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THE PRESIDENT'S FISCAL YEAR 2023 BUDGET

HEARING

BEFORE THE

COMMITTEE ON FINANCE
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THE PRESIDENT'S FISCAL YEAR 2023 BUDGET

TUESDAY, JUNE 7, 2022

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

The hearing was convened, pursuant to notice, at 10:03 a.m., in Room SD–215, 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, Cassidy, Lankford, Daines, Young, and Barrasso.

Also present: Democratic staff: Adam Carasso, Senior Tax and Economic Advisor; Eric LoPresti, Detailee; and Tiffany Smith, Chief Tax Counsel. Republican staff: Michael Quickel, Policy Director; and Jeffrey Wrase, Deputy Staff Director and Chief Economist.

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

The CHAIRMAN. The committee will come to order. This morning the Finance Committee welcomes Treasury Secretary Yellen to today's hearing on the budget. This is an important opportunity to discuss big economic challenges, so that is where I will begin.

I am coming off a string of town hall meetings across my home State of Oregon. And, colleagues, everywhere I went, the number one topic of discussion was inflation. People are feeling it at the grocery store and at the gas pump. In Oregon, a gallon of gas is going for $5.42. People are paying more in rent, in shops, and at restaurants.

Now, this is taking place at the same time Americans learned on Friday that unemployment is 3.6 percent. We are at 50-year lows, and wages have been rising steadily. Overall, the job market is the strongest it has been in multiple generations. But in terms of what our families are feeling on the ground, inflation is causing real headaches.

The challenge is how to tackle it. There is no cure-all. The focus in Congress has to be on finding real solutions to drive down costs, to protect everybody's ability to get ahead, and strengthen our economy for the long run.

A first example, Democrats on this committee are leading the effort to bring down the cost of prescription medicine. Americans are getting mugged with every visit to the pharmacy window, and it is long past time to get them relief. Moreover, it is also past time to cut the cost pushed off onto American consumers by these middlemen in our economy in the prescription area that are known as pharmacy benefit managers.

A second example is energy and climate. Americans are spending huge amounts of money on gas and electricity. Putin's genocidal war in Ukraine is driving prices even higher. Oil and gas companies are making huge profits and handing out big checks to executives and announcing stock buybacks that benefit wealthy shareholders. All the while, the climate crisis grows around us: bigger and hotter wildfires, stronger and wetter hurricanes, and longer and more punishing droughts.

So, it is a one-two punch. Americans pay more for gas, and they are paying more for the consequences of these unnatural disasters. I bet a lot of Americans would be interested in a plan that would lower their energy costs, make Putin poorer, and prevent climate catastrophes all at the same time. That is a big priority for Senate Democrats, beginning with the Clean Energy for America Act which passed this committee. The bill for the first time uses a technology-neutral approach to taxes and would put our country on a path to cut emissions in half by 2030.

One recent analysis found that our bill would save the average household $500 per year. And the legislation, for the first time in the history of the Finance Committee, stipulates that the more you reduce carbon emissions, the bigger your tax savings. We are also interested in ensuring that oil and gas companies cannot game the tax code to pay next to nothing in taxes, and that is far too common today.

Next, Senate Democrats want to lower the cost of renting or owning a home. That means investing in new cost-effective housing, as well as cutting red tape—which I visited with the Secretary a little bit about before the hearing. That is the approach Congress took years ago when it passed an electronic signatures law that I was one of the authors of, that helped buyers and sellers who are just making common transactions. The bottom line is, Congress should not address our economic challenges by making working families worse off.

Yet, regrettably, that is what Republicans want to do. The big economic plan coming from the Republican Campaign Chief Senator Rick Scott is to phase out Medicare and Social Security in a matter of years. Now, Senator McConnell has gone to great lengths to keep the Scott plan hush-hush. When he was asked earlier this year what the Republicans' agenda would be if they took back the Senate, he said, and I quote, "That is a very good question, and I'll let you know when we take it back," unquote.

Yet Senator Scott coughed up the truth, and he is standing by his plan sunsetting those bedrock American programs for seniors. You can bet the Republicans will want to hand a fresh round of tax breaks to multinational corporations as well. There is a long history of Republican monetary hawks rooting for higher unemployment, flat wages, and cuts to basic programs that help millions of families pay for child care, groceries, and rent.

So there are clear contrasts in the approach to solving inflation. We will have a lot to discuss this morning. I want to thank Secretary Yellen—she has a very hectic schedule—for joining us this morning. I look forward to our colleagues, and of course we are interested in working with Senator Crapo and our colleagues on the committee.

Senator Crapo?

[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, Secretary Yellen, welcome to today's hearing. Thank you for being here.

Inflation is at the top of my statement as well. Inflation is hurting American families and eroding wages. People are adjusting spending, even on basic necessities, just to make ends meet. They are being hammered at the gas pump and in the grocery aisles, and across the economy. As wages rise to keep up with inflation, odds of an inflationary wage-price spiral rise.

Inflation became broad-based and accelerated last year following the untargeted American Rescue Plan Act. That Act poured $1.9 trillion of inflation fuel into an economy with growing supply chain disruptions and households with elevated disposable income and liquid savings.

Following that, Democrats pushed for trillions more in reckless spending. The result, which many predicted, has been inflation at highs not seen in 40 years. As prospects of a recession and stagflation rise, this is no time to consider raising taxes or resurrecting reckless spending proposals from the House-passed Build Back Better bill.

The Congressional Budget Office's 10-year outlook is another warning sign that our national debt, currently at $30.5 trillion, is another sign that we are on an unsustainable track and headed to new record highs.

Inflation and accompanying higher interest rates mean higher net interest costs to service the national debt, crowding out other fiscal priorities. As the economy has been in recovery from COVID-related shutdowns, revenue has been up sharply under the tax system put into place before the pandemic.

CBO expects revenue this year to rise to 20 percent of GDP, the highest in more than 2 decades, and then average well above the 50-year historical average. Nonetheless, Democrats appear to want to raise taxes even more in the face of rising odds of a recession.

One harmful policy is a minimum tax on financial statements or book income, something so fundamentally flawed that both parties abandoned the previously enacted version more than 30 years ago. This harmful policy would overwhelmingly hit American manufacturers, as well as undercut investments in U.S. innovation and emerging technologies.

This is not the only proposal from Democrats that would harm the competitiveness of American companies. Another prominent example is the international tax agreement that Treasury has negotiated with the OECD. Under both pillars of the agreement, Treasury has agreed to give foreign countries sweeping new rights to tax U.S. companies. In an apparent attempt to bind Congress, Treasury agreed to terms without engaging in meaningful consultation with Congress.

For more than a year, my Republican colleagues and I have repeatedly requested information on the agreement and its potential effects. Treasury, however, has repeatedly declined to provide any analysis of the effect of the agreement on U.S. businesses or U.S. revenue, or the U.S. economy overall. And from what we can see, that impact will be significant on U.S. companies, making them less competitive globally.

We now know that Treasury's failure to share substantive detail foreshadowed underlying flaws and a lack of coherent principles in the agreement. It is increasingly clear that terms agreed to by Treasury will harm U.S. businesses and undermine tax provisions enacted by Congress to encourage certain activities. The flaw with this approach is that the agreement cannot be fully implemented without congressional action. In many cases, the terms can only be properly carried out with a multilateral treaty requiring a two-thirds vote by the Senate.

By agreeing to sweeping changes of this nature without bipartisan support, Treasury has put at risk tax certainty and the prospect of a durable or longlasting agreement.

Beyond lack of information about the international tax agreement, nothing more is known about a possible leak of private taxpayer data from the IRS to the left-leaning group ProPublica than we knew 1 year ago when it was first reported.

More work is also necessary to establish independent oversight and financial controls over the $350-billion funding to States and localities in the American Rescue Plan where no meaningful oversight was established.

Treasury must also be willing to consult Congress on debt management, which it has thus far only been comfortable doing with Wall Street and the Federal Reserve. The committee, which is Treasury's authorizing committee, deserves more transparency and accountability from Treasury than we have been receiving.

Madam Secretary, I do appreciate your service, and I look forward to hearing your testimony on these matters today. Thank you.

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

The CHAIRMAN. Thank you, Senator Crapo. We will be working together as we always try to.

Our first witness will be Secretary Janet Yellen—our only witness. Secretary Yellen is the 78th Secretary of the Treasury. She is the first person to have led the White House Counsel on Economic Advisors, the Federal Reserve, and the Treasury Department.

Prior to leading Treasury and the Federal Reserve, Secretary Yellen was a distinguished fellow in residence at the Brookings Institution. She served as president of the American Economic Association, and she is a member of the American Academy of Arts and Sciences and the Council on Foreign Relations. She also, in a matter of great interest to the committee, was a founding member of the Climate Leadership Council.

We are very glad to have you, Secretary Yellen.

Colleagues, today we are really going to be focused on moving expeditiously. The Secretary has a hard stop at 12:45.

And please proceed, Secretary Yellen.

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

Secretary YELLEN. Thank you, Chairman Wyden, Ranking Member Crapo, and members of the committee. Thank you for inviting me to discuss the administration's budget proposals.

This budget prioritizes essential investments in education, medical care, and affordable housing, alongside tax reforms, deficit reduction—and prioritizes a fairer tax system.

Over the past year and a half, we have experienced a robust recovery characterized by strong economic growth, historically low unemployment, and high household saving rates. This rapid broad-based recovery has been buttressed by the congressional response to the challenges of the pandemic, particularly with the CARES Act at the beginning of the pandemic, and continuing with the Consolidated Appropriations Act of late 2020 and the American Rescue Plan Act legislated at the beginning of 2021.

As President Biden said last week, we now are entering a period of transition from one of historic recovery to one that can be marked by stable and steady growth. Making the shift is a central piece of the President's plan to get inflation under control without sacrificing the economic gains we have made. We also managed to avert the far worse outcomes that were forecast at the beginning of the pandemic in 2020.

After the onset of the pandemic, CBO forecasted unemployment would exceed 9 percent in 2021. Now we are experiencing historically low unemployment. We are also witnessing sharp reductions in the budget deficit, with CBO recently forecasting the largest nominal reduction to the Federal deficit in history.

According to their projections, the deficit as a share of the economy this year will be at a lower level than CBO projected before the American Rescue Plan Act passed. Still, we currently face macroeconomic challenges, including unacceptable levels of inflation, as well as the headwinds associated with the disruptions caused by the pandemic's effect on supply chains, and the effects of supply side disturbances to oil and food markets, resulting from Russia's war in Ukraine.

To dampen inflationary pressures without undermining the strength of the labor market, an appropriate budgetary stance is needed to complement monetary policy actions by the Federal Reserve. Moving forward, elements of the President's proposed legislation, including the clean energy initiatives and plans to reform the prescription drug market, will help to lower the costs paid by American consumers.

Treasury has been actively working with Congress on many challenges. Most important is our joint response to Russia's illegal and unprovoked war against Ukraine. Treasury is committed to doing what we can to ensure that Putin's brutal war continues to be met with fierce resistance internationally. Alongside 30 other partners abroad, accounting for more than half of the world's economy, the U.S. Government has imposed unprecedented financial pressure measures on Russia and its leadership.

Today the Kremlin has been cut off from the global financial system. The Russian economy is experiencing severe contractions, with most analysts projecting a double-digit decline in Russian GDP in 2022, and they are experiencing sharply elevated inflation.

We are grateful for the strong support of Congress in this endeavor, including its recent provision of $40 billion in security, economic, and humanitarian aid to the people of Ukraine—and true resolve is essential to supporting the people of Ukraine against this brutal invasion of their homeland.

Over the past year and a half we have successfully collaborated with Congress on the Bipartisan Infrastructure Bill, a bill designed to do the hard generational work of building a more dynamic, structurally sound economy by smartly investing in the future. This law will rebuild America's roads, bridges, and rails; expand access to clean drinking water; ensure every American has access to high-speed Internet; and invest in communities that often have been left behind. Building a fair and stable tax system that promotes broadly shared growth is important to both adequately funding investments and to reducing deficits and debt.

