upon taking office, the President directed a whole-of-government effort to shore up our supply chains, and addressing unfair trade practices is a key component of that work.

We welcome fair competition from abroad, but in too many circumstances, unfair foreign subsidies and trade practices have adversely affected U.S. competitiveness and impacted manufacturing unfairly.

So the administration is really implementing a comprehensive strategy to push back on unfair competition that erodes the resilience of our supply chains and industries. And the strike force that you described will be led by USTR, and it is one element of the strategy whose goal will be to identify unfair trade practices that have eroded U.S. critical supply chains. And they will recommend trade actions to address these practices.

Senator HASSAN. Thank you so much, Madame Secretary. Thank you, Mr. Chair.

I will submit one more question for the record about implementing the Employee Retention Tax Credit for businesses that started up during the pandemic. I appreciate your time. Thank you.

The CHAIRMAN. I very much appreciate my colleague's work on that Employee Retention Tax Credit that was in the first package. Thank you.

Senator HASSAN. Thank you.

The CHAIRMAN. Senator Toomey is back.

Senator TOOMEY. Thank you very much, Mr. Chairman. Welcome back, Secretary Yellen.

I have to say—and I think this will not come as a surprise to you—I am just extremely disappointed by this entire process that you and your colleagues have engaged in with the G7. This idea that countries that are pursuing greater economic freedom, and the prosperity that comes from it, that that constitutes a race to the bottom, I think could not be a worse way to think about this.

Expanding economic freedom, diminishing the burden countries put on their businesses, their economies, their opportunities for growth, that is not a race to the bottom that we should try to prevent. That is a race we ought to be winning. And I just completely disagree.

And by the way, I think everybody has to acknowledge that there is an implicit confession in this whole effort, which is that the Biden proposals with respect to tax reform make us less competitive. And that is why we need these other countries to inflict the same kind of damage on their economies that he is suggesting we do to ours.

I think it is completely misguided, I have to say. Let me get to one of the specifics. You know very well, and we all remember that prior to the TCJA, U.S. multinationals had a significant incentive to establish their headquarters in some other country, almost any

other country, at least from a tax point of view, because we had such an onerous tax regime on the income earned overseas, especially if you wanted to bring it back home.

We addressed this head-on. We made significant changes to deal with this. And I have not been able to identify a single corporate inversion of a major American company since the enactment of TCJA.

And so maybe I missed something. Secretary Yellen, are you aware of a single corporate inversion of a significant large American multinational post-2017 tax reform?

Secretary YELLEN. Well, what we are concerned with is shifting of profits to tax havens, where the United States loses the ability to gain the tax revenue, and competition from firms in other countries that make use of tax havens. More broadly, we do have to raise tax revenue in order to be able to finance important expenditures that make——

Senator TOOMEY. Madam Secretary, I hate to—I really hate to rudely interrupt, but I have just so little time. And so, I know you want to raise taxes, and the President wants to raise taxes, but rather than getting into a general debate about that, I do want to—I would like to exchange some data with you. The data that I have looked at suggests that there has been no shifting of American corporate earnings to lower-tax jurisdictions.

When I asked if you are aware of an inversion that has happened since 2017, you kind of shifted to a different question, which is a concern about income shifting. I still am not aware of a single corporate inversion that has happened since we eliminated the incentive to invert. And yet, we have in the Biden proposal something called "the SHIELD," which is an acronym for Stopping Harmful Inversions and Ending Low-Tax Developments. I do not know why you have to do something to stop inversions that are not occurring.

I want to say, we have a global minimum tax. We have GILTI. And most of the rest of the world does not. But we have it low enough that it is not a prohibitive problem. The administration is now proposing doubling the rate to 21 percent. But earlier you told Senator Crapo—I heard you earlier in this hearing, and I thought I understood you to say that the administration's proposed effective GILTI rate is 21 percent. But as you know, the existing tax law disallows taking full credit for all of the overseas taxes paid. And that increases the effective rate from the statutory 10 to about 13⅛. If you raised that to 21, unless you allow full credits—which current statute does not—the effective rate will be 26¼.

So my question for you is, are you contemplating allowing the full crediting of foreign taxes paid, rather than the partial crediting that occurs under the current law?

Secretary YELLEN. I will get back to you on that, but I believe we have not changed that.

The CHAIRMAN. I thank my colleague from Pennsylvania. We have two other Senators waiting in the queue. I believe Senator Daines is first, then Senator Barrasso. But we are going to get you both in, and we can do it before the sand is out of the hourglass and the Secretary has to leave.

Senator Daines?

Senator DAINES. Mr. Chairman, thank you. Thanks, Secretary Yellen for being here.

Secretary Yellen, I sent you a letter yesterday. You probably have not had a chance to read it yet, so I would like to ask for unanimous consent to submit it for the record, Mr. Chairman.

[Secretary Yellen and the chairman speak simultaneously.]

The CHAIRMAN. Madam Secretary, just so the record is clear, without objection, it is so ordered.

[The letter appears in the appendix on p. 44.]

Senator DAINES. It is on a topic of cybersecurity, something I am hearing frequently from Montana business owners and across our country who worry about the major upticks in cyber-attacks and ransomware payments that we have seen recently. The attack on Colonial Pipeline controlled nearly half of the gasoline, jet fuel, diesel fuel along the East Coast and should serve as a wake-up call for the country. And of course, we saw the same with the attack on our food supply chain as well, most likely Russian cyber-attacks.

The financial system facilitates commerce in every industry, and an attack of a similar kind that we saw on Treasury, or a major financial institution, could cripple the financial system as well as our economy.

Secretary Yellen, at the most recent Financial Stability Oversight Council meeting just last Friday, the 11th of June, you outlined three key priorities: one, vulnerability in non-bank financial intermediation; two, climate change; and three, Treasury market resilience.

I am concerned that Treasury's focus on longer-term risks associated with climate change is coming at the expense of the major threat, the immediate threats we are seeing from cyber-attacks and ransomware attacks that we are seeing nearly on a daily basis.

My question: do you really believe that cybersecurity of our critical financial infrastructure, even after the recent surge in attacks, is still not a top-three priority for the FSOC?

Secretary YELLEN. It is a huge priority, Senator Daines. It is a great threat to financial stability. Treasury has long taken the lead in trying to pull together the financial sector to exchange information and to raise preparedness. It has groups, fondly known as FBIIC and FSSCC, that are organized to address financial sector threats. It is one of the most important focuses these days in supervision of banking organizations. The FFIEC, which is the group of Federal bank regulators, has a comprehensive program. It is in the——

Senator DAINES. Secretary Yellen, thank you. I just—you know, we spent, both of us, years in managing large organizations. And again, this is a zero-sum game, and priorities say this is most important. And I just would hope that what is going on right now with the cyber-attacks, that something that truly could bring down the entire finances of the U.S. Government should rise to a top three issue. Because everything cannot be the most important thing.

I am just concerned. Climate change is a longer-term issue. We have some very acute challenges today that could literally bring down the financial system of the U.S. Government and our country.

So I have a couple of other questions. I want to go back to the G7 and the recent agreement into a global minimum corporate tax rate of 15 percent. I think a bigger test is going to come at the G20 next month, which includes China, of course. It is clear that China does not have the best record of living up to its commitments, whether we are talking about accession in the WTO or otherwise.

Secretary Yellen, will you commit to not agree to any deal that includes special carve-outs for China or any other country? And what steps would you take to ensure that if China does agree to a deal, it is held accountable to fulfill its commitments?

Secretary YELLEN. We would not agree to any type of carve-out that would meaningfully weaken a robust global minimum tax regime, not for China and not for other countries. We want this to work and not be filled with loopholes.

We continue to work to try to bring China into this agreement. Other countries are doing the same. We will see where we are when we get to Venice in a couple of weeks with the G20 meetings. I am hopeful China will decide it is in their interests to join this agreement, but I do pledge that this is not an agreement that we will weaken.

Senator DAINES. Thank you.

The CHAIRMAN. My colleague's time has expired.

We have Senator Barrasso next. Madam Secretary, we are going to have Senator Barrasso take his 5 minutes. The floor is waiting for me. We will have you out within 3 or 4 minutes of your hard stop, and I will be back to wrap up.

Okay; Senator Barrasso?

Senator BARRASSO. Thanks, Mr. Chairman. Thank you very much, Madam Secretary. Thanks for testifying before the committee.

Your budget request is for about an 11.3-percent increase from fiscal year 2021, and the Department's budget includes about a 10.4-percent increase in the IRS budget. This includes $5.5 billion in the enforcement account to hire more compliance staff.

In my experience, the overwhelming majority of Americans, and people in Wyoming, are trying to pay the correct amount of taxes that they owe. The tax code is complex, and dealing with the IRS, I have heard from people, can be intimidating. It can be confusing. It can be stressful, and it can be never-ending.

Thankfully for many, we have a Taxpayer Advocate Service. I think it is a very important tool that the IRS has to help taxpayers. The Taxpayer Advocate—I meet with them in Wyoming. They do not have the resources or the authority to resolve every problem that taxpayers encounter with the IRS. The issues that they can help with are limited, but their assistance and guidance can really be invaluable. I have heard that from folks at home.

Given the focus on enforcement in the budget, can you detail to me how the Treasury Department and the IRS are going to enhance the visibility of the Taxpayer Advocate and ensure that their resources are available to help people receive answers to questions and provide guidance to so many Americans who are just simply trying to correctly follow the law?

Secretary YELLEN. Well, I agree the taxpayer service generally is not what any of us should want it to be at the IRS. And this is

partly due to lack of resources. The decrease over the last decade of about 20 percent in real terms of resources, and more recently the pandemic, has put special strains on the IRS.

But the funding that we are seeking for IRS in the budget—you mentioned the importance of compliance, and I would emphasize that. The customer service, broadly speaking, is also important. And that would be an important thing that we would want to see greatly improved.

Senator BARRASSO. Well, thank you. I agree with you. I think it would be very helpful to the taxpayers who are trying to comply, trying to follow the law, trying to get it right, and sometimes just need a little assistance, and the taxpayer advocacy group does do that.

I want to move to the budget singling out the producers of oil and gas products by disallowing them from using certain tax provisions such as intangible drilling costs and percentage depletion. That proposal will almost certainly raise gas prices at the pump. It will affect working Americans, leading to a violation of the President's promise. He said he was not going to raise taxes on anyone earning less than $400,000. So at the same time, in some of the infrastructure spending discussions with Congress, the administration has rejected even indexing the gas tax. And the President told us that, when we were in the Oval Office meeting with him. He said, no indexing the gas tax or raising the gas tax, which would certainly raise gas prices at the pump that would affect working Americans and violate the President's tax pledge.

But what you are proposing in the budget is certainly going to raise the cost at the pump. So it seems to me that the two positions are inconsistent. The President is saying he does not want gas prices to go up by adding taxes, but he is willing to let gas prices go up by taking away some of the deductions that exist right now for those people who produce America's energy.

Secretary YELLEN. The President is very concerned, as most countries around the world are, about climate change and sees no policy justification for subsidizing fossil fuels. He really believes that inefficient subsidies for this industry can reduce more efficient investment elsewhere in the economy, and he wants to see the United States become a global leader in clean energy and to see an increase in really good jobs and a rapidly growing sector.

So you know, his proposal includes subsidies for green energy production and will create jobs in a new and expanding sector. With respect to price increases, I have looked at some recent studies on what the impact would be of phasing out the fossil fuel subsidies. And generally, although there might be some negative impacts, the impacts are generally found to be small.

Senator BARRASSO. Well, I appreciate your comments. It looks like time has expired for me. I do not see the chairman back yet, but I would point out that—and he will be back to adjourn. If he shows up, I will stop immediately. We are facing a $27-trillion debt. The budget requests a billion dollars for the international Climate Change Fund. That is an increase of almost 786 percent over funding from last year. It is happening at a time when the American people are facing significant challenges at home. Communities across our Nation are emerging from the pandemic. Dealing with

the soaring debt, declining infrastructure—whether it is the Green New Deal or the U.N. Climate Change Fund, the American people cannot afford these kinds of policies.

Why should taxpayers support borrowing more money from countries like China in order to spend it overseas to international bureaucrats in the name of climate change? I do not get that at all.

Secretary YELLEN. Well, climate change is a global threat. And while we need to make meaningful reductions of our own, our efforts will not be successful in addressing the climate threat unless we see similar efforts around the world.

And the United States committed, as part of its Paris Agreement, to help provide funds for developing countries, for low-income countries, to reduce their climate emissions and to address the impacts of climate change. And we have upped our contributions to the Green Climate Fund in order to make good on that commitment, which is a very important one.

Senator BARRASSO. Well, thank you very much, Madam Secretary.

I see that the chairman has not yet returned from the vote. I know you have a hard stop at 45 minutes after the hour. It is now 44 minutes after the hour. I do not know if I am entitled to adjourn the meeting, but if he does not come in within 1 minute, I would be happy to adjourn the meeting, because I know you have places to be and commitments to meet.

Secretary YELLEN. Thanks so much. It is much appreciated. Thank you, Senator.

Senator BARRASSO. Thank you, Madam Secretary.

[Pause.]

[Whereupon, at 12:50 p.m., the hearing was adjourned.]

APPENDIX

Additional Material Submitted for the Record

Prepared Statement of Hon. Mike Crapo, a U.S. Senator From Idaho

Thank you, Mr. Chairman, and thank you, Secretary Yellen, for joining us today.

Today, we will discuss the President's Fiscal Year 2022 budget and proposals for Treasury and its agencies. The administration's proposals to increase spending, hit Americans with higher taxes, and strangle the economy with regulations and red tape is not a path to prosperity.

The President's budget envisions deficits of $14.5 trillion over the next decade, with debt exploding to more than $39 trillion, or 117 percent of GDP, by the end of fiscal year 2031. Such high debt is risky, especially in the current high inflation environment.

Consumer price inflation from April to May was 7.7 percent at an annualized rate, and inflation for durable goods was 36 percent at an annualized rate. If inflation expectations become unanchored, which no one can credibly claim cannot happen, the resulting increased interest rates can turn Federal debt-service costs into budget busters.

Treasury's top-line budget request of $22 billion is an 11.3-percent increase over fiscal year 2021, and Treasury asks for outsized increases across the board in its various agencies and programs. I look forward to hearing more about Treasury's budget proposals and general explanations of tax proposals in the so-called Green Book.

Those proposals are heavy on tax hikes, introduce new tax ideas of questionable merit, and seek to inject more social policy goals into the income tax system. They also call for a mandatory financial information reporting regime. Under this regime, financial institutions would become agents of the IRS, tasked with monitoring and reporting flows into and out of personal and business accounts above a mere $600 threshold.

The proposal, which is sold under the guise of trying to close the tax gap, is very concerning and pulls almost all taxpayers into a surveillance dragnet. The era of big data should not be viewed as an opportunity for Big Brother. I do not agree with some high-tax advocates that private tax information should be a public good, with governments and the public knowing every private aspect of individual and business income and assets.

An overwhelming majority of taxpayers in this country are law-abiding and pay the taxes they owe. My concerns are amplified by the egregious apparent leak of private taxpayer information out of the IRS, with data ending up at ProPublica, which reported sensationalized and misleading claims about taxes paid by named individuals. While ProPublica focused on wealthy people, an IRS leak may involve personal information on American taxpayers across the income spectrum.

Secretary Yellen, it would be helpful for you to share what is known at Treasury and the IRS about the apparent massive data breach. I also look forward to hearing about political agreements struck by the administration and the G7. A recent G7 communiqué reflects a shift in the U.S. position in OECD negotiations that appears driven by the administration's plans to significantly increase taxes on U.S. businesses.

The United States already has a robust global minimum tax, GILTI, and no other country has moved to enact one since. If Treasury envisions hiking taxes on U.S. businesses domestically, including onerous changes to GILTI, before other countries adhere to a global minimum tax, the U.S. could suffer from a first-mover disadvantage.

Higher U.S. tax rates instituted before other countries move poses the risk of others not following through and a new wave of inversions and foreign acquisitions arising because U.S. business are unable to compete. Congress needs to understand the analysis behind your proposals, and whether any agreement would allow foreign targeting of U.S. companies or special carve-outs for particular jurisdictions, including China.

The G7 understandings also advocate for new mandatory financial disclosures and funding for multilateral financial institutions, including a new $650-billion general allocation at the IMF of special drawing rights. I am interested to hear about the outreach you have done with Congressional Republicans on those funding increases.

Additionally, I again ask that Treasury work to improve its responsiveness to this Committee.

Secretary Yellen, I look forward to learning more from our discussions today.

Thank you, Mr. Chairman.

SUBMITTED BY HON. STEVE DAINES,
A U.S. SENATOR FROM MONTANA

United States Senate

WASHINGTON, DC 20510–2606

JUNE 15, 2021

The Honorable Janet Yellen
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Secretary Yellen:

In light of the recent wave of cyber-attacks impacting both private companies and government entities, I write today requesting an update on Treasury's cyber infrastructure and general security in the face of ongoing threats. This is a particularly pressing issue, and I am concerned that it is not receiving the level of attention it deserves.

In recent months, we have seen a number of troubling, high-profile cyber- and ransomware attacks targeting U.S. companies. Last month, a ransomware attack targeting Colonial Pipeline Co. forced the company to halt operations, resulting in fuel shortages across the southeastern United States. Earlier this month, a ransomware attack against JBS USA Holdings, Inc. halted operations at some of the largest meatpacking plants in the United States. On June 1st, Scripps Health announced that, due to a May ransomware attack, hackers had stolen personal data from nearly 150,000 individuals. On June 11th, McDonald's Corp. told employees that hackers had successfully stolen company data, including employee information, from its systems in the United States, South Korea, and Taiwan. Hackers have also recently targeted local entities like ferry services in Massachusetts and water treatment plants in Florida, suggesting that multinational corporations and national governments are not the only entities subject to the threat of cyber- and ransomware attacks. Unfortunately, the above instances of successful cyber- and ransomware attacks undoubtedly represent a small fraction of total attempts to violate the cybersecurity of U.S. corporations, government agencies, and other entities.

In December of last year, it was revealed that the Treasury Department was among the agencies impacted by the SolarWinds hack, one of the worst data breaches in the history of the United States. It is clear that cybercriminals, including those responsible for the SolarWinds hack, have continued unabated and that further action is needed to bolster Treasury's cybersecurity. This is particularly true in the wake of the unauthorized disclosure of confidential taxpayer data published by Pro-

Publica. Luckily, the recent wave of cyber- and ransomware attacks does not appear to have targeted U.S. banks, stock market exchanges, mutual and pension funds, Federal Government agencies, or other elements critical to the operations of the U.S. financial system. However, that does not mean that U.S. financial infrastructure is immune to attack. In fact, in recent years we have seen attacks successfully target foreign central banks. In 2016, hackers installed malware on the Bangladesh Central Bank's computer system resulting in the theft of approximately $81 million.

The U.S. financial system is a critical component of U.S. infrastructure. The industry holds trillions in assets and massive amounts of American citizens' personal data. As criminals grow more sophisticated and increasingly target ransomware attacks against U.S. critical infrastructure, the Federal Government must ensure that its defensive capabilities match the changing threat environment.

With that in mind, I have several questions for which I am hopeful you can provide clarification:

- How confident is Treasury that U.S. financial infrastructure is capable of preventing cyber- and ransomware attacks from increasingly sophisticated criminals?
- What steps has Treasury recently taken to secure the cybersecurity of U.S. financial infrastructure?
- Has Treasury determined the full extent of the SolarWinds hack? If not, could additional sanctions be considered if additional perpetrators are identified?

The U.S. financial system relies in large part upon the security of confidential data housed at the Treasury Department. As criminals grow more sophisticated and increasingly target ransomware attacks against U.S. critical infrastructure, the Federal Government must ensure that its defensive capabilities match the changing threat environment. Thank you for your work to protect the integrity of U.S. financial infrastructure, and I look forward to receiving your answers to the above questions.

Sincerely,

Steve Daines
United States Senator

PREPARED STATEMENT OF HON. RON WYDEN,
A U.S. SENATOR FROM OREGON

This morning the Finance Committee welcomes Treasury Secretary Janet Yellen to discuss the President's 2022 budget proposal.

There's a lot for us to talk about this morning, and time is tight. I'm going to begin with tax. On Tuesday of last week, the American people woke up to what appeared to be the largest unauthorized disclosure of taxpayer data in history. As I said at the time, this committee takes the confidentiality of taxpayer data very seriously, and I fully expect that an appropriate investigation is underway. I also want to thank the Treasury officials who held a briefing with staff this week on this subject.

This committee takes confidentiality seriously. I also take the issue of economic fairness extremely seriously. The information in the ProPublica report depicts a tax system in which the wealthiest people in the country pay rock-bottom tax rates, sometimes zero. What's worse, it's all perfectly legal. The details may not have been a surprise to those who follow the tax debate closely, but they're still a gut punch to read on the page.

Days later, another new report described another tax rip-off; in this case, from the people who brought you the carried-interest loophole. It's carried interest on steroids. Wealthy investment managers and their lawyers schemed to turn even more of their wage income into tax-preferred capital gains using legal documents that essentially said "presto change-o" in accounting jargon. Even after whistleblowers came forward, the IRS enforcement division found itself overmatched and outgunned, the result of years of Republican budget cuts that hobbled its capacity to crack down on corporate cheating. On its way out the door in January, the Trump administration gutted an effort to put even minor limitations on behavior like this.

Americans also learned recently that mega-corporations have never contributed less to Federal revenues in modern history than they do right now. According to the Congressional Budget Office, corporate income tax revenue after the Trump tax law

is down nearly 40 percent from the 21st-century average. Many of the largest corporations pay nothing—zero. At the same time, stock buybacks that enrich wealthy investors are through the roof. It was reported that from January through May of this year, mega-corporations authorized half a trillion in stock buybacks, the most in 22 years.

I'd wager there's going to be a lot said during this hearing about people's trust in our tax system. What's most damaging to people's trust in the tax system, in my view, is its rotten, cynical unfairness to Americans who work for a living. The tax code on the books today says that a dollar gained on the trading floor matters more than a dollar earned on the factory floor. It's not hard to grasp why middle-class, wage-earning taxpayers object to that idea. They're paying taxes out of every paycheck to sustain a country whose prosperity is swallowed up mostly by wealthy individuals who avoid paying a fair share themselves.

The President and Democrats in Congress have an extensive agenda designed to create jobs, make it easier to raise a family, and help every American get ahead. To fund that agenda, the Congress must ensure that corporations and the wealthy—not just people who work for a living—have skin in the game.

A few specifics. Senator Brown, Senator Warner, and I recently debuted a plan that would eliminate the Trump-era deduction for shipping manufacturing jobs overseas and ensure multinational corporations pay a fair share.

I'll have a proposal dealing with a core unfairness of the tax code, the special rules that allow the wealthiest individuals to pay little or nothing at all. Democrats are also working on proposals to close the tax gap, because protecting confidential taxpayer data and cracking down on tax cheats are not mutually exclusive—Congress absolutely must do both. This is a fairness-based approach to revenue that the American people support, and I'm looking forward to working with Secretary Yellen on these issues in the weeks and months ahead.

A few other issues to discuss before I wrap up. I want to thank Secretary Yellen for leading the battle with respect to a minimum tax for mega-corporations around the world. There is a new day ahead—no more race to the bottom on taxes for the biggest, most powerful corporations. Key to moving forward is putting a quick stop to discriminatory digital service taxes, which unfairly target American firms. I'll have a question for Secretary Yellen on that.

In the Rescue Plan passed in March, the Congress created a major, new economic lifeline for rural communities and tribes. This program is all about making sure people in these communities have resources for schools, roads, and health care. Implementation is underway, and I want to continue working with the Treasury Department and Senator Crapo to get the job done.

And lastly, the Treasury and IRS are just weeks away from sending the first Advance Child Tax Credit payments out to American families. It's taken a lot of hard work to get this program up and running. These payments have the potential to cut child poverty in half if everybody does their part to reach vulnerable families. The committee will be talking about how to ensure the program achieves that goal.

Prepared Statement of Hon. Janet L. Yellen, Secretary, Department of the Treasury

Chairman Wyden, Ranking Member Crapo, it's a pleasure to be with you.

When I took office back in January, the first—and most urgent—problem confronting our economy was obviously the pandemic: helping people make it to the other side of the crisis and ensuring they were met there by a robust recovery. Thanks to this Congress—and its passage of the American Rescue Plan—I believe we are well on our way towards that goal.

But we have to be clear-eyed about something: the pandemic was not our only economic problem. Long before a single American was infected with COVID–19, millions of people in this country were running up against a series of long-term, structural economic challenges that undermined their ability to make a good living.

For instance, wage inequality. In healthy economies, we see wage growth across the distribution—for workers making the highest incomes and those making the lowest. But over the past several decades, that has not been the case in our economy. While the highest earners have seen their income grow, families at the bottom

end of the distribution have seen their pay stagnate. Gender and racial pay gaps also persist.

At the same time, labor force participation has been dropping. Even before the pandemic, the share of American women in the workforce lagged far behind many other wealthy nations.

These trends have coincided with a reordering of the economic map. There have always been richer areas of the country and poorer areas, but for most of the 20th century, the latter were catching up with the former. The country was rising together. Today, this is less true. There's a divergence among local economies, some areas that are growing more prosperous and others that are stagnating.

Climate change adds a fresh layer of crisis on top of this—the average cost of climate-related disasters is expected to double every 5 years.

And of course, there is racial inequality: when I started studying economics in 1963, the average black family's wealth was about 15% of the average white family. Maybe that isn't surprising: Jim Crow laws were still in effect. But what is surprising is that it's almost 60 years later, and that ratio has barely changed.

These destructive forces—the divergence in wages and of geographic regions, the decline in labor force participation, the rise of climate change, and the persistence of racial inequality—all these are combining to block tens of millions of Americans from the prosperous parts of our economy.

There are clear reasons why these destructive forces have festered. The private sector does not make enough of the types of investments needed to reverse them—training programs that can lead to higher wages; childcare and paid leave that would help people rejoin the workforce; or infrastructure that would lower carbon emissions and spur growth in neglected communities. For 40 years we haven't done that. Not as much as we should have.

We need to remedy this lack of investment. We need ambitious fiscal policy to start unwinding these trends, and if there is a short summary of the President's budget, that's it.

The budget, which includes both the American Jobs and Families Plans, will repair the fractured foundations of our economy. It does so through a series of smart policies, including child care and paid leave so more parents can join the workforce; a mass modernization—and greening—of America's infrastructure to spur commerce and reduce emissions; an investment to make housing and education available to all. The list goes on.

We need to make these investments at some point, and now is fiscally the most strategic time to make them. We expect the cost of Federal debt payments will remain well below historical levels through the coming decade. We have a window to invest in ourselves.

In fact, this budget is both fiscally strategic and fiscally responsible. It pays for itself through a long overdue reformation of the tax code that will make it fairer, without touching the vast majority of Americans, those who earn less than $400,000 a year.

There are some tough trade-offs in fiscal policy, but this—a fairer tax code for a structurally sound economy—is not one of them.

With that, I am happy to take your questions.

QUESTIONS SUBMITTED FOR THE RECORD TO HON. JANET L. YELLEN

QUESTIONS SUBMITTED BY HON. RON WYDEN

Question. Under section 1332 of the Affordable Care Act, States can apply for State Innovation Waivers giving them greater flexibility to meet the needs of their residents while meeting key insurance guard rails. A total of 15 States have received a 1332 waiver, and 14 States receive pass-through funding under 1332 to finance reinsurance programs to ensure affordable health insurance premiums in their States.

On March 11, 2021, the American Rescue Plan was enacted, giving millions of Americans access to affordable health insurance through the expanded Premium Tax Credit. To facilitate access to affordable health insurance and the expanded

Premium Tax Credits, the Biden-Harris administration created a special enrollment period from February 15th through August 15, 2021. As of May 31st, the Centers for Medicare and Medicaid Services (CMS) reports that 13,000 Oregonians and more than 1.2 million people nationally have signed up for health insurance through *HealthCare.gov*. The American Rescue Plan is providing much-needed relief to millions.

States, particularly 1332 waiver States, are integral partners in expanding health insurance coverage. In March, Oregon's State insurance commissioner along with 13 other States wrote a letter requesting that CMS and Treasury recalculate final pass-through funding for their State-based reinsurance programs taking into account the changes in law from the American Rescue Plan Act. In April, CMS notified States that it would do so, but did not provide any guidance around when that calculation would be complete noting in a FAQ the Department planned to recalculate pass-through funding amounts. Specifically, the guidance provided to States said that CMS would inform States of the adjusted pass-through funding "later this year."

Can you provide a more specific timeline by which States can expect to receive their adjusted final pass-through funding levels?

Answer. CMS and Treasury (the Departments) are working to swiftly calculate updated section 1332 pass-through funding levels that reflect the American Rescue Plan's (ARP) expansions of financial assistance to individuals and families purchasing coverage through the health insurance marketplace. The American Rescue Plan was a historic legislative accomplishment that included the biggest improvement in health care affordability since the Affordable Care Act (ACA) was passed. Because of this unique and historic legislative change, the Departments must use a different approach than what is typically used to calculate pass through annually under prior law. We do not have a more specific timeline at this time, but look forward to engaging further with Congress and states when we have updates to share.

Question. Can you tell me how CMS and the Treasury Department coordinate to calculate pass-through funding amounts for 1332 States when there are changes in law?

Answer. CMS and Treasury work closely to jointly administer the section 1332 waiver program. To date, the Departments leverage Treasury's methodology for modeling health insurance coverage and premium tax credits (PTC) at the State level, which is used for evaluating section 1332 waiver applications and calculating pass-through payments for States with approved section 1332 waivers. This methodology was developed by Treasury's Office of Tax Analysis (OTA) in collaboration with the Office of the Actuary, Centers for Medicare and Medicaid Services (OACT/CMS). When there are changes in State or Federal law that are expected to impact the savings in ACA financial assistance yielded by a State's section 1332 waiver, the Departments work to identify how those changes in law are expected to impact the Federal savings due to the waiver and then estimate those impacts on pass-through funding.

Question. From your perspective, what can Congress do to ensure that there is the appropriation coordination between CMS and the Department of the Treasury to provide timely and responsive updates to 1332 waiver States?

Answer. Along with CMS, Treasury looks forward to working with Congress, and we look forward to continuing to work closely with States with approved section 1332 waivers to address and account for any changes in Federal law as they pertain to the section 1332 waiver program. We understand that section 1332 pass-through funding, including the updated amount attributable to the ARP, is crucial to help States run their waiver program, and we appreciate the need for timely updates. We will continue to work to expediently account for the groundbreaking reforms ushered in by the ARP to help make health insurance more accessible for American individuals and families.

QUESTIONS SUBMITTED BY HON. JOHN BARRASSO

Question. In its fiscal year 2022 revenue proposal, the administration proposes repealing several tax provisions utilized by the fossil fuel industry. In some instances, such as with percentage depletion, these provisions are repealed only for fossil fuel producers and royalty owners, while allowing their continued use by other industries. Clearly the proposed repeal is not for policy reasons, but simply because the fossil fuel industry utilizes these provisions.

During our exchange at the hearing on June 16th, you referred to these tax provisions as "subsidies." The intangible drilling costs tax deduction simply allows fossil fuel producers to immediately deduct ordinary businesses expenses such as wages paid to their employees. This is similar to the treatment of other ordinary necessary business expenses such as capital investments and research and development costs, which can also be deducted immediately.

In your view, are all tax deductions for ordinary business expenses "subsidies" to those industries that utilize those deductions?

If no, please provide a list of all tax deductions you would not classify or refer to as a "subsidy."

Answer. In general, costs that benefit future periods must be capitalized and recovered over such periods for income tax purposes, rather than being expensed in the period the costs are incurred. In addition, the uniform capitalization rules require certain direct and indirect costs allocable to property to be included in inventory or capitalized as part of the basis of such property. In general, the uniform capitalization rules apply to real and tangible personal property produced by the taxpayer or acquired for resale.

Special rules apply to intangible drilling and development costs (IDCs). IDCs include all expenditures made by an operator for wages, fuel, repairs, hauling, supplies, etc., incident to and necessary for the drilling of wells and the preparation of wells for the production of oil and gas. Under the special rules applicable to IDCs, an operator (*i.e.,* a person who holds a working or operating interest in any tract or parcel of land either as a fee owner or under a lease or any other form of contract granting working or operating rights) who pays or incurs IDCs in the development of an oil or gas property located in the United States may elect either to expense or capitalize those costs. If a taxpayer elects to expense IDCs, the amount of the IDCs is deductible as an expense in the taxable year the cost is paid or incurred. In the case of an integrated oil company (*i.e.,* a company that engages, either directly or through a related enterprise, in substantial retailing or refining activities) that has elected to expense IDCs, 30 percent of the IDCs on productive wells must be capitalized and amortized over a 60-month period.

The expensing of IDCs, like other oil and gas preferences the administration proposes to repeal, distorts markets by encouraging more investment in the oil and natural gas industry than would occur under a neutral system. This market distortion is inconsistent with the administration's policy of supporting a clean energy economy and reducing carbon emissions. Moreover, the subsidy for oil and natural gas must ultimately be financed with taxes that cause other economic distortions, *e.g.,* underinvestment in other, potentially more productive, areas of the economy. Capitalization of IDCs would place the oil and gas industry on a cost recovery system similar to that of other industries and reduce economic distortions.

Question. The administration's fiscal year 2022 revenue proposal includes significant modifications to the taxation of family businesses at the time of death. Currently, when an heir inherits an asset, their tax basis in the asset is "stepped up" to an amount equal to the fair market value of the asset atthe time of the decedent's death. If an heir subsequently sells that asset, they only owe capital gains tax on the gain during their period of ownership.

This policy ensures heirs do not pay taxes on what might simply be inflation, and ensures they are not forced to sell the family ranch or businesses just to pay a tax on an unrealized gain. The administration's proposal would remove this longstanding policy and force an heir to recognize gains in the asset and pay taxes on it, even if there is no sale.

Multiple recent studies have demonstrated the harmful effects such a policy would have on small ranches and businesses. The Agricultural and Food Policy Center released a study on June 15 that analyzed the elimination of step-up basis. The study revealed 92 of the 94 representative farms would be impacted, with additional tax liabilities averaging $726,104 per farm. In April, Ernst and Young released a similar study commissioned by the Family Business Estate Tax Coalition that found a repeal of stepped-up basis would result in the loss of 80,000 jobs per year for the first 10 years, followed by the loss of 100,000 jobs each year afterwards.

Given the harmful impacts resulting from the administration's proposal regarding stepped-up basis found by these studies, has the Treasury Department modeled the impact this policy would have on small businesses and family farms and ranches?

If so, please provide me with the results of Treasury's modeling.

Answer. To be clear, the administration's proposals do not make changes to the existing estate tax rules. The capital gains proposal would impose *income* tax on unrealized appreciation in assets transferred by gift or at death, but would exempt the first $2 million in capital gains for a married couple, in addition to up to $500,000 of gain in their residence(s). To the extent income tax is imposed at death under the capital gain proposal, an heir would take assets with a fair market value (usually stepped-up) basis and prospectively would only be liable for gain(s) on appreciation accruing only during the heir's period of ownership of the asset(s). In addition, the proposal provides special rules in recognition of the critical role that family businesses (including farming and ranching businesses) play in our communities and our economy. In the case of an interest in a family-owned and operated business, any tax liability on unrealized appreciation (after the aforementioned exemption of up to $2 million) would not be due until the interest is sold or for as long as the business remains family-owned and -operated.

Question. You recently attended the G7 finance ministers meeting in London. The June 5th communiqué resulting from this meeting expressed support for mandatory climate financial disclosures by private companies and financial institutions.

Prior to offering an endorsement from the administration for mandating disclosures, was there any outreach to Congress to see if there is bipartisan support for mandatory climate and ESG disclosures of companies in the private sector?

If so, can you describe that outreach?

If not, can you explain the reasoning for not engaging with Congress on this issue prior to the release of the communiqué?

Answer. Domestic and international investors are seeking more consistent, comparable, and reliable information on climate-related risks and opportunities. The commitment among G7 members is to support mandatory disclosure of climate-related financial information in a manner that is in line with domestic regulatory frameworks, which would include statutory frameworks in the United States and other G7 jurisdictions.

In line with its mandate and regular procedures, the SEC recently sought public input on climate-related financial disclosures as well as the costs and benefits of different regulatory approaches related to climate disclosure. The SEC will continue to work through the domestic regulatory process to make sure it is meeting the needs of U.S. investors and those who want to invest in our capital markets. We have regularly engaged with Congress on climate change and look forward to continue doing so.

QUESTIONS SUBMITTED BY HON. MARIA CANTWELL

Question. I would like to follow up on your responses to my questions following your confirmation hearing earlier this year about climate change.

As you're well aware, climate change poses the greatest long-term threat to our society, as well as more immediate threats from extreme weather events such as the severe drought building across the west, and increasing wildfire risks as we head into summer and the hurricane season. In response to my questions for the record following your nomination hearing earlier this year, you said, quote: "We cannot solve the climate crisis without effective carbon pricing;" and, "We are all committed to doing everything we can to solve this crisis."

I was reassured by your response and commitment to take action within the administration to address climate change, but now I want to talk about what steps you are taking to live up to that promise.

Since those QFRs, you announced the creation of a new climate hub within the Treasury Department to bring the full force of the Treasury Department to leverage finance and financial risk mitigation to confront the threat of climate change.

You also stated that, "Climate change presents new challenges and opportunities for the U.S. economy," while also restating your prior position that climate change requires an economy-wide investment by industry and government along with strong global cooperation because climate is, by its very nature, a global challenge.

I believe you're correct that addressing climate change presents both a challenge and opportunity for the U.S. as the global market for clean energy products will be a $23-trillion market, and that's just through 2030 in 21 developing nations.

The innovation needed to develop these clean energy technologies by the private sector is where the U.S. can lead by developing and manufacturing clean energy technology we could export to the world.

To build this market, we need to provide policy certainty.

The one policy that you have previously supported, along with a wide variety of groups ranging from the Business Roundtable, the Chamber of Commerce, American Petroleum Institute, to Fortune 500 companies, 27 Nobel Laureate economists, and all four Federal Reserve Chairs, is a price on carbon.

You previously stated that we need carbon pricing in order to address the climate crisis, but we also need policies that protect the most vulnerable families. I believe that enacting an economy-wide price on carbon, paired with a dividend that returns the majority of revenue back to individuals, can achieve both of these objectives cost-effectively with very little government intervention.

Do you still agree that an economy-wide price on carbon, imposed upstream at the mine or wellhead and subject to a cap on total emissions is the most efficient way to reduce emissions by unleashing the full potential of the markets to find the lowest cost solutions?

Do you agree with previous analysis from the Treasury Department's Office of Tax Analysis that found a carbon cap and dividend policy would protect the most vulnerable families because of the progressive nature of a dividend policy?

You stated in April of this year in association with the announcement of the Climate Hub within the Treasury that "Climate change requires economy-wide investments by industry and government."

Do you believe that an economy-wide price on carbon would spur the level of private sector investment that is needed to reduce emissions?

Do you believe that by auctioning off carbon permits and using a portion of that revenue could provide the necessary Federal funding to invest in the clean energy transition and ensure no communities are left behind?

Answer. This administration has set ambitious climate goals, as articulated in our Nationally Determined Contribution, and laid out a robust "whole-of-government" approach to achieving those goals.

The administration's climate plan ensures that all Americans will benefit from a cleaner economy and will create a carbon pollution-free power sector by 2035 and a net zero emissions economy by no later than 2050. Redistributing the proceeds of a carbon tax or auctioned permits would be one way to enable this. We look forward to working with Congress to finalize the specific actions the country will take to achieve our ambitious decarbonization goals.

There are multiple paths to reach these goals, and the U.S. Federal, State, local, and tribal governments have many tools available to work with civil society and the private sector to mobilize investment to meet these goals while supporting a strong economy. The administration's plan will provide good-paying jobs deploying carbon pollution-free electricity generating resources, transmission, and energy storage and leveraging the carbon pollution-free energy potential of power plants retrofitted with carbon capture and existing nuclear, while ensuring those facilities meet robust and rigorous standards for worker, public, and environmental safety, as well as environmental justice.

Question. In February of this year, during a meeting of the G7, you stated that U.S. is prepared to take the lead in the global fight against climate change.

What steps have you taken to follow up on that commitment?

Answer. This administration is committed to a whole-of-government effort to mobilize the resources necessary for tackling climate change. The President announced that the United States intends to double, by 2024, our annual public climate finance for developing countries compared to what the United States was providing during the second half of the Obama-Biden administration. The United States released America's first-ever International Climate Finance Plan. Recognizing that it's not just about how much finance we provide, but how we invest it, the Plan aims to ensure that we use each public dollar as strategically as possible to maximize impact on the ground and leverage the much larger sums of private capital that will be needed.

At Treasury, we have created a Climate Hub to coordinate and elevate the Department's efforts on climate change, from domestic finance, to economic policy, to our international affairs teams.

Question. Would passage of a carbon cap and dividend program help the U.S. regain its leadership position globally while also demonstrating an efficient policy option other nations could employ?

Answer. President Biden is demonstrating global leadership by fulfilling his promise to rejoin the Paris Accords on Day One. He has brought the U.S. back to the table and is rallying the world to tackle the climate crisis and creating economic prosperity at the same time. The President has set an ambitious Nationally Determined Contribution and articulated a plan to achieve our climate goals. We look forward to working with Congress to finalize the specific actions the country will take to achieve these ambitious goals.

Question. Today, President Biden is meeting with President Putin and will raise continued cyber-attacks on U.S. companies and infrastructure that originate in Russia. Since the Solarwinds attack, we have seen ransomware attacks on the Colonial Pipeline and on meat processor JBS.

These continued attacks have enormous costs on U.S. business and have the potential to be major disruptions to the U.S. economy. The United States must use all its tools to stop these attacks including sanctions.

The Senate-passed China Competition bill contained new sanctions authorities developed by our colleagues Senators Brown and Toomey to go after Chinese actors responsible for cyberattacks against USG or private sector networks. Congress passed the Countering America's Adversaries Through Sanctions Act (CAATSA) in 2017 to authorize similar sanctions targeted at Russian actors. And there are executive orders that apply more generally, enabling you to target others responsible for cyber-attacks against the United States.

As Treasury is undertaking the broad sanctions review you previously testified about, have you come to any conclusions about whether current legal authorities in place are sufficient?

Answer. The sanctions review that I asked Deputy Secretary Adeyemo to lead is not focused on a particular sanctions program or individual set of designations, but rather on identifying broad successes, opportunities for changes or improvements, and steps for adapting implementation across all sanctions programs. This will help to ensure that sanctions remain relevant, rigorous, and fit to purpose, advancing the national security, and foreign policy, and economic aims of the United States. The review remains ongoing. However, we look forward to briefing you when the review is completed.

Question. Has Treasury determined how we can better target these attackers using existing sanctions authorities both to punish them and to strongly deter future such attacks?

Answer. OFAC continues to target malicious cyber-enabled actors, including pursuant to cyber-related Executive Order (E.O.). 13694, as amended by E.O. 13757. Together with actions pursuant to various country-specific sanctions authorities, these actions have aimed to disrupt and deter malicious cyber-activity across the spectrum of adversary States and criminal actors. OFAC has used these authorities to counter a wide array of types of malicious cyber activity, to include perpetrators of ransomware attacks and those who facilitate ransomware transactions. Treasury is committed to continuing efforts to hold malicious cyber actors accountable for their actions.

Question. How is Treasury working with our allies to ensure a coordinated approach on cyber-related sanctions?

Answer. We appreciate that the effect of our sanctions can be amplified when imposed in coordination with other U.S. government efforts, and, where possible, in coordination with similar sanctions or other complementary actions by allied and partner governments. Treasury continues to explore working across the interagency and with allied and partner governments to take complementary actions including joint designations and coordinated messaging, to amplify our actions. Multilateral pressure can limit the ability of targeted States or persons to circumvent our actions and conveys united resolve that we are willing and ready to hold cyber-criminals based in and affiliated with Russia, China, and elsewhere accountable for their malicious activities. In addition to coordination on sanctions, Treasury works with al-

lied and partner governments to urge them to take stronger action against cybercriminals and their associated networks of supporters and facilitators and improve cybersecurity and resilience.

Question. I want to discuss an issue that I know is of serious concern to both of us—our growing affordable housing crisis and the need to build millions more housing units in Washington State and nationwide.

As you know, I have been working with Senator Young, along with the chairman and Senator Portman, to expand and strengthen the Low-Income Housing Tax Credit.

Our legislation includes several critical increases to housing credit resources and improvements to the program: a 50-percent allocation increase for the credit overall, a reduction of the current 50-percent bond threshold to 25 percent so projects can more easily access much-needed housing credit equity, and important basis boosts to help extremely low-income populations as well as high-need areas including rural and tribal communities. This is something we have been able to make incremental progress on, most recently last December with the enactment of the 4-percent floor.

But as we recover from the pandemic, now more than ever families need access to more affordable housing. We have much more to do here.

So I was pleased to see that the President's budget includes support for an expansion of LIHTC, and I look forward to working with you to get that enacted in to law this Congress.

What is the Department's estimate for how many homes could be built through these changes to LIHTC?

As we work towards these reforms, will you commit to do all you can to work with myself, Senator Young, and our colleagues on expanding and improving the Low-Income Housing Tax Credit?

Answer. The administration is committed to working with Congress to help make affordable housing a reality for more Americans. As you mentioned, the President's budget includes a proposal to expand LIHTCs, including a more than 100-percent allocation increase for the credits in 2022 through 2026. The administration expects that these new LIHTCs will support the construction or rehabilitation of tens of thousands of affordable residential rental units for low-income tenants. Combining the $55-billion revenue cost of these credits with investments including $80 billion in HUD's HOME Investment Partnership program and the housing trust fund, and $19 billion of revenue costs for Neighborhood Homes Investment Credits, the President's plan proposes a $313-billion investment to produce, preserve, and retrofit more than 2 million affordable and sustainable places to live for low-income families. It pairs this investment with an innovative new approach that will prevent State and local exclusionary zoning laws from driving up the cost of construction and keeping families from moving to neighborhoods with more opportunities for them and their kids. This complements the administration's proposed changes to LIHTCs, which include targeting the increase in credits towards neighborhoods of opportunity.

Question. As you know, this summer the Federal Reserve plans to release a research on digital currency. Other countries including China are already moving ahead with plans to create their own official digital currencies as the cryptocurrency market is now valued at $1.5 trillion and continues to grow.

According to press reports, U.S. financial regulatory agencies are exploring new ways to regulate the cryptocurrency market. There are risks from decentralized cryptocurrencies. We have seen cybercriminals demand ransoms in cryptocurrencies. The cybersecurity of cryptocurrencies themselves can also be an issue; they can be stolen.

In your view, what are the benefits of creating an official digital currency? Will the U.S. be put at a competitive disadvantage as other countries create their own digital currencies?

How is Treasury working to mitigate potential risks from decentralized cryptocurrencies, including from transnational crime?

Answer. The Federal Reserve is exploring the potential benefits and risks of Central Bank Digital Currencies (CBDCs) with a key focus on how a CBDC or other efforts could improve domestic payments system and its ability to serve the needs of households and businesses. A U.S. CBDC would also raise important questions

about monetary policy, financial stability, consumer protection, and legal and privacy considerations.

At the same, time we are mindful that confidence in the stability of the international monetary system is underpinned by broader considerations such as credible and longstanding public sector commitments to transparency, the rule of law, and sound economic governance. To further the continued stability of that system, Treasury and other U.S. authorities are actively involved in a range of international forums such as the G7, G20, and Financial Stability Board, including efforts that could guide a jurisdiction if it decides to introduce a CBDC.

The potential to send cryptocurrencies, a type of virtual currency, nearly instantaneously and irrevocably across borders can increase illicit finance risks, including potential misuse by transnational criminals. Moreover, some cryptocurrencies can offer the anonymity of cash without the same physical limitations. It is also possible to transfer cryptocurrencies without the involvement of a financial institution subject to AML/CFT obligations, exacerbating the illicit finance risks.

Globally, many governments have yet to follow the lead of the United States by putting in place laws consistent with the Financial Action Task Force (FATF) standards for the regulation and supervision of virtual assets including (i) cryptocurrencies and (ii) and virtual asset service providers (VASPs). The lack of effective regulation, supervision, and enforcement in many foreign jurisdictions can enable continued misuse of cryptocurrencies through jurisdictional arbitrage. Treasury, through the Office of Terrorist Finance and Financial Crimes (TFFC), is working with the FATF to encourage global implementation of the standards and to provide guidance on their implementation. Treasury's Office of Terrorism and Financial Intelligence, particularly TFFC and Financial Crimes Enforcement Network (FinCEN), also works with other jurisdictions to pursue global implementation of the FATF standards, as well as with the private sector to promote compliance.

QUESTIONS SUBMITTED BY HON. THOMAS R. CARPER

Question. Through my work on this committee and as chairman of the Senate Environment and Public Works Committee, I remain committed to passing laws that will drive down dangerous emissions and clean energy costs for consumers. We know that our climate crisis demands urgent action. I share President Biden's belief that we must work to ensure that our tax code helps our Nation combat this challenge, and, in doing so, creates good-paying American jobs and strengthens our economy.

This committee recently marked up Chairman Wyden's Clean Energy for America Act, which included a number of my top energy tax priorities—including expanded incentives for clean hydrogen production, the deployment of clean vehicle refueling infrastructure, and refundability of our clean energy tax credits.

Can you share how the administration's budget request and tax proposals will help us accelerate the transition to a cleaner economy and spur job creation?

Answer. The budget makes historic investments that will help our Nation build back better and lay the foundation for shared growth and prosperity for decades to come. One cornerstone of these proposals is around more efficient use of existing resources. This means focusing on climate change and energy efficiency, infrastructure modernization and resiliency, surface transportation, housing supply, supply chains, childcare, and education, all of which are key components to job creation.

The administration has proposed over $300 billion in incentives for clean energy and the elimination of $35 billion in fossil fuel incentives. (These figures do not include $174 billion in spending programs for related to electric vehicles and charging stations, nor $85 billion in additional taxes on foreign oil and gas income.) The administration is also calling for a clean energy standard (CES) to achieve 100-percent carbon emissions free electricity production by 2035; Treasury's estimates of clean energy tax credits assume CES implementation. Most of the tax incentives for businesses would include a direct pay option which would make the incentives more efficient as project developers with insufficient tax liability would no longer need to partner with firms with sufficient tax liability to use the credits.

Question. Now that we are emerging from the pandemic and working to rebuild our economy, we need to be laser focused on getting people back to work, as well as strengthening investment and increasing innovation in the United States. In order to ensure a robust economic recovery, changes to the tax code should encour-

age economic growth and help to create a nurturing environment for job creation. This includes making sure that these changes allow us maintain our competitiveness and support good-paying jobs.

Can you share your thoughts on how to best maintain American competitiveness, and how these tax and budget proposals may impact economic growth and job creation?

Answer. The budget includes the American Jobs Plan—a once-in-a-generation investment in America that will create millions of good jobs, rebuild our country's infrastructure, and position the United States to compete—as well as the American Families Plan—a historic plan to help families cover the basic expenses that so many struggle with now, including by providing an additional 4 years of free public education through universal pre-school for all 3- and 4-year-olds and 2 years of community college, lowering health insurance premiums, and continuing the American Rescue Plan's historic reductions in child poverty.

The budget also reinvests in discretionary programs that are a foundation of our country's strength—from expanding economic opportunity and investing in education, to improving our public health infrastructure and tackling the climate crisis, to restoring America's place in the world and confronting 21st-century security challenges.

The budget provides a fiscally responsible path for delivering a stronger, more prosperous economy. Under the budget's proposals, the cost of Federal debt payments will remain well below historical levels throughout the coming decade. And over the long run, the budget's investments are more than fully paid for through long-overdue changes to our tax code—reforming the corporate tax code to incentivize job creation and investment in the U.S., revitalizing tax enforcement to ensure that high-income Americans pay the tax they owe under the law, and eliminating loopholes that reward wealth over work.

Over time, the savings from these reforms will exceed the up-front cost of the investments, and by large and growing amounts. The American Jobs Plan and American Families Plan together are paid for over 15 years. And the full set of proposals in the budget reduce the annual deficit by the end of the 10-year budget window and reduce deficits by over $2 trillion in the decade after that.

Overall, enacting the budget policies into law this year would strengthen our Nation's economy and lay the foundation for shared prosperity, while also improving the Nation's long-term fiscal outlook.

QUESTIONS SUBMITTED BY HON. BILL CASSIDY

Question. As you consider next steps in the OECD Pillar 2 project, it's imperative that we consider how U.S.-based companies will stack up against those of the world's second largest economy, the Chinese. Although China is not part of the OECD, my understanding is that the administration agrees that Chinese assent to an OECD Pillar 2 agreement is a key factor in whether the agreement is truly global. A *Bloomberg News* article dated June 9, 2021 entitled "China's Likely Bid for Tax Exemption Poses Risk to Global Accord" notes that the general Chinese corporate rate is 25 percent with a special 15-percent rate for technology-related income, but that there are additional incentives that can take that rate to 0 percent. The article also notes the Chinese are likely seeking a carve-out that would preserve these benefits.

Have the Chinese approached you to discuss a carve-out from the OECD Pillar 2 agreement? Given how important these negotiations are to the administration's priorities, are there scenarios in which you might compromise with them?

Answer. The consensus we achieved at the Inclusive Framework was unprecedented and signals great progress toward a historic deal on a redesign of the international tax system. We actively worked with all countries to make the consensus as broad as possible. We did not, however, provide any special exceptions to China in doing so.

Question. The Chinese understandably want to preserve their domestic incentives for production of intellectual property. But, this administration has chosen to abandon policies like FDII which help American businesses. I fear that your administration's priority is to get a deal fast to raise trillions in business taxes to partially

offset partisan new spending programs. Once again, we find the U.S. alone, and not aligned with the interests of U.S. companies, their workers, and their communities.

Can you tell me why the U.S. is so isolated in abandoning policies, like FDII, while other players insist on maintaining similar policies that align with businesses based in their countries?

Answer. The United States and the international community are nearing a comprehensive agreement on robust country-by-country minimum taxes, seeking to end "the race to the bottom" on corporate tax rates. Adequate taxation of internationally mobile capital helps governments invest in infrastructure, clean energy, and education, spurring future economic growth.

There are multiple problems with FDII. First, the FDII is not an effective way to encourage R&D in the United States, since it provides larger tax breaks to companies with excess profits (those already reaping the rewards of prior innovation) and only targets those with high export sales (omitting those companies with domestic sales).

Second, like the GILTI, the FDII deduction encourages offshoring of real activity, since the export subsidy becomes less generous (all else equal) as companies have higher U.S. tangible assets.

Repealing FDII would generate a large amount of revenue that could be used to encourage research and development much more directly. As one example, reversing the research amortization provision in the Tax Cuts and Jobs Act of 2017 (and returning to expensing) would cost a similar amount of revenue as FDII repeal would raise, but would benefit not just established exporting firms, but also domestic firms and new startups.

Question. Fossil fuels are integral to our Nation's economic vitality and national security and cannot feasibly be replaced by renewables at this time. Yet, the Biden administration has signaled hostility to the fossil fuel industry across several different agencies. In particular, on May 20th, the President issued an executive order on climate related financial risk calling for you, as chair of FSOC, to basically go find these yet unknown risks, whatever they may be. You have said that "our pensions" depend on proper assessment of climate-related risks to the financial system. At the G7, you announced, "we support moving towards mandatory climate related financial disclosures." I worry this will turn into a self-fulfilling prophecy in an attempt to drive pension funds away from investing in energy companies.

Do you agree that the fossil fuel industry continues to be and will continue to be critical for our national security and economic growth and that domestic energy production tends to be cleaner and safer than energy produced offshore?