I look forward to working with Congress to ensure that we continue to make progress in this regard. In the administration's fiscal 2023 budget, we suggest smart, fiscally responsible investments, cutting deficits, and keeping the economic burden of debt low.

The budget's investments are more than fully paid for through tax code reforms requiring corporations and the wealthiest Americans to pay their fair share, closing loopholes, and improving tax administration.

Finally, it is no secret that I am keenly focused on moving forward on the global agreement on the international tax reform, including a global minimum tax that will level the playing field and raise crucial revenues to benefit people around the world. Last fall, 137 countries, representing nearly 95 percent of the world's GDP, agreed on a deal that will stabilize our tax systems, provide resources to invest in security and respond to crises like COVID–19, and ensure corporations fairly share the burden of financing government. I am hopeful that Congress will also implement this global minimum tax as part of its legislative agenda.

Thank you, and I look forward to taking your questions.

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

The CHAIRMAN. Thank you very much, Madam Secretary. And, colleagues, let me just say in the beginning, we have many members with questions, so this morning we are really going to have to stick to the 5-minute rule.

Madam Secretary, let me start with cutting costs and fighting inflation. Some of my Republican colleagues have proposed increasing taxes on 75 million middle-class families by almost $1,500 this year alone, and on nearly half of small business owners. Instead of taking money out of these taxpayers' pockets, President Biden and Democrats propose to lower the cost of energy, health care and prescription medicine, child care, and housing. We would also reduce cost pressures by making the wealthy and large corporations pay their fair share.

In particular, the President and I believe strongly that billionaires should not be able to use current tax laws to pay little or no taxes for years on end.

So my question, Madam Secretary, to start us off is, how would these policies reduce costs for middle-income families?

Secretary YELLEN. Thank you, Senator Wyden. The President supports measures, Congress legislating measures that would ease the burden on lower- and middle-income families. This would involve, for example, continuation of the Child Tax Credit, lowering the cost of prescription drugs, investing in affordable housing, lowering the cost of health care, and the energy investments that you referred to that could cut utility bills significantly. And he would pay for those proposals fully, and more than fully. The President believes we should have deficit reduction, and the revenue-raising proposals involve asking upper-income taxpayers and large corporations to pay their fair share.

And so, we believe—I agree with President Biden—that proposals like this would lower the costs and ease the price pressures that low- and middle-income households are facing due to rising energy and food costs and supply chain problems that have been associated with the pandemic. And deficit reduction would complement the work that the Federal Reserve is doing.

The CHAIRMAN. Let me get a couple of questions in on the IRS. Secretary Yellen, IRS audit rates have fallen by more than 72 percent over the last decade, and by 86 percent for those earning more than $5 million per year. This lack of oversight, in effect, has given the high-flyers a free pass to cheat.

The IRS estimates that we are losing about $600 billion each year from taxes that are owed but not paid. The IRS Commissioner testified that our losses could be as high as $1 trillion a year.

The President is requesting $80 billion for the IRS over 10 years. According to the Congressional Budget Office, this investment would raise over $200 billion in revenue, primarily from high-income tax cheats.

Can you talk a bit about why this is a smart investment, and how it would help fight inflation?

Secretary YELLEN. Well, tackling the $600-billion annual tax gap is absolutely important in ensuring fiscal responsibility. It would generate substantial revenue in a manner that is efficient and fair. It would enable deficit reduction and help ease price pressures by providing the funding, part of the funding we need, for the urgent fiscal priorities we discussed.

More broadly, the IRS is an agency that entered the pandemic without the funding that was in any way needed to navigate the challenges that they faced. It is remarkable that they were able to perform as well as they did in getting out the Child Tax Credit payments and the Economic Impact Payments. But we absolutely have to invest in the IRS to close that tax gap which reflects opaque sources of income, mainly by high-income earners, that are not taxed. Wage payers who earn W–2 income really pay their fair share. And they need the resources to serve taxpayers, to be able to answer their phones, to be able to ensure that they receive the payments that they are due, and they need to modernize their technology, which is really the oldest, dating back to the 1960s, in the Federal Government.

The CHAIRMAN. My time has expired, Madam Secretary. If my colleagues have not asked it, I will ask it for the record, but particularly this backlog situation. Oregonians who filed paper returns this year are wondering if the IRS has lost them. Some are desperately in need of that tax refund to pay bills. I will talk to you about it further.

Senator Crapo?

Senator CRAPO. Thank you, Mr. Chairman. And, Secretary Yellen, you have heard from both Senator Wyden and me today about the significant pain Americans are suffering because of inflation that has accelerated and become broad-based following the enactment of the American Rescue Plan last year.

Democrats are claiming that Republicans are trying to raise taxes. Nothing could be further from the truth. The reality is that, as we speak, the Democrats are trying to negotiate a new massive plan that would raise taxes significantly.

Do you believe that it would be prudent fiscal policy to increase taxes or engage in more stimulus spending with an economy facing the prospects of stagflation?

Secretary YELLEN. Senator Crapo, thank you for that question. As I indicated in my response to Senator Wyden, I believe there is a lot that Congress can do to ease the cost burdens that households are experiencing.

With respect to energy, the administration has done everything that they can to bring down energy costs, for example through a historic release of a million barrels a day from the Strategic Petroleum Reserve. And energy prices, gas prices, while very high, have risen a lot, they would be higher without that.

But the war in Ukraine is having impacts on energy and food prices globally. We are not the only country that is experiencing inflation. You can see that in virtually every developed country around the world.

What Congress can do and what the Biden administration would like to see is investments in programs like lowering prescription drug costs; investing in clean energy and renewables that would free our dependence on global oil markets which are subject to geopolitical risk, and could bring down utility bills; affordable housing; help for child-care expenses that would enable higher labor force participation; and medical costs. And these are ways that the Congress and the administration can address and bring down some of the costs that households face. And it is appropriate to pay for it, or more than pay for it, to have deficit reduction. We are supportive of deficit reduction. And asking high-income taxpayers and corporations to pay their fair share is likely to finance those investments.

Senator CRAPO. What I heard you say is that it is okay to raise taxes right now, and that it is proper to have more stimulus spending to deal with this crisis. I just have to say I disagree with you on that.

What I also did not hear you say was that we should increase our production, our domestic energy production, rather than depressing our domestic energy production. Do you continue to believe that the President's policies with regard to reducing our capacities to develop our own oil and gas reserves and potential is the appropriate approach to this?

You mentioned taking from our Strategic Petroleum Reserves, which I think weakens us, but you did not mention increasing our domestic production of energy.

Secretary YELLEN. Well, production in the United States fell during the pandemic. I think that oil producers did not anticipate the strength of the recovery and the fact that oil prices would recover. And they certainly do have incentives now to increase oil production. They are sitting on thousands of leases on Federal lands that they have not yet drilled, and they need to do so.

Senator CRAPO. Proceeding on those leases is not being facilitated. The President's executive orders have shut down the XL Pipeline. They have stopped the issuance of more leases. They have stopped the progress on the permitting of those leases. They have stopped the offshore oil production.

The fact is, we were energy-independent, and now we are not. And it is not the result of the failure of our capacity.

Secretary YELLEN. We may be energy-independent. We are actually exporting oil. But we are part of the global oil markets which are subject to geopolitical influences. And given the global nature of these markets, it is virtually impossible for us to insulate ourselves from shocks like the ones that are occurring in Russia that move global oil prices.

And for the medium term, the critical thing is that we have become more dependent on the wind and the sun that are not subject to geopolitical influences. And passing clean energy credits that will boost renewables is, I think, really critical to addressing climate change and our energy costs for households going forward.

Senator CRAPO. Madam Secretary, my time has expired, but I wanted to get into the OECD information, and maybe either in this hearing or following we will be able to have the opportunity to discuss the fact that there are serious concerns about the impact on our economy from those changes that are being negotiated by Treasury.

The CHAIRMAN. Thank you, Senator Crapo.

Senator Stabenow?

Senator STABENOW. Well, good morning, Madam Secretary. We are glad to have you with us. I would say, just on the issue of the gas prices, after waiting for a long time to have enough chips in this country to finally get my electric vehicle, I got it and drove it from Michigan to here this last weekend and went by every single gas station, and it didn't matter how high it was. And so, I am looking forward to the opportunity for us to move to vehicles that are not going to be dependent on the whims of the oil companies and the international markets.

Madam Secretary, let me just back up a second because, when President Biden came in, he really inherited a mess. And the reality is that, even starting with the deficit, 30 percent of the publicly held debt in the country was created during 4 years of President Trump, including the largest tax cut for rich people and corporations.

And thank you for bringing that down. That deficit is now coming down faster even than we would have hoped.

But there was no system for distributing vaccines. Children were not in school. We did not have testing, let along home testing. We did not have medicines. I mean, small businesses and restaurants and theaters and everyone worried if we were going to be able to save lives and get through this.

The good news is, we did. And a big piece of that was what was done in the American Rescue Plan Act to make sure we had vaccines and could help children get back in school, and help our restaurants, and help people survive, and so on.

So, I want to just reiterate the fact that, based on all of that effort, we have seen the U.S. add 8.7 million jobs since President Biden took office, including 545,000 manufacturing jobs, which I am particularly excited about. Business investment is up 20 percent—more small business applications in 2021 than in any previous year. That is the good news.

Here is the challenge that we know, and which we are all talking about now. Despite all this great news, when you have a global supply chain and we are not getting enough of those chips for automobiles, and we have consolidation in the food industry, and we have all these other issues, and people have more savings, they want to buy things, but the things are not there to buy. And that is due to supply chain breakdowns, and that leads to inflation, which is where we are right now, which is what we are all talking about, which is very real for everyone.

The exact story is different in different parts of the economy, but the bottom line is that people have more savings to buy things and not enough things to buy. Prices go up, and so here we are.

You did not create that. President Biden did not. We did not. It was the result of what has happened in this global economy, frankly, and I think we need to rectify that by bringing jobs back home and making more things in America and so on, which I appreciate the Biden administration doing.

So, could you just take a moment to speak a little bit more about what you believe we need to be doing in Congress to help bring those prices down? It is great political theater to just point and say, "Oh, prices are up," and my reaction is, "Duh! They are up for everybody." The question is, what are we going to do about it? And that is going to take bipartisan support to get that done.

So, could you talk a little bit more about what we should be doing to help bring those prices down?

Secretary YELLEN. So let me say I think that bringing inflation down should be our number one priority, and President Biden, in an op-ed on inflation and in recent remarks, has indicated that it is our top priority.

We do have to recognize that the Federal Reserve has an important role to play, and they are committed to doing what it takes to bring inflation down. And President Biden is strongly supportive of the independence of the Fed and getting out of the way and giving them the room to do what they need to do.

I think we can complement that by deficit reduction. But beyond that, the President has done what we can to address supply chain challenges. And as discussed with Senator Wyden, Chair Wyden, I believe Congress, the President believes Congress can do a lot to mitigate some of the most important and burdensome costs that households face, whether it is that they cannot find affordable housing, that prescription drug prices are too high—and we can address that while also raising revenue for the government. Whether it is high health-care costs, or high energy costs, by making the investments in renewables that are necessary to bring down utility bills and shield us from geopolitical developments that provide shocks to our economy, these are things that Congress can do. And in the course of doing that, we will expand the supply side of our economy because, while we know private investment is one important investment we need to make to improve the economy's potential, there are others. Infrastructure investment in people and education and training, investment in child care and early childhood education, and elder care would enable greater labor force participation. All of that could help to bring down inflation and lead to strong sustainable growth.

Senator STABENOW. Thank you.

The CHAIRMAN. Thank you, Senator Stabenow.