Answer. The administration is proposing to eliminate fossil fuel subsidies that distort markets by encouraging more investment in the oil and gas industry than would occur under a neutral system. This market distortion is inconsistent with the administration's policy of supporting a clean energy economy and reducing carbon emissions. Moreover, the subsidies must ultimately be financed with taxes that result in other distortions, *e.g.,* in reductions in investment in other, potentially more productive, areas of the economy.

Fossil fuel companies additionally benefit from substantial implicit subsidies, since they sell products that create externalities but they do not have to pay or bear the costs for the damages caused by these externalities. The administration has created a goal to create a carbon pollution-free power sector by 2035 and net zero emissions economy by no later than 2050. Meeting these goals will create millions of good-paying, middle-class, union jobs and build the clean energy economy of tomorrow.

Question. Your budget request includes billions in resources for the Department of Treasury to go after the so-called "tax gap." Of course, the last Democratic administration used the IRS to intimidate and attack disfavored groups.

Federal audits can be disruptive and costly even if they end up finding no evidence of wrongdoing. Given the administration's posture, how are you going to make sure IRS won't use these billions in new money for enforcement to target or harass companies the administration has decided are problematic, such as those in the fossil fuel sector?

Answer. The IRS has lost significant ground over the last decade, as its budget has declined by 20 percent, leading to a substantial decline in its workforce, particularly of specialized auditors who conduct audits of global high net worth individuals,

complex partnerships, and large corporations. As a result, audit coverage has dropped off significantly. For large corporations, it has been halved over the last decade, declining from 98 percent in FY 2010 to around 50 percent today. There is a one-for-one relationship between the revenue that the IRS is able to collect from examinations and the examinations that it performs. The IRS currently does not have the tools that it needs to pursue enforcement activities against large corporations and the high-income taxpayers who own them, and the President's proposal provides the IRS necessary resources.

The proposal also provides much needed information that the IRS can use to appropriately target its enforcement activities. The IRS selects audits for examination based on inferences about how likely a taxpayer is to be noncompliant. But when the IRS has no visibility into opaque income streams, it lacks the ability to target enforcement activity effectively. Providing a lens into opaque income streams will decrease the likelihood of disruptive and burdensome audits for the vast majority of taxpayers who are already fully compliant with their tax obligations.

Question. As you know, FinCEN has responsibility for combating all forms of money laundering. I believe FinCEN has a vitally important mission, and I was gratified to see that the administration is requesting a significant budget increase of 50 percent over last year's enacted levels, primarily to implement the anti-money laundering legislation passed last year. I am interested in Trade-Based Money Laundering, or TBML, in particular. As we have discussed before, TBML is the least understood and most pervasive form of money laundering.

What are your thoughts on how Treasury and Congress can better collaborate to more effectively combat TBML? Given the new staff that comes with a new administration, could you connect my team with those on yours best suited to speak to this issue?

Answer. The Financial Crimes Enforcement Network (FinCEN) is currently pursuing a comprehensive study to enhance its understanding of TBML-related illicit methods and vulnerabilities. We anticipate that this study will serve as an integral platform and leverage point for issuing collaborative and substantive recommendations to further counter this elusive threat.

This study will include proposed strategies to combat TBML that may include enhanced information exchange between FinCEN and its Treasury partners in the sanction evasion and illicit financing realms, related proactive targeting and strategic assessment initiatives, the development and implementation of collaborative working groups, and providing further guidance to relevant financial and business sectors.

I have asked FinCEN to contact your team to provide you an update on this important issue.

Question. At your confirmation hearing, I asked about the possibility of long-term bonds issued by the Treasury to take advantage of historically low interest rates, and you agreed to look into this question. I believe these interest rates may not remain low over the next few years, and so want to take advantage if possible.

Has the Treasury given consideration to the possibility of issuing long-term bonds? What have been your findings on the potential implications?

Answer. Treasury continually evaluates the set of securities that it issues to finance the government at the lowest cost to the taxpayer over time. Treasury has given significant consideration to the possibility of issuing additional longer-term bonds over the past several years and will continue to explore this important issue, including conducting broad investor outreach to gain an understanding of market appetite.

Treasury has specifically explored a range of potential new long-term debt products, including 20-year, 50-year, and 100-year bonds, all with the goal of expanding borrowing capacity to finance the Federal Government at the least cost over time. In May 2020, Treasury reintroduced the 20-year bond, which has provided additional substantial long-term financing capacity, offering investors additional opportunities to invest and allowing Treasury to term-out the initial increase in short-term financing in 2020.

QUESTION SUBMITTED BY HON. CATHERINE CORTEZ MASTO

Question. Does the Treasury anticipate removing and/or scaling back any of the eligible use categories for coronavirus State and local fiscal recovery funds if the national emergency ends prior to the expiration of funds?

Answer. None of the eligible use categories for the coronavirus State and local fiscal recovery funds in the statute or Treasury's interim final rule are conditioned on the continuation of the national emergency declaration.

Eligible uses under sections 602 and 603 of the American Rescue Plan Act are intended to support State and local governments in responding to the pandemic. Specifically, under the eligible use category for responding to the public health emergency and its negative economic impacts, recipients may use funds for payroll and benefits costs of public health and safety staff primarily dedicated to COVID–19 response, as well as rehiring of public sector staff up to pre-pandemic levels. In the interim final rule, Treasury has asked stakeholders to comment on how long these measures should remain in place.

Under the eligible use category for the provision of government services to the extent of the reduction in revenue experienced due to the COVID–19 public health emergency, Treasury is considering whether to take into account other factors, including actions taken by the recipient as well as the expiration of the COVID–19 public health emergency, in determining whether to presume that revenue losses are "due to" the COVID–19 public health emergency. In the interim final rule, Treasury has invited stakeholders to comment on the advantages and disadvantages of this presumption, including when, if ever, during the covered period it would be appropriate to reevaluate the presumption that all losses are attributable to the COVID–19 public health emergency.

QUESTIONS SUBMITTED BY HON. MIKE CRAPO

IRS FUNDING FOR GATHERING PERSONAL BANK INFORMATION

Question. The Treasury Inspector General for Tax Administration—or TIGTA—issued a report in 2017 on IRS criminal investigations during the Obama administration of suspected violations of the Bank Secrecy Act's anti-structuring provisions.

The IRS was enforcing those provisions primarily against individuals and businesses whose income was obtained legally, and not against criminals, according to TIGTA. Let me quote some excerpts from TIGTA's report: ". . . reasonable explanations by taxpayers were not investigated . . ."; ". . . investigators were encouraged to engage in quick hits, where property was more quickly seized . . . rather than pursuing cases with other criminal activity (such as drug trafficking and money laundering), which are more time consuming . . ."; and "When property owners were interviewed after the seizure, agents did not always identify themselves properly, did not explain the purpose of the interviews, did not advise property owners of any rights they might have, and told property owners they had committed a crime at the conclusion of the interviews."

TIGTA determined that 91 percent of investigations it sampled where sources of funds could be determined were businesses and individuals whose funds were obtained legally. TIGTA also reported that: "Most people impacted by the program did not appear to be criminal enterprises engaged in other alleged illegal activity;" rather, they were legal businesses such as jewelry stores, restaurant owners, gas station owners, and others.

With what I just discussed in mind, I wonder if you have any concerns about the administration's proposal to monitor Americans' bank accounts. One proposal is to give the IRS an unprecedented large and mandatory stream of funding to, in part, have private financial institutions gather financial information from almost every individual and business with flows of deposits or withdrawals of as little as $600 in checking, savings, and other accounts, and use the information to determine if the IRS should target those individuals or businesses for extra scrutiny.

And, I am sure you are aware of the fate of the requirement in the partisan Affordable Care Act mandating that businesses file Form 1099 with the IRS for all purchases made from any vendor totaling $600 or more per year. Following firm rejection of that effort by the American people, President Obama was forced to repeal the offending provision.

The recent and significant apparent breach of individual taxpayer privacy in the ProPublica alleged publication of individual private and personal taxpayer information raises serious concerns regarding the administration's bank monitoring scheme.

Please explain how monitoring almost every taxpayer's bank accounts, for flows of as little as $600, with significant risks to breaches of privacy, is at all necessary for tax administration.

Answer. When the IRS is able to verify the accuracy of tax filing with third-party reports, compliance rates are more than 95 percent. For opaque sources of income, where no such reporting exists, compliance rates are under 50 percent. A comprehensive financial reporting regime will finally shed a light on these income sources and raise nearly $500 billion in additional tax revenue in a progressive way, as high-end tax evaders realize that the IRS is better equipped to address evasion.

The President's compliance initiatives do not constitute monitoring taxpayers accounts; nor do they implicate taxpayer privacy concerns. In fact, the proposal also includes a significant increase in resources for the IRS to meet threats to the security of the tax system. For honest taxpayers, there are no costs associated with this new regime—only benefit. Audit rates of compliant taxpayers will decline as the IRS is better able to target its enforcement activities. Additionally, compliant small business owners—who today are at a disadvantage because they are forced to compete against those who do not comply with the tax code—will see this evasion advantage removed.

G7 AGREEMENT ON IMF SPECIAL DRAWING RIGHTS (SDRS)

Question. The June 5th communiqué from the G7 finance ministers and central bank governors put support behind a new general allocation of Special Drawing Rights, or SDRs, and the IMF of $650 billion by the end of August. Prior to offering of support from the administration for the allocation, what discussions have you had with Republican members of Congress on the issue?

Answer. On April 1, 2021, Treasury sent letters on my behalf to Congress indicating our intent to consider a new $650 billion general allocation of Special Drawing Rights (SDRs) by the International Monetary Fund (IMF) and starting the 90-day consultation process, as required by the Special Drawing Rights Act ("SDR Act"). I, as well as the Deputy Secretary and Treasury staff, have consulted extensively with Democratic and Republican members of Congress and their staffs on the allocation before and during this consultation period.

DEBT LIMIT AND HOW LONG COULD EXTRAORDINARY MEASURES LAST

Question. The debt limit was suspended in August of 2019, and will be reinstated on August 1st of this year at whatever level obtains on that date covering all prior borrowing and borrowing that occurred during the suspension. I understand that there are uncertainties in projecting how long so-called extraordinary measures could last in the event that the debt limit is not raised before August 1st. I also understand that Treasury does, and should, model various scenarios.

As of today, what do you see as the most likely from among various possible future scenarios in terms of how long extraordinary measures would last if the debt limit is not raised before August 1st?

Answer. The period of time that extraordinary measures may last is subject to considerable uncertainty due to a variety of factors, including the challenges of forecasting the payments and receipts of the U.S. government months into the future, exacerbated by the heightened uncertainty in payments and receipts related to the economic impact of the pandemic. Given this, Treasury is not able to currently provide a specific estimate of how long extraordinary measures will last. However, there are scenarios in which cash and extraordinary measures could be exhausted soon after Congress returns from recess in September. For example, on October 1st alone, cash and extraordinary measures are expected to decrease by about $150 billion due to large mandatory payments including a Department of Defense-related retirement and health-care investment.

BOOK MINIMUM TAX

Question. The Green Book highlights that there is a disparity between the income reflected on corporations' financial statements and the taxable income reported on tax returns. But comparing these concepts is comparing apples and oranges. Calculations of book income and taxable income are significantly different, and are pre-

pared for totally different audiences. The financial statements for public companies are prepared for an audience of shareholders, creditors and stakeholders and are required to follow generally accepted accounting principles set by non-governmental agencies. Taxable income, on the other hand, is determined and defined by Congress. When businesses engage in certain behaviors, U.S. tax law allows them to legally make adjustments to reduce their tax liability. For example, the Tax Cuts and Jobs Act allowed businesses to immediately deduct 100 percent of the cost of certain business property. This incentive led to increased capital investment and jobs. The deduction that accompanies this investment could allow a company to reduce its tax as a benefit for engaging in this legally incentivized behavior.

The Green Book proposes a 15-percent corporate minimum tax on book income as a potential solution for disparities between accounting and tax law. However, in 1986 a similar minimum tax concept was tried but ultimately failed as it was repealed after only a few years. Given these differences between U.S. tax law and financial accounting concepts, there appears to be a risk that imposing a tax on book income would cede a portion of Congress' responsibility for defining taxable income and could distort the economic benefits in the tax law. I have two questions on this issue.

Do you agree that the scope of the corporate tax base and the definition of taxable income is best suited for Congress to determine and define?

Answer. Congress is responsible for legislating our tax laws, and they have the primary role in defining the tax base. The administration has proposed a limited book minimum tax that would act as a backstop when there are large discrepancies between what a company is reporting to their shareholders as financial income and what they are reporting in taxable income. This proposal is directed at asking very large and profitable companies with low or zero tax liabilities to pay their fair share. The proposal is designed to avoid targeting companies with low effective tax rates due to legitimate use of research and experimentation tax credits and many general business tax credits. The minimum book tax proposal is aimed at recapturing the tax revenue lost to gaming and tax avoidance.

Question. Do you view a tax on book income as difficult, if not impossible, to apply to foreign-based multinationals?

Answer. The book minimum tax would apply to very large and profitable corporations based on financial reporting to their shareholders, however certain modifications to that reporting may be required in the case of a foreign-based multinationals. We look forward to engaging with Congress on this proposal.

RESEARCH AND DEVELOPMENT

Question. One major incentive for domestic investment is section 174 of the Internal Revenue Code allowing U.S. businesses to immediately deduct research and experimental (R&E) costs. This provision has historically received bipartisan support as it incentivizes research investment and job creation in the United States. Beginning next year, however, U.S. businesses will be required to capitalize and amortize those costs over 5 years rather than immediately deducting them. Allowing businesses to continue to deduct their research and experimental costs would be a critical incentive for investment in innovation in the United States.

In your response to questions for the record in January, you stated that you would carefully consider the concerns raised regarding the deductibility of research expenditures, paying particular attention to any effects on small businesses during the recovery.

Given President Biden's interest in encouraging investment in manufacturing, jobs, and innovation in the United States, would you encourage Congress to maintain the current immediate deductibility of R&E expenses?

Answer. The administration has proposed repealing the FDII deduction and using the associated revenue to more directly encourage research and development. One possible use of this revenue would be to reverse the imminent move toward R&E amortization created by the 2017 tax law, returning to immediate expensing. Another option would be implementing more generous research tax credits. The administration is open to working with Congress on the most effective way to encourage research.

There are a number of policy options that would be a more effective spur to domestic innovation than the FDII deduction. There are multiple problems with the FDII deduction. First, the FDII deduction is not an effective way to encourage R&D

in the United States, since it provides larger tax breaks to companies with excess profits (those already reaping the rewards of prior innovation) and only targets those with high export sales (omitting those companies with domestic sales).

Second, like the GILTI, the FDII deduction encourages offshoring of real activity, since the export subsidy becomes less generous (all else equal) as companies have higher U.S. tangible assets. Repealing FDII would generate a large amount of revenue that could be used to encourage research and development much more directly.

BIDEN PLEDGE NOT TO RAISE TAXES ON ANYONE EARNING LESS THAN $400,000

Question. The President has been campaigning for his tax plans—both before and after he was elected—on the premise that they would not raise taxes for "anyone" making less than $400,000. Or, as the Families Plan describes it: "[N]o one making $400,000 per year or less will see their taxes go up." And yet, without even accounting for indirect effects, his plans explicitly increase taxes for persons making less than $400,000 in several instances.

For example, two married taxpayers making significantly less than $400,000—one of whom could be making as little as $109,320—could face an individual income tax increase under the President's plan.

As another example, a taxpayer who literally makes no money—even one with, for example, massive indebtedness or negative wealth—would face significant tax increases were they ever fortunate enough to acquire a valuable bequest or sell a valuable business.

Do you agree with the President's assertion that his tax plan does not raise taxes at all on those making less than $400,000?

Answer. The President's plan does not raise taxes on any taxpayers making less than $400,000. In your first example of a married couple, their tax rate would not increase until they earned over $500,000, and even then, it would only increase very modestly. In your second example, capital gains are a form of income, and under the administration's proposals, no taxpayers would face an increased tax rate on their capital gains unless their income exceeded $1 million. We are not presently proposing changes to the estate tax.

FAIRNESS AND TAXES

Question. Another core feature of the President's tax plan is to require phantom gain realization for certain owners of capital assets—for example, family businesses or farms. Perhaps recognizing the political blowback the phantom gain realization proposal would generate in this context, the President's tax plan also includes a proposal with self-described "protections" for family business or farms that allow family business or farm owners to defer—and do not exempt—the phantom gain that the proposal would generate so long as the narrowly- defined family group continues to both fully own and operate the business or farm.

As you know, this proposal would apply to both built-in gains arising today as well as those that were built in decades before, so long as the deemed or actual transfer occurs in 2022 or beyond. This proposal would also catch (and tax) simple inflation.

Thus, under this proposal working families who have simply passed down a farm or business over multiple generations would be particularly impacted, with the potential tax cascading and magnifying with each passing transfer. And as soon as any owner joined the business who could not meet the narrow definition of "family" or any non-"family" person begins to operate the business, all of this deferred tax would become due. Given that the businesses and farms subject to this proposal include ones that are generating no free cash flow, there will be instances, perhaps many, where businesses and farms must be sold or liened in order to pay the taxes due. The upshot of this proposed "protection" is to create one of the worst and most unfair lock-in effects I've ever seen.

How can the protection promised in the administration's proposal be regarded as sufficient when it is certain that at least some family farms and businesses will have to be sold to pay the tax on the phantom gains?

Answer. The administration's capital gains proposal provides generous exclusions for all taxpayers and additional protections to ensure that family-owned and -operated businesses are not adversely impacted. The proposal allows every individual a $1 million exclusion, which for a married couple translates to a $2 million exclusion, plus another total $500,000 for gains from one or more residences. The proposal also

recognizes the critical role of family businesses and provides that the application of this proposal for gain realization on the assets of a family-owned and -operated business could be deferred in perpetuity while the business remains owned and operated by the family. In terms of the important definitional concepts surrounding family-owned businesses and requirements for family operation, the administration welcomes the opportunity to work with Congress to ensure that those protections are appropriately crafted.

CAP GAINS TAXATION, PRESIDENT'S PLAN, AND TAXATION ON GAINS FROM INFLATION

Question. As you know, the President's plan nearly doubles the maximum capital gains tax rate. As with many things in the President's plan, it justifies the change in fairness, arguing that the increase is necessary so that wealthy people pay a fair share. I want to focus on a key component of the President's plan for capital assets: the lack of any indexing with respect to tax basis.

As you know, because the tax basis of capital assets is not indexed under the President's plan, taxpayers will owe (and pay) tax on simple inflation—a phenomenon that has already become all too pronounced since the President assumed office (and which would likely become worse were his massive spending proposals to become enacted).

Do you believe that it is fair to double the tax on certain taxpayers' inflation?

Answer. It is the case that capital gains taxes tax nominal, rather than real, appreciation, when gains are realized. (Many other features of our tax system are also nominal. For example, interest payments are deductible in nominal terms, and interest income is taxed in nominal terms.)

However, under current law, capital gains taxes are not levied until realization occurs, and this is a substantial preference. Simply put, a tax deferred is a tax saved, because tax not collected on capital gains can continue to appreciate and accumulate returns on the amount of uncollected tax, resulting in larger long-term gains relative to a situation where each year's capital gains were taxed as they are earned. In contrast, labor income has no such advantage. One is not able to simply hold off paying tax on wage income until a future year, accumulating returns on the tax payment in the meantime.

To consider the fairness of the capital tax system as a whole, it is useful to consider all of these features in a holistic manner.

CHILD TAX CREDIT SEVERED FROM WORK IN PRESIDENT'S PLAN

Question. Republicans pushed through the adoption of the CTC in 1997 to support working families. And yet, the President's proposal to extend the Democratic-led changes to the CTC for 2021 for another 5 years does not limit the enhancements to working families. In fact, the changes completely sever the relationship between the CTC and work.

What does the administration have to say to the working families whose taxes will be increased to fund expansions of the CTC to families that don't work at all?

Answer. The CTC has been a bipartisan issue for a long time, and expansions of it have been supported by numerous Republicans such as Senators Marco Rubio, Mitt Romney, and Mike Lee. Reducing child poverty and helping working families should not be a partisan issue. The vast majority of recipients are working families who are trying to raise strong, healthy families and this helps them in that goal. However, if a parent is staying home to care for a child, the parent also benefits from the expanded child credit. Members of both parties agree that the more generous child tax credit passed in the American Rescue plan (and the extension proposed in the American Families Plan) will dramatically cut childhood poverty rates.

GILTI

Question. During the hearing, you suggested the administration's GILTI proposal would raise the effective rate on GILTI to 21 percent. However, under current law, only 80 percent of foreign tax credits can be utilized against GILTI, resulting in a 20-percent foreign tax credit disallowance. Kimberly Clausing, the Deputy Assistant Secretary of Treasury's Office of Tax Analysis, recently stated publicly that the 20-percent disallowance would be retained under the administration's proposal. This would result in a 26.25-percent GILTI effective rate.

Can you confirm whether the administration's proposal would retain the foreign tax credit disallowance and, if so, can you confirm that the effective rate on GILTI would be 26.25 percent under the administration's proposal?

Answer. As proposed, the administration's GILTI reform would retain the 20-percent foreign tax credit disallowance. The effective tax rate on a company's foreign income would depend on where that company was operating. If they were operating in a zero-tax country, the rate would be 21 percent (paid to the United States); the effective tax rate on foreign income very slowly rises as the foreign rate rises (with a declining GILTI tax paid to the United States and the remainder of the tax paid to the foreign country). The effective tax rate would eventually reach 26.25, but only when the U.S. GILTI share of the tax is very low, so it is not contributing very much to the overall tax burden. At the top end, when the foreign tax rate is 26.25 percent, the tax is paid to the foreign government and the United States collects no GILTI tax.

Question. Is it the administration's position that the United States should increase the GILTI rate to an effective rate of 26 percent before any other country has enacted a minimum tax?

Answer. The administration has proposed a 21-percent GILTI rate. (The proposal suggests a deduction of 25 percent for GILTI income in the context of a 28-percent headline rate.) This GILTI reform is good policy, irrespective of the choices of our trading partners, as it reduces the tilt in the playing field that favors foreign earnings and operations over domestic earnings and operations. It also raises revenue, improves the fairness of our tax system, and increases efficiency.

Still, the present moment is an important time for international cooperation in this area, and the U.S. government can lead countries toward a global agreement on a strong, robust minimum tax, ending the race to the bottom in corporate taxation.

The United States is seeking a global agreement on a minimum tax at the highest possible rate. Even if it settles somewhat below 21 percent, today the global minimum tax rate is 0, far below our 10.5-percent GILTI rate.

We are hopeful that many countries will find it in their interest to join such an agreement, but even if they do not, we are not powerless. The SHIELD proposal can counter foreign company profit shifting. And simple anti-inversion measures, or even changes through regulation, can be quite effective in stemming the incentive to invert, as shown by the U.S. experience after the anti-inversion (and anti-income stripping) regulations of the late Obama years.

Question. What is your position on China receiving a carve-out or exception to the global minimum tax?

Answer. The consensus we achieved at the G20 and OECD Inclusive Framework was unprecedented and signals great progress toward a historic deal on a redesign of the international tax system. More work needs to be done; however, Pillar 2 does not need the support of every country to be successful. Due to the enforcement mechanism of the UTPR, and our domestic corollary SHIELD proposal, if enough of the world's GDP signs up for Pillar 2, these enforcement mechanisms will incentivize other jurisdictions to also adopt minimum taxes by denying deductions on related party payments in low-tax jurisdictions. We are actively working with all countries to make the consensus as broad as possible, but we are not providing any special exceptions that would undermine the robustness of the regime.

Question. If countries do not enact a minimum tax at all, and the U.S. raises the effective rate on GILTI to 26 percent, don't you think that will make American companies less competitive globally?

Answer. The administration has proposed a 21-percent GILTI rate. (The proposal suggests a deduction of 25 percent for GILTI income in the context of a 28-percent headline rate.)

Concerns about the competitiveness of U.S. multinationals ignore the evidence. Even before the Tax Cuts and Jobs Act of 2017 dramatically lowered U.S. corporate tax rates, U.S. multinational companies paid similar effective tax rates as peers in other countries. In recent years, the Joint Committee on Taxation shows effective tax rates for U.S. multinational companies of about 8 percent. And, U.S. corporate tax revenues are far lower than those in peer countries. Over 10 years, the American Jobs Plan proposals increase corporate taxes modestly, to about 1.7 percent of

GDP. In contrast, our trading partners raise about 3 percent of GDP in corporate taxes.

Finally, it is important to remember that competitiveness is about more than the success of U.S. companies in foreign merger and acquisition bids. It is also about ensuring that our tax code doesn't incentivize foreign operations at the expense of those at home. And, it is about nurturing the many fundamental strengths that make the United States a good place to do business. Investing in our institutions, in the abilities and education of American workers, in the quality of our infrastructure, and in cutting-edge research is all important.

SHIELD

Question. The administration has suggested that its proposed Stopping Harmful Inversions and Ending Low-Tax Developments (SHIELD) provision would compel foreign countries to enact a global minimum tax by disallowing deductions of companies that make a payment to a jurisdiction with no minimum tax.

The only information we have on the SHIELD is the 2-page description in the Green Book. There appear to be no detailed specifications or draft language, and the concept has never been tested.

Putting aside treaty or constitutionality issues, that seems quite ambitious, and I'm not aware of whether that concept has ever been tested.

Why should this high-level idea that has not been fully developed or tested compel our biggest competitors, like China, to enact a global minimum tax without any carve-outs?

Answer. The consensus we achieved at the G20 and Inclusive Framework was unprecedented and signals great progress toward a historic deal on a redesign of the international tax system. We actively worked with all countries to make the consensus as broad as possible. We did not provide any special exceptions to China in doing so. Many countries recognize that, if they do not join consensus, Pillar 2 includes the enforcement mechanism of the Undertaxed Payments Rule (UTPR) that incentivizes jurisdictions to adopt Pillar 2 to the extent that their profits in low-tax jurisdictions are taxed below the minimum tax rate. The administration's SHIELD proposal incentivizes countries in a similar manner.

Question. It seems more likely that China would view this as a unilateral measure that will result in retaliation. Do you view that as a concern?

Answer. Because SHIELD works similarly to the multilaterally agreed upon UTPR, it is likely to be seen in this familiar light by other countries.

Question. If the SHIELD would disallow deductions paid to a jurisdiction with no global minimum tax, like China potentially, wouldn't a Chinese company opt to avoid doing business through related parties in countries with a minimum tax, like the U.S.; in other words, doesn't this just incentivize companies to plan around the U.S., effectively reducing the amount of U.S. business activity and investment?

Answer. If enough of the world's GDP joins the Pillar 2 framework, then it would be impossible for companies to avoid doing business through related parties in countries with a minimum tax. With countries representing more than 90 percent of global GDP joining the Inclusive Framework consensus, that tipping point has now been reached and exceeded.

Question. My understanding of the administration's SHIELD proposal is it would disallow deductions for payments made from U.S. companies to any company located in a country without a global minimum tax, even if that country is a treaty partner.

Wouldn't the SHIELD require treaty changes because it would run afoul of nondiscrimination clauses included in our tax treaties, and shouldn't the administration be working with Congress on these proposals given that treaty ratification would require significant bipartisan support?

Answer. SHIELD has been designed to avoid conflicts with our treaty obligations, but we look forward to engaging with Congress to move this proposal forward.

OECD MINIMUM TAX

Question. Under the prior administration, Treasury took the position that GILTI should be treated as a "deemed compliant" minimum tax under Pillar 2—in other words, because it is a robust minimum tax with a substance-based carve-out, similar to the minimum tax being proposed at the OECD, GILTI should be treated as al-

ready complying with any global minimum tax agreement. In fact, the Pillar 2 blueprint explicitly stated that the Pillar 2 global minimum tax being considered is actually more permissive in a number of ways than GILTI.

Has the administration abandoned the approach of proposing that GILTI be treated as complying with any Pillar 2 global minimum tax agreement?

Answer. The Biden-Harris administration will pursue a comprehensive multinational agreement to update global tax rules in ways that establish effective minimum taxation rules, prevent global profit-shifting, and ensure that corporations pay their fair share. Pillar 2 is generally consistent with theadministration's budget proposals, although we also anticipate a future need for deemed GILTI compliance given the uniqueness of many features of the GILTI framework.

Question. If not, and the administration agrees to a global minimum tax that is different than GILTI, does Congress have to enact changes to GILTI?

Answer. See the response immediately above. Pillar 2 includes the enforcement mechanism of the UTPR that incentivizes jurisdictions to adopt Pillar 2 to the extent that their profits in low-tax jurisdictions are taxed below the minimum tax rate. Whether or not Congress adopts the President's proposal to reform GILTI, the taxes paid by U.S.-parented groups under GILTI would still be taken into account in applying the UTPR. The amount of UTPR liability would of course depend on the terms of the final Pillar 2 agreement.

Question. What would happen to U.S. companies if the U.S. does not have a compliant global minimum tax?

Answer. See the response immediately above.

Question. If U.S. companies would be subject to significant foreign tax because of the U.S. not having a compliant global minimum tax, doesn't that effectively force Congress's hand and effectively amount to the administration compelling Congress to enact tax legislation?

Answer. Although the administration has committed to pursuing a robust global minimum tax and has consulted with congressional members and staff in crafting that commitment, Congress remains free to decide whether and how to fulfill that goal.

OECD AND DIGITAL TAXES

Question. The initial basis for bipartisan support of Treasury's efforts at the OECD was to eliminate digital services taxes and similar unilateral measures, as I stated in my May 24th letter to you. But while other G7 countries appear perfectly happy asserting more taxing rights over large and successful U.S. companies under Pillar 1, certain G7 members don't seem to be taking the immediate removal of unilateral measures very seriously.

Specifically, the EU doesn't seem at all interested in holding up their end of the bargain. Only a few days after the scheduled G20 finance ministers meeting next month, the EU is expected to unveil a new gross-basis tax on digital companies with at least $300 million in annual revenue. What may be most concerning about this is that the EU has explicitly said this tax is NOT intended to be a temporary measure; rather it will be "independent of" and "coexist with the implementation of an OECD agreement." Thus, not only do they want a larger piece of the tax pie from our most successful companies under Pillar 1 but also want to extract more from other emerging digital companies—many of which would likely be U.S. based. And because this tax will be on a gross basis, it will hit companies whether or not they're actually profitable.

While the EU may justify the tax by asserting that it won't be discriminatory on its face (it remains to be seen whether it'll be discriminatory in application), the larger point is that gross-basis taxes that ring-fence a specific industry are unacceptable. And it would be unacceptable for the US to endorse any agreement that would allow DSTs or similar unilateral measures like an EU digital levy to coexist.

Do you agree that an EU digital levy would be a unilateral measure that shouldn't be able to "coexist" with an OECD agreement under Pillar 1? If not, why not?

Answer. A foundational premise of this OECD/G20 work is the elimination of DSTs because DSTs are discriminatory against U.S. firms. USTR's work on a section 301 response to DSTs is an important element of this. We are concerned that

the EU continues to advance its own "EU digital levy" proposal, which the EU asserts would coexist with a Pillar 1 system. The EU asserts that the digital levy will not be discriminatory because it will apply to small firms and large firms alike. If so, the digital levy could be closer to a consumption tax or excise tax than a tariff. Much will depend on the details of the eventual European Commission proposal, which has not been released. We will closely monitor the developments in consultation with USTR and Congress.

INFORMATION AND ANALYSIS ON ADMINISTRATION'S OECD PROPOSALS

Question. In my May 24th letter, I asked you to provide additional detail on the effect of the administration's proposed Pillar 1 strategy on U.S. companies and U.S. revenues. Specifically, I requested Treasury provide its analysis of companies that would be identified as in-scope using the proposed Pillar 1 quantitative scope approach based on publicly available information, as well as the amount of profit that would be allocated from U.S. companies to foreign market jurisdictions as well as amounts reallocated from foreign jurisdictions to the United States. Your response suggests that Pillar 1 would be "largely revenue neutral" but we have not received any additional company-specific information or any information about how profit would be allocated from the U.S. to foreign jurisdictions. This information is particularly important for Congress to understand the effect of the proposed approach and, without the information I request below, Congress will be unable to determine whether Pillar 1 would discriminate against American companies.

How many of the 100 companies Treasury expects to be captured by Pillar 1 would be U.S. companies?

Answer. Treasury expects approximately half of the 100 companies in scope to be U.S. companies.

Question. How much profit would be allocated from the United States to foreign jurisdictions, and can you tell us which jurisdictions that profit would be reallocated to?

Answer. The OECD Inclusive Framework has not agreed on the precise double tax relief methodology for Pillar 1. How much profit would be reallocated to and from the United States depends on these details. Revenue under Pillar 1 will be sourced to the end market jurisdictions where goods or services are used or consumed. The jurisdictions that stand to receive the largest reallocations from U.S.-headquartered MNEs are the larger markets to which U.S. MNEs source revenues, but precise figures depend on the various revenue sourcing factors being developed as part of Pillar 1. OTA has done multiple analyses of P1 as it has evolved, making reasonable assumptions about double tax relief methodology, and we have consistently found an impact on US revenues that was small and that included zero in the confidence interval.

STATISTICS OF INCOME DATA

Question. What role has the Office of Tax Analysis (OTA) traditionally had in the IRS's production and release of statistics of income (SOI) data; for example, does OTA edit or modify the presentation of SOI data before its release?

Answer. SOI decides what data to release, though OTA may suggest topics. OTA staff with subject area expertise often review tables for SOI Tax Stats and articles written for the SOI Bulletin. Indeed, OTA staff have written articles for the SOI Bulletin analyzing specific tax data. OTA review typically focusses on clarifications of how the data were gathered or analyzed. SOI has the ultimate decision on which suggestions from OTA to incorporate.

Question. Do you expect that role to change in any way with respect to future releases of SOI data and, if so, how?

Answer. There is no expectation that OTA's role would change with respect to future releases of SOI data.

Question. Can you commit that OTA will not influence or modify the presentation of future SOI data, or selectively pick which data are presented?

Answer. OTA will continue to work with SOI to provide clear presentations of tax data to the public.

QUESTIONS SUBMITTED BY HON. STEVE DAINES

Question. On May 18, 2021, Stephen A. Martin, Director of Exempt Organizations Rulings and Agreements at the Internal Revenue Service (IRS) issued a ruling determining that Christians Engaged does not qualify as a 501(c)(3). In the course of the ruling, Mr. Martin stated, "[Christians Engaged] educate[s] Christians on what the bible says in areas where they can be instrumental including the areas of sanctity of life, the definition of marriage, biblical justice, freedom of speech, defense, and borders and immigration, U.S. and Israel relations. The bible teaches are typically affiliated with the [Republican] party and candidates."

Is it your position that Biblical positions are typically affiliated with the Republican party?

Is it your position that educating voters on (a) what the Bible says and (b) how that applies to a host of public issues including the sanctity of life and marriage qualifies as "prohibited political campaign intervention" sufficient to prohibit a group doing so from qualifying as a tax-exempt 501(c)(3)?

Answer. As you are likely aware, the Treasury Department plays no role in IRS ruling processes. Nonetheless, I understand from my staff's review of publicly available information that the taxpayer about which you are asking publicly disclosed that it has in fact received section 501(c)(3) status as a tax-exempt entity and expressed its thankfulness to the IRS.

Question. One of your Deputy Assistant Secretaries, Tom West, recently said with respect to the section 199A deduction that, "It's like when somebody is shot and the bullet is lodged somewhere close to a critical organ, and the doctor said, 'We're just going to leave the bullet in, because it would be too risky to pull it out, and maybe it's the only thing keeping the patient alive.'"

As you know, changes to the 20-percent pass-through business deduction were not included in the Green Book.

Do you agree with Mr. West that without the 20-percent deduction, many businesses who survived the pandemic or who have yet to close may have gone out of business if not for the 199A deduction? If not, why?

Answer. This administration has demonstrated its unwavering commitment to helping businesses big and small navigate the challenges of the pandemic, retain their employees, and build back as the economy reopens. The American Rescue Plan provided unprecedented aid to small businesses and their workers—and provided it in a timely manner. While existing tax deductions may certainly have helped some of the businesses that continued to turn a profit during the pandemic, the businesses that suffered the most and needed the most help to survive are unlikely to have benefited from section 199A, a provision that applies to owners of profitable businesses.

Finally, while changes to section 199A were not included in the administration's Green Book proposals, that does not change the fact that independent analyses based on JCT reports have shown that over 60 percent of the benefits from the provision will go to the top 1 percent of households.

QUESTIONS SUBMITTED BY HON. CHUCK GRASSLEY

Question. Taxpayer information that appears to have originated with the IRS has been published by ProPublica. Members of this committee are engaged in getting to the bottom of this. I'm also looking into it in my role as ranking member of the Judiciary Committee. Though the ProPublica stories focus on the tax returns of a few billionaires and a candidate for public office, we don't know if that's the entire universe of compromised returns or if it's the first sign of a much larger breach or leak.

When did you become aware that taxpayer data held by the IRS may have been compromised?

Do you believe that confidential information that originated at the IRS was the basis for the ProPublica piece? If so, do you know the full scope of the leak or hack, and which, or how many, taxpayers had their data stolen?

Did anyone who had advanced knowledge of the ProPublica piece, such as a reporter or outside expert, contact the IRS or the Treasury Department in advance of publication?

Answer. With respect to the ProPublica report, I am deeply troubled by it. It is important to stress that unauthorized disclosure of taxpayer information is a crime. Upon learning of this matter, it was immediately referred to the FBI, Federal prosecutors, and Treasury Department oversight authorities—all of whom have the independent authority to investigate. We don't yet know what occurred—but all is being done to get to the bottom of this potentially criminal activity.

Question. The President proposes to eliminate the benefit of stepped-up basis rules on transfers of most assets at death. This proposal would essentially create a second "death tax" by taxing paper gains in property immediately upon transfer at death. The Treasury description claims a special rule will protect family operations by allowing them to delay payment of the tax. However, not much detail has been provided concerning how this rule would work. The little information that has been provided on the rule reminds me of the Qualified Family Owned Business Interest (QFOBI) Deduction under former section 2057. Section 2057 was ultimately repealed as it proved unworkable and very few estates claimed the deduction. As Michael Graetz, Deputy Assistant Secretary of Tax Policy for George H.W. Bush, and Ian Shapiro wrote in 2005, "Everyone now agrees—regardless of which side of the issue they are on—that QFOBI has been a complete and utter failure. . . . It did not solve anything. QFOBI has so many requirements, so many structures and pitfalls, that very few family businesses have obtained any tax relief at all because of it."

In what ways do you expect the definition of a "family-owned and -operated business" to materially differ from the definition of a "qualified family-owned business interest" under repealed section 2057? Would you expect similar ownership rules to apply that would limit it's applicability to ownership interests of certain size? Would the value of the business interest need to constitute as certain percent of the decedents total gross estate to qualify?

Can you clarify whether the proposed special rule would provide for a deferral of taxes owed or apply a carryover basis regime with respect to family business property? If it's a deferral of taxes owed, would a tax lien loom over the operations making it difficult to secure a business loan or mortgage?

If any portion of the property is sold or transferred in the course of managing the business, could that trigger an immediate significant tax bill based on paper gains from the decedent's lifetime? Would this be true even where an heir swapped a parcel of land with a neighbor farmer given the President's also proposed to repeal like-kind exchanges?

Answer. The administration's capital gains tax proposal is fundamentally about taxing income from wealth the same way that we tax income from work. There have been no proposals to change the existing estate tax rules, but the proposal would impose a realization event upon the transfer of appreciated assets, whether by gift or bequest. Critically, as you note, the proposal provides that family-owned and operated businesses should be able to defer the economic impact of the application of this proposal for as long as the business remains in the family. The administration has not suggested that existing or historic definitions are the most appropriate in terms of filling in the details of this proposal and in fact looks forward to working with Congress to ensure that the critical definitional concepts are appropriately crafted to protect family businesses.

Question. Recently you stated interest rates have been "too low now for a decade" and that we should welcome higher rates. But, if interest rates do increase, that could be catastrophic given the trajectory of our national debt. Under the President's budget, public debt is projected to reach 117 percent of GDP in 2031 and continue to grow faster than the economy thereafter. According to CBO, with debt of this size, even relatively small rises in interest rates above the baseline can result in trillions of dollars in interest costs on the debt. Given this, isn't the time to get our national debt under control now, not after interest rates rise potentially sparking a debt crisis?

Answer. It is imperative that we put our Nation on a sustainable long-term fiscal path. This requires a combination of policy decisions, including not only making investments that bolster our Nation's productivity and labor supply, but also taking action to offset the costs of new investments. The President's American Families Plan and American Jobs Plan are fully paid-for over time, which—when coupled with the expected gains in productivity capacity—are an important step towards achieving long-term fiscal health.

Question. The President has expressed concerns about large corporations, including Amazon, not paying taxes. I assume this is one of the reasons he is proposing a corporate minimum tax based on book income. The President's budget indicates that certain credits, such as for research and development and green energy would be permitted to be taken against the book tax. This suggests to me the administration recognizes that there may be legitimate policy reasons for tax rules to differ from accounting rules even if it could result in a corporation paying little or no tax. Can you clarify when, if ever, the administration thinks it would be ok for a profitable corporation on a book basis to pay zero tax?

Answer. The administration's proposals include a 15-percent minimum tax on worldwide income for financial reporting purposes (book income) for corporations with book income in excess of $2 billion. In particular, taxpayers would calculate "book tentative minimum tax" equal to 15 percent of worldwide pre-tax book income (calculated after subtracting unused book net operating loss carryovers from current year book income), less General Business Credits (including R&D, clean energy and housing tax credits) and foreign tax credits. The "book income tax" equals the excess, if any, of the book tentative minimum tax over regular tax. Additionally, taxpayers would be allowed to claim a book tax credit (generated by a positive "book income tax") against regular tax in future years (to the extent the regular tax liability in such years exceeds the "book tentative minimum tax" in such years).

The administration has proposed this limited book minimum tax to act as a backstop when there are large discrepancies between what a company is reporting to their shareholders as financial income and what they are reporting in taxable income. This proposal is directed at asking very large and profitable companies with low or zero regular tax liabilities to pay their fair share. The proposal is designed to avoid targeting companies with low effective tax rates due to legitimate use of research and experimentation tax credits and many general business tax credits. The minimum book tax proposal is aimed at recapturing the tax revenue lost to gaming and tax avoidance.

Question. One way Amazon is likely able to reduce its tax burden to zero or near zero is by claiming green energy credits. This includes credits for installing solar panels, purchasing electric vehicles, and investing in renewable energy projects. The President proposes to enhance and modify these credits, including by providing a "direct pay" option. "Direct pay" allows a taxpayer to receive a payment from Treasury for the value of the credit. This feature is especially valuable for businesses that have little or no tax liability to claim a credit against. Given this, do you have any concerns that a "direct pay" option could result in large profitable corporations like Amazon not only paying zero tax, but actually receiving a check from the IRS instead?

Answer. The administration has not proposed to limit the use of renewable energy related tax credits by specific companies. Our Budget proposal would allow firms to take incentives as a direct pay option as opposed to reducing a firm's tax liability. The President's plan to make public investments in infrastructure, technology, research, and the green industries of the future would help lay a strong foundation for longstanding economic prosperity. It would also promote job creation in the United States, ensuring that American workers benefit from a robust domestic economy.

Question. Prior to the pandemic, revenue as a percent of GDP averaged 17.4 percent for the past 50 years. This percent fluctuates year to year, but has been fairly consistent in times of higher tax rates and lower tax rates. Since the end of World War II, revenue as a percent of GDP exceeded 19 percent in only 5 years. This included 3 years at the end of the 1990's during the height of the dot com bubble. Under the President's budget, revenues equal or exceed 19 percent of GDP each year after 2024 and are 19.9 percent of GDP in 2031. Given our historical experience with revenues as a percent of GDP, do you believe revenues at these levels would prove sustainable? Second, do you think taxpayers will simply accept such a high tax burden with no change in their economic activity or behavior?

Answer. In historical terms, the necessary share of tax revenue has fluctuated with the spending side of the ledger; adding social programs like Social Security and Medicare that are funded by payroll taxes has raised the historical level of Federal revenue to GDP. It is important, too, to distinguish the nature in which revenue is raised, as the economic impacts of taxation depend critically on the design of the tax provisions; simply evaluating a Nation's tax code based on the level of GDP may overlook important aspects that can determine the code's efficiency. For example, the President's fiscal agenda calls for ambitious new programs in a wide array of

programs, including infrastructure, long-term care, health, child care, and many others—while committing to more than offsetting the costs over 15 years. Importantly, though, the President's plans do not raise taxes on anyone making under $400,000 a year, and millions of Americans will benefit from tax cuts through an expanded Earned Income Tax Credit, Child Tax Credit, and Child and Dependent Care Tax Credit.

QUESTION SUBMITTED BY HON. MAGGIE HASSAN

Question. The American Rescue Plan contained my bipartisan bill with Senator Braun to provide assistance—through the Employee Retention Tax Credit—to new businesses that started during the pandemic.

This assistance will be available starting in July, and it is critical that the Treasury promptly issue guidance so that small businesses can fully and quickly access this assistance.

When do you expect this guidance to be issued, and will you continue working to ensure that new and small businesses have full access to the Employee Retention Tax Credit?

Answer. Treasury staff and the IRS are working to issue additional guidance regarding the important American Rescue Plan Act changes that enhance the rules for the employee retention credit and intend to issue the guidance in the next few weeks. Treasury and the IRS are committed to issuing guidance that will ensure that recovery startup businesses and other eligible employers have the information needed to claim the employee retention credit in a timely manner for the third and fourth quarter of 2021.

QUESTIONS SUBMITTED BY HON. JAMES LANKFORD

Question. On June 8th, and again on June 16th, ProPublica published articles concerning the private tax information of several American citizens, while noting that the subject of their latest article is "among thousands of wealthy people whose tax return data ProPublica has obtained."

Section 6103 of the Internal Revenue Code provides that "returns and return information shall be confidential," and prohibits any officer or employee of the Federal or State government from disclosing such information unless authorized by the taxpayer or provided under Federal law. Further, section 7213 states that the unauthorized disclosure of returns or return information is unlawful and is a felony punishable by a $5,000 fine and/or imprisonment of up to 5 years. Section 7213(a)(3) provides that it is unlawful for someone to whom any return or return information is disclosed in an unauthorized manner to print or publish such return or return information in any manner not provided by law.

When did the Department become aware of the breach?

Was anyone at Treasury or the IRS notified in advance that ProPublica would be publishing private tax return data on June 8th?

If yes, what steps were taken to stop ProPublica from publishing private tax information?

What steps were taken after you became aware?

Have there been any corresponding updates to security systems to ensure this information was not accessed from the outside?

While ProPublica states they have received this information anonymously, their Code of Ethics notes that they strive to identify all sources of information, and that "[e]ditors have an obligation to know the identity of unnamed sources in our stories. . . ."

Have any steps have been taken by TIGTA or others to contact ProPublica to identify the source of the information?

Has anyone within the Treasury Department or IRS contacted ProPublica and asked them to refrain from publishing any additional private taxpayer data?

Has anyone within Treasury or the IRS notified ProPublica that section 7213(a)(3) of the Internal Revenue Code states that it is felony for "any person to whom any

return or return information (as defined in section 6103(b)) is disclosed in a manner unauthorized by this title thereafter willfully to print or publish in any manner not provided by law any such return or return information," punishable by a fine of up to $5,000 and/or imprisonment of up to 5 years?

Answer. With respect to the ProPublica report, I am deeply troubled by it. It is important to stress that unauthorized disclosure of taxpayer information is a crime. Upon learning of this matter, it was immediately referred to the FBI, Federal prosecutors, and Treasury Department oversight authorities—all of whom have the independent authority to investigate. We don't yet know what occurred—but all is being done to get to the bottom of this potentially criminal activity.

Question. I understand that the Green Book and President's FY 2022 budget articulate a new reporting requirement on financial accounts. This would require financial institutions to report data on the financial accounts of individuals, families, and businesses with flows of deposits or withdrawals of as little as $600.

It seems to me that there are numerous occupations with variable receipts and income flows, and that the $600 threshold would lead to a massive amount of personal information flowing into the IRS.

Can you please explain how monitoring nearly every taxpayer's bank accounts, for flows of as little as $600, is necessary for tax administration?

What does the IRS specifically plan to use the financial account records for and what details will be transmitted from the financial institutions to the IRS under this proposal?

Do you have any concerns regarding the pure volume of information that would be flowing into the IRS? Are you confident the IRS needs this amount of information?

Given the news of late, are you confident that the IRS could adequately protect taxpayers' information under this proposal?

Can you assure the American people that their information will not be leaked or used for political reasons?

Answer. When the IRS has access to third-party reports to verify tax filings, compliance rates are over 95 percent. In the absence of third-party reporting, compliance rates are under 50 percent. The IRS and GAO agree that additional information reporting is one of the best ways to improve compliance.

The President's proposals shed a light on opaque income streams without increasing taxpayer burden at all. This is accomplished by leveraging the information that financial institutions already know about their customers. This regime builds off of existing reports that banks already provide to the IRS on interest that accrues on their accounts. A bit of additional information—on account inflows and outflows—can help the IRS try to identify when there is a difference between taxpayers' reported financial positions and their true ones. This will decrease the likelihood that compliant taxpayers are subject to costly and burdensome audits. It will also benefit honest small businesses, who today are at a disadvantage vis-à-vis those who evade their tax liabilities.

It will be important to provide the IRS the resources it needs to both absorb this volume of new information and effectively deploy it in enforcement actions, and the President's compliance initiatives do just this, providing the IRS with a sustained stream of mandatory funds to build up a new infrastructure around financial account reporting and to hire and train agents and researchers who will be able to glean insights from the information provided, by applying modern techniques like machine learning approaches.

The compliance initiatives were designed with taxpayer privacy concerns front of mind. For example, the proposal includes significant resources to ensure that the IRS has the tools it needs to meet threats to the security of the tax system and to protect sensitive taxpayer information.

Question. A few weeks ago, in a hearing with Commissioner Rettig, the Commissioner said that the IRS still wasn't able to use all of the FATCA information that the IRS receives.

Does it seem prudent to require the IRS to collect, handle, process, and protect even more taxpayer information, when they aren't yet able to fully utilize all of the information that they already collect?

Answer. As the IRS tax gap estimates make clear, when third-party information reports exist, compliance rates exceed 95 percent. Without any information reporting, compliance rates are under 50 percent. This creates an inequitable asymmetry in tax collections depending on the form in which income is accrued. The GAO and IRS agree that strengthening third-party information reporting is one of the best ways to improve tax compliance. This information will help the IRS target enforcement activities on evaders and decrease the likelihood of audits for those who are already fully compliant with their tax obligations. It will also create a more efficient tax system and raise substantial revenue.

It is true that information alone is not enough. It will also be imperative to provide the IRS the resources it needs to best deploy this information, as well as existing information it collects—as the President's proposal does. For example, today the IRS cannot efficiently evaluate information on partnership information reports, or on submissions required by FATCA. With modernized IT as well as investment in hiring and training revenue agents capable of expending significant time on complex, high-end examinations, the IRS will be able to improve enforcement activities to the betterment of all compliant taxpayers.

Question. I am very concerned about recent reports that China would be seeking certain exemptions from a global minimum corporate tax. Clearly, Beijing wants to retain the tax incentives that it sees as key for its own economic development and success.

At our June 16th hearing, in response to a question from Senator Daines, you said "we will not agree to any type of carve-out that would meaningfully weaken a robust global minimum tax regime, not for China and not for other countries."

What does "meaningfully weaken" mean?

Answer. We continue to believe that modest substance-based carve-outs are consistent with a robust global minimum tax. As applied to China, see answer directly below.

Question. Can you confirm that no agreement should be reached on Pillar 2 where the U.S.'s biggest competitors, like China, are not subject to the same terms as the United States?

Answer. The consensus we achieved at the G7 and G20 was unprecedented and signals great progress toward a historic deal on a redesign of the international tax system. More work needs to be done; however, Pillar 2 does not need the support of every country to be successful. Due to the enforcement mechanism of the UTPR, and our domestic corollary SHIELD proposal, if enough of the world's GDP signs up for Pillar 2, these enforcement mechanisms will incentivize other jurisdictions to also adopt minimum taxes by denying deductions on related party payments in low-tax jurisdictions. We are actively working with all countries to make the consensus as broad as possible, but we are not providing any special exceptions that would undermine the robustness of the regime, for China or any other country.

Question. Earlier this month after your meeting in London, it was reported that the G7 finance ministers had come to a top level agreement on the allocation of taxing rights and global minimum tax rules. Specifically, a Pillar 1 in which market countries would be awarded the taxing rights on at least 20 percent of profit exceeding a 10-percent margin for the biggest multinationals, and a Pillar 2 that includes a global minimum tax of at least 15 percent on a country-by-country basis. As you know, the U.S. was the first to enact a global minimum tax when Congress enacted the GILTI as part of the Tax Cuts and Jobs Act. No other country currently has a global minimum tax.

While there have been reports of a G7 agreement, there are many unanswered questions and many details yet to be determined. Further, the OECD Inclusive Framework includes over 135 countries and jurisdictions, some of which have already voiced concerns regarding the G7 agreement.

Given this, do you believe that the US should increase its own rates on its own companies, by modifying GILTI, before a detailed OECD agreement is made and our international counterparts and competitors enact corresponding changes to their own tax laws?

Answer. The United States is seeking a global agreement on a minimum tax at the highest possible rate. Even if it settles somewhat below 21 percent, today the global minimum tax rate is zero, far below our 10.5-percent rate. To the extent that foreign countries also adopt strong minimum taxes, that will also reduce any com-

petitiveness worries, while protecting our tax base from the profit shifting of foreign multinational companies. Still, even absent agreement, we are not powerless to address these problems. The SHIELD proposal can counter foreign company profit shifting. And simple anti- inversion measures, or even changes through regulation, can be quite effective in stemming the incentive to invert, as shown by the U.S. experience after the anti-inversion (and anti-income stripping) regulations of the late Obama years.

Question. Is it prudent to wait until an actual OECD agreement is met? Not only because it could be difficult to reach a final deal, but also because any resulting deal could take years to implement?

Are you concerned that taking domestic action now could prove harmful to U.S. businesses?

Answer. See answer to the immediate question above.

Question. The administration has repeatedly referenced the SHIELD proposal in response to questions about increasing the U.S.'s minimum tax before other countries enact similar measures. There are few details and many questions regarding the proposed SHIELD regime, some of which pertain to treaty modification and constitutionality, but the administration continues to suggest this aggressive proposal is necessary.

Are you suggesting that the SHIELD proposal, which we are still awaiting details on, would compel our biggest competitors, like China, to enact a global minimum tax?

To my understanding, this SHIELD proposal would deny deductions for payments made to jurisdictions with no global minimum taxes, possibly China for example. However, under this example, wouldn't a Chinese company, instead, opt to avoid doing business in the United States altogether? Wouldn't this just incentivize foreign businesses to plan around the U.S. to avoid the SHIELD, leading to a reduction of U.S. business activity and investment?

How is this end result different than a global tariff that similarly increases the cost of doing any business in the U.S., leads to higher costs passed onto U.S. consumers, or pushes business activity out of the U.S. altogether?

Answer. The consensus achieved at the G7 and G20 is unprecedented and signals great progress towards a redesign of the international tax system. With countries representing more than 90 percent of global GDP joining the Inclusive Framework consensus, the enforcement mechanisms of the UTPR, and our SHIELD proposal, will incentivize jurisdictions to adopt minimum taxes. As a result, with enough of the world's GDP joining the Pillar 2 framework, it would be impossible for companies to avoid doing business through related parties in countries with a minimum tax.

Question. I am concerned that the administration's energy tax proposals, which include the elimination of all oil and gas related provisions, could drive up the cost of energy and make us more reliant on imports. Moreover, increasing the cost of domestic production does nothing to lower domestic demand; rather, we simply would import more of these resources from other parts of the world and increase our exposure to the whims of bad actors.