Our next three will be Senator Grassley, Senator Cantwell, and Senator Portman. I believe Senator Grassley is coming back.

Senator Cantwell?

Senator CANTWELL. Thank you. Thank you, Madam Secretary. Thank you for your statement, particularly about inflation and trying to tackle those issues.

I certainly believe that if we work together in a bipartisan fashion now, there are things that we can do in all those sectors that you mentioned. I think the information age is giving us data and information, for example on PBMs, or on transparency in oil markets, and various things.

But one thing I wanted to ask you specifically about is this issue of a semiconductor shortage, the fact that we basically now see a 40-percent increase in the price of used cars. Our colleague here just said she is buying and getting access to a new electric vehicle, but so many more Americans—the price of everything has gone up. We have our trucking industry saying that they cannot even build trucks because they do not have the chips to put into the trucks.

So every aspect of our economy is now more expensive just because shipping costs are going up. And so we are trying to send a price signal in the competition/innovation bill to get America's investments in semiconductors up to a level that will show people that we are going to have a domestic supply, and that we are going to be on the cutting edge of the next generation of chips, while also dealing with the legacy shortage that exists in automobiles.

The problem is that our colleagues here do not understand the international competition and how fast they are moving to make the same investments. How critical is it, do you think, that we get this done in this work period, you know, to show—otherwise, are we losing a much bigger race than just this challenge of inflation?

Secretary YELLEN. It is very important, I think, to pass USICA and to make the investments in semiconductors that will keep the United States in the lead in this critically important industry, and to make sure we have the capacity to produce advanced chips at home.

I think this is a national security issue, as well as an economic issue. And I think USICA is a very important bill that I would very much like to see pass. We found ourselves in an almost unimaginable situation when the pandemic resulted in such an explosion of demand for chips globally as people switched increasingly to digital work in communications, that our auto factories found themselves unable to get the chips.

And so, there you have something that has caused a significant piece of the inflation we face that really results from structural shifts induced by the pandemic, and insufficient capacity at home to build semiconductors.

So, I think this a critically important investment.

Senator CANTWELL. So just to be clear on that point, you are saying the chip shortage has added to our inflation woes?

Secretary YELLEN. Absolutely. I believe about a third of U.S. inflation is new and used cars. And manufacturers have been forced to actually cut production of cars when they are facing absolutely record demand for those vehicles, and it is all due to a shortage of semiconductors.

Senator CANTWELL. Well, and since this market is so strong—it gets a little confusing to people, but at $20 billion a pop to build a foundry, most companies do not have $20 billion sitting around. And so, the international chase to get that industry in those countries—I just do not know if you think this is a seminal moment for us in this level of investment. I just see what has transpired with us going down in production over the last decade, and I now see how hungry Europe is, and how hungry Asia is. How competitive is the financing environment in other countries?

Secretary YELLEN. Well, there have been subsidies in many countries of semiconductor production, and certainly a conscious drive in China and other places to boost semiconductor production, and it has drifted away from the United States. And I think we need to do more, and it is really critical that we develop that capacity. And certainly, American companies understand this and are looking to do it. But USICA would make a difference to their ability to get that financing.

Senator CANTWELL. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. I thank my colleague.

Next would be Senator Cortez Masto. After her, Senator Menendez. After him, Senator Toomey. After him, Senators Carper, Lankford, Cardin, Daines, Brown, and Young.

Senator Cortez Masto?

Senator CORTEZ MASTO. Thank you, Mr. Chairman. Madam Secretary, thank you so much for always being so candid in presenting today before the committee.

Let me start with affordable housing, because we are lacking affordable housing in the State of Nevada and, quite honestly, across the country. I do know that the State and local fiscal relief funds that were provided in the American Rescue Plan provided States with the ability to make historic investments in desperately needed affordable housing in communities across our country.

In Nevada, we expect to build and preserve at least 3,000 new affordable homes with these funds. It is very important that the American Rescue Plan funds leverage the Nation's most reliable and impactful affordable housing production investment, which is the Low-Income Housing Tax Credit.

Here is my concern. I am concerned that in my State, and in some of the States across the country, they are not able to use the funds that were received through the State and local fiscal relief funds to leverage those against the Low-Income Tax Housing Credit.

So, my hope is that the administration, and particularly the Treasury Department, will help us clarify to those States that those funds can be used for that leverage. And I am just curious about your thoughts on that process.

Secretary YELLEN. Well, we are absolutely encouraging the State and local relief funds to be used for affordable housing. And actually, recently we published a fact sheet that explains practices that we have found promising and highlights some of the ways in which these funds are being used for this purpose.

But certainly we are strongly encouraging that these funds be used to boost the affordable housing. And on the Low-Income Housing Tax Credit, I know there has been an issue around average income regulations. And that was something that Congress intended to provide flexibility to entities that use that credit. And it is our highest priority for our tax team to make sure that those regulations captures that flexibility.

Senator CORTEZ MASTO. Thank you.

I am hearing, just in my State, that by aligning the Low-Income Housing Tax Credit with State and local fiscal relief funds, that is the difference between building 3,000 units and 8,000 units in my State.

So, I have introduced the LIFELINE Act, and what this bill really does is, it allows States and localities to loan the State and local fiscal relief funds to the Low-Income Housing Tax Credit projects. The loan authority is necessary because of the obligation to spend all of the State and local fiscal relief funds by 2026. That is my first priority, to pass that.

As you can see, there is a challenge in getting both sides, Republicans and Democrats, onboard essential legislation to lower costs for families, unfortunately. So, my next ask is that I am hopeful that the Treasury Department clarifies this in its final rule, and it allows those types of loans, whether they are blended loans, or grants to nonprofits that provide loans, just to clarify in your rules that those funds can be used in that way. That would help us build these more affordable homes in my State and across the country.

Secretary YELLEN. I would be happy to work with you on that, and I will make sure that my staff is in touch with yours to make sure that we are addressing that.

Senator CORTEZ MASTO. Thank you. I appreciate that.

Let me jump to the Social Security Administration. I appreciated the recognition in the budget of the challenges faced by many individuals in accessing the Social Security Administration's services. Communities are still reeling from the public health emergency and the economic impacts of the pandemic, and in many cases the services and supports that the Social Security Administration provides are key to helping individuals recover.

Can you talk through the investments in the Social Security Administration that you proposed in the budget? And how will they help folks access their earned benefits when they need them?

Secretary YELLEN. I know that that is the purpose of those investments. I will need to get back to you on the details.

Senator CORTEZ MASTO. Please do. I was just in my home State, and we were talking about the high cost we are seeing at so many levels, and to the extent that we can work together to lower costs at all levels for families, including those that are relying on Social Security, will be beneficial not just in Nevada, but across the country.

Madam Secretary, thank you again for being here.

The CHAIRMAN. I thank my colleague. I am very interested in working with her on these housing issues that are so crucial.

Senator Toomey is next.

Senator TOOMEY. Thank you, Mr. Chairman. Madam Secretary, welcome back to the committee.

I am going to talk a little bit about a subject on which you and I disagree, which will not surprise you. But I think it is important that we have a candid conversation about the tax reform of 2017, and the danger that I associate with the administration's attempts to really throw it out.

Let me just remind my colleagues. These are objective facts. In the wake of the tax reform of 2017, say 2019, the first year for which it was fully implemented, it was the best economy of my lifetime. The lowest unemployment rate in 50 years. More job openings than people looking for jobs. Record low poverty. Median household income at an all-time high. Strong wage growth. And this is important: the wage growth was faster than the rate of inflation. So American workers were becoming more affluent. They were able to improve their standard of living, contrary to today where the wage growth is not keeping up with inflation, and so today's workers are falling further and further behind under the current economic circumstances.

But getting back to post-tax reform, corporate inversions had stopped entirely. It was not that they slowed down. We have not been able to identify a single corporate inversion since our tax reform—which was designed in part to stop corporate inversions—went into effect.

There was also a shift in the tax burden. Contrary to what some of our colleagues like to suggest, the 2017 tax reform shifted the tax burden even more to higher-income people. The top 1 percent of wage earners paid a greater share of the total tax burden as a result of the 2017 tax reform. The bottom 50 percent paid a lesser percentage. And today, the top 1 percent makes about 20 percent of the income in America and pays about 40 percent of the taxes.

But what about Federal tax revenue? Oh, that surged. And this year it looks like we are going to reach another record high. The tax coming in so far this year is 22 percent higher than last year, and last year was a record. For this year, corporate tax revenue is on track to be at the highest level of GDP since 2015.

So, the statistics are unbelievable. I do not know how you could even conjure up a better economic outcome than what we had right before the pandemic hit. Now you could suggest that, oh, it is all a coincidence that the tax reform resulted in exactly what some of us predicted and suggested might happen, which is an acceleration of investment, strong economic growth, repatriation of a huge amount of overseas money. That is pretty improbable. The fact is, we had the best economy of my lifetime, by far, and it was working best for low-income Americans and ethnic minorities who historically have not had as good an economic result as others.

And so, the Biden administration comes along and says, "Let's look at all this data, and let's throw out the tax reform." It is unbelievable! My understanding is that, apparently, is still on the table, in part out of a concern that if we do not do this two-pillar tax reform that I know you have negotiated, Madam Secretary, we have what you characterize as a "race to the bottom," which to me is competition among countries to have an attractive environment for investments.

Frankly, I think we should be looking to win that race, not to prevent the race from taking place. But I understand that we have this negotiation. What we have not seen is how this gets implemented. So, two quick questions, and then I will let you respond.

First, I am very concerned about the impact that the proposal will have on American competitiveness. My understanding is that the Treasury Department has run an analysis, has data about the impact on American business if the tax reform that you have proposed would go forward. So, I would like to know when we can get access to that data. That is my first point.

And the second is that, since Pillar One of your two-pillar model requires modification of existing tax treaties, it seems clear to me that has to come to the Senate for ratification. I have not yet heard an agreement that that is in fact going to happen, and in the absence of that, an explanation for why, since the Constitution requires it, it should not.

And with that, I will yield to the Secretary.

Secretary YELLEN. Just very quickly, with respect to access to data, of course the data relating to Pillar Two is available and that was included in the House-passed bill and scored by JCT. So, I think you must be referring to Pillar One and the impact that that would have.

And what I would say there is that it could go either way, depending on the details which have not yet been decided in the Pillar One negotiations. The impact on fiscal revenues will be small. Pillar Two has a big impact. Pillar One will have a small impact. We are a very large market economy. We will gain revenue from our ability to tax foreign corporations that are doing business in the United States where we consume those services. We will lose some from revenue that taxing authorities have reallocated to foreign countries' net. It could be positive or negative depending on details that have not yet been worked out, and that is why we have not provided data. We will when those details are clear.

Senator TOOMEY. And the ratification process?

Secretary YELLEN. And the ratification requires Congress's approval. I think there is no doubt about it, but the form that that needs to take is still to be determined.

Senator TOOMEY. Thank you, Mr. Chairman.

The CHAIRMAN. I thank my colleague.

Just so we are clear, one of the first things we stated at the outset is, we have Senate Republicans now proposing to increase taxes on 75 million middle-class families, around $1,500 this year alone, and on nearly half of small business owners.

Senator Carper?

Senator CARPER. Thanks, Mr. Chairman.

Madam Secretary, welcome. So nice to see you. Thank you for your service over the years.

I don't know what you were doing when you were 29 years old. I was elected State Treasurer, and we had the worst credit rating in the country, and we were dead last. I think we were tied with Puerto Rico actually. We had no pension fund. We had no cash management system. We had no cash. And I got to be State Treasurer.

I have been a vocal advocate for a fair and well-functioning tax system ever since that day, and I still am. One way to achieve this goal is by making sure that the taxpayers do not have to jump through hoops to file their taxes.

The IRS Free File program was established, as you know, for this very purpose: to help low- and middle-income families file their taxes easily and leave out unnecessary fees. However, the program has not lived up to its potential, as you know. The Free File program has faced a number of challenges that include the withdrawal from the program of major providers, deceptive marketing from providers, and a low participation rate among eligible taxpayers.

A recent GAO report, one that I actually requested, recommends that the IRS work with relevant stakeholders to adopt additional options for free online filing of tax returns.

My question is this: what steps should we here in the Congress and the IRS take to improve accessible and affordable tax filing options for the American people?

Secretary YELLEN. So let me say that I totally agree with you that filing taxes can be costly, complicated, and time-consuming for American families. And there is a study that shows it takes 17 hours, on average, and costs about $230 to complete a tax return. And it is very worthwhile, and we are exploring options to reduce these burdens.

On top of that, I would like to add that what is also important for American families is to be able to access payments that they are entitled to, whether it is the EITC or Child Tax Credits or Economic Impact Payments. That is another way in which they interact with the IRS. And it is important that we make tools available to make that easy and get those payments to the families that are entitled to them.

But the fundamental problem we have here is that the IRS is just tremendously under-resourced. I think it is miraculous that——

Senator CARPER. Say that again. That bears repeating. Just say it again.

Secretary YELLEN. The IRS is tremendously under-resourced. It has fewer staff than it had, I believe, 40 years ago. And our economy is growing in size. It is operating with technology from the 1960s, using programming language that is no longer taught in any school in the country.

And it does not have the resources it needs. And the pandemic was a huge hit to it and left it with a huge backlog of returns and information that had to be processed that is really top priority.

We then asked them to get out three different Economic Impact Payments, Child Tax Credit payments on a monthly basis, and it is amazing that they were able to do it. So I think this is important. We are looking at it.

I agree this is something that the IRS needs to do. But if we want to ask it to do these things, given all the other burdens, we really have to—I think it should be a very high priority for Congress to give the IRS the resources it needs, not to mention closing the tax gap.

Senator CARPER. I am Tom Carper, and I approve this message. [Laughter.]

Secretary YELLEN. Thank you, Senator.

Senator CARPER. My second question is short, Madam Secretary. How can common-sense reforms to estate and gift taxes make our tax code fairer and more fiscally responsible?

Secretary YELLEN. I believe there are loopholes there that should be closed. We put out a number of proposals related to estate and gift taxation in the Green Book, and we are exploring ideas where we believe that we can curtail some techniques that are used that we can do under existing authority. That is an area to be scrutinized.

Senator CARPER. I am going to ask you to respond more fully in writing. Thank you for that initial response to that. Thank you for joining us today and for your work.

Secretary YELLEN. Thank you.

The CHAIRMAN. Thank you, Senator Carper.

Senator Lankford is next.

Senator LANKFORD. Mr. Chairman, thank you.

Secretary Yellen, thanks for being here as well.

And this morning, I actually sent over a letter to you, just because it is the 1-year anniversary of the ProPublica release, actually, and the challenge we have is getting information about taxpayer information and how it is kept secure.

We have asked for just a hearing, just a briefing, just to be able to sit down with you and your team and say, "How is taxpayer information being protected? What has changed in this time period?"

We are not asking for the specific 6103 information. We are not trying to get into the specifics of what is out there with ProPublica; we know that there is an investigation. But at the 1-year anniversary, we just want a "yes" or "no" answer.

Can we get a briefing with you and with your team on how taxpayer information is now being protected, and what has changed?

Secretary YELLEN. I will certainly ask my team about that and have them get back to you, and we will try to arrange something.

Let me just say, it is very high priority. Disclosure of confidential and government information is illegal. It is something we take very seriously. There are procedures and controls in place——

Senator LANKFORD. We are just a year into it and have not gotten the information on what has actually happened. So, we have heard that, but we just don't know what is actually happening behind the scenes. We just continue to hear and see information leaked out over and over again. So we want to get as much information as we can on it, and what is being done, and how things have changed.

Secretary YELLEN. Absolutely. I don't think that there is information that is being leaked out over and over again, and if there is, I am certainly not aware of it.

Senator LANKFORD. Thank you. We will follow up on that. We would like that briefing time.

On the OECD, a question on this. This is a challenge for us as we are just trying to keep the flow of information as well of what is actually happening on it.

In this case—let me show you a map really quickly—in this case, we have an American company. This American company has done everything we have asked them to do based on tax policy. Their jobs are here. Their intellectual property is here. Their research and development is all being done here.

They have done all that according to our tax code that Congress has passed to incentivize that. Now, all these countries in the dark blue will have leverage over those American companies that are following our tax law to be able to determine how much they are going to now pay overseas.

So, if China or the UK gives a subsidy instead of actually having R&D credits on it, then suddenly these American companies following American law are now going to pay more. So our concern on this OECD agreement that is happening is, it seems to be structured to incentivize companies to move their IP internationally, or to move their R&D internationally. That would allow them to be able to balance out their tax portfolio.

Help me understand where I am wrong on this.

Secretary YELLEN. I don't understand that. I mean, we are the only country that imposes any minimum tax on the foreign earnings of multinational corporations. It is currently at 10½ percent on a blended rather than a country-by-country basis. No other country does this. And what this global deal is going to do is, it will force every other country around the world that signed up, 137 countries that have signed this agreement, to impose a minimum tax on their corporations, on their overseas earnings, of at least 15 percent.

Senator LANKFORD. Our understanding of this is that they will impose that 15-percent minimum, and then they will actually take out things like their subsidies, and our credits that have been passed in law will not count on that, but the subsidies will.

Secretary YELLEN. Many of our credits will count on that.

Senator LANKFORD. But the subsidies won't. Yes.

Secretary YELLEN. Well, it is structured so that direct subsidies are not counted, whether we give them or they give them. But on the tax side, it does count.

But we certainly would work with Congress to make sure that the benefits that Congress intended, the business credits, are structured so that they will be available.

Senator LANKFORD. So yes, that is reassuring to hear because we have not had the sense of working with Congress through this process. It seems to be a deal that is negotiated everywhere else and is coming back to us last. Obviously, according to the Constitution, revenue changes have to be done through Congress.

Secretary YELLEN. Yes.

Senator LANKFORD. And they have to be voted on here. There seems to be an incentive to be able to move to something very different. This is the same thing we are dealing with in the foreign tax credit piece right now. The foreign tax credits, the regulation was actually put out in January. A lot of companies, including companies in my State in Oklahoma, are really struggling to be able to understand that. We have had folks from Treasury who have come in and said more guidance is needed, but it seems to be the train is still moving and they are still trying to figure out, only with an audit at some future date, if they were following the rules or not on this because the guidance has not actually come out on time.

So can you help me with the foreign tax credit piece to know, is this going to be delayed? Or is it still going to be implemented this year when there is not guidance but there has been a change? And it has been a change that has been different than what has happened for decades.

Secretary YELLEN. Well, we have issued a regulation, but we do understand that there are some issues that businesses have around it. And we certainly wish to work with you to address those.

Senator LANKFORD. Will it be delayed, the implementation, until they get guidance?

The CHAIRMAN. The time of the gentleman has expired. Let's get an answer to this.

Secretary YELLEN. I do not think it will be delayed. We will work to address issues with it.

The CHAIRMAN. I thank my colleague.

Senator Cassidy is next.

Senator CASSIDY. Madam Chair, several things—Madam Secretary, I'm sorry. Social Security is going insolvent. The administration has not proposed anything to address the insolvency. Is there going to be a plan coming forth from the administration to address the Social Security insolvency, which is, I think, 12 or 13 years away now, with all the implications of further delay making it harder to address?

Secretary YELLEN. Well, so we gained 1 year in terms of the life of the Social Security Fund, how long it continues to fund benefits. That was in the recent Social Security trustees report.

Senator CASSIDY. Yes, but if you take a 75-year scoring, we have learned that there is going to be a $211-trillion—trillion dollar—deficit over 75 years. So, saying that it is going to be extended 1 to 2 years seems almost, you know, silly. No offense.

Secretary YELLEN. So, I do believe this is something—it is certainly true that it is not sustainable on the 75-year basis, and this is something that Congress and the administration should address.

This is not news, I would say. We have known about this for at least 30 years and have not taken steps to address it.

Senator CASSIDY. So you agree it is important to take those steps?

Secretary YELLEN. I do believe it is something we should do.

Senator CASSIDY. Let me move on.

As regards inflation, one variable that we can potentially impact is the price of oil and gas. Now, you have mentioned how the international market—and there is some limit as to the impact of what we do locally. But with that said, the administration has proposed decreasing tax incentives for the production of oil and gas.

Now, if you decrease tax incentives, you are going to have less oil and gas produced. Now that is going to decrease supply and contribute to that upward pressure. Does that make sense?

Secretary YELLEN. Well, over the medium term, we absolutely need to move to renewables——

Senator CASSIDY. I am speaking about right now. If we decrease the tax incentives to produce, that would decrease supply. And if the administration is proposing to do that—well, I will just make that point and then move on.

Indeed, if we are going to speak about—I have a quote here—apparently one of the major problems with producing oil and gas right now is the cost of oil field services. And here is a quote from the CEO of Occidental. She says that, to paraphrase, given how expensive drilling and oil field services have gotten, it is almost value destruction if you try to accelerate anything now.

Now, what would you think about increasing the tax incentive to drill oil and gas, recognizing that the CEO of Occidental says that the costs of oil field services are so great it is value destruction to attempt to accelerate?

Secretary YELLEN. Oil field prices are very high in part because of—importantly, because of Russia's war on Ukraine, and I believe the incentives are certainly there to boost production, and that is something we need in the short run——

Senator CASSIDY. So, if we could make the case—and I don't mean to be rude, I'm sorry—if we could make the case that increasing the incentive, increasing the tax credit for 3 to 5 years to offset the increased cost of oil field services and increase production, would that be something that we should entertain?

Secretary YELLEN. Well, I think it is profitable like it is. Prices have gone up a lot, and that helps to offset those costs and helps oil companies cover them. And so the price system is working and provides incentives.

Senator CASSIDY. What we are trying to do is lower the cost—let me just move on.

We are in a situation right now as regards Russia and the price of oil in which, because of the restrictions on purchasing Russian oil, the oil profits have increased. So they are selling less but at a higher price. To say one more time, Russia now makes more money from oil and gas sales than it did before we began to apply sanctions.

Now, the Europeans have considered coming together as a buying bloc to limit the price that we will pay—monopsony power, if you will. We will pay the price of production, but no more. And so therefore, we don't pay the higher price at the pump, and they don't get the increased revenue.

Is the administration participating in this? Are we taking the lead in this? Is this something that we would entertain?

Secretary YELLEN. Absolutely. Our objective is——

Senator CASSIDY. Absolutely we are involved in discussions to come up with a buyers bloc where it will not be more than X amount?

Secretary YELLEN. Absolutely.

Senator CASSIDY. Can you give a kind of assessment of where those negotiations are?

Secretary YELLEN. Extremely active. I think what we want to do is keep Russian oil flowing into the global markets to hold down global prices and try to avoid a spike that causes a world-wide recession and drives up oil prices. But absolutely, the objective is to limit the revenue going to Russia, and the kind of strategy you suggest—there are different ways technically of accomplishing that, but it is certainly a desirable strategy.

The CHAIRMAN. The time of the gentleman has expired. I thank my colleague.

Senator Cardin?

Senator CARDIN. Thank you, Mr. Chairman. Madam Secretary, thank you for your service.

I first want to just concur with the comments of our chair, Senator Wyden, and Senator Carper, in regards to needing predictable, sustainable funding for the Internal Revenue Service. The budget that the administration has supported does that, but we need staying power here. I have been working with Senator Portman since we were both in the House of Representatives, trying to modernize the IRS through resources for the level of service, for the fairness in enforcement, and I just want to underscore that the commitment needs to be there for a sustained period of time so the IRS can provide the level of service that Americans expect, and provide the fairness in our tax code.