Has the Treasury Department conducted any studies about how the removal of these energy tax provisions, such as expensing of intangible drilling costs and percentage depletion, would affect the following: jobs; the price of gasoline; home energy costs; small oil and gas businesses; the inflation rate; U.S. energy independence, or conversely, dependence; and the level of oil and gas imports?

What information can you provide regarding any of the distributional impacts listed above?

Answer. The administration is proposing to eliminate fossil fuel subsidies that distort markets by encouraging more investment in the oil and gas industry than would occur under a neutral system. This market distortion is inconsistent with the administration's policy of supporting a clean energy economy and reducing carbon emissions. Moreover, the subsidies must ultimately be financed with taxes that result in other distortions, *e.g.,* in reductions in investment in other, potentially more productive, areas of the economy.

Fossil fuel companies additionally benefit from substantial implicit subsidies, since they sell products that create externalities but they do not have to pay or bear

the costs for the damages caused by these externalities. The administration has created a goal to create a carbon pollution-free power sector by 2035 and net zero emissions economy by no later than 2050. Meeting these goals will create millions of good-paying, middle-class, union jobs and build the clean energy economy of tomorrow.

Question. I had a good conversation with Secretary Granholm last week in the Energy Committee about the transition to lower emission energy sources. She assured me that the administration does think there is value in transitioning to lower-emissions fuels even if they aren't zero emission—especially in cases where a transition from the status quo to zero emissions sources would be unrealistic (*e.g.,* where EVs don't have needed infrastructure or in locations where renewable sources aren't compatible with the climate). An example I have brought up a lot is that many areas in New England could lower their emissions drastically by switching from heating oil to natural gas, but due to the "all or nothing" preference of many environmentalists, the status quo largely remains.

In terms of benefit to the environment, is each pound of avoided CO_2 emissions equal? Ultimately, does it matter how the reduction was realized?

Answer. I would defer to my scientific colleagues on this question. From a policy perspective, it's important to think about how the actions we take to remove or avoid a pound of CO_2 emissions impact private capital flows, investment patterns, and other countries' incentives to address their emissions, or impact future emissions. This administration has set a net-zero economy as its goal and we must take actions to enable this transition.

Question. If you agree with Secretary Granholm that there should be a transition period, and that lower emission sources like natural gas have a role to play, why does the administration propose making it more difficult to produce natural gas domestically through the immediate elimination of certain tax treatments like expensing of intangible drilling costs and percentage depletion?

Answer. The administration is proposing to eliminate fossil fuel subsidies that distort markets by encouraging more investment in the oil and gas industry than would occur under a neutral system. This market distortion is inconsistent with the administration's policy of supporting a clean energy economy and reducing carbon emissions. Moreover, the subsidies must ultimately be financed with taxes that result in other distortions, *e.g.,* in reductions in investment in other, potentially more productive, areas of the economy.

Question. If generation of new sources is years out (at best), but we hamstring our domestic oil and gas industry with higher costs through modifications to our tax code, how do you anticipate our economy will power itself in those years in between now and when the new generation sources come online?

Relatedly, how would the elimination of these oil and gas provisions, in conjunction with proposed increases to the corporate rate and changes to our international tax rules, impact our domestic energy producers' ability to compete with foreign-owned energy businesses? Are you concerned that we may actually have to import oil and gas to meet demand at lower prices?

Answer. In terms of new electricity generation capacity added each year, renewable energy has outpaced fossil fuel capacity since 2015. Renewable energy is generally cheaper, and because it is produced locally, is preferable from a national security perspective. In addition, with the rapidly falling costs of battery storage, the issue of supply reliability is being quickly addressed.

As detailed in the "General Explanations of the Administration's Fiscal Year 2022 Revenue Proposals" (the Green Book) released at the end of May, the administration is proposing to remove 13 specific subsidies for fossil fuel production. The proposal would repeal: (1) the enhanced oil recovery credit for eligible costs attributable to a qualified enhanced oil recovery project; (2) the credit for oil and gas produced from marginal wells; (3) the expensing of intangible drilling costs; (4) the deduction for costs paid or incurred for any tertiary injectant used as part of a tertiary recovery method; (5) the exception to passive loss limitations provided to working interests in oil and natural gas properties; (6) the use of percentage depletion with respect to oil and gas wells; (7) 2-year amortization of independent producers' geological and geophysical expenditures, instead allowing amortization over the 7-year period used by integrated oil and gas producers; (8) expensing of exploration and development costs; (9) percentage depletion for hard mineral fossil fuels; (10) capital gains treatment for royalties; (11) the exemption from the corporate income tax for publicly

traded partnerships with qualifying income and gains from activities relating to fossil fuels; (12) the Oil Spill Liability Trust Fund excise tax exemption for crude oil derived from bitumen and kerogen-rich rock; and (13) accelerated amortization for air pollution control facilities.

These provisions of the tax code are specific to the oil, gas, and coal industries and are estimated to cost taxpayers over $3 billion per year. The objective of the administration's proposal is to bring the tax treatment of oil, gas, and coal producers back in line with other firms. Research suggests that repealing fossil fuel subsidies will not lead to big changes in the markets for fossil fuels.

Question. If we do become more reliant on imports of oil and gas, do you agree that this would actually result in more emissions since we would have to transport the fuels here?

Answer. Renewable energy is the fastest-growing energy sector of the United States, and global, electricity generation market. This administration's policies leverage the cost advantage of these clean and green technologies to further drive deployment.

Question. Reports out of the G7 meeting earlier this month indicate your support for mandatory climate financial disclosures by private companies and financial institutions. I also understand that, at the end of last month, the Biden administration put forth a related executive order on Climate-Related Financial Risk, setting in motion the first steps toward government-wide mandates on climate disclosures among financial regulators. I have significant concerns that such requirements would unduly burden community and mid-size banks, which are prevalent in my State, and would be detrimental to Oklahoma's domestic conventional energy producers, resulting in targeting, underinvestment, and instability.

Do you share concerns that these requirements could be both unnecessarily burdensome, and lead to underinvestment in critical infrastructure?

What is the goal of mandatory climate disclosures on private companies?

Answer. Domestic and international investors are seeking more consistent, comparable, and reliable information on climate-related risks, impacts, and opportunities. G7 members discussed disclosure of climate-related financial information in a manner that is in line with domestic regulatory frameworks, including those in the United States.

In line with its mandate and regular procedures, the SEC recently issued a request for public comment on whether and how they could facilitate consistent, comparable, and reliable information on climate-related disclosures as well as the costs and benefits of different regulatory approaches related to climate disclosure. Investors and those who want to raise capital or invest in our capital markets have broadly noted that ensuring high-quality information to assess climate-related financial risks is important for the efficient allocation of capital and financial stability.

Questions Submitted by Hon. Robert Menendez

Question. As a part of Secretary's Yellen's confirmation hearing in January 2021, my office sent you a series of questions related to diversity and inclusion at Treasury. Your office responded to my office on June 15, 2021, and I would like further clarification on some of your responses.

Your response to question number 1 is incomplete, as it only shows the percentage of men and women for each race and/or ethnicity for departmental offices at Treasury. Could you please provide me with a total percentage for each race and ethnicity of employees at Treasury—not just male and female breakdowns?

Answer. The previous question related solely to Departmental Offices (Treasury Main Headquarters component). Attached is the data for men/women and for race/ethnicity for all of Treasury. (Note: data is as of the end of FY 2020.)

Treasury Workforce by Gender Against RCLF, CLF

	Treasury	RCLF	CLF
Male	38.52%	36.39%	51.86%
Female	61.48%	63.61%	48.14%

Treasury Workforce by ERI Against RCLF, CLF

	Treasury	RCLF	CLF
Hispanic	12.37%	8.54%	9.96%
White	52.14%	74.64%	72.36%
Black	27.50%	10.72%	12.02%
Asian	6.54%	4.57%	3.90%
NHOPI	0.18%	0.12%	0.14%
AIAN	0.80%	0.90%	1.08%
2+	0.46%	0.51%	0.54%

Question. As part of your responses to my questions related to the January 2021 hearing, your office responded to my third question related to minority representation detailed by the Office of Minority Women and Inclusion (OMWI), by pointing out that the OMWI numbers are "for Departmental Offices, not Treasury as a whole."

Could you please provide additional information about the differences provided by the OMWI office regarding the breakdown of race and ethnicity of employees at Treasury?

Answer. OMWI serves as the Chief Diversity Office for Treasury's Departmental Offices (DO), which comprise the Immediate Headquarters Offices of the Secretary, Deputy Secretary, Under Secretaries, Assistant Secretaries, and the Office of the Treasurer. The information provided by OMWI relating to the SES workforce, contained only the SES percentages for Departmental Offices (or Main Treasury headquarters staff). The other percentages provided in our previous response (which are incorporated below) include SES and equivalent staff for the entire Department, which includes Treasury bureaus such as IRS, BEP, Mint, OCC, etc.

The figures cited are for Departmental Offices, not Treasury as a whole. As of FY 2020, 76.73 percent of permanent Senior Executive Service (SES) positions in the Department are held by white employees. Below is the breakdown by bureau.

		Total	Hispanic	White	Black	Asian	NHOPI	AIAN	2+ Races
BEP	*Male*	60.00%	0.00%	40.00%	10.00%	10.00%	0.00%	0.00%	0.00%
(10)	*Female*	40.00%	10.00%	30.00%	0.00%	0.00%	0.00%	0.00%	0.00%
DO	*Male*	72.73%	2.27%	64.39%	2.27%	3.79%	0.00%	0.00%	0.00%
(132)	*Female*	27.27%	0.76%	21.21%	3.79%	1.52%	0.00%	0.00%	0.00%
FINCEN	*Male*	80.00%	0.00%	80.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(10)	*Female*	20.00%	0.00%	10.00%	10.00%	0.00%	0.00%	0.00%	0.00%
FS	*Male*	54.55%	3.03%	48.48%	3.03%	0.00%	0.00%	0.00%	0.00%
(33)	*Female*	45.45%	0.00%	36.36%	3.03%	3.03%	0.00%	3.03%	0.00%
IRS	*Male*	53.67%	3.09%	39.00%	7.72%	3.47%	0.00%	0.39%	0.00%
(259)	*Female*	46.33%	1.93%	27.80%	15.06%	0.77%	0.00%	0.77%	0.00%
IRS–CC	*Male*	61.29%	3.23%	54.84%	3.23%	0.00%	0.00%	0.00%	0.00%
(62)	*Female*	38.71%	0.00%	35.48%	0.00%	1.61%	1.51%	0.00%	0.00%
MINT	*Male*	91.67%	8.33%	75.00%	8.33%	0.00%	0.00%	0.00%	0.00%
(12)	*Female*	8.33%	0.00%	8.33%	0.00%	0.00%	0.00%	0.00%	0.00%
OCC	*Male*	68.52%	3.70%	53.70%	5.56%	5.56%	0.00%	0.00%	0.00%
(54)	*Female*	31.48%	1.85%	20.37%	7.41%	1.85%	0.00%	0.00%	0.00%
OIG	*Male*	28.57%	0.00%	28.57%	0.00%	0.00%	0.00%	0.00%	0.00%
(7)	*Female*	71.43%	0.00%	57.14%	14.29%	0.00%	0.00%	0.00%	0.00%

		Total	Hispanic	White	Black	Asian	NHOPI	AIAN	2+ Races
SIGTARP	*Male*	71.43%	0.00%	57.14%	14.29%	0.00%	0.00%	0.00%	0.00%
(7)	*Female*	28.57%	0.00%	14.29%	0.00%	0.00%	14.29%	0.00%	0.00%
TIGTA	*Male*	58.33%	0.00%	58.33%	0.00%	0.00%	0.00%	0.00%	0.00%
(12)	*Female*	41.67%	8.33%	33.33%	0.00%	0.00%	0.00%	0.00%	0.00%
TTB	*Male*	42.86%	0.00%	42.86%	0.00%	0.00%	0.00%	0.00%	0.00%
(7)	*Female*	57.14%	0.00%	42.86%	0.00%	0.00%	0.00%	0.00%	14.29%
Treasury	*Male*	61.22%	2.81%	50.00%	5.28%	2.97%	0.00%	0.17%	0.00%
(606)	*Female*	38.78%	1.49%	26.73%	8.42%	1.16%	0.33%	0.50%	0.17%

Question. According to *Pensions and Investments,* the largest money managers have $54.1 trillion under management. Of those, the largest minority and women managers manage approximately $484.1 billion—or less than 1 percent of all funds.[1] Research performed by the Knight Foundation shows that diverse money managers preform the same—if not better than non-diverse money managers.[2]

How much do we have in Federal assets that are professionally managed and how much is managed by minority and women managers? Additionally, who on your staff is designated to ensure Federal assets are professionally managed by minority and women managers, and has that person directly engaged with Hispanic money managers and brokers?

Answer. Treasury Departmental Offices do not currently have Federal assets under professional management. However, Treasury recently designated two investment advisory firms, one of which is a minority-owned firm, to provide underwriting and financial advisory services with respect to the implementation of the $9 billion Emergency Capital Investment Program.

QUESTIONS SUBMITTED BY HON. ROB PORTMAN

Question. The G7 Finance Leaders announced support for an "at least" 15-percent global minimum tax in their communiqué stemming from the agreement made during the Finance Ministers meeting, which you attended in the UK. This agreement relates to the OECD negotiations around Pillar 2, which also imposes the tax on a country-by-country basis. There seems to be some confusion on what exactly this proposal represents, so I would appreciate it if you would answer a few basic questions to clarify matters. There are obviously differences between a country's headline corporate tax rate and the 15-percent global minimum tax you are proposing. Most countries, the U.S. for example, already have corporate tax rates that are higher than 15 percent.

Would you please explain the differences between our corporate rate and a global minimum tax?

Answer. Currently the corporate income tax rate is 21 percent. The administration proposes to increase the corporate tax rate to 28 percent.

The U.S. version of a global minimum tax was first enacted as the Global Intangible Low-Taxed Income (GILTI) rules in 2017 and provides a 50-percent deduction with respect to income of a controlled foreign corporation. The section 250 deduction generally results in a 10.5-percent U.S. effective tax rate on a corporate U.S. shareholder's global minimum tax inclusion under the current U.S. corporate tax rate of 21 percent. The 50-percent deduction is scheduled to be reduced to 37.5 percent starting in 2026. The administration proposes that the section 250 deduction for a global minimum tax inclusion be reduced to 25 percent, thereby generally increasing the U.S. effective tax rate under the global minimum tax to 21 percent under the proposed U.S. corporate income tax rate of 28 percent.

The Pillar 2 global minimum tax would operate similarly to the administration's proposed minimum tax. While the contours are still being negotiated, more than 130 countries have joined consensus on a Pillar 2 rate of "at least 15 percent."

Question. Additionally, the administration has a proposal to impose a 15-percent minimum tax on worldwide book income. Would you please explain the difference between the book tax and the 15-percent global minimum tax you proposed at the OECD?

Answer. The administration's proposal for a book minimum tax would impose a 15-percent minimum tax on worldwide book income for corporations with such income in excess of $2 billion. In particular, taxpayers would calculate "book tentative minimum tax" equal to 15 percent of worldwide pre-tax book income (calculated after subtracting unused book net operating loss carryovers from current book income), less General Business Credits (including R&D, clean energy, and housing tax credits) and foreign tax credits. The "book income tax" equals the excess, if any, of

[1] "Diversity, Equity and Inclusion: Debunking the Myths," *Pensions and Investments* (May 31, 2021), *https://www.pionline.com/deireport2021.*

[2] "Diversifying Investments: A Study of Ownership Diversity and Performance in the Asset Management Industry," Knight Foundation (January 28, 2019), *https://knightfoundation.org/reports/diversifying-investments-a-study-of-ownership-diversity-and-performance-in-the-asset-management-industry/.*

the book tentative minimum tax over regular tax. Additionally, taxpayers would be allowed to claim a book tax credit (generated by a positive "book income tax") against regular tax in future years (to the extent the regular tax liability in such years exceeds the "book tentative minimum tax" in such years).

Question. The book minimum tax proposal differs from the Pillar 2 work or the domestic law minimum tax (GILTI) in the that the book minimum tax addresses the tax rate of the entire financial group owned by a particular taxpayer, while GILTI (and the Pillar 2 income inclusion rule) address only the earnings of foreign subsidiaries. Since the true U.S. corollary to the proposed 15-percent global minimum tax is the Global Intangible Low-Taxed Income (GILTI) regime, it seems that should be the focus.

How would the administration's proposals line up with what you are proposing at the OECD?

Answer. The United States is seeking a global agreement on a minimum tax at the highest possible rate. Even if it settles somewhat below the administration's proposed domestic GILTI rate of 21 percent, today the global minimum tax rate is zero. A global minimum tax agreement will thus reduce the differential between the domestic minimum rate and the global rate.

Question. When we implemented the Tax Cuts and Jobs Act, the international portions stemmed from a task force I co-led back in 2015 with Senator Schumer on international tax, which recommended that we make changes to the tax code to lower the rate, move to a territorial system and make our companies more productive and more competitive. We implemented a minimum tax on foreign earnings of U.S. companies—the GILTI provision, which removed the lock-out effect and helped bring $1.6 trillion back home for companies to invest here in the U.S. Today, the United States remains the only country which imposes a global minimum tax on active foreign earnings of our own multinational companies. Pillar 2 of the OECD negotiations advocates for a global minimum tax—my question is—what do you see as the timeline for the OECD process?

Pascal Saint-Amans has stated the timing has slipped to October for an agreement, while many commentators think that it could potentially take years to get legislative details hammered out. In the coming months, the administration and my colleagues across the aisle aim to pass tax hikes including doubling the GILTI rate, imposing it on a country-by-country basis, removing the qualified business asset investment (QBAI) provision, and the benefit for Foreign-Derived Intangible Income (FDII), all before we have actually reached an agreement at the OECD.

If as you assert, the GILTI changes won't make U.S. businesses uncompetitive because foreign nations are going to move too, should we really be moving to make those changes before there's written agreement at the OECD?

Answer. Although a global minimum tax will reduce the disparity between the GILTI rate and current global minimum rate (which is currently zero), concerns about the competitiveness of U.S. multinationals are overstated. Even before the Tax Cuts and Jobs Act of 2017 dramatically lowered U.S. corporate tax rates, U.S. multinational companies paid similar effective tax rates as peers in other countries. In recent years, the Joint Committee on Taxation shows effective tax rates for U.S. multinational companies of about 8 percent. And U.S. corporate tax revenues are far lower than those in peer countries.

Finally, it is important to remember that competitiveness is about more than the success of U.S. companies in foreign merger and acquisition bids. It is also about ensuring that our tax code doesn't incentivize foreign operations at the expense of those at home. And, it is about nurturing the many fundamental strengths that make the United States a good place to do business. Investing in our institutions, in the abilities and education of American workers, in the quality of our infrastructure, and in cutting-edge research is all important.

Question. Why should we put the competitiveness of our constituent businesses in the hands of foreign governments?

Answer. See answer immediately above.

Question. Under the prior administration, the Treasury Department took the position that our GILTI provision should be treated as a "deemed compliant" for purposes of Pillar 2. In other words, because it is a robust minimum tax with a substance-based carve-out, similar to the minimum tax being proposed at the OECD,

GILTI should be treated as already complying with any global minimum tax agreement and no changes would be needed to the provision.

In fact, the OECD Pillar 2 blueprint explicitly stated that the Pillar 2 global minimum tax being considered is actually more permissive in a number of ways than GILTI (*i.e.,* GILTI is more onerous).

Has the Biden administration abandoned the approach of proposing that current law GILTI be treated as complying with any Pillar 2 global minimum tax agreement?

Answer. The Biden-Harris administration will pursue a comprehensive multinational agreement to update global tax rules in ways that establish effective minimum taxation rules, prevent global profit-shifting, and ensure that corporations pay their fair share. We have committed to implementing Pillar 2 in a manner consistent with the administration's budget proposals, although we also anticipate a future need for deemed GILTI compliance given the uniqueness of many features of the GILTI framework.

Question. If not, and the administration agrees to a global minimum tax that differs from GILTI, would Congress have to enact changes to GILTI?

Answer. See the response immediately above. Pillar 2 includes the enforcement mechanism of the UTPR that incentivizes jurisdictions to adopt Pillar 2 to the extent that their profits in low-tax jurisdictions are taxed below the minimum tax rate. If Congress does not adopt the President's proposal to reform GILTI, the taxes paid by U.S.-parented groups under GILTI would still be taken into account in applying the UTPR.

Question. What would happen to U.S. companies if the U.S. does not have a compliant global minimum tax? If U.S. companies would be subject to significant foreign tax and deductions denied abroad due to the U.S. not having a compliant global minimum tax, doesn't that effectively force Congress's hand? Should the administration erode the separation of powers and be able to compel Congress to enact tax legislation?

Answer. See the response immediately above. Although the administration has committed to pursuing a robust global minimum tax and has consulted with congressional members and staff in crafting that commitment, Congress remains free to decide whether and how to fulfill that goal.

Question. The administration's proposed book minimum tax is dependent on the Financial Accounting Standard Board's ("FASB") accounting standards for income and loss recognition. Additionally, under the Alternative Minimum Tax regime (pre-Tax Cuts and Jobs Act), a credit was available for the book minimum tax in excess of regular tax to mitigate the issue of timing differences between book and tax that would result in paying tax twice.

Is there concern in relinquishing taxing incentives and control to the FASB?

Answer. The book minimum tax, if enacted, would, to some degree, have the tax code leverage elements of FASB definitions (and potentially the International Accounting Standard Board's definitions as well—see response below regarding the use of IFRS). However, it is not clear at this time exactly how the "book income base" will be defined (*i.e.,* whether it's simply U.S. GAAP/IFRS determined book income or if it is that book income amount adjusted for certain items that Congress deems appropriate) or how future changes to U.S. GAAP/IFRS will impact the book income base. We would note that this would not be the first time that Congress has leveraged the U.S. GAAP and/or IFRS rules to determine a taxpayer's Federal income tax liability. For example, section 451(b) and (c) of the Internal Revenue Code, as amended by the Tax Cuts and Jobs Act of 2017, both look to the timing of reporting and definition of "revenue" in a taxpayer's financial statements to determine the timing of recognizing corresponding items of gross income for Federal income tax purposes.

Question. How would the proposal address taxpayers that use accounting methods other than GAAP?

Answer. The administration would work with Congress to describe the details of this proposal, and while it is uncertain at this time, the book minimum tax could be based on U.S. GAAP and IFRS book income (at least as a starting point) and could use a definition/ordering rule similar to that for an "applicable financial statement" in section 451(b)(3) of the Internal Revenue Code. It is expected that all taxpayers within the scope of the book minimum tax proposal (*i.e.,* having worldwide

book income in excess of $2 billion) would have financial statements prepared under either U.S. GAAP or IFRS.

Question. Can you provide additional details as to how taxpayers would account for timing differences between book and tax? Ms. Batchelder suggested that the book tax credit (generated by a positive book tax liability) cannot reduce tax liability below book tentative minimum tax. So, is it possible that some taxpayers may never get the benefit of the book tax credit for these timing differences?

Answer. As stated above, we believe the administration would need to work with Congress to develop the details of the proposal. That said, this regime would not be without precedent in the context of the general accounting rules and prior minimum tax regimes. The proposal addresses timing differences between book and tax the same way that timing differences between the old alternative minimum tax base and regular Federal income tax base were addressed under the alternative minimum tax (AMT) regime (which had a credit regime similar to the one being considered as part of the book minimum tax proposal). A book minimum tax liability that is generated as a result of a timing difference (*e.g.,* tax deduction before a book deduction) could give rise to a tax credit that is carried forward and used to offset regular Federal income taxes in a future year (*e.g.,* the taxable year in which the timing difference reverses and the deduction is reflected in the book income base—causing the regular Federal income tax base and liability to exceed the book income base and the "book tentative minimum tax" amount). All else being equal, the excess of the regular Federal income tax liability over the "book tentative minimum tax" amount in the year the timing difference reverses should be equal to the amount of the credit generated in the year the timing difference initiated (*i.e.,* the credit should make the taxpayer whole with respect to the timing difference).

Question. The initial basis for bipartisan congressional support of Treasury's efforts at the OECD was to eliminate digital services taxes and similar unilateral measures. At the hearing, you committed to "pursuing absolutely every avenue toward a swift and comprehensive standstill and rollback of DSTs." However, the European Union still continues to move full steam ahead on its digital levy. Only a few days after the July G20 Finance Ministers meeting, the EU plans to release a new gross-basis tax on digital companies with revenue above a certain threshold. Even more concerning, this is not intended to be a temporary measure. Rather, the EU somehow believes it will be "complimentary" to an OECD agreement. While the EU may assert this tax will be "nondiscriminatory," it is difficult to understand how a gross-basis tax that ring-fences a particular industry is not considered discriminatory.

Do you believe that the proposed EU digital levy, as it has been described, should survive an OECD agreement? If so, please explain how this is compatible with the G7's stated goal of removing all DSTs and relevant similar measures?

Answer. An important premise of this OECD/G20 work is the elimination of DSTs because DSTs are discriminatory against U.S. firms. USTR's work on a section 301 response to DSTs is an important element of this. We are however concerned that the EU continues to advance its own "EU digital levy" proposal, which the EU asserts would coexist with a Pillar 1 system. The EU asserts that the digital levy will not be discriminatory because it will apply to small firms and large firms alike. If so, the digital levy could be closer to a consumption tax or excise tax than a tariff. Much will depend on the details of the eventual European Commission proposal, which has not been released. We will closely monitor the developments in consultation with USTR and Congress.

QUESTIONS SUBMITTED BY HON. BEN SASSE

Question. The President's proposal would repeal the deduction for Foreign-Derived Intangible Income (FDII). FDII is an important tool that encourages U.S. companies to locate IP in the United States as well as invest in innovative research here at home. Our competitors are heavily investing in R&D, and I am concerned that the elimination of FDII could discourage development of IP and new technologies in the U.S. and put American companies back at a competitive disadvantage in the global economy.

In the proposal to eliminate FDII, the Green Book stated that "the resulting revenue will be used to encourage R&D." However, no details were given on how this would actually occur. Could you please elaborate specifically on the administration's actual proposals to encourage R&D?

Answer. The administration has proposed repealing the FDII deduction and using the associated revenue to more directly encourage research and development. One possible use of this revenue would be to reverse the imminent move toward R&E amortization created by the 2017 tax law, returning to expensing. Another option would be implementing more generous research tax credits. The administration is open to working with Congress on the most effective way to encourage research.

Either path would be a more effective spur to domestic innovation that the FDII deduction. There are multiple problems with FDII. First, the FDII is not an effective way to encourage R&D in the United States, since it provides larger tax breaks to companies with excess profits (those already reaping the rewards of prior innovation) and only targets those with high export sales (omitting those companies with domestic sales).

Second, like the GILTI, the FDII deduction encourages offshoring of real activity, since the export subsidy becomes less generous (all else equal) as companies have higher U.S. tangible assets. Repealing FDII would generate a large amount of revenue that could be used to encourage research and development much more directly.

Question. As the administration is moving to raise the global tax rate and eliminate incentives to keep and develop IP in the U.S. (such as FDII), China is only increasing its incentives to drive new research to its shores.

In order to further their strategic focus on manufacturing innovation, the Chinese Government recently announced a new enhanced 100-percent super-deduction for manufacturing enterprises. This new incentive came in addition to the Chinese Government extending for 3 years the existing 75-percent super-deduction for R&D expenses.

I am worried that the elimination of FDII, with no plan in place to replace it, will leave us at a severe competitive disadvantage. What plan does the administration have, aside from repealing current incentives, that would allow us to compete for high-tech innovation with China?

Answer. Administration proposals are focused on improving American competitiveness by investing in the fundamentals of the American economy, including R&D, education, and infrastructure. The current FDII incentive is not well-targeted at encouraging new research or a stronger foundation for economic growth; instead, it rewards the above-normal profits of a subset of companies, those that export. The administration proposes replacing the FDII incentive with an equal amount of tax expenditure, but targeting that tax expenditure directly on tax incentives that encourage new research and development.

Question. Has the Treasury done any analysis on how their proposed tax changes, including the repeal of FDII, would impact U.S. competitiveness compared to our foreign counterparts—especially China? And is this analysis that Treasury plans to conduct and make available to Congress?

Answer. As noted above, the structure of the FDII rewards above-normal profits of exporting companies. We propose the same size tax incentive directly targeted at new R&D instead; this change should increase U.S. competitiveness by incentivizing R&D, a longstanding source of American economic strength.

Question. How have China's R&D incentives impacted multilateral talks with the OECD and G20? Has there been any discussion about possible carve-outs for these or any other incentives?

Answer. The consensus we achieved at the G20 and Inclusive Framework was unprecedented and signals great progress toward a historic deal on a redesign of the international tax system. We actively worked with all countries to make the consensus as broad as possible. We did not, however, provide any special exceptions to China in doing so. Pillar 2 allows for modest substance-based carveouts that will continue to allow the US and other countries to provide R&D incentives.

E.O. 14302 ON U.S. INVESTMENT IN PRC MILITARY COMPANIES

Question. E.O. 14302 shifted the responsibility for sanctions imposition from the Department of Defense to the Department of Treasury. Please describe what you see are the major benefits of this change. What would you say to skeptics that might be concerned Treasury will not prioritize national security considerations over domestic business interests?

Answer. Executive Order (E.O.) 14032 amended E.O. 13959 to create a sustainable and strengthened framework for imposing prohibitions on investments in Chi-

nese defense and surveillance technology firms. This improved framework provides the Secretary of the Treasury, in consultation with the Secretary of State, and where appropriate, the Secretary of Defense, with primary responsibility for making sanctions-related determinations. Treasury's Office of Foreign Assets Control (OFAC) is the U.S. government's primary economic sanctions expert, administers more than 35 economic sanctions programs, and has extensive experience coordinating with interagency partners to make sound sanctions determinations.

OFAC is uniquely structured and resourced to implement sanctions such as those in E.O. 13959, as amended by E.O. 14032, because OFAC has investigative, licensing, compliance, targeting, regulatory, and policy functions all under one roof. Treasury will continue to address the threat posed by the PRC's military-industrial complex and its Military-Civil Fusion strategy, and prioritize national security considerations, in consultation with the Department of State and, as appropriate, the Department of Defense, in making determinations about which individuals and entities should be identified for sanctions, while balancing concerns about unintended economic impacts.

Question. As a result of this new E.O., the investment ban targeting publicly traded securities has been removed on many entities. Can you please identify these companies and the evidentiary basis Treasury used to inform the decision to remove the investment ban on each company?

Answer. Of the 48 entities that had been listed under the previous sanctions authority, 20 are not currently listed under the amended authority, and, as a result, the investment restrictions do not apply to them at this time. OFAC continues to evaluate companies under the new criteria.

Question. Can you clarify whether U.S. investors can maintain existing holdings of publicly traded securities of companies designated under E.O. 14032? If so, what is the specific policy purpose for maintaining existing holdings? What market signal does it send to allow continued investment in entities that enable the military development of the Chinese Communist Party?

Answer. While U.S. persons are prohibited, after the relevant effective date, from engaging in the purchase or sale of publicly traded securities of entities identified in or pursuant to E.O. 14032, U.S. investors are not required to divest existing holdings of such securities. The purchase and sale restrictions in E.O. 14032 are designed to prevent U.S. capital from flowing into the Chinese defense sector and Chinese companies that develop or use Chinese surveillance technology to facilitate repression or serious human rights abuse. The investment restrictions are intentionally targeted and scoped to achieve that objective.

QUESTIONS SUBMITTED BY HON. TIM SCOTT

Question. It seems our financial system's alarm bells are sounding at a deafening volume for everyone except the Biden administration. In May, consumer prices increased by 5 percent on an annualized basis, the fastest pace since 2008. Now this may not be surprising to the millions of working Americans who have endured as the cost of countless every day goods and services rose during the pandemic—items parents depend on to feed their families, to get to work, to maintain their homes, and more.

American families are right to be concerned about the rise in the cost of household goods and services. They are right to be concerned about their paychecks suddenly not stretching as far as they did the month before. For those on the bottom and middle of the income scale—and especially our seniors—price increases are not just an inconvenience. It's the promotion you worked all year to get just to see it become a wash at the end of the month. It's your retirement savings being pushed to limits that no one planned for. It's a noticeable change in the standard of living for our most vulnerable populations.

While this may be transitory, it seems to me President Biden isn't leaving much of a margin for error.

As Americans continue to plan for the future, how certain are you that higher inflation will not persist and that we won't see interest rate hikes?

Are you at all concerned about the potential debt load and inflation risk associated with this $6-trillion-plus budget proposal and the strain it would have on the American economy if this isn't merely transitory?

Is the administration concerned that inflationary effects and any rate increases will be felt especially hard by our Nation's small businesses and low-income families?

How might the growth in U.S. debt and debt-servicing costs hinder our country's ability to respond quickly to any near-term volatility events?

Answer. Throughout the pandemic, I have expected that the rate of inflation would be moderately higher as the economy transitioned between a steep recession and a healthy recovery. That expectation has not changed, and is consistent with the Federal Reserve and professional forecasters. As Treasury Secretary, I do not comment on the expected trajectory of the Federal Reserve's monetary policy.

Concerning the impact of the administration's policies, I believe these investments are both necessary to ensuring the long-term economic health of our country, and a step towards fiscal sustainability given the President's commitment to paying for the entirely of the proposals over 15 years. These plans should bolster the gains to families and businesses through increased investment, while mitigating any economic harm associated with rising deficits. Under the President's plan, the United States can be expected to maintain the ability to respond to fiscal and economic emergencies given the historically low interest rates and full faith in our ability to make timely payments on our debt.

Question. As a former small business owner, I know the burdens, risks, and obstacles that our Nation's entrepreneurs and small businesses face every day. Small businesses are the backbone of our economy, employing roughly half of the private workforce. This is why I worked hard to ensure the 20 percent deduction for pass-through businesses was included in tax reform. Unfortunately, throughout his campaign, we heard President Biden repeatedly call for the elimination of this important deduction. Like many, I was surprised to see that the Green Book actually does not propose any changes to this provision for small and medium-size job creators.

You previously committed to studying the impact of the deduction on our Nation's small businesses. Can I assume that the Green Book does not modify this important deduction because Treasury found that it helps small businesses grow and compete?

Answer. Our focus this year has been providing direct assistance to small businesses and working families to help them deal with the challenges of the pandemic and building back from that. The American Rescue Plan provided significant economic relief in the form of loans for small businesses, expanded tax credits to help employers retain and safely bring back workers, and grants to millions of the hardest hit businesses. In terms of the Green Book, while changes to section 199A were not included and we continue to consider how that provision would fit in a more equitable tax regime, it has not escaped notice that independent analyses based on JCT reports have shown that the benefits from section 199A accrue overwhelmingly to the wealthiest households.

Questions Submitted by Hon. John Thune

Question. Thank you for agreeing to update me and the Senate Finance Committee about what steps the administration is taking to ensure such an IRS data breach does not happen again.

Were you or your staff informed about the IRS data breach in advance of ProPublica's release of taxpayer information on June 8, 2021? If so, can you please identify the date(s) of being informed?

Since your Senate Finance Committee hearing on June 16th, what steps have Treasury and the IRS taken to ensure such a release of confidential taxpayer information does not happen again?

Answer. With respect to the ProPublica report, I am deeply troubled by it. It is important to stress that unauthorized disclosure of taxpayer information is a crime. Upon learning of this matter, it was immediately referred to the FBI, Federal prosecutors, and Treasury Department oversight authorities—all of whom have the independent authority to investigate. We don't yet know what occurred—but all is being done to get to the bottom of this potentially criminal activity.

Question. President Biden's $6-trillion budget proposes raising the top tax rate on capital gains from 23.8 percent to 43.4 percent for many Americans. The Treasury's Green Book states that the proposal would be effective for gains required to be rec-

ognized after the date of announcement, which has been interpreted by some as the date of when the American Families Plan was first announced.

Can you please provide the date on which the Biden administration's capital gains tax increase proposal is intended to be effective?

If the specific proposal were to be effective when the American Families Plan was announced, would you consider this a retroactive tax increase?

Answer. In order to score any tax proposal involving capital gains it is necessary to set an effective date. The Green Book proposal assumed it was effective on the date when the American Families Plan was first announced. Obviously, the actual effective dates of any provisions that are eventually enacted will depend on Congress.

Question. President Biden promised to protect small businesses and family farms from being impacted with his new step-up in basis tax proposal. Based on my understanding of the Green Book, the proposed "protections" simply delay the tax liability—rather than provide real protection—for those continuing to operate the business or farm.

Does the Biden administration's "protections" for family-owned businesses, farms, and ranches exempt them from the step-up in basis tax proposal or simply delay the tax?

Answer. The administration's capital gains tax proposal provides multiple, generous protections for small family businesses. First of all, the proposal provides an exclusion of $1 million of gain for every individual, and when that is combined for a married couple and the additional exclusion for principal residences is considered, it means that a family can exclude up to $2.5 million in gains from any taxation under this proposal. The vast majority of taxpayers would therefore be protected from any tax liability under this provision. In addition, as you note, family-owned and operated businesses (including farming and ranching businesses) are provided even greater protection under this proposal. To the extent there is a realization event for an interest in such a business and the gain amount is above the generous, aforementioned thresholds, then the gain realized is not subject to tax as long as the business continues to be family owned and operated. This deferral means that the business can remain in the family for as long as they choose, and that tax wouldn't be imposed until there was a triggering event, such as a sale of the business, which would presumably coincide with a liquidity event that allowed for payment of the tax.

Question. Under the Biden administration's step-up in basis proposal, the untaxed gains on investments held at death would be taxed at a top rate of 39.6 percent, above an exemption of $1 million per individual. There is a good chance that some parents might die with an estate that has gained $1 million-plus in value over the course of their lives, but their heir might be earning $40,000 or$50,000 a year.

Under such a scenario, is it plausible that an heir earning less than $400,000 would be impacted by the administration's step-up in basis tax proposal?

Answer. The capital gains tax on unrealized appreciation at death would be imposed on the property of the decedent, rather than on the recipient of the decedent's property. Thus, no tax imposed at death under this proposal would be imposed on an heir, and the basis in the property on which tax was imposed would be stepped-up.

Question. The administration has requested an all-time high budget for the IRS of $13.2 billion, a 10.4-percent increase from last year's enacted level. The Biden budget also requests approximately $80 billion over a decade to the IRS in mandatory funding, which if enacted, would put the agency's funding beyond the standard appropriations process and not subject to congressional review. With the additional $80 billion, Treasury estimates a return of $700 billion in revenue—a figure that is drastically higher than the nonpartisan Congressional Budget Office's related estimate.

As you know, CBO rules prohibit scoring hoped-for but entirely uncertain revenue from IRS enforcement proposals. Does Treasury's estimates account for CBO's scorekeeping rules with its $700 billion revenue projection? If not, how would the JCT–CBO scorekeeping rules alter Treasury's estimated projections and by what approximate amount?

Answer. It is difficult to compare the administration's compliance initiatives to previous estimates because of differences in scale and scope of the comprehensive

proposal the President has put forth to address the tax gap. Estimates from career economists at the Office of Tax Analysis suggest that providing the IRS the resources and information it needs to address sophisticated tax evasion would raise at least $700 billion in a decade. These initiatives have not yet been scored by official congressional scorekeepers, and we look forward to their thoughts on the revenue potential. We anticipate a very significant score, which relates to the policies designed and also the enormous magnitude of the problem the administration is seeking to address: 15 percent of taxes that are owed to the U.S. government are uncollected each year. That is more than $600 billion this year, and over $7 trillion over the next decade.

Question. Under the President's budget, the administration estimates that debt would grow to 117 percent of Gross Domestic Product (GDP) by the end of FY 2031, compared to the 113 percent of GDP under the Office of Management and Budget's (OMB) baseline.

With the debt-to-GDP ratio at 111.8 percent for 2022 and rising to 117 percent of GDP by 2031 under the President's budget, would you agree there is increasingly limited fiscal space should an adverse shock to the economy occur?

What type of impact will the longer-run deficit have on U.S. productivity capacity and productivity growth?

What specific concerns do you have about the historically high, and increasing trajectory, of the U.S. deficit and debt?

Answer. The rising debt as a share of GDP is due to combination of fiscal policies taken prior to the Biden administration and necessary emergency actions taken to protect American families and the U.S. economy from the devastating impacts of COVID. While this emergency spending was critical to resolving the health crisis and maintain the U.S. economy, it is imperative that we put our country on a path to long-term fiscal sustainability. This requires a combination of investments in the productivity capacity of the U.S. economy, coupled with prudent fiscal actions to offset the costs of those investments. The President's American Jobs and Families Plans achieves both these objectives by making generational investments in a range of priorities, while more than offsetting the costs over 15 years. These investments should raise the productivity capacity of our economy, and will ultimately bolster U.S. standards of living for decades.

QUESTIONS SUBMITTED BY HON. PATRICK J. TOOMEY

Question. In early June, ProPublica announced that it obtained 15 years of tax return data for thousands of Americans. This represents a serious and unprecedented breach of privacy, and it further erodes trust the American people have in government institutions to safeguard their private information.

Although it has not been definitively determined as to what the source of this leak is, ProPublica's description of the tax return data and the nature of the information that has been published strongly suggests that the information originated from within the IRS. What makes me even more concerned is the fact that President Biden has proposed requiring financial institutions to report account inflows and outflows to the IRS. There are steep compliance costs and serious privacy implications associated with this requirement. In fact, the reporting requirement threshold that is proposed in the President's Budget is just $600. According to the FDIC, the second and third top reasons Americans do not have bank accounts, respectively, are that they do not trust banks and avoiding a bank gives more privacy. I am concerned about the risk of additional personal financial information of millions of Americans being compromised.

Please detail what additional steps will need to be taken by the IRS to safeguard taxpayers' account inflow and outflow data.

Answer. The administration has designed this regime with taxpayer privacy concerns front of mind. That is why, as opposed to other compliance proposals that have been advocated by outside actors, in the administration's framework, information is flowing only one way—from financial institutions to the IRS, as is the case with existing information reports. Further, the proposal includes significant resources to protect taxpayer information, giving the IRS the funding it needs to invest in overhauling antiquated technology and meet threats to the security of the tax system, like the 1.4 billion cyber-attacks the IRS experiences annually.

Question. During the Senate Finance Committee hearing on June 16th, I noted that, according to the Biden administration's revenue proposals for FY 2022, there is no proposed change to the current law 80-percent foreign tax credit (FTC) limitation under section 960(d) of the Internal Revenue Code. Further, the administration has proposed increasing the Federal corporate income tax rate to 28 percent. When combined with the proposal to reduce the section 250 deduction for GILTI to 25 percent, the tax rate assessed on GILTI would become 21 percent. However, once you take into account that the aforementioned FTC limitation remains in place, the effective tax rate on GILTI increases from 21 percent to 26.25 percent—double the current law effective rate of 13.125 percent.

As a follow-up to my question during the hearing, can you confirm that the administration's FY 2022 revenue proposals assume the current law 80-percent FTC limitation under section 960(d) will remain in place? If "yes," is it true that the effective GILTI rate would equal 26.25 percent if the corporate income tax rate is increased to 28 percent and the section 250 deduction for GILTI is decreased from 50 percent to 25 percent?

Answer. The administration has proposed a 21-percent GILTI rate. (The proposal suggests a deduction of 25 percent for GILTI income in the context of a 28-percent headline rate.) As proposed, the administration's GILTI reform would retain the 20-percent foreign tax credit disallowance. The effective tax rate on a company's foreign income would depend on where that company was operating. If they were operating in a zero-tax country, the rate would be 21 percent (paid to the United States); the effective tax rate on foreign income very slowly rises as the foreign rate rises (with a declining GILTI tax paid to the United States and the remainder of the tax paid to the foreign country). The effective tax rate would eventually reach 26.25, but only when the US GILTI share of the tax is very low, so it is not contributing very much to the overall tax burden. At the top end, when the foreign tax rate is 26.25 percent, the tax is paid to the foreign government, and the United States collects no GILTI tax.

Question. In the questions for the record for your confirmation hearing, you were asked whether you would keep in place the Treasury Department's section 311 special measures on Iran if the country continues to finance terrorism and fails to clean up its financial system. You replied, "I believe we should keep in place various rigorous restrictions on Iran targeting its malign support for terrorism until such time as this ceases." Please be more specific in order to increase congressional confidence in the administration's Iran policy.

Do you agree that Iran remains the world's largest state sponsor of terrorism?

Answer. I defer to the State Department on their authority to designate countries as state sponsors of terrorism. The Biden administration is committed to countering any Iranian threat to our forces, personnel, and vital interests, and will respond to any such threat using Treasury authorities.

Question. Do you still agree with the determinations made by FinCEN during the Obama and Trump administrations that Iran is a jurisdiction of primary money laundering concern?

Answer. As you are aware, in October 2019, FinCEN issued a final rule pursuant to section 311 of the USA PATRIOT Act finding Iran to be a jurisdiction of primary money laundering concern and imposing the Fifth Special Measure prohibiting the opening or maintaining of correspondent accounts in the United States for, or on behalf of, Iranian financial institutions, and the use of foreign financial institutions' correspondent accounts at covered U.S. financial institutions to process transactions involving Iranian financial institutions.

FinCEN's jurisdictional 311 was based in part on: (1) evidence that terrorists and entities involved in missile proliferation transacted business in Iran, citing in particular the role of Central Bank of Iran officials in facilitating terrorist financing, including for the Iran Revolutionary Guard Corps (IRGC) QodsForce and Hizballah; the IRGC's abuse of the international financial system; Iran's support for several terrorist organizations and its pursuit of ballistic missile technology; (2) the endemic corruption of Iran's government; (3) the significant deficiencies in Iran's AML/CFT programs; and (4) the lack of a mutual legal assistance treaty with the U.S. and any law enforcement/regulatory cooperation. The Biden/Harris administration remains concerned about these issues and will remain so until such time as there is information available to confidently assess those factors are no longer applicable to Iran.

Question. Since Iran has maintained its support for terrorism and remains a jurisdiction of primary money laundering concern, will you commit to keeping in place the section 311 special measures on Iran?

Answer. As I previously mentioned, the jurisdictional 311 was imposed via rulemaking after finding that Iran constituted a primary money laundering concern for reasons related to the financing of terrorism, endemic government corruption, AML/CFT deficiencies and the lack cooperation between the United States and Iran. Any changes to the final rule must address these findings in accordance with applicable legal requirements. I commit to undertake careful and deliberate assessment of any changes prior to any discussions surrounding this section 311 rulemaking finding Iran to be a jurisdiction of primary money laundering concern.

QUESTIONS SUBMITTED BY HON. ELIZABETH WARREN

Question. The OECD recently estimated that the United States is one of only two major economies that have returned to pre-pandemic income levels and one of only a handful of countries to leave the pandemic on a higher growth path than it entered.[3] That is, growth will actually be higher following our response to the COVID–19 pandemic, despite the challenges the pandemic posed to American workers, families, and businesses.

How have the stimulus measures of the past year contributed to the resilience and recovery of the U.S. economy?

Given that government stimulus and emergency measures were able to maintain growth even through the pandemic, what does that suggest about the impact that government investments in critical infrastructure—roads and bridges, but also broadband, child care, and green energy—could have had pre-pandemic and could have now?

Do you think we will be able to reach lower unemployment and higher labor force participation levels than those pre-pandemic and, if so, what will it take to get us there?

Answer. The support provided by the American Rescue Plan was unambiguously critical to preserving the health of the U.S. economy, in addition to saving lives. Numerous economic analyses have confirmed that our economy trajectory is substantially higher than it would have been in the absence of this legislation, and this is confirmed by comparisons with other countries that undertook more muted measures to preserve their health of their economies.

Of the many lessons that emerged during the pandemic, one was the importance of providing a safety net to vulnerable populations. The Biden administration and Congress committed to a collection of policies—including childcare support, nutrition assistance, expanded unemployment assistance, and improved access to broadband—aimed at bolstering economic inclusion and mitigating the negative impact of the economic downturn. These policies will deliver economic gains for years to come.

The labor market outlook from before the pandemic, as confirmed by the Congressional Budget Office and other forecasters, included the projection that the labor force participation rate would decline over time, largely due to a gradual aging of the population. During the pandemic, we have witnessed a downturn in employment. An explicit goal of the Biden administration's policies is to mitigate many of the barriers to labor force participation, like high child care costs and lack of paid leave, that drive down U.S. participation relative to our economic competitors. If enacted, a large economic literature confirms that these policies can be expected to raise participation and improve the livelihoods of workers, especially women.

Question. Some conservative pundits and politicians are arguing against further government investments in critical infrastructure, citing inflation fears. However, the interest rate on 10-year Treasury bonds stands at approximately 1.50 percent and has sunk as low as 1.35 percent, lower than before the COVID–19 crisis and lower than essentially tenure at the Federal Reserve.[4] Economists tell us that real

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[3] OECD, "No Ordinary Recovery: Navigating the Transition," OECD Economic Outlook, May 2021, *https://www.oecd.org/economic-outlook/may-2021/*.

[4] Tommy Stubbington and Joe Rennison, "U.S. Treasuries have best week in a year," *Financial Times,* June 11, 2021, *https://www.ft.com/content/6f0d541d-3a47-481f-810b-d41dab13a2c2;* Vicky McKeever, "10-year Treasury yield touches 3-month low of 1.35 percent before rebound-

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inflation fears should drive up bond yields as investors divest from bonds, which have fixed income, thereby forcing down prices. That is clearly not what is happening.

What do these data and other economic indicators say about the benefits of further government investments, including investments in critical infrastructure like roads and bridges, broadband, child care, and green energy?

Answer. Real interest rates are currently negative, and nominal interest rates are exceptionally low by historical standards. While the administration projects these rates to rise over time, the projection is also that rates (in both real and nominal terms) will remain low by historical standards. At the same, while the recovery has featured a modest elevation in price indices, the consensus expectation is that these price pressures will abate in the near term and return to levels that are consistent with the Federal Reserve's target. This outlook indicates that the additional investment in critical public programs should be viewed as opportunity to expand the productive capacity of the U.S. economy, rather than a threat to the bond market. And members of Congress who are concerned about the long-term fiscal trajectory should be encouraged by the President's plans to more than offset the cost of the American Families and Jobs Plans over 15 years.

Question. On June 12th, *The New York Times* published an investigation of how infrequently the IRS audits private equity firms and partnerships, despite the pattern of tax avoidance among firms.[5] How would the Treasury Department's proposed tax compliance agenda impact investigations of tax avoidance and evasion among private equity firms and partnerships?

Answer. The President's tax proposals are designed around a central objective: creating an equitable tax regime, where the wealthy and large corporations and other businesses pay their fair share. *The New York Times* investigation detailed various ways in which that is not the case today, with a particular focus on the private equity industry. The Biden administration has a multi-pronged approach to address the avoidance and evasion at play here. Ensuring capital gains income is taxed at ordinary income rates, like wage and salary income; and repealing the benefits that accrue to private equity employees who make use of the "carried interest" provision would work to address avoidance concerns. With respect to evasion, the President has called for a substantial increase in IRS resources over a multiyear period to rebuild the agency after a decade of budget cuts have caused audit rates to drop substantially for high-earners and the businesses they own. For example, more than 4 million partnership returns were filed last year but the IRS began only 7,500 partnership examinations. A steady stream of resources will allow the IRS to hire, train, and retain talented enforcement personnel to untangle complex multi-tiered partnership structures and invest in technology to support these investigations, such as software that can map out the relationships between partnerships so auditors can visualize and better investigate complex business entity structures.

Question. In May 2020, TIGTA released an audit finding that high-income nonfilers owing billions of dollars are not being worked by the IRS.[6] The report found that "the IRS did not work 369,180 high-income nonfilers, with estimated tax due of $20.8 billion" and that "510,235 high-income nonfilers, totaling estimated tax due of $24.9 billion, are sitting in one of the Collection function's inventory streams and will likely not be pursued as resources decline."

How would the Treasury Department's proposed tax compliance agenda impact investigations of tax evasion among high-income nonfilers?

Answer. The report referenced is striking. Between 2014-2016, just a few hundred high-income nonfilers cost the government $10 billion in unpaid tax liabilities over this period, and they were not even pursued by the IRS. The IRS is already working to address this issue: in 2018, it established a program to pursue all high-income nonfilers from tax years 2016 through 2019, and it intends to select all high-income nonfiling cases for enforcement action for tax years 2020 and beyond. But this particular case is reflective of broader problems that the IRS faces in the current envi-

ing," CNBC, June 21, 2021, *https://www.cnbc.com/2021/06/21/us-bonds-10-year-treasury-yield-falls-to-two-month-low.html.*

[5] Jesse Drucker and Danny Hakim, "Private Inequity: How a Powerful Industry Conquered the Tax System," *The New York Times,* June 12, 2021, *https://www.nytimes.com/2021/06/12/business/private-equity-taxes.html.*

[6] "High-Income Nonfilers Owing Billions of Dollars Are Not Being Worked by the Internal Revenue Service," Treasury Inspector General for Tax administration, May 29, 2020, *https://www.treasury.gov/tigta/auditreports/2020reports/202030015fr.pdf.*

ronment. Its budget has declined by 20 percent (in real terms) in the last decade, leading to substantial workforce attrition, with the largest losses for complex revenue agents who are capable of examining global high net-worth individuals and multiyear partnerships. The result is that enforcement actions have decreased most at the top of the income distribution. This is problematic as a matter of revenue-raising, efficiency, and equity. That is why the President's compliance initiatives provide the IRS the resources and information needed to pursue this sophisticated evasion. This involves a stream of multi-year funds to recruit and train agents to undertake complex examinations, modernized technology to pursue evaders, and additional information to help target enforcement actions appropriately.

QUESTIONS SUBMITTED BY HON. TODD YOUNG

Question. Prior to the Tax Cuts and Jobs Act (TCJA), the U.S. combined corporate income tax rate was the highest among developed countries. Post-TCJA, the U.S. corporate tax rate is close to average, as the 11th highest corporate tax rate out of the top 36 developed countries.

As I noted during our interaction in the hearing, I am concerned that a combined 32.5-percent tax rate, as proposed by President Biden, will leave U.S. businesses uncompetitive on the world stage. I find it hard to believe that other OECD nations—who currently have an average corporate tax rate of 23.5 percent—will raise their rates in a meaningful way, especially considering multilateral conversations aren't leading to a global minimum above 15 percent. Second, it is ludicrous to think that China will increase its 25-percent tax rate, so we will yet again be hamstringing our domestic economic development while bolstering China's.

Given that the current 21-percent U.S. corporate income tax rate makes the United States an economically competitive environment that naturally discourages profit shifting to lower-tax jurisdictions, wouldn't an increase in the corporate tax rate be misplaced and lead to higher unemployment rates and less domestic investment as the U.S. economy recovers from the COVID–19 pandemic?

Answer. The American Jobs Plan's corporate tax provisions incentivize job creation and investment here in the United States. Unlike the 2017 tax law—which created new incentives to shift profits and jobs overseas—this reform includes a strong global minimum tax on multinational corporations and measures that will end the global race to the bottom on corporate tax rates.

This way, we can reward companies that help to grow the U.S. economy and create a more level playing field between domestic and multinational companies. The revenue from these reforms will be used to make investments in infrastructure, R&D, manufacturing, boosting the long-term competitiveness of the U.S. economy.

Finally, the corporate income tax generally operates as a profits tax, and as such, it is strongly countercyclical. Typically, companies only pay corporate tax when they are profitable, and companies earning losses (or carrying them forward from prior years) generally pay no corporate tax. In contrast, other sources of tax revenue normally fall more heavily on typical American workers and families, regardless of economic conditions.