I want to ask a question in regards to affordable housing. Over this work period, I was on the Eastern Shore of Maryland in Cambridge looking at some of the challenges we have there for affordable housing. That is a rural area. We have been to urban centers, rural areas, and we have affordable housing issues.

And there are several provisions in the administration's budget that I think are important that have bipartisan support. We can talk about the historic tax credits which were used in regards to Cambridge. We can talk about the New Markets Tax Credits. Senator Blunt and I have introduced legislation that would extend and make permanent the New Markets Tax Credits.

Low-income tax credits have been an issue that we have had bipartisan support for, but I want to concentrate, if I might, on the Neighborhood Homes Investment Act that Senator Portman and I have introduced that is in the administration's budget that deals with the appraisal gap.

There are neighborhoods in which you cannot refurbish homes because the market price makes it impossible to put that investment in. And the Neighborhood Homes Investment Act deals with that appraisal gap by providing a credit so that we can have a larger stock of affordable housing in communities that today are being neglected.

So, can you just share with the committee the priority of this administration in regards to affordable housing, and specifically the Neighborhood Homes Investment Act?

Secretary YELLEN. Well, we are certainly supportive of that. Affordable housing, I think, is one of the most serious and growing challenges we face in this country. And the administration is trying to think of everything we really can to promote the building of affordable housing: the Low-Income Housing Tax Credit, the New Markets initiative, and other things the administration can do internally to try to promote affordable housing.

Senator CARDIN. I would just underscore, as we talk about American families struggling today because of increasing pricing, housing is one of the key areas. We know we have a shortage.

So I just hope that you would put a real priority on it. We have bipartisan support. We need not only your support, but your active engagement in order to get this to the finish line. We have strong support on this committee, and I hope that we will see it in one of the tax bills that make it to the President's desk for signature.

I want to talk about another tax issue that is moving in Congress. The House has taken action on retirement security, a pretty comprehensive bill. Our chairman and ranking member, Chairman Wyden and Ranking Member Crapo, are bringing all of us together in regards to retirement security. I have worked with Senator Portman for many years on these issues.

We are looking at how we can get people who have saved too little in the past adequate incentives to save, and help for small businesses to create saving opportunities for their employees to provide more certainty and flexibility for Americans in their retirement years. All of those are areas that I think are not controversial but bipartisan.

But once again, if we are going to be able to have that three-legged stool for retirement security—Social Security, private savings, and retirement—we need to strengthen our retirement security tax laws. We need your push here to get to the finish line, because there are a lot of stakeholders, a lot of interest groups, and we have to come together in a relatively short period of time in order to get a bill passed.

Is the administration willing to help us get a retirement security bill to the finish line?

Secretary YELLEN. We will certainly look forward to working with you on that. Our staffs can talk to one another about what is needed, and we will be glad to work with you on that.

Senator CARDIN. Well, I appreciate that. We are going to need some priorities here from the administration to help us. There are different views, and we have to reconcile different committees here in the House and the Senate. I know there is a lot on your plate, but I would urge you to give this a high priority.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Cardin. And Senator Crapo and I are going to give the retirement bill a very high priority. Good work.

Senator Portman is next.

Senator PORTMAN. Thank you, Mr. Chairman, and thank you for your focus on the retirement policy front, as well as Ranking Member Crapo, and thanks to Senator Cardin. Thank you for asking the question, and I appreciate your willingness to continue to provide technical assistance to us to get through this. This is one of the great bipartisan opportunities we have that can actually help the people we represent at a time when people's savings are under more and more stress. During COVID, a lot of people took money out of their savings. This will help them save for their own retirement, and it deals with really the four or five concerns that all of us have raised with regard to the retirement system. So, thank you for working with us on that. And thank you, Senator Cardin, for raising it.

On the issue of foreign tax credits, I am very concerned with the new regulations, and particularly the lack of comment that went into the final draft of that. It is a pretty simple issue to me, because countries all around the world provide foreign tax credits, so there is no double taxation. So, if a U.S. company pays taxes overseas, you do not want to double up and have them pay taxes here, because we want more U.S. companies to do business overseas.

I will give you an example. In my home town of Cincinnati, Procter & Gamble has over 10,000 employees; 40 percent of those workers support global sales, international sales outside the United States. So this is great for us. A lot of those are service jobs, back-office jobs—high-paying jobs by the way—white-collar jobs that help to strengthen our entire economy. This happens all over the country.

And so my concern is that the interest in avoiding double taxation is compromised when you look at these new regulations. Post TCJA, which was 2017, we saw that if businesses were able to compete and workers were able to compete, they did pretty well. In fact, we had a lot more money come back into this country because of that. And we stopped it altogether, and that was something all of us were wringing our hands about and being very concerned about companies literally becoming foreign companies to avoid the tax laws here.

We stopped them, shut them down. So I think what you are doing right now with these new regulations is pointing us in the wrong direction and back to where we were not competitive.

So I appreciate you have indicated you want to make changes to the cost recovery and royalty withholding portion of the rules, but I also understand that you have indicated you will not be amending the rules dealing with the ability to take credits with regard to recording taxes on services. And again, that is a lot of what we do in this country.

So my question to you would be, one, do you agree with me that we want to have global companies here in America that are expanding jobs here, and therefore taking advantage of what the global community does, which is these tax credits, including for services? Are we just on a different philosophical plane here? So that would be helpful to know.

And second, would you be willing to take a look at these regulations as they relate to services in particular, to help protect jobs here, and look at further modifications for reporting taxes on services?

Secretary YELLEN. Let me say first, of course we will look at any concrete suggestions that you have, and work with you. We understand that there are concerns about these regulations, and we certainly will revisit them and look at comments.

But philosophically, what we said is, we think that these regulations are very important to protect interests critical to the United States. And the fundamental principle is that we should allow a credit for foreign taxes only where the foreign taxing jurisdiction has the primary right to tax the income.

And what we are seeing around the world are new kinds of taxes, like digital service taxes, where foreign countries are essentially trying to expand their taxing jurisdiction through extra-territorial-type taxes. And these are taxes that should not be entitled to take the foreign tax credit. And if we grant it, we are just encouraging countries to impose taxes that we think—in the case of digital service taxes—will be found to be unfair trade practices——

Senator PORTMAN. Madam Secretary, let me interrupt just for a second, because I have limited time. I don't disagree with you on the digital services taxes. That is not the issue here, and I understand your position on that, and I tend to share your position that American companies have been unfairly targeted with respect to digital services taxes. I am talking about withholding taxes with regard to services.

And I think it is important that we have final regulations that have received notice and comment from American workers, from American companies, because it is very different than the initial regulations in that regard. So that is the issue I am focused on today.

Secretary YELLEN. We certainly will work with you on that, and we are reaching out and understanding what the concerns are about these rules.

Senator PORTMAN. One idea that has been suggested is a 1-year delay to give us a chance to actually get the notice and comment and understand it better, and I hope you would consider that.

The CHAIRMAN. The time of my friend has expired. Did you want to respond to that, Secretary Yellen?

Secretary YELLEN. I was just going to say that if there are changes, they could be applied on a retroactive basis.

The CHAIRMAN. Very good. Thank you.

Senator Daines is next, and then I very much hope we can get to Senator Casey, who has been so patient. And we will have to see who else is coming.

Senator Daines?

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

I do want to talk about inflation, because that is what everybody is talking about back home. The chairman mentioned that in his opening remarks. It is truly remarkable what is happening with the inflationary hurricane-force winds that are blowing today.

It is in the minds of the people that I serve, everyday Montanans. Every day, they see it at the gas pump. They see it at the grocery store. They see it in fertilizer prices for our farmers.

The Biden administration has attributed, though, this broad-based rapid inflation that began last year to Putin, attributed it to greed, attributed it to exploitation, to profiteering. But the one thing we have not heard the administration say is that there may have been a contributing factor with the $1.9-trillion spending package that was passed in March of 2021 by this Congress while we were calling out the concerns of the inflationary pressures that it would create in the economy. Even former Obama administration officials—and we saw that with Larry Summers, who was the Director of the National Economic Council under Obama, who was also President Clinton's Secretary of Treasury. He warned this would spark inflation. He was exactly right.

In fact, in a recent Federal Reserve Bank of San Francisco research paper titled, quote, "Why Is U.S. Inflation Higher Than in Other Countries?", analysts confirmed the strong connection between heightened U.S. inflation and the government spending that was occurring earlier last year.

A large portion of that spending was in that $1.9-trillion package. By the way, there was over a trillion dollars in unspent COVID dollars coming in December of 2020. We warned everybody up here, you can't spend another $1.9 trillion, because it will have inflationary effects. I have not heard this administration say anything about that, but I do want to allow you to have the opportunity to set that record straight.

My question is, Madam Secretary, do you agree with the San Francisco Fed that the nearly $2-trillion March spending package was a significant causal factor in the high, increasingly broad-based inflation that we observed this past year?

Secretary YELLEN. Senator, we are seeing high inflation in almost all developed countries around the world. And they have very different fiscal policies. So it can't be the case that the bulk of the inflation that we are experiencing reflects the impact of the ARP.

Senator DAINES. So was it a causal factor? Would you say that $2 trillion, when we had a trillion dollars unspent—doing the quick math here, it is about $3 trillion that was put into this economy from December through March of 2021.

Secretary YELLEN. I guess the way I see it is, when President Biden was inaugurated, he inherited an economy with very high unemployment, and the Congressional Budget Office's forecasters were envisioning that this could last for a very long time. And we had to address the possibility that this could be a downturn that would match the Great Recession.

And so, in designing a policy, there are various risks that need to be taken into account. Of course inflation was one of them. But the overwhelming risk was that Americans would be scarred by a deep and long recession, and that they would be in over their heads and not be able to feed their families——

Senator DAINES. Right, well I respectfully—I mean, if there was a forecaster who was worried about the high unemployment rates, that forecast was, I think, massively off, and we are seeing now the biggest challenge of course is just families cannot afford to buy food and fuel.

Secretary YELLEN. Well, inflation is the number one issue—there is no question. I don't disagree.

Senator DAINES. I want to talk about the OECD for a moment here and China's compliance. We have seen China's recent history of noncompliance with international agreements. I am concerned that China is not going to play by the rules with this agreement. Whether they will ever play by the rules becomes a question.

Here is the question: what makes you confident that China will not simply stonewall efforts under the OECD agreement to determine whether Chinese companies are in compliance? And this gets back to the SEC issues and so forth.

Secretary YELLEN. So China agreed, was one of 137 countries that agreed to comply with these rules, and we expect it to do so. But if it fails to do so, this agreement contains an enforcement mechanism that will allow the United States, or any other country that has adopted the global minimum tax, to impose taxes on China's companies that would be the same as if China had complied.

So there is a tough enforcement mechanism in the deal, and if China does not comply, then the U.S. and other countries where Chinese firms do business would be allowed to collect the taxes on those Chinese firms on their business outside China, that China hypothetically refuses to collect itself.

The CHAIRMAN. The time of the gentleman has expired.

Senator Grassley, you are next. I was hoping we could get Senator Grassley and Senator Casey in, but we have had a number of colleagues coming in.

Let me ask my colleague from Indiana, have you voted already?

Senator YOUNG. I have not, Mr. Chairman.

Senator GRASSLEY. I have not, either.

The CHAIRMAN. All right; we will go with Senator Grassley, and then we will go back to the regular order.

Senator GRASSLEY. I cannot remember that you have said anything about corporate greed being a cause of inflation, but several members of your political party have. And yet we have mainstream Democratic economists who reject the greed theory. Jason Furman called it a side show. Larry Summers said it was diversionary. Benjamin Page said it was a red herring. And Catherine Rampell, for *The Washington Post,* referred to it as an inflation conspiracy theory.

What is your opinion? Does corporate greed explain the broad-based price increases consumers are currently facing?