Question. During the hearing, as is reiterated in the Department of the Treasury's Green Book, you advocated for repealing the Foreign-Derived Intangible Income (FDII) deduction and replacing it with other research and development (R&D) incentives. FDII was enacted as part of the Tax Cuts and Jobs Act (TCJA) to encourage U.S. companies to retain intangible property, and related jobs and economic activity, in the United States. Since TCJA, I have heard a number of encouraging examples of companies returning intellectual property (IP) and jobs to the United States, or engaging in cutting-edge development of new IP in the United States as a result of TCJA reforms like FDII.

Neither the Green Book nor your testimony before the committee provided any detail on what those R&D incentives would entail. My American Innovation and Jobs Act would provide additional incentives to encourage small businesses and startups to invest in R&D activity in the United States, but I view those proposals as complementary to FDII, not as a replacement.

Can you please specify the exact R&D incentives the administration is proposing?

Can you please confirm whether any of the proposals in my American Innovation and Jobs Act are included in the administration's plans?

Answer. The administration has proposed repealing the FDII deduction and using the associated revenue to more directly encourage research and development. One possible use of this revenue would be to reverse the imminent move toward R&E amortization created by the 2017 tax law, returning to expensing. Another option would be implementing more generous research tax credits. The administration is open to working with Congress on the most effective way to encourage research, and we are happy to review the provisions in the American Jobs and Innovation Act toward that end.

Either path would be a more effective spur to domestic innovation that the FDII deduction. There are multiple problems with FDII. First, the FDII is not an effective way to encourage R&D in the United States, since it provides larger tax breaks to companies with excess profits (those already reaping the rewards of prior innovation) and only targets those with high export sales (omitting those companies with domestic sales).

Second, like the GILTI, the FDII deduction encourages offshoring of real activity, since the export subsidy becomes less generous (all else equal) as companies have higher U.S. tangible assets. Repealing FDII would generate a large amount of revenue that could be used to encourage research and development much more directly.

Question. You also mentioned during your hearing testimony the important role played by other tax incentives, such as the R&D Tax Credit, which my American Innovation and Jobs Act seeks to expand. Credits like that one are effective tools to encourage activity; however, that incentive is diminished once tax liability can't be reduced any further.

Do you believe that a global minimum tax should recognize the important role played by these tax credits, or should a company that invests in incentivized activity be limited in reducing their tax liability to whatever global minimum rate is agreed upon?

Answer. The United States and the international community are nearing a comprehensive agreement on robust country-by-country minimum taxes, seeking to end "the race to the bottom" on corporate tax rates. Adequate taxation of internationally mobile capital helps governments invest in infrastructure, clean energy, and education, spurring future economic growth.

There are multiple problems with FDII. First, the FDII is not an effective way to encourage R&D in the United States, since it provides larger tax breaks to companies with excess profits (those already reaping the rewards of prior innovation) and only targets those with high export sales (omitting those companies with domestic sales).

Second, like the GILTI, the FDII deduction encourages offshoring of real activity, since the export subsidy becomes less generous (all else equal) as companies have higher U.S. tangible assets.

Repealing FDII would generate a large amount of revenue that could be used to encourage research and development much more directly. As one example, reversing the research amortization provision in the Tax Cuts and Jobs Act of 2017 (and returning to expensing) would cost a similar amount of revenue as FDII repeal would raise, but would benefit not just established exporting firms, but also domestic firms and new startups.

Question. There has been a lot of concern regarding the recent international tax framework agreed upon by the G7 nations. While there is much more to be agreed to as the plan is taken up by the G20 and the OECD, a pillar of this framework is support for the global minimum corporate tax of at least 15 percent. As negotiations continue, it will be important to be wary of high-tax, developed nations pushing for a higher global minimum tax, such as your own administration's request for a 21-percent global minimum, while developing nations are left with fewer tools to attract economic activity.

Given the resistance from countries like Ireland who have benefited from attractive, pro-business tax rates, what do you believe is the likelihood of universal adoption of a global minimum tax, especially if it lies somewhere above 15 percent?

Answer. The consensus we achieved at the G20 and Inclusive Framework was unprecedented and signals great progress toward a historic deal on a redesign of the international tax system. More than 130 countries have already joined consensus on a minimum tax of at least 15 percent, representing more than 90 percent of the world's GDP. Importantly, these countries represent both developed and emerging

and developing economies alike. The diversity of economies represented in the consensus reflects Pillar 2's balance between preserving national sovereignty while putting a floor on tax competition.

Question. Do you believe competitors like China will increase their corporate tax rates in response to any increase by the United States, especially when such countries are enjoying a competitive advantage from their current lower rates?

Answer. See response above.

Question. How would a global minimum tax that is only partially adopted by our country's peers and competitors leave U.S. businesses that seek to compete in the global market?

Answer. Pillar 2 does not need the support of every country to be successful. Due to the enforcement mechanism of the UTPR, and our domestic corollary SHIELD proposal, if enough of the world's GDP signs up for Pillar 2, these enforcement mechanisms will incentivize other jurisdictions to also adopt minimum taxes by denying deductions on related party payments in low-tax jurisdictions. Already, more than 130 countries representing more than 90 percent of the world's GDP has joined consensus on Pillar 2, thus meeting and exceeding this tipping point. We are actively working with all countries to make the consensus as broad as possible, but we are not providing any special exceptions that would undermine the robustness of the regime

Question. Section 321(b) of the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (title III of division N of Public Law 116–260) requires the Secretary of the Treasury to testify before the U.S. Senate Committee on Small Business and Entrepreneurship regarding the implementation of the Act and the amendments made by the Act no later than 120 days after enactment. To date, you have not appeared before the Small Business Committee as required by law, despite repeated requests by the ranking member. I understand that you have offered lower-level officials to appear in your place, but have not made yourself personally available despite the clear language of the statute. As a member of the Small Business Committee, I am concerned by this and sincerely hope that you will agree to testify before the committee as required by law.

Will you commit to testifying personally before the U.S. Senate Committee on Small Business and Entrepreneurship as required by section 321(b) of the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act as soon as possible, but no later than August 5, 2021?

Answer. I am committed to providing the Senate Committee on Small Business and Entrepreneurship the resources it needs to conduct proper oversight of its programs. Small businesses play a critical role in our economy by supporting millions of U.S. jobs and contributing meaningfully to the communities they serve. I look forward to continued engagement with the committee on these important matters.

Question. On May 10, 2021, the U.S. Department of the Treasury released an interim final rule implementing the $350 billion in Federal funds for State and local recovery provided by the American Rescue Plan Act (ARPA). As part of this rule, Treasury released a factsheet detailing eligible ways in which the money can be used, including replacing lost public sector revenue, supporting COVID–19 response efforts, and addressing negative economic impacts of the public health emergency for households and businesses.

The interim final rule and fact sheet also address how funding can be used for eligible construction projects, including broadband, water, and sewer infrastructure. This explanation includes the following language promoting the use of government-mandated project labor agreements, local hire, and Davis-Bacon/prevailing wage regulations:

> It is important that necessary investments in water, sewer, or broadband infrastructure be carried out in ways that produce high-quality infrastructure, avert disruptive and costly delays, and promote efficiency. Treasury encourages recipients to ensure that water, sewer, and broadband projects use strong labor standards, including project labor agreements and community benefits agreements that offer wages at or above the prevailing rate and include local hire provisions, not only to promote effective and efficient delivery of high-quality infrastructure projects but also to support the economic recovery through strong employment opportunities for workers. Using these practices in construction projects may help to ensure a reliable

supply of skilled labor that would minimize disruptions, such as those associated with labor disputes or workplace injuries.

To provide public transparency on whether projects are using practices that promote on-time and on-budget delivery, Treasury will seek information from recipients on their workforce plans and practices related to water, sewer, and broadband projects undertaken with Fiscal Recovery Funds. Treasury will provide additional guidance and instructions on the reporting requirements at a later date.

I am concerned these provisions will both increase the cost of construction and unfairly disadvantage qualified nonunion firms and workers in favor of union labor from out of State. These provisions are particularly concerning given that 87 percent of the U.S. construction workforce currently does not belong to a union.

Since these labor guidelines were not included in the original statute, can you please confirm that States and localities are *not* required to comply with the labor standards in order to access ARPA funding?

Answer. Treasury's interim final rule encourages use of strong labor standards, but these policies are not requirements to access funds. Use of strong labor standards, including project labor agreements and community benefits agreements that offer wages at or above the prevailing rate and include local hire provisions, not only promotes effective and efficient delivery of high-quality infrastructure projects but also supports the economic recovery through strong employment opportunities for workers. Using these practices in construction projects may help to ensure a reliable supply of skilled labor that would minimize disruptions, such as those associated with labor disputes or workplace injuries. Reporting responsibilities of recipients are described in the Compliance and Reporting Guidance *(https://home.treasury.gov/system/files/136/SLFRF-Compliance-and-Reporting-Guidance.pdf).* Please see page 21 for reporting responsibilities related to workforce plans and practices for eligible infrastructure projects.

Question. When do you expect Treasury will provide additional guidance on reporting requirements?

Answer. Treasury released the Compliance and Reporting Guidance on June 17, 2021.

Question. Will this be addressed during this interim final rule rulemaking or during another rulemaking?

Answer. The interim final rule is open to public comment through July 16, 2021. Treasury expects to release a final rule after taking into account comments received.

Question. As you know, America's affordable housing crisis is not just an urban problem, but it's a rural problem, as well as a suburban problem, and it's inhibiting economic growth in Indiana and nationwide. The lack of affordable housing is preventing hardworking Hoosiers from pursuing the American dream. For example, right now, in my State, a worker making minimum wage has to work over 70 hours a week just to afford a modest one bedroom apartment and over 178,000 households pay over 50 percent of their income on rent.

I am determined to solve this crisis, which is why I am proud to lead critical legislation, along with my colleagues Senator Cantwell, Chairman Wyden, and Senator Portman, called the Affordable Housing Tax Credit Improvement Act (S. 1136). This bipartisan legislation is focused on expanding and strengthening the Low-Income Housing Tax Credit (LIHTC) and aligns with some of the priorities the administration has outlined when it comes to improving and increasing the supply of affordable housing.

I certainly do not agree with everything in the American Jobs Plan or the President's budget proposal, but on the topic of expanding the needed resources for LIHTC—an essential public-private partnership—I hope we can continue to work together.

Will you commit to working with me and my Senate colleagues on the important, broad-based, bipartisan proposals of the Affordable Housing Credit Improvement Act, which will increase LIHTC resources to finance the production or preservation of more than 2 million affordable rental homes across the United States?

Answer. The administration is committed to working with Congress to help make affordable housing a reality for more Americans. The President's budget includes a proposal to expand LIHTCs, including a more than 100-percent allocation increase

for the credits in 2022 through 2026. The administration expects that these new LIHTCs will support the construction or rehabilitation of tens of thousands of affordable residential rental units for low-income tenants. Combining the $55 billion revenue cost of these credits with investments including $80 billion in HUD's HOME Investment Partnership program and the Housing Trust Fund, and $19 billion of revenue costs for Neighborhood Homes Investment Credits, the President's plan proposes a $313-billion investment to produce, preserve, and retrofit more than 2 million affordable and sustainable places to live for low-income families. It pairs this investment with an innovative new approach that will prevent State and local exclusionary zoning laws from driving up the cost of construction and keeping families from moving to neighborhoods with more opportunities for them and their kids. This complements the administration's proposed changes to LIHTCs, which include targeting the increase in credits towards neighborhoods of opportunity.

Question. When the Treasury Department and the IRS announced the launch of the Non-filer tool to sign up for the advanced portion of the Child Tax Credit, you stated that, "We know working families can't put off paying for doctor's visits or grocery bills, and this new tool will help more people get their tax credit every month, starting in July."[7] Now, just a few weeks out from the first payments going out, I am hearing from my constituents that the IRS systems are clunky and burdensome. For example, Hoosiers may be wary of sharing their driver's license through a portal that was so quickly put together—especially as the IRS is currently in the news for its inability to protect taxpayer privacy—and I am hearing that the process can get held up by phone number verification, including where the text message verification codes never arrive. I agree that there should be secure safeguards to protect against fraud and abuse, but I am concerned that Hoosiers will be exhausted by this onerous process and ultimately give up on pursuing, or conversely, opting out of these credits. With that as a background, I'd like to ask a few questions about what the IRS and Treasury are going to do to help Hoosiers receive the new credit.

What is Treasury doing to streamline these online tools in the next few weeks before a launch of payments going out the door? What actions will continue through the next filing season?

Answer. On June 30th, the IRS announced an upgrade to a key online tool available on *IRS.gov,* called the "Child Tax Credit Update Portal" or "CTC UP." This upgrade enables families to quickly and easily update their bank account information and receive their monthly advance Child Tax Credit (CTC) payments through direct deposit. Any updates made on CTC UP by August 2nd will apply to the remaining monthly payments for 2021, starting with the August 13th payment.

Families will receive their July 15th payment by direct deposit into their bank account based on their information currently on file with the IRS. Those who are not enrolled for direct deposit will receive a check. The IRS encourages people who have not provided their current bank account information to the IRS to update their information through CTC UP so they can receive their advance CTC payments sooner.

To streamline the advance CTC payment experience, families may use CTC UP to perform several account actions, including: (1) confirm their eligibility for advance CTC payments; (2) determine if they are enrolled to receive their monthly payments by direct deposit; (3) change their direct deposit bank account information for monthly payments starting August 13th; and (4) provide their bank account information to enable them to switch monthly payment delivery from paper checks to direct deposit into their bank account.

The IRS urges any family receiving checks to consider switching to direct deposit. With direct deposit, families can access their money more quickly. Also, direct deposit removes the time, worry, and expense of cashing a check. In addition, direct deposit eliminates the chance of a lost, stolen, or undelivered check.

To ensure families are aware of their options, taxpayers will receive several letters regarding the 2021 advance CTC payments. The IRS is sending letters to eligible families who filed either a 2019 or 2020 Federal income tax return or who used the Non-filer tool on *IRS.gov* to register for an Economic Impact Payment (EIP). These personalized letters will confirm the family's eligibility, the amount of payments that they will receive, and the July 15 payment start date. Families who receive these letters generally do not need to take any further action. These letters

[7] *https://home.treasury.gov/news/press-releases/jy0227.*

follow up on the 2021 advance CTC outreach letter mailed in early and mid-June to every family who appeared to qualify for advance CTC payments.

IRS communications, outreach, and assistance will continue through the 2022 filing season. To provide the latest information to taxpayers about the 2021 CTC and advance CTC payments, the IRS developed a special page on *IRS.gov* called "Advance Child Tax Credit Payments in 2021." This site includes direct links to CTC UP as well as two other online tools (the Child Tax Credit Non-filer Sign-up tool and the Child Tax Credit Eligibility Assistant), several sets of frequently asked questions and answers, and other useful resources.

In addition, the IRS is hosting Advance CTC Free Tax Prep Days and CTC outreach events in select cities. During these events, IRS employees, key community stakeholders, and volunteers will help eligible families by providing them with useful information and, if needed, assisting them in filing a 2020 tax return so that they can begin receiving their monthly advance CTC payments. This 2020 return also will enable these families to receive any first- or second-round EIPs that they have not received, but to which they are eligible, as well as to sign up for the third round of EIPs.

Question. Are taxpayers and non-filers able to make an appointment at a Taxpayer Assistance Center (TAC) to sign up for these payments or update their information in person?

Answer. Taxpayer Assistance Center (TAC) employees can assist taxpayers in using the CTC tools made available on *IRS.gov,* including CTC UP, the Child Tax Credit Non-filer Sign-up tool, and the Child Tax Credit Eligibility Assistant. In addition, TAC employees can help taxpayers determine their qualifications for the CTC and advance CTC payments, as well as provide them with information and assistance with IRS Free File. If a taxpayer did not file a 2020 or 2019 tax return claiming the CTC, they can qualify for advance CTC payments by filing a 2020 tax return. IRS Free File is available for taxpayers to file a tax return on *IRS.gov.* Taxpayers can make an appointment at a TAC to obtain assistance with filing requirements and CTC qualifications. In addition, frequently asked questions listed on the "Advance Child Tax Credit Payments in 2021" page on *IRS.gov* provides additional information on how to file a tax return to determine eligibility for the CTC and advance CTC payments.

Question. Of the 10 TACs in Indiana, 7 remain closed. How long will taxpayers be required to rely on glitch-ridden online systems and dead-end phone calls to remedy their tax troubles?

Answer. IRS customer service representatives can assist taxpayers who are unable to access, or experience difficulty using, the Child Tax Credit Update Portal (CTC UP). Taxpayers can call the phone number provided in their CTC outreach letter that they received from the IRS in June, or they can make an appointment with their local TAC, to receive assistance in (i) determining their eligibility for CTC and advance CTC payments, as well as (ii) using IRS Free File and CTC UP.

Of the 10 TACs located in Indiana, 6 are open to the public. In addition, there is one virtual service delivery site located in Lafayette, IN. Two locations (South Bend and Terre Haute) of the four closed locations will reopen for service once newly hired employees have completed their training.

Question. What other non-web-based options to sign up for payments or update information will be available by program's launch? What options will be available before the end of the year, and when will these roll out?

Answer. To receive advance CTC payments, taxpayers generally do not need to take any special steps if they are eligible to receive these payments based on either of their filed and processed 2020 or 2019 Federal income tax return.

Information entered into the Non-filer tool on *IRS.gov* for EIPs in 2020 created a simplified 2019 tax return. Therefore, individuals who used the Non-filer tool for EIPs filed a 2019 tax return. Generally, all taxpayers who filed a 2020 or 2019 tax return, including those who used the Non-filer tool for EIPs, will automatically receive the Advance CTC payments without needing to take any additional action.

Taxpayers must take action if they have not filed a 2020 or 2019 tax return. The IRS has launched a new online Non-filer Sign-Up tool that will allow individuals who weren't required to file (and have not filed) a tax return for 2020 to file a simplified tax return. This simplified tax return will allow eligible individuals to register for Advance CTC payments and the third EIP, as well as claim the 2020 Re-

covery Rebate Credit. Individuals who cannot access the Non-filer Sign-Up tool may file a simplified tax return on paper.

For questions regarding eligibility and the status of payments, IRS customer service representatives can assist taxpayers unable to access the CTC Update Portal. Taxpayers can call the phone number on the CTC Outreach letter they received in June or they can make an appointment with their local TAC.

Question. Where will taxpayers with questions be able to turn to for real-time, customized guidance on claiming the credit?

Answer. The IRS will continue to provide robust communications and outreach to families throughout 2021 to provide information and resources to help them understand and sign up for the advance CTC payments for which they are eligible. In particular, the IRS has created a special Advance Child Tax Credit 2021 page on *IRS.gov*, which the IRS has designed to provide the most up-to-date information about the credit and the advance CTC payments.

The IRS deployed a web-first strategy for the 2021 CTC and advance CTC payments. In June 2021, the IRS mailed letters to taxpayers who may be eligible for the CTC that provided a link to the Advance Child Tax Credit 2021 page on *IRS.gov*. The letters also provided a toll-free number for live assistance to help taxpayers understand the frequently asked questions listed on *IRS.gov,* as well as how to unenroll from advance CTC payments.

Question. Does Treasury anticipate any of the issues it faced in distributing the Economic Impact Payments to affect the distribution of the advance CTC? What steps have the IRS taken to minimize errors?

Answer. The IRS stands ready to serve the Nation's taxpayers—continuing on the assistance that the agency provided throughout the implementation of the Coronavirus Aid, Relief, and Economic Security Act, the COVID-Related Tax Relief Act of 2020 (enacted as part of the Consolidated Appropriations Act, 2021), and the American Rescue Plan. As an administrative agency, the IRS will work to deliver all that the CTC and advance CTC statutes require, and leverage the experience gained by the agency while successfully delivering three rounds of EIPs. Similar to EIP implementation, the IRS has put into place a robust communication and outreach strategy to provide information and resources to taxpayers and the IRS's partners. In addition, the IRS continues to engage in extensive collaboration with stakeholders, including the Bureau of the Fiscal Service and other Federal agencies, in preparing for the timely issuance of the first round of advance CTC payments.

Question. If a constituent has an issue with their payment—whether the constituent cannot sign up or opt out, receives the wrong payment, the payment is sent to the wrong bank, etc.—what is the fastest and most secure avenue to rectify such issue? Will missed payments that result from such errors be retroactively repaid?

Answer. The Child Tax Credit Update Portal (CTC UP) allows families to verify their payment eligibility and, if needed, update their bank account information. They can also unenroll from receiving the monthly payments and instead receive a lump sum when they file their 2021 Federal tax return during next year's filing season. Additional functionality will be added to CTC UP later this year to enable individuals to update their mailing address, add or subtract the number of their qualifying children, report a change in marital status, and report a change in income. IRS customer service representatives can assist taxpayers who are unable to access, or experience difficulty using, CTC UP. Taxpayers can call the phone number on the CTC Outreach letter they received in June or they can make an appointment with their local TAC.

Taxpayer eligibility for advance CTC payments is based on their 2020 or 2019 Federal income tax return (including information entered into the Non-filer tool for EIPs in 2020). If the taxpayer's 2020 tax return has not been processed yet, their payment amount may begin or change after the IRS processes their 2020 tax return. The IRS will adjust the remaining payments in 2021 to increase or decrease the total amount of advance CTC payments that should be disbursed during the year.

If CTC UP indicates to an individual that an advance CTC payment was disbursed to that individual, but the individual has not received it within the applicable timeframe listed below, the individual can request a payment trace to track the payment. However, the IRS will not be able to trace a payment unless: 5 days have elapsed since the deposit date for the bank account on file with the IRS, and the bank provides that the bank has not received the payment; 4 weeks have elapsed since the payment was mailed by check to a standard domestic address on file with

the IRS; 6 weeks have elapsed since the payment was mailed, and there is a forwarding address on file with the local post office; or 9 weeks have elapsed since the payment was mailed to a foreign address.

To initiate a payment trace, the taxpayer can mail or fax a completed Form 3911, Taxpayer Statement Regarding Refund.

Question. What is Treasury doing to educate taxpayers on this new CTC process, including raising taxpayer awareness that the monthly CTC payments may result in a smaller refund at tax filing time, or may even result in the taxpayer owing money back to the Federal Government?

Answer. In May, the IRS began distributing information to the agency's Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) partners regarding the 2021 CTC and advance CTC payments. Although most VITA and TCE sites closed at the end of the filing season, VITA and TCE partners were asked to share information about the 2021 CTC and advance CTC payments directly with their clients, as well as post information on their web pages, social media accounts, and other media sources. The IRS frequently sends communications to its VITA and TCE partners regarding tax statutes enacted as part of the American Rescue Plan Act of 2021, including the 2021 CTC and advance CTC payments. These partners can then customize the IRS communications to deliver that information most effectively to the communities that they serve.

Question. I understand that the IRS is hosting Advance Child Tax Credit Free Tax Prep Days in select metropolitan areas, none of which are in Indiana and none of which are designed to assist rural taxpayers. While I appreciate the IRS is recognizing that assistance in onboarding individuals is important, what steps is the IRS taking to provide outreach and resources to those outside of these metro areas, including rural taxpayers that may not have reliable broadband to access the IRS online tools?

Answer. Although most Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) sites closed at the end of the filing season, all VITA and TCE sites were encouraged to partner with the IRS to share information about the IRS's Advance Child Tax Credit Free Tax Prep Days. VITA and TCE partners were asked to market the events by posting information on the events through their social media sources, as well as choosing to prepare returns. On June 25th and 26th, participating IRS partners hosted events in 12 identified cities. Over 80 VITA and TCE partners across the Nation provided free tax return preparation services during these events. The IRS and its partners will again conduct Advance CTC Free Tax Prep Days in July. During these events, IRS employees, key community stakeholders, and volunteers will help eligible families file a 2020 tax return, if needed, to begin receiving their monthly advance CTC payments.

Question. As the leading state sponsor of terrorism in the world, the Iranian economy is of central importance to slowing Iran's terrorist activities. I believe that the administration should provide no sanctions relief, including relief that could be provided through waivers or general licenses, that directly or indirectly benefits the Central Bank of Iran until such time as the Treasury Department determines the CBI is no longer connected to the IRGC or Iran's terror finance activities.

Do you agree?

Answer. As the Biden-Harris administration has said, if Iran implements its nuclear commitments under the JCPOA, the United States would implement its commitments under the JCPOA to lift sanctions. At the same time, it is important that Treasury continue its work to enforce U.S. sanctions and combat Iran's support for terrorism, abuse of human rights, weapons of mass destruction (WMD) proliferation and ballistic missile development, as well as the regime's destabilizing activities in the region.

Question. Do you agree with the role that National Iranian Oil Company plays in the regime's economy?

Answer. Treasury has previously taken action to target NIOC under a variety of authorities, including blocking NIOC for being owned or controlled by the Government of Iran since 2008.

Question. Do you also agree that the administration should provide no sanctions relief, including relief that could be provided through waivers or general licenses, that directly or indirectly benefits the National Iranian Oil Company, until such

time as the Treasury Department determines that NIOC is no longer connected to the IRGC or Iran's terror finance activities?

Answer. I believe Iran should only enjoy sanctions relief under the JCPOA if it takes the appropriate steps to resume compliance with its nuclear commitments under the JCPOA. At the same time, it is important that Treasury continue its work to enforce U.S. sanctions and combat Iran's support for terrorism, abuse of human rights, weapons of mass destruction (WMD) proliferation and ballistic missile development, as well as the regime's destabilizing activities in the region.

Question. Do you agree that the United States has the right to impose terrorism sanctions, that is sanctions imposed pursuant to E.O. 13224, on any entity for which sanctions relief was initially provided under the JCPOA, including the Central Bank of Iran and the National Iranian Oil Company?

Answer. Even under the terms of the JCPOA, Treasury would retain the right to impose sanctions related to Iranian support for terrorism, human rights abuses, WMD proliferation and ballistic missile development, as well as the regime's destabilizing activities in the region.

Question. I believe that it is of utmost importance that the IRS safeguard confidential taxpayer information against unauthorized disclosures. Taxpayers must have faith that their sensitive financial information will be protected by the IRS and not exploited for political or other gain. To that end, I recently joined my Senate Finance Committee Republican colleagues in sending a letter to the Inspector General for Tax Administration regarding the June 8, 2021, ProPublica article titled, "The Secret IRS Files: Trove of Never-Before-Seen Records Reveal How the Wealthiest Avoid Income Tax."[8] That article strongly suggests that the taxpayer information described therein originated from within the IRS, which, if true, constitutes a serious breach of privacy and is a criminal violation of our tax laws. My Senate colleagues and I requested that Inspector General George immediately investigate this apparent leak.

Do you commit to ensuring the Treasury Department, including the IRS, cooperates fully and promptly with any investigation into the ProPublica data release, including but not limited to investigations by the U.S. Department of Justice and the Inspector General for Tax Administration, and do you commit to taking immediate action to remedy any shortcomings identified by any such investigation?

Answer. With respect to the ProPublica report, I am deeply troubled by it. It is important to stress that an unauthorized disclosure of taxpayer information is a crime. Immediately upon learning about this matter, it was referred to the FBI, Federal prosecutors, and Treasury Department oversight authorities, all of whom have the independent authority to investigate. We are fully cooperative with their efforts and are interested in doing all possible as quickly as possible to get to the bottom of this potentially criminal activity.

Question. Since the onset of the coronavirus pandemic, the United States government has pumped trillions of dollars into the economy and swelled the money supply. After pushing through a nearly $2-trillion so-called "COVID relief" bill, while a trillion of authorized relief remained unspent, President Biden has laid out an unprecedented $6-trillion budget that is only partially paid for with tax hikes that will hamper our economic recovery. Earlier this month, the Bureau of Labor Statistics released its May CPI data—a 5-percent increase over the last year.

You have indicated that the White House should revise its inflation estimate to 3 percent for the year, and the Federal Reserve has raised its prediction to 3.4 percent. Do you still hold your earlier assessment that this inflation is simply a transitory effect?

Are you concerned about any effects that further spending—as proposed by the President, despite the trillions in deficit spending already signed into law—will have on our economy over the next few years?

Answer. My view on the inflation outlook has been, and remains, that inflation is transitory as the economy pivots from a steep recession back into recovery. This view is consistent with that of the Federal Reserve, the Congressional Budget Office, and professional forecasters, as measured through the Blue Chip forecast and other metrics.