Secretary YELLEN. Well, I guess I see the bulk of inflation as reflecting demand and supply factors. And on the supply side, we have had huge supply chain issues due to the pandemic, and shifts in the pattern of consumption away from services and toward goods.

We have had enormous increases in food and energy prices, partly reflecting Russia's War on Ukraine, and——

Senator GRASSLEY. I think you are answering the question in a way that I am glad you answered it, because I think that rejects—your answer rejects the corporate greed argument that we have been hearing.

Next question. My concern with the current focus on so-called corporate greed is that it risks taking us down the failed roads of the 1970s where we had price controls and windfall profit taxes. These policies led to rampant shortages, gas lines around the block. Do you agree that neither price controls nor windfall profit taxes are viable solutions to inflation and would have serious negative consequences?

Secretary YELLEN. Well, I do believe in a strong antitrust policy, and that is something that has been a priority of the Biden administration. Having active competition in markets, I think, is critical to innovation and to consumer well-being. And so enforcing a strong antitrust policy, I think, is important.

But with respect to the broader inflationary trends, the Fed has to play a critical role. I think deficit reduction deserves a complementary role. And we have discussed earlier in this hearing ways in which Congress can bring down many of the costs, possibly not on food and energy, but costs that are really burdening American households, whether it is prescription drugs, lack of affordable housing——

Senator GRASSLEY. I think I take your answer as, with all the reasons you have given, that you are not advocating or thinking that price controls or windfall profit taxes would have anything to do with fighting inflation.

I am going to yield back my time because I have to go over and vote. I will put some questions in for the record.

The CHAIRMAN. I am going to say to my colleagues, just so we are clear for the record, the Clean Energy for America Act, passed in this committee, according to independent analysts will save families $500.

Okay, let's see. Next we have, in order of appearance, Senator Menendez.

Senator MENENDEZ. Thank you, Mr. Chairman.

Madam Secretary, our country is suffering from a mass shooting epidemic. This year alone there have been more mass shootings than days in the year. Twenty-two schools have come under gunfire already this year, including Robb Elementary School in Uvalde, TX, where 19 children were killed in cold blood in their classroom, along with two teachers, with an assault rifle.

According to *The Washington Post,* more than 311,000 children at 331 schools have experienced gun violence at school since the 1999 Columbine shooting. After decades of Republican obstruction to Democratic efforts to address this epidemic of school shootings, we are now learning the long-term cost of this trauma.

Researchers at Northwestern University found that students who are survivors of gun violence at school are less likely to graduate high school, and they are less likely to attend and/or graduate from college. These survivors are also less likely to be employed as adults than their peers. And if they are employed, they are likely to earn less over the course of their lives.

So, Secretary Yellen, what is the economic costs of allowing the trauma of unabated gun violence in our communities and schools to continue unaddressed?

Secretary YELLEN. Senator Menendez, let me first say I am also horrified by gun violence, what we have seen in recent weeks and over many years, and I do hope that the Congress will take long-overdue action and put in place common-sense measures to reduce gun violence.

I am not an expert at all on the psychological impact of gun violence on student learning, or human capital accumulation—and I am not knowledgeable of the study that you mentioned—but I do know that there is a large literature in economics that documents that events that take place in early life, in childhood, can have a lifelong impact on life outcomes, on labor market outcomes, on psychological well-being.

And so it only stands to reason that the threat of violence at schools keeps our kids from learning.

Senator MENENDEZ. So let me just ask you from an economic standpoint. I know you are not a psychologist, but if the Northwestern University study found that students who are survivors of gun violence are less likely to graduate high school, less likely to graduate from college, and more likely to earn less over the course of their lives, doesn't that have an economic impact?

Secretary YELLEN. Of course, it has a negative impact on these individuals, and on our economy. And I don't know what the aggregate size of that is, but it certainly has a negative impact.

Senator MENENDEZ. Let me ask you something on a different topic. *The Washington Post* reported 2 weeks ago that the administration was considering canceling $10,000 of Federal student loan debt for borrowers with incomes under $150,000. The same article stated that, quote, "It was unclear whether the administration will simultaneously require interest on payments to resume at the end of August when the current pause is scheduled to lapse."

The Consumer Financial Protection Bureau issued a report in April of this year finding that 15 million borrowers, or 60 percent of all borrowers that have had their loans on pause since March 2020, may have difficulty resuming their student loan payments when the pause is over.

Are you concerned about the economic impact on borrowers if we turn student loan payments on prematurely?

Secretary YELLEN. Well, this is something that the administration is weighing to see what the right policies are here. And we are in the middle of deliberations on it. It is a very important topic. Student debt has——

Senator MENENDEZ. If people are called upon to pay, and cannot, and default, that has a real consequence. As well as in their lives, it has a real consequence to our whole world economy. That is why we have been urging the President to seriously consider loan forgiveness.

Finally, a study published by the Washington Center for Equitable Growth found that over 118 million homeowners across the United States, Black and Hispanic homeowners, face an average 10- to 13-percent higher property tax burden when compared to similarly situated White homeowners.

Would you agree that our Federal SALT deduction is an important tool to reduce the effects of regressive tax policy through property tax relief?

Secretary YELLEN. I am not aware of that study. I will have a look at it. That's something I need to look into, Senator.

Senator MENENDEZ. On a broader proposition, if I give people property tax relief, and I have a disproportionate number of the universe of property tax owners who ultimately face a greater consequence of higher burdens, then I assume that helping them with that burden gives the type of relief that enures to the benefit not only of those families, but to communities as a whole.

Secretary YELLEN. That certainly seems logical.

The CHAIRMAN. The time of the gentleman has expired.

I do not know what this does to the Brown-Casey friendship, but Senator Brown is next. Senator Casey has been so patient.

Senator Brown?

Senator BROWN. He *is* a patient man. So thank you.

One quick reference to Senator Grassley's comments about corporate greed. We know that, while the Secretary is not saying that it is the main driver of inflation, we know that a number of American industries—oil, pharmaceuticals, shipping companies, and others—have used the pandemic and used the war of Russia to raise prices, and we have seen gargantuan profits from a number of those industries, not by accident. So we know that.

Let me move to one of our favorite topics, Madam Secretary, that is, the Child Tax Credit and the Earned Income Tax Credit, the work you did. Again, I compliment you every time I am in a public forum, what you and Commissioner Rettig did with Chairman Wyden's involvement to get the IRS Advance CTC payments ready to go in just 3 months. I sit next to—on the floor, next to Senator Casey. We talked about the excitement of that bill passing in March of 2021. By July, those checks were going out to the families of 60 million children.

We should celebrate that perhaps more than we did. We know it slashed hunger rates by one-third, cut child poverty by 40 percent. That is why I am fighting, alongside Chairman Wyden and Senator Bennet and others, to make sure this gets extended, because it is so, so important for our country.

Tell us, in your view—some have criticized the Child Tax Credit for all kinds of things. Would extending the Child Tax Credit to families—they will say CTC is a primary driver of inflation. Comment on that. And then answer the question, if you would, would extending the expansion help families keep up with rising costs?

Secretary YELLEN. Well absolutely, of course it would. You know, the aid that was provided through the Child Tax Credit during the pandemic, as you mentioned, did reduce poverty by almost a half. And all the evidence we have suggests that the CTC reduced inequality.

It did increase demand somewhat. U.S. food consumption in 2021 was above the pre-pandemic level. But what that means is that families were using the additional resources that they got from the CTC to feed their children.

Did it have some marginal impact on food prices? Possibly. But what is important is that fewer kids went hungry. And this is just not a significant factor, the Child Tax Credit, in impacting inflation. There are a lot of things driving inflation. We have had multiple COVID variants when we early on expected the pandemic would ease and we would get back to life as normal.

We have had ongoing supply bottlenecks. There are COVID-related shutdowns all around the world, including China. On food prices, Russia's invasion of Ukraine is having a dramatic impact on food prices that has utterly nothing to do with the Child Tax Credit. It was a relatively small expenditure. It was spent out over the full year of 2021, and it resulted in a dramatic reduction in childhood poverty and financial insecurity for American families, and it contributed literally nothing to inflation.

Senator BROWN. Thank you. It is hard to call it anything but an unqualified success, showing that government can do the right thing and did do the right thing quickly and efficiently.

Let me shift briefly in my last minute or so, Mr. Chairman, to the international tax. A year ago I teamed up with the chairman and with Senator Warner on an international tax framework that would put Americans first. It would get rid of incentives in the tax code that reward companies for moving overseas and ensure that multinational companies paid their fair share.

You did a very good job rallying the rest of the world around a plan that would stop this global race to the bottom and put workers first. I commend you and your very apt team on that.

Why is it important for Congress to take action this year on the international tax issue? Why would American workers be worse off if the rest of the world moved forward and the U.S. was left out?

Secretary YELLEN. Well, I think that this is an extremely important initiative. As one of the leading economies in the globe, and given that it is an initiative that we spearheaded, I believe that we should do it. I think we need the revenues. It will raise considerable revenues.

I think deficit reduction is important, but we also need revenues to spend on a wide array of programs, whether it is affordable housing, or making health insurance more affordable, energy investments that will bring down utility bills over time. We need the revenue to support these investments, and to support investments in people, and making our economy more productive by lowering the burdens that households face.

Senator BROWN. Thank you, Mr. Chairman; thank you.

The CHAIRMAN. Thank you, Senator Brown. Thank you, particularly for Senator Warner and me, for leading this effort. I thank you for it.

Senator Casey?

Senator CASEY. Mr. Chairman, thanks very much.

I want to start, Secretary Yellen, by thanking you for your enduring commitment to public service, yet again taking on a tough job, and we are grateful for that, and your presence here today, and the work you have done.

I want to thank the chairman and Senator Brown as well for the work they did to make it possible for us to have the Child Tax Credit and the enhanced version of that in place. In my home State of Pennsylvania, 2.2 million families benefited from that reduction in poverty. And that reduction occurred as much in rural areas as it did in urban areas. So we are grateful for that.

I want to talk to you about workers and ask one or two questions about the tax code and workers. When you compare what the tax code has done as it relates most recently to workers compared to corporations, we know in 2017 that the corporate rate went way down from 35 to 21 percent. That 14-point drop is about $1.4 trillion over 10 years.

But what is not talked about a lot is what workers lost in that tax bill. They lost their ability to deduct moving expenses when a job forces them to relocate. They also lost, if they were a member of a union, the deduction for the cost of their union dues. Workers cannot deduct the cost of their union dues, but corporations are still permitted to deduct the cost of running anti-union campaigns. This is an insult to American workers, and should be an insult to every American. But it is also an insult to, and I think in direct contravention of, the 1935 National Labor Relations Act.

Earlier this year, the President's Task Force on Worker Organizing and Empowerment spoke to these issues. I have two bills. One bill is to restore the tax deduction, but I also have another bill to crack down on union busting.

Madam Secretary, I would ask you to respond to this question: do you agree that we need to restore and improve the union dues tax deduction that the 2017 tax bill took away, and repeal the taxpayer subsidization of the anti-union campaigns by corporations?

Secretary YELLEN. I do. And let me say that we strongly support the work that the Worker Empowerment Task Force is doing. We look forward to working with you and other members of Congress to develop legislative provisions in support of that mission.

Secretary CASEY. Thanks very much.

The last question I have is about the Code, again. In 2017, corporations had their rates cut by that 14 percent, as I mentioned. Business owners also got a 20-percent write-off on their personal taxes, but that same cut was not available to their workers.

The IRS just reported that by 2017, it had all but stopped auditing the taxes of wealthy private business owners. Less than .02 percent of pass-through businesses were audited in 2017. So, while they were getting huge tax cuts, no one was checking to see if they were paying the taxes that they already owe.

Yet we know that the EITC, the Earned Income Tax Credit, recipients were five times more likely to be audited than the pass-through business owners. It is hard to comprehend that. So, people making $40,000 or less were five times more likely to be audited.

Madam Secretary, can you speak to the steps the administration has taken to make sure that wealthy business owners pay their fair share in taxes?

Secretary YELLEN. It is an appalling set of statistics, Senator, that you cite there. We have an enormous tax gap. Workers who receive W–2 income pay what is owned. The error rates are absolutely tiny. And most of the tax gap has to do with high-income taxpayers, including those who benefit from pass-throughs that have opaque sources of income we know less about.

And the resources of the IRS have been cut to the point where they have largely cut back on the complicated audits, the ones that are harder, of high-income taxpayers. And the fact that such a large share of those audits are for the EITC is very unfair.

I strongly urge Congress to approve the $80 billion that we have requested for the IRS to be able to make sure that people are paying the taxes that are due. And it is very unfair to workers in low-income households the way things work now.

Senator CASEY. Thank you, Secretary Yellen.

The CHAIRMAN. Senator Casey, you and the Secretary have just given a little teach-in about this double standard in America with respect to audits, and it is time to change it, because everybody ought to be held accountable, and it has got to be done in a fair way. And the point you have made, and the Secretary has made, is that that is not being done today at the expense of people with modest means.

Senator Bennet?

Senator BENNET. Thank you, Mr. Chairman. Thank you for holding the hearing and giving me the chance to ask questions. Secretary Yellen, thank you for your service and for being here today.

Speaking of horrible statistics, this country is 38th out of 41 industrialized countries in the world in terms of the scale of our childhood poverty. The poorest people living in the United States are our children. And for one brief, shining moment for 6 months, thanks to your efforts and the efforts of your employees at Treasury, we expanded the Child Tax Credit, based on the bill that I wrote with Senator Brown, that cut childhood poverty in this country almost in half, benefited 90 percent of the kids in this country, and reduced hunger in the United States by 25 percent.

It is hard to think of anything, Mr. Chairman, that we have done here in generations that has made more of a difference for working families. And, tragically, we let it expire.

Now there were people on the front end of this who said that this is a terrible idea. It is going to disincentivize people from working; that people are going to abuse the money for all kinds of illicit purposes.

I can tell you, Madam Secretary, people in Colorado spent the money on their kids. And the list is long, from school supplies, to lessons on instruments, to back-to-school clothing. But the one thing that everybody has in common, when I asked them what their experience was with the Child Tax Credit, it is the amount of stress that it relieved from their family. Because after all, people in Colorado live in the same economy that the entire country lives in. It is an economy that for 50 years had worked really well for the top 10 percent of Americans, and has not worked for anybody else.

Washington's response over that period of time? It has actually been to make worse our income inequality by cutting taxes to the tune of about $8 trillion since 2001. Almost all who benefited from that were among the wealthiest people in the country. It made our deficits worse. It made our income inequality worse. It is staggering that that is what we would do.

And finally, finally, we did something for working people with the enhanced Child Tax Credit and the enhanced Earned Income Tax Credit. And at the end of the year, we turned our backs on the poor children in America who benefited from this, the 90 percent of kids who had the benefit of this.

I have been here year after year after year, Madam Secretary, at midnight on New Year's Eve, or on Christmas Eve, when we did not have any trouble extending tax cuts for the wealthiest people in this country. We did not have any trouble extending tax cuts for the biggest corporations in America. But when we had actually lifted kids out of poverty, when all the studies that I have seen—and this is what I am going to ask you about, Madam Secretary—all the studies that I have seen have demonstrated that the tax credit worked as it was intended and did not disincentivize anybody from working, we cut it off, at a time of rising inflation.

Families were getting $450 on average a month, and my understanding is that inflation has caused about $300 a month of additional cost for families. That was more than covered by the tax credit.

So in the last minute and a half, Madam Secretary, let me say, first of all, how grateful I am for your effort and for the IRS's effort, and for the employees who work for you, the heroic effort that they put in place to build a system to demonstrate that we do not have to accept these rates of childhood poverty as a permanent feature of our economy, or a permanent feature of our democracy. And that was thanks to the work that your folks did.

So I would love to hear your reflections as an economist and a policymaker on the effects of the expanded monthly Child Tax Credit on children and families, and what is your sort of general reaction to all of this?

Secretary YELLEN. Senator, you have spoken eloquently about the benefits of the Child Tax Credit. I completely agree with your comments. It cut childhood poverty dramatically. It enabled families to get a little bit of breathing room, and to help their kids afford nutritious food and clothing and back-to-school supplies, and it really played a critical role. I think you noted that the President has repeatedly said that he strongly supports extension. We would love to see Congress enact that. It has made a huge difference to inequality. It was a very important initiative. I feel very proud. I appreciate your comments. I feel very proud of the work that Treasury, and particularly the IRS, was able to do to get this money out, and to do everything we possibly could to ensure that non-filers, all the many households who were not required to file tax returns, to make sure that they received the credit as well.

I would love to see—and we have been talking about investments in the IRS. One thing that investments in the IRS would do is make sure the IRS has the modern tools it needs when we have tax credits like that, to make sure they go to the families that deserve it, whether they file taxes or not.

Senator BENNET. Thank you, Mr. Chairman.

The CHAIRMAN. I thank my colleague.

The Secretary has a hard stop of 12:45. I think we are in good shape to achieve that.

Next in line will be Senator Warren. And I am going to run and vote and come back. And if Senator Hassan could chair in my absence, that would be great, and I think we will all be able to get to the second vote eventually as well.

Senator Warren, you are recognized.

Senator WARREN. Thank you, Mr. Chairman, and thank you for being with us today, Madam Secretary.

Today's hearing focuses on the Treasury Department's budget. I want to talk for just a minute about money for the IRS. Thanks to a one-two punch from Republican budget cuts, and lobbying from corporations and rich people who do not want to be audited, the IRS today is stuck with 1970s computers and staffing levels, unable to do its job and unable to audit wealthy tax cheats.

That underfunding also causes honest, hardworking Americans a lot of grief. According to the IRS, the average American spends about 13 hours and $240 every year just to file their taxes—13 hours, $240. And sure, some people have complicated taxes that take time, but maybe about half of Americans' taxes could be as easy as looking at a form the IRS has already filled out, showing your W–2 and 1099 income, and using the standard deduction and common tax credits to calculate how much you owe, or how big your refund will be. If you do not agree, check "no," and fill out your own form. If you do agree, check "yes," and you are done. Easy peasy.

But the IRS does not have that kind of easy peasy program. Instead, years ago the IRS cut a deal to send taxpayers to companies like Intuit and H&R Block to figure out what they owe. And in return these companies were supposed to make free tax filings for 70 percent of American taxpayers through the Free File program.

Secretary Yellen, what percentage of taxpayers actually use Free File right now?

Secretary YELLEN. I believe that last year about 4 percent——

Senator WARREN. About 4 percent?

Secretary YELLEN. Yes.

Senator WARREN. That's right. So, it was supposed to be 70 percent; it turns out it was 4 percent. And you know that is not an accident. These companies deliberately sabotaged the Free File program and steered people to products that they could charge for.

Now, companies like Intuit used misleading advertising and hid free products from Google search results, all so that taxpayers had to spend more money to figure out how much they owed.

The Federal Trade Commission has now sued Intuit over its bogus advertising of free tax filing software, and last month the State Attorneys General extracted a $141-million settlement from Intuit for these scams.

Now, these swindles are just one reason why the GAO recently recommended that the IRS develop its own alternative to Free File, stating, quote, "The IRS faces mounting risk by continuing to rely on the tax prep industry to provide free tax filing services," end quote.

So, Secretary Yellen, it sounds like Free File has worked out great for corporations like Intuit, which raked in billions of dollars, but would you agree with the GAO that the current system is not working for American taxpayers, and that it is time for the IRS to develop a real Free File program? Or let me just ask this more directly. If we can get you the resources, will you commit to developing a Free File program that actually works for American taxpayers?

Secretary YELLEN. So, look, I absolutely agree with the comments that you made about Free File. It has not worked. We need to develop a new system. There is no reason in the world that a modern economy should not have a system that makes it easy for such a large group of taxpayers to file their returns.

Beyond that, I would also add that it is important that households be able to access the benefits that Congress often wants to provide, like the Earned Income Tax Credit, the Child Tax Credit when that was available, the Economic Impact Payments. And for individuals who do not have to file tax returns, this can be extremely difficult. We have to develop software to do that.

Senator WARREN. So, I am loving everything you are saying, but I am still listening for the part that says, if we can get you the resources, you will commit that the IRS will build its own Free File program and make this available to Americans across the country.

Secretary YELLEN. We are certainly looking into it. But I want to make a point, which is that the IRS is under siege. It is suffering from huge under-investments. It has massive problems that it is dealing with.

Right now, our number one priority is dealing with the backlog, a huge backlog, of tax returns. The IRS right now does not have the authority to hire the people it needs to deal with the backlogs, and it doesn't have the technology that it needs——

Senator WARREN. Madam Secretary, look, I am not someone who is attacking the IRS. I am trying to get you the resources that the IRS needs so it can go after wealthy tax cheats. But what I would like to know is, if we are going to fight for the resources, to get them over to you, and the resources are available, will you commit to build the Free File program?

Secretary YELLEN. It is definitely a priority. It is definitely something we should do, and when the IRS is adequately resourced, it is something that will happen.

Senator WARREN. Oh, I think it is something we need to do. Look, I have a bill, the Tax Filing Simplification Act—I am going to reintroduce it—that would require you to do this. But I just want to make clear, you could do this, if we get you the money. I would really like to see this happen. The Treasury has the authority now and needs to use it.

Thank you.

Senator HASSAN [presiding]. Thank you, Senator Warren.

Senator Thune, I am going to defer to you.

Senator THUNE. Thank you, Madam Chair.

Madam Secretary, welcome to the committee.

As you know, President Biden recently wrote a *Wall Street Journal* op-ed that tackling inflation is the, quote, "top economic priority." And I think that is a welcome development for the President to acknowledge that inflation is a problem. It was not that long ago that President Biden and his top economic officials were claiming an extraordinary increase in Americans' cost of living was merely transitory.

I know you have responded to some questions on this subject already, but do you still view inflation, which remains near a 40-year high, as transitory, or do you expect an extended period of raised inflation?

Secretary YELLEN. Well, when I said that inflation would be transitory, what I was not anticipating was a scenario in which we would end up contending with multiple variants of COVIDs that would scramble our economy and global supply chains, and I was not envisioning the impacts on food and energy prices we have seen from Russia's invasion of Ukraine.

So, as Chair Powell indicated himself, both of us probably could have used a better term than "transitory." There is no question that we have huge inflation pressures, and inflation is really our top economic problem at this point, and it is critical that we address it.

So I do expect inflation to remain high, although I very much hope that it will be coming down now.

Senator THUNE. And the President's budget, on that point, projects inflation at 4.7 percent for 2022, which seems to be an entirely unrealistic assumption, given that inflation in the first half of this year has been well above that rate.

Have the administration's 4.7-percent inflation assumptions proved accurate for 2022? Or has that number been revised higher?

Secretary YELLEN. We are in the process of producing a new forecast for the mid-session review. The numbers are not locked in, but it is likely to be higher.

Senator THUNE. Well, hopefully we will not have to wait long for that, right? I mean, when does that review come out?

Secretary YELLEN. I am not sure what the date is.

Senator THUNE. So let me just say too, there are a couple of things that—the President has obviously suggested that the inflationary numbers are a result of Ukraine, and clearly, if you look at the CPI inflation data that was largely collected before the Russian invasion of Ukraine, was the President wrong to blame the preexisting inflation on the Russian invasion of Ukraine? And do you think that it is at all attributable to the overheated economy that was accelerated by last year's $1.9-trillion partisan spending bill?