[8] *https://www.propublica.org/article/the-secret-irs-files-trove-of-never-before-seen-records-reveal-how-the-wealthiest-avoid-income-tax.*

The fiscal proposals advanced by the President, which are fully offset over 15 years, would expand the productivity capacity of the U.S. economy by raising labor participation and bolstering productivity. And I worry that in the absence of the proposed investments in areas like infrastructure and policies to mitigate climate change, our economy will begin to suffer the negative impacts of insufficient public investment.

Question. I would like to get your thoughts on the ongoing negotiations regarding a global tax agreement. Since the agreements announced by the G7 nations earlier this month, France and others have indicated that they still intend to continue their digital services tax (DST), which the United States Trade Representative has found to violate section 301.

Do you believe that the United States should move forward with tariffs on nations imposing discriminatory DST? Shouldn't nations that are entering into good faith negotiations be encouraged to drop their own DSTs?

Answer. We share your goal of making discriminatory DSTs a thing of the past, and we have made substantial progress here. At the Inclusive Framework and G20, we've achieved consensus that there will be a removal of all DSTs and other relevant similar measures on all companies. Additionally, we have changed the norms surrounding DSTs, conveying to our trading partners that the discriminatory nature of these taxes is unacceptable to the United States. By conveying this message multilaterally rather than through threats and retaliation, we have also prevented a series of trade disputes that are harmful to U.S. businesses, workers, and consumers. That being said, we are also retaining all options for discouraging the use of DSTs. The USTR has started trade retaliation procedures via investigation and sanctions under section 301, and we are keeping that tool available to use if it were to become necessary. While we very much hope to avoid trade conflicts, this tool remains a useful lever to bring countries to the bargaining table.

Question. Is there validity to the argument that the Pillar 1 agreement proposed by the G7 is mostly a repackaging of the digital services tax?

Answer. We have carefully designed our Pillar 1 scope proposal so that it does not ringfence U.S. digital companies, and instead brings in many non-U.S. companies. Regarding Pillar 1, one of the primary benefits of the U.S. comprehensive scoping proposal is that it would only apply to multinational corporate groups that satisfy objective quantitative criteria such as size and profitability thresholds, and does not discriminate against certain business sectors. And, importantly, by eliminating a chaotic array of digital unilateral measures, Pillar 1 stabilizes the current regime in a way that will benefit businesses and will provide tax certainty to them.

I would also note that we have not completed a detailed analysis of the economic impact of Pillar 1 since the OECD Inclusive Framework has not agreed on a profit reallocation formula for, Pillar 1. However, based on earlier work for the October 2020 Blueprint scoping, the possibility of no U.S. revenue impact was within the confidence interval examined by the Office of Tax Analysis. This is largely due to the U.S.'s position as both having a goods trade deficit and a services trade surplus, which have offsetting revenue effects.

Question. Despite the Biden administration's commitment not to raise taxes on the middle class, the Democrats' so-called COVID relief package—passed this March with zero Republican votes— prohibits States from lowering tax rates over the next 4 years if such State accepted COVID relief funding. The Treasury Department has since announced that States will have to justify any tax cut by demonstrating such cut was offset by other revenues.

The State of California, which is set to receive more than $27 billion in this latest COVID relief package—more than any other State—recently announced a budget surplus of up to $76 billion, and expects to be providing certain families with rebates of up to $600.

Do you believe there is a meaningful difference between a tax decrease and a tax rebate?

Answer. Section 602(c)(2)(A) provides that States and territories may not use funds provided under the State and Local Fiscal Relief Fund from offsetting a reduction in net tax revenue resulting from a "change in law, regulation, or other administrative interpretation during the covered period" that "reduces any tax . . . or delays the imposition of any tax or tax increase." Treasury's interim final rule implements this provision as directed by Congress, including guidance on the scope of changes covered under this provision. To determine whether a change would be cov-

ered, a State or territory would consider whether a change was made to law, regulation or other administrative interpretation that was enacted during the covered period and that the State or territory would assess or predict to have the effect of reducing tax revenue. An assessment on this question is not possible in the abstract; further details on the specific parameters of each policy would be needed to determine whether there are relevant economic, policy, or practical differences.

Question. If enacted, do you believe California's rebate proposal would violate the "no tax cut" rule that was included in the American Rescue Plan Act?

Answer. The net tax offset provision of the American Rescue Plan Act does not prohibit any particular tax policies, and no tax cut or other tax policy on its own would be sufficient to result in recoupment of American Rescue Plan funds. As discussed further in the interim final rule, implementing such policies would not result in recoupment provided that States and territories that choose to implement them could demonstrate that they have been paid for with other sources of funds, including other tax increases, certain spending cuts, or increased tax revenues resulting from economic growth.

COMMUNICATION

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Statement of Michael Bindner

Chairman Wyden and Ranking Member Crapo, thank you for taking my comments. Our comments repeat those provided to the House Budget Committee on June 9th, which were based on the topics presented in their Committee backgrounder. This document hits the high points in the budget. Additional options presented for consideration, either now or in the future. Our revenue proposals impact how the Administration's priorities are funded, which is why they are discussed first. Please see attachment one for the details of our tax reform plan. Spending items not under the purview of the Finance Committee are omitted.

Ensure big corporations pay their fair share. Corporate income taxes would be discontinued and replaced by an employer-paid subtraction value-added tax on all businesses, thus taxing both labor and capital at the same rate for the first tier, with a proposed rate between 13% and 20%. No net revenue would be collected. Rather, this tax would fund an expanded refundable child tax credit at more generous than the President's proposal, as well as health care costs for employees and their families. Some employers will overpay, while others will get a refund. Higher tier salary taxation will be collected with this tax.

A matching state tax would supplement the child tax credit in higher cost states, while providing funds for education through the junior college and vocational levels. States would collect both state and federal taxes. These items will be discussed below.

End tax loopholes for the wealthy. Provide the IRS with the resources it needs to crack down on wealthy tax cheats and improve taxpayer services. In general, we propose ending personal income taxation for all but the wealthiest taxpayers. The threshold for salary taxation will be $85,000, however it will be collected by employers with tax rates ranging from 12.5% to 25% at and above $340,000 per year. Personal salary taxation will begin at $425,000 at 12.5%, increasing to 25% at $680,000, for an overall rate of 50% from both revenue streams. The salary surtax could be remitted in advance by purchasing tax prepayment bonds. This would reduce future net interest costs, which are the main driver of future budget imbalance.

The largest loophole for the wealthy is not mentioned in the President's Budget. If there is a third rail in income taxation that mirrors the third rail in Social Security, this is it. The largest boon to the wealthy is the exclusion of mutual funds from payment of capital gains and income taxation. This ensures the accumulation of wealth by the rich at the expense of everyone else. By our calculations, 28% of mutual fund (and bond) assets are held by the top 1,450 families. Over half of these assets are held by the top 0.01%. The bottom 90% hold only 23% of such assets, and many of these are likely held by well-off retirees.

Shifting taxation to an asset value-added tax from personal income taxation at 25% (which is the rate currently being discussed in budget negotiations) would tax capital gains, dividends at distribution, and interest at distribution. Rental and real property assets will be taxed at the state level. The federal tax would be remitted to the Securities and Exchange Commission, while states would collect rental income monthly and capital gains taxes at closing.

Asset VAT would be marked to market (not gain) at option exercise and at the first sale after inheritance, gift and donation. The estate tax would be repealed. Family businesses and assets would not have to be sold to pay estate taxes, but once the family business is sold, any advantage will be ended. There will be no loopholes, save one, and no need for extra audit resources. The only loophole would be zero rating sales to qualified Employee Stock Ownership Plans.

Cash inheritances would not be taxed, but because a goods and services taxes will be established (increased minimum wages and child tax credits will hold the working class harmless), heirs will no longer evade taxation forever. Most tax dodges, such as large insurance policies, will lose their allure.

Instead of an internationally agreed upon corporate minimum tax corporate income tax, asset VAT rates will be coordinated so that international market shifting will not occur based on tax rates.

Note to Republican Members: President Bush 41 was not denied a second term because he went back on his no new taxes pledge. Indeed, the 1990 Tax Act began the period of growth in the 1990s, which were accelerated by President Clinton. As we come out of the COVID recession, higher taxes on the wealthy are desirable, and will occur.

The wealthy need to want to pay more. The current debt is unsustainable, not because of COVID spending but because the rich themselves are receiving more interest from the debt than what they owe on it. The world will not tolerate this for long. See the final attachment for more information on this.

Build world-class transportation infrastructure. Infrastructure should not be paid for by the rich. Such funding is not sustainable over time. Increased motor fuel taxes, with a return to projects coordinated between members of Congress and local governments, is the traditional approach until the late-Senator McCain led the charge against "pork barrel" funding. The reality was the high taxes were considered tolerable when paired with bringing home the bacon. Even Congressman Ron Paul realized, at my urging, that agreed upon spending was preferable to spending based entirely in the federal contracting and grant sectors.

Motor vehicle fuel prices are generally inelastic to about $4.00 per gallon or more. Taxes that result in fuel taxes below that point will not affect revenue. Paired with improvements in public transit, the emission of greenhouse gases, as well as more acute emissions, will be served by higher prices.

Market manipulation of oil prices in the New York Mercantile Exchange is not unheard of. Indeed, it likely had a cause in the Great Recession, as oil traders tried to tap mortgage-backed securities when prices dropped due to the examination of market practices by Congress. The deregulation undertaken by Mr. Mulvaney in his service (if that is what you want to call it) at the Consumer Finance Protection Bureau undid the market reforms enacted in Dodd-Frank. Restoring these reforms must be a priority.

With the rise of electric vehicles, some form of mileage based tax is appropriate, although developing it is problematic. We must raise gas taxes first while we develop the concept.

Invest in the knowledge, technologies, and actions needed to tackle the climate crisis and lead in the clean energy economy. A carbon value-added tax should fund improvements in technology. A VAT, rather than an embedded tax, allows consumers more information in making their consumption decisions. The possibilities for funding research have already been submitted to the Energy and Water Development Subcommittee. I suggest two initiatives:

Fusion is a game changer and should be funded on a crash basis before we have to turn out the lights to avoid treading water. Helium-3 is promising and there is even some noise about cold fusion on a larger scale. Energy companies like how cheap coal is and how much cheaper and more popular natural gas is. Utilities (and even coal producers) need to be offered a way to hedge their bets. To move fusion, set up a public-private partnership to sink in more money in exchange for the right of first use. Any practical use of fusion will be big-industry. It was never going to be any other way. Funds should be increased for fusion now, with a promise of ever greater funding once industrial partnerships are created.

One use for such cheap power is a new transportation system. We can pilot this now, in cooperation with the Departments of Commerce and Transportation, auto-

mobile manufacturers, utility companies and eventually selected local governments. I described the project in my CJS appropriation testimony.

To best utilize clean energy (even natural) automated cars with central control (rather than their own AI) and energy distribution (rather than being hampered by economically damaging battery development). The latter is old technology, *i.e.,* electric trains and buses.

The same consortia that fund the project can be the backbone for implementing it. Individuals could own cars, while some would be for hire (with monitoring, but not drivers). Debit cards or a link to checking accounts would pay for the car itself (either to rent or own), the roadway and the use of energy and computer services.

Prices would vary based on congestion and vehicles could be taken to a public transportation hub (which might be located at their children's school), with the vehicle returning home empty or going to the next fare. If congestion is low, it may be affordable to drive to work. If it is high, prices for public transit and commuting would be adjusted accordingly. We can do this now. The technology is already available. We need only be willing.

Make transformative investments in a renewed electric grid and energy-related economic development. Energy infrastructure to power an integrated electric car system would also carry household energy that relies on an effective grid. We agree on all initiatives in the President's Budget. These should eventually be funded by a carbon value added tax. Such a tax will be easier to pass with vigorous enforcement of environmental regulations, with punitive fines. Industry will beg for such alternatives.

In the interim, while tax reform is in negotiations and development, these projects should be funded by increased debt (which is appropriate for capital projects), with increased taxation of the wealthy, both immediately and through asset value-added and higher tier subtraction VAT in the longer term.

Revitalize American manufacturing and small businesses, creating economic and job growth across the country. From our usual comments on international trade: Consumption taxes could have a big impact on workers, industry and consumers. Enacting an I–VAT is far superior to a tariff. The more government costs are loaded onto an I–VAT the better.

If the employer portion of Old-Age and Survivors Insurance, as well as all of disability and hospital insurance are decoupled from income and credited equally and personal retirement accounts are not used, there is no reason not to load them onto an I–VAT. This tax is zero rated at export and fully burdens imports.

Let us look at small business more closely. The cure for franchising, which is designed to insulate large companies from inventory, property and organized labor risks, would be less attractive with enactment of an employer-paid subtraction value-added tax. Large firms would want these tax benefits for themselves.

Gig work and the misuse of 1099 employment would also be reduced, which will greatly decrease the number of small businesses as currently measured. Federalizing the enforcement of existing labor law and increasing both funding and fines for violation will also allow a focus on true small businesses. Aid to small businesses can then be focused to where it is needed.

Invest $400 billion in home or community-based care for seniors and people with disabilities. Home and community-based care should be funded by goods and services taxes as part of a newly created Medicare Part E. Senior Medicaid should be entirely federalized, with other clients insured through the President's proposal for a public option.

President Reagan's New Federalism proposal would have removed Medicaid from state budgets in exchange for ending or block granting other federal programs. This was a good idea then and a better idea now. Medicaid Part E should be created to both relieve states and the District of Columbia (or Washington, Douglass Commonwealth) from providing Medicaid for seniors and the Disabled and seeing to the enforcement of practice standards for nursing homes who receive these funds.

President's Budget: Support workforce development; provide four additional years of free education. Make historic investments in education. Local welfare programs will channel clients to appropriate educational programs (with no legal residency requirement), training through workforce investment boards or other social services. One Stop programs should really be handled in one

stop. Programs, both public, private and sectarian, should be funded by a state-level employer-paid subtraction VAT. They will include the following:

- English as a Second Language.
- Expanded Job Corps.
- General Education Degree preparation.
- Technical and vocational training.
- Psychiatric and occupational rehabilitation programs.
- Community College and the first two years of four year programs to an Associate's Degree or through sophomore year.

All of the above should include a stipend at the minimum wage (pending satisfactory performance and be tuition free). Education providers will be the conduit to tax benefits and any other state or federal subsidies.

Medicaid for poor families should be distributed, where possible, through the health insurance plan of their educational providers or the plan for state and local government employees. SNAP payments should be abolished, as well as TANF, except for people who cannot be enrolled in another program. For these, SNAP must include a cash benefit, thus ending the incentive to sell food stamps in order to buy toilet paper or gasoline.

President's Budget: Make critical investments in child care. Childcare is best provided by the employer or the employee-owned or cooperative firm. On-site care, with separate spaces for well and sick children, as well as an on-site medical site for sick employees, will uncomplicate the morning and evening routine. Making yet another stop in an already busy schedule adds to the stress of the day. Knowing that, if problems arise, parents can be right there, will help workers focus on work.

Larger firms and government agencies can more easily provide such facilities. Indeed, in the Reeves Center of the District Government, such a site already exists. When the crisis is over, a staff visit would prove illuminating. Smaller firms could make arrangements with the landlord of the building where offices or stores are located, including retail districts and shopping malls. For security reasons, these would only serve local workers, but not retail customers.

These programs should be paid for with increased employer-paid subtraction value added taxes, with credits for companies that provide these benefits and higher taxes for those who do not. A tax on employers would help society share the pain for requiring paid leave. Firms that offer leave would receive a credit on their taxes (especially low-wage firms).

Extend key tax benefits for lower- and middle-income workers and families. The child tax credit level passed in the American Recovery Act should be made permanent and doubled, with distribution through private sector payrolls, unemployment insurance benefits, emergency benefits for families and paid participation in educational programs.

There are two avenues to distribute money to families. The first is to add CTC benefits to unemployment, retirement, educational (TANF and college) and disability benefits. The CTC should be high enough to replace survivor's benefits for children.

The second is to distribute them with pay through employers. This can be done with long term tax reform, but in the interim can be accomplished by having employers start increasing wages immediately to distribute the credit to workers and their families, allowing them to subtract these payments from their quarterly corporate or income tax bills.

Deliver nutrition security to America's vulnerable families. Build and retrofit buildings across the country for energy efficiency and expanded housing options. Increase the supply, quality, and affordability of rental housing. The best option for food security and low income housing is to increase incomes by increasing the minimum wage, increasing the child tax credit and monthly payments for old-age, survivors and disability recipients. For the latter, rebasing past wages to wage increases will help, but shifting the employer contribution and disability insurance to funding with a border adjustable goods and services tax, crediting past and future contributions on an equal dollar basis (rather than as a match for the employee contribution. VAT funding means a larger tax base and easier rate increases.

Increasing the minimum wage to $10 should take effect immediately, phasing to $12. You can argue about a $15 or $18 minimum after the midterm elections. Higher minimum wages increase job growth, as lower-wage employees spend every dime

of the increase, as do higher-wage workers below the middle-management level whose wages will also rise. Provisions should also be included in law to hold franchisers harmless if minimum wage increases impact their own livelihoods.

Meeting National Defense Needs. In general, we recommend that non-strategic air and ground units based in CONUS be funded from the goods and services tax, while sea, overseas (OCO) operations and veterans benefits be funded with asset VAT and higher tier employer-paid subtraction VAT revenues, which will also fund net interest and paying down the Social Security and Medicare Trust Funds.

Essentially, federal defense spending which benefits the homeland will be paid by American taxpayers, but not by exports. The current regime can be seen as an unconstitutional export tax. Department of Defense product and logistic commands will be funded based on where units are assigned and based. Strategic systems will be nationally funded.

Overseas deployments and war are generally put on the national credit card. It is generally better to tax higher income individuals rather than paying them interest instead. The cash flows are the same, but taxation means that the cash need not be paid back at interest.

Thank you for this opportunity to share these ideas with the committee. As always, we are available to meet with members and staff or to provide direct testimony on any topic you wish.

Attachment—Tax Reform, Center for Fiscal Equity, March 5, 2021

Individual payroll taxes. These are optional taxes for Old-Age and Survivors Insurance after age 60 for widows or 62 for retirees. We say optional because the collection of these taxes occurs if an income sensitive retirement income is deemed necessary for program acceptance. Higher incomes for most seniors would result if an employer contribution funded by the Subtraction VAT described below were credited on an equal dollar basis to all workers. If employee taxes are retained, the ceiling should be lowered to $85,000 to reduce benefits paid to wealthier individuals and a $16,000 floor should be established so that Earned Income Tax Credits are no longer needed. Subsidies for single workers should be abandoned in favor of radically higher minimum wages.

Wage Surtaxes. Individual income taxes on salaries, which exclude business taxes, above an individual standard deduction of $85,000 per year, will range from 6.5% to 26%. This tax will fund net interest on the debt (which will no longer be rolled over into new borrowing), redemption of the Social Security Trust Fund, strategic, sea and non-continental U.S. military deployments, veterans' health benefits as the result of battlefield injuries, including mental health and addiction and eventual debt reduction. Transferring OASDI employer funding from existing payroll taxes would increase the rate but would allow it to decline over time. So would peace.

Asset Value-Added Tax (A–VAT). A replacement for capital gains taxes, dividend taxes, and the estate tax. It will apply to asset sales, dividend distributions, exercised options, rental income, inherited and gifted assets and the profits from short sales. Tax payments for option exercises and inherited assets will be reset, with prior tax payments for that asset eliminated so that the seller gets no benefit from them. In this perspective, it is the owner's increase in value that is taxed. As with any sale of liquid or real assets, sales to a qualified broad-based Employee Stock Ownership Plan will be tax free. These taxes will fund the same spending items as income or S–VAT surtaxes.

This tax will end Tax Gap issues owed by high income individuals. A 26% rate is between the GOP 24% rate (including ACA–SM and Pease surtaxes) and the Democratic 28% rate. It's time to quit playing football with tax rates to attract side bets. A single rate also stops gaming forms of ownership. Lower rates are not as regressive as they seem. Only the wealthy have capital gains in any significant amount. The de facto rate for everyone else is zero.

The mutual fund exemption will be repealed. It is the biggest tax shelter is the use of money market funds to accumulate capital gains and income without taxation. This practice must end if salary surtaxes no longer include non-salaried income. 75% of such funds are held by the top 10% of households as measured by the 2019 Survey of Consumer Finance by the Federal Reserve. I suspect the other 20% are held by high income retirees. The working class will not be harmed. Applying the Pareto Rule to higher income households leaves the top 1450 households with 30% of wealth. The proof of this proposition is the shareholders list of Berkshire Hathaway.

Subtraction Value-Added Tax (S–VAT). These are employer paid Net Business Receipts Taxes. S–VAT is a vehicle for tax benefits, including:

- Health insurance or direct care, including veterans' health care for non-battlefield injuries and long-term care.
- Employer paid educational costs in lieu of taxes are provided as either employee-directed contributions to the public or private unionized school of their choice or direct tuition payments for employee children or for workers (including ESL and remedial skills). Wages will be paid to students to meet opportunity costs.
- Most importantly, a refundable child tax credit at median income levels (with inflation adjustments) distributed with pay.

Subsistence level benefits force the poor into servile labor. Wages and benefits must be high enough to provide justice and human dignity. This allows the ending of state administered subsidy programs and discourages abortions, and as such enactment must be scored as a must pass in voting rankings by pro-life organizations (and feminist organizations as well). To assure child subsidies are distributed, S–VAT will not be border adjustable.

The S–VAT is also used for personal accounts in Social Security, provided that these accounts are insured through an insurance fund for all such accounts, that accounts go toward employee ownership rather than for a subsidy for the investment industry. Both employers and employees must consent to a shift to these accounts, which will occur if corporate democracy in existing ESOPs is given a thorough test. So far it has not. S–VAT funded retirement accounts will be equal-dollar credited for every worker. They also have the advantage of drawing on both payroll and profit, making it less regressive.

A multi-tier S–VAT could replace income surtaxes in the same range. Some will use corporations to avoid these taxes, but that corporation would then pay all invoice and subtraction VAT payments (which would distribute tax benefits. Distributions from such corporations will be considered salary, not dividends.

Invoice Value-Added Tax (I–VAT). Border adjustable taxes will appear on purchase invoices. The rate varies according to what is being financed. If Medicare for All does not contain offsets for employers who fund their own medical personnel or for personal retirement accounts, both of which would otherwise be funded by an S–VAT, then they would be funded by the I–VAT to take advantage of border adjustability. I–VAT also forces everyone, from the working poor to the beneficiaries of inherited wealth, to pay taxes and share in the cost of government. Enactment of both the A–VAT and I–VAT ends the need for capital gains and inheritance taxes (apart from any initial payout). This tax would take care of the low-income Tax Gap.

I–VAT will fund domestic discretionary spending, equal dollar employer OASI contributions, and non-nuclear, non-deployed military spending, possibly on a regional basis. Regional I–VAT would both require a constitutional amendment to change the requirement that all excises be national and to discourage unnecessary spending, especially when allocated for electoral reasons rather than program needs. The latter could also be funded by the asset VAT (decreasing the rate by from 19.5% to 13%).

As part of enactment, gross wages will be reduced to take into account the shift to S–VAT and I–VAT, however net income will be increased by the same percentage as the I–VAT. Adoption of S–VAT and I–VAT will replace pass-through and proprietary business and corporate income taxes.

Carbon Value-Added Tax (C–VAT). A Carbon tax with receipt visibility, which allows comparison shopping based on carbon content, even if it means a more expensive item with lower carbon is purchased. C–VAT would also replace fuel taxes. It will fund transportation costs, including mass transit, and research into alternative fuels (including fusion). This tax would not be border adjustable.

Summary

This plan can be summarized as a list of specific actions:

1. Increase the standard deduction to workers making salaried income of $425,001 and over, shifting business filing to a separate tax on employers and eliminating all credits and deductions—starting at 6.5%, going up to 26%, in $85,000 brackets.

2. Shift special rate taxes on capital income and gains from the income tax to an asset VAT. Expand the exclusion for sales to an ESOP to cooperatives and in-

clude sales of common and preferred stock. Mark option exercise and the first sale after inheritance, gift or donation to market.

3. End personal filing for incomes under $425,000.
4. Employers distribute the child tax credit with wages as an offset to their quarterly tax filing (ending annual filings).
5. Employers collect and pay lower tier income taxes, starting at $85,000 at 6.5%, with an increase to 13% for all salary payments over $170,000 going up 6.5% for every $85,000- up to $340,000.
6. Shift payment of HI, DI, SM (ACA) payroll taxes employee taxes to employers, remove caps on employer payroll taxes and credit them to workers on an equal dollar basis.
7. Employer paid taxes could as easily be called a subtraction VAT, abolishing corporate income taxes. These should not be zero rated at the border.
8. Expand current state/federal intergovernmental subtraction VAT to a full GST with limited exclusions (food would be taxed) and add a federal portion, which would also be collected by the states. Make these taxes zero rated at the border. Rate should be 19.5% and replace employer OASI contributions. Credit workers on an equal dollar basis.
9. Change employee OASI of 6.5% from $18,000 to $85,000 income.

Attachment—Debt as Class Warfare, September 24, 2020

Visibility into how the national debt, held by both the public and the government at the household level, sheds light on why Social Security, rather than payments for interest on the public debt, are a concern of so many sponsored advocacy institutions across the political spectrum.

Direct household attribution exists through direct bond holdings, income provided by Social Security payments and secondary financial instruments backed with debt assets. Using the Federal Reserve Consumer Finance Survey and federal worker and Social Security payment and tax information, we have calculated who owes and who owns the national debt by income quintile. Federal Reserve and Bank holdings are attributed based on household checking and savings account sizes.

Responsibility to repay the debt is attributed based on personal income tax collection. Payroll taxes create an asset for the payer, so they are not included in the calculation of who owes the debt. Calculations based on debt held when our study on the debt was published, distributed based on the latest data (2017) from the IRS Data Book show a ratio of $16.5 of debt for every dollar of income tax paid.

This table shows a summary level distribution of income, national debt and debt assets in three groupings based on share of Adjusted Gross Income received, rather than by number of households. This answers the perennial question of who is in the middle class.

Descending Cumulative Percentiles	Millions of Returns Filed	Millions of Returns Paying Tax	Amounts (Billions)							
			AGI	Income Tax Paid	Gross Debt (Factor) 16.55	Held by Federal Reserve and Banks	Held in Bonds	Held in Personal Accounts	Held in Government Debt	Assets Net of Debt Liability
All returns total	**143.3**	**99.4**	**10,937**	**1,601**	**26,500**	**5,238**	**4,222**	**3,854**	**5,384**	**(7,802)**
Top 5% IRS, 8.5% CPS, $208,053	7.2	7.2	3,995	947	15,671	2,926	3,693	2,411	294	(6,347)
5%–25% IRS, 8.5%–37.2% CPS, $83,682	28.7	28.3	3,566	432	7,146	1,399	529	1,046	1,238	(2,934)
Bottom 75% IRS, 62.8% CPS, $0	107.5	63.9	3,375	223	3,683	913	–	397	3,852	(1,479)

The bottom 75% of taxpaying units hold few, if any, public debt assets in the form of Treasury Bonds or Securities or in accounts holding such assets. Their main national debt assets are held on their behalf by the Government. They are owed more debt than they owe through taxes.

The next highest 20% (the middle class), hold few bonds, a third of bond-backed financial assets and a quarter of government held retirement assets.

The top 5% (roughly 8.5% of households) own the vast majority of non-government retirement holdings and collect (and roll-over) most net interest payments. This stratum owns very little of retirement assets held by the government, hence their interest in controlling these costs. Their excess liability over assets is mostly attributable to internationally held debt. Roughly $4 trillion of this debt is held by institutions, with the rest held by individual bond holds, including debt held by members of this stratum in off-shore accounts.

Source: *Settling (and Squaring) Accounts: Who Really Owes the National Debt? Who Owns It?*, available from Amazon at *https://www.amazon.com/dp/B08FRQFF8S*.