Secretary YELLEN. Look, when President Biden took office, the United States faced a really horrendous problem in that it was projected that unemployment would stay extremely high for many years. CBO projected unemployment in excess of 9 percent. And he had to decide what was an appropriate policy to address what all of us thought at that time was the greatest risk facing our country, which was that we were seeing cars line up at food banks, people going hungry, people beginning to lose the roofs over their heads, worrying that they would not be able to get jobs, and that we would have a generation that was scarred by high unemployment.

And we put in place some designs, a program in the ARP that not only was intended to address those risks, but succeeded in doing so better than anyone could have anticipated.

Right now we have about the lowest unemployment rate we have had in close to our history. In a recent Federal Reserve survey, more households than ever have described their financial situation as strong. And the question about, could you manage to pay an unexpected $400 expense? A record number of people since that survey started said they could.

So we have accomplished a lot. We have the fastest recovery of any developed country. There is no question that inflation is too high, and it has to be addressed. But we are starting to do that from a situation of strength.

And of course it is important to bring inflation down.

Senator THUNE. Mr. Chairman, my time has expired, but I would just say the economic crisis the American people are feeling right now is this extraordinarily high inflation rate which, again—to the degree that there may have been jobs created and wage increases, these have been completely eaten up.

The American people are getting a de facto pay cut because of inflation. And it just does not seem like—and gas prices are contributing largely to that, and I see no strategy out of the administration to do anything to deal with rising gas prices.

And I think that there is no question that the $2-trillion bill last year overheated the economy, and it is why we have the mess that we have today.

So, Mr. Chairman, thank you.

Senator CRAPO [presiding]. Thank you, Senator.

Senator Hassan?

Senator HASSAN. Thank you, Mr. Chair. And good afternoon, Secretary Yellen, and welcome.

Inflation is the number one economic issue I hear about from Granite Staters. Supply chain challenges and Putin's invasion of Ukraine have driven up costs across the economy, and these higher prices are straining the budgets of families and small businesses. As one way to help lower costs for families, I have led bipartisan legislation to cut taxes for homeowners who upgrade to more energy efficient appliances.

The administration has been supportive of passing clean energy tax cuts that would help lower energy costs for Americans. Do you agree that passing clean energy tax cuts as proposed in my bipartisan bill would help lower costs for Granite Staters?

Secretary YELLEN. Senator Hassan, yes, I do. I think various incentives and tax credits that would support clean energy are critical ways in which we can help lower- and middle-income families cut their costs and offset price pressures that they face, address climate change, and over the medium term, reduce our dependence on fossil fuels and on global oil markets, where geopolitical risks are often causing spikes in oil prices that, if we were more dependent on the sun and the wind, we would not face.

Senator HASSAN. Thank you.

In 2020, I helped lead a successful bipartisan effort to ensure that all small businesses struggling during the pandemic had access to tax cuts through the Employee Retention Tax Credit. However, I have heard from small businesses in New Hampshire, such as Smuttynose Brewing in Hampton, that are still waiting on Treasury to send their full Employee Retention Tax Credit payments.

Madam Secretary, what is Treasury doing to clear the backlog of Employee Retention Tax Credit claims and ensure that small businesses receive this tax relief as soon as they can?

Secretary YELLEN. Senator, I am aware of this problem, and what I can tell you is that IRS is working as diligently as it possibly can to clear what is a huge pandemic-related backlog. And things that are filed in paper—the IRS is still in the process of opening these. I think a lot of these Employee Retention Tax Credit filings were paper filings that are part of this backlog. And so I think that is partly responsible for the delays.

You know, I think there will not be penalties for situations that arise where additional income tax may be owed and the taxpayer is waiting for this refund payment to be able to pay taxes owed. Penalties will be waived.

I know that the IRS has issued some guidance, and told these filers that they may be eligible for relief. It was a very regrettable situation, and IRS is working as rapidly as they can to solve it.

Senator HASSAN. Well—and I thank you for that response. I will keep encouraging IRS to work as quickly as they can, and in the long term, we all have to make sure that the systems are modernized and IRS has the staffing it needs, because obviously this is not an acceptable situation.

Secretary YELLEN. Thank you. This is really a reflection of decades of underfunding. And it is frankly amazing that the IRS is able to do as much as they can, giving out the Child Tax Credit payments and the Economic Impact Payments.

Senator HASSAN. I do understand that, but I will continue to push on this, because I just was talking with a small business on Saturday that is really kind of on the edge here and waiting for this credit.

So let me talk about one other thing, which is Russian gold reserves. Vladimir Putin has stockpiled billions of dollars in gold in an attempt to insulate the Russian economy from international sanctions. I would like to thank Treasury for heeding calls earlier this year from a bipartisan group of Senators, including myself and Senator Cornyn, to ensure that U.S. sanctions freeze Russian gold assets.

Can you update us on Treasury's ongoing efforts to combat any attempts by Putin to prop up Russia's economy by selling off his gold stockpile?

Secretary YELLEN. Yes. This is an important matter, and we have issued guidance that gold-related transactions involving Russia may be sanctionable under the President's executive order. And we are closely monitoring any efforts that we can see to circumvent our Russia-related sanctions through the use of gold.

Senator HASSAN. Thank you very much.

Thank you, Mr. Chair.

The CHAIRMAN. Senator Barrasso is next.

Senator BARRASSO. Thank you, Mr. Chairman.

Thank you, Madam Secretary. I appreciate you being here to testify today.

Things have gotten a lot worse since the last time you testified before this committee. Inflation is at a 40-year high. It is impacting Americans with higher prices across the board.

When President Biden took office, the price of a gallon of gas was $2.38 a gallon. Today, it is $4.92 a gallon. This past Memorial Day was very expensive for people to travel. In my home State of Wyoming, rural areas, people who volunteered to drive for Meals on Wheels to deliver meals to shut-ins have had to stop volunteering, not because they do not have the time or the commitment or the open heart, but they do not have the money for the gas. That is the number one issue affecting the American people.

A few weeks ago, we had the Interior Secretary testifying before the Energy Committee. I asked her if she thought that gas prices were too high? She could not come up with—she did not think it was an easy question. She could not come up with an answer. Of course they are too high.

But I ask you. Do you think that the gas prices are too high?

Secretary YELLEN. Absolutely.

Senator BARRASSO. Thank you. The people in Wyoming and the vast majority of Americans agree with you on that point, and the question is, what are we going to do about it?

Well, in your fiscal year budget and revenue proposals as part of the proposed tax hikes, you specifically target U.S. energy production with tax hikes. On top of your tax hikes, the administration is doing everything it can to end oil and gas exploration and production on Federal lands.

Just last week, the administration announced a sue and settle agreement with environmental extremists which calls into question millions of acres of oil and natural gas leases in the West, including 2,000 specific leases in my home State of Wyoming. Some of these leases have been let from 2015 all the way up to the end of the last administration.

The President had his op-ed in *The Wall Street Journal* that talked about gas prices. He said, well, we need to take every practical step to make things more affordable. But it seems to me that tax hikes and other decisions like this are not going to help and are actually going to make matters worse.

Making it more expensive to produce American energy would simply lead to higher prices for consumers. And once that energy is produced, it needs to be transported to refineries, and eventually to gas stations. Well, pipelines are an important piece of that transportation. But on CNBC last week, you specifically suggested pipelines don't matter.

On the one hand, both you and the President say gas prices are too high, to which I agree. But on the other, you are targeting American energy with taxes, and this is going to result in higher costs for Americans.

So, since you agree that prices are too high, can you please explain the inconsistencies with the policies of the Department of Treasury and the administration?

Secretary YELLEN. Well, I would say that as a medium-term matter, the way to reduce energy prices for Americans is to promote credits, energy policies that boost the production of renewables that will reduce our dependence on global oil markets—where geopolitical factors can cause energy prices to spike, as we are seeing with Russia and Ukraine—and can lower utility prices for Americans.

In the short run, before that happens, high prices—we have very high prices, as you pointed out, for oil. I believe that producers are sitting on 37 million acres of land under lease from which they can drill and produce additional oil, and high prices are a motivation to do that.

So we do need additional oil. The prices that Americans pay are influenced by what happens in global markets. And so, promoting the production of additional global oil will help to relieve supply shortages in the global market. But it will not completely insulate Americans from global oil market pressures in the short run.

Senator BARRASSO. Well, I would point out that, in addition to the leases, you actually need the permission to drill. And this administration has blocked all of that. And this sue and settle agreement by the administration last week is taking many of those acres that you just described and freezing those so they cannot be used.

And with $5 gas, what we see today is the President calling on using the Defense Production Act, not to go after this, but to build solar panels. And that, it seems to me, is the wrong place to be using that act.

I would just point out, Mr. Chairman, finally, yesterday's *USA Today,* a front-page story, a picture, Madam Secretary, of you and the President of the United States, yesterday's *USA Today* headlines, "Small Risk of Inflation Swelled to a Global Threat." Underneath, "White House Waived Off Economists' Warnings." And they quote you from ABC, March of 2021, "Is there a risk of inflation?" You responded, "I think there's a small risk." This is with regard to signing the American Rescue Plan. You said, "And I think it is manageable."

Given that, it makes me wonder why Americans should put any confidence in your pronouncements and decisions and recommendations today?

Thank you, Mr. Chairman.

The CHAIRMAN. I thank my colleague.

Senator Whitehouse?

Senator WHITEHOUSE. Thank you very much.

Madam Secretary, it is good to have you with us. I know it has been the end of a long morning for you.

In January of 2021, more than a year ago, we passed the beneficial ownership legislation that Senator Crapo, among others, was a champion of, and that was passed with strong bipartisan support.

A lot of time has gone by, and we are still waiting for the rule to come out of Treasury. I just helped you get $22 million in additional FinCEN funding to help accomplish that. In the meantime, because there is no rule, Tax Justice has just put America at the top of the financial secrecy index, number one. This is not an index on which we want to be number one.

Can you tell us anything about when you are going to be done with the beneficial ownership rule? It has been over a year.

Secretary YELLEN. Well, last December, FinCEN did publich a notice of proposed rulemaking to implement the beneficial ownership reporting requirements, and that is the first rulemaking. The second will govern access to the beneficial ownership information system, and that will be published certainly this year.

So, all I can tell you is that we appreciate the extra funding, but to fully implement this rule in fiscal 2023, we need full funding for building of this database. But we appreciate the funds that were in the Ukraine supplemental. Effective implementation of the Corporate Transparency Act is really a top priority, and is getting our full attention.

Senator WHITEHOUSE. Well, if you could instruct your people to pick up the pace, I think that would be helpful. It has been quite a while since the law passed. It has been a year since the regs were supposed to be accomplished. There are three different rules that are necessary to implement it. Only one has even been proposed.

So, there is a lot of room for improvement in the rulemaking process, and I hope you will see to that.

The other topic that we talk about often, you and I, is the problem of the 501(c)s. You have indicated that the political dark money that they facilitate is a problem for our country. And you have said that you will give it serious review and serious study. And I just want to flag it for you because, again, I am not seeing either the serious review or the serious study.

The problems are quite specific, and I want to flag them for you.

One is, you have a (c)3 and a (c)4 that are indistinguishable. They have the same office. They have the same staff. They have the same board. They have the same, you know, chief executive. And it is just a fanciful distinction. In my world, you call that piercing the corporate veil. This is a corporate veil you could pierce with a banana. This is not legit. And to look into that, I think is well worth doing.

The other issue has to do with the so-called 50-percent limit. The 50-percent limit is ignored by circles of affiliated nominal corporations so that if somebody makes a donation to one, it can then spend 50 percent of it on politics and put the other 50 percent to an affiliated organization, which then spends 50 percent of it on politics, and puts the remainder to another affiliated organization.

If you have just four of those organizations working in concert together, you have over 90 percent of the donor's money going for political advertising. And that is not what the 50-percent rule intended, either. And I think that the IRS is simply not looking at these essentially phony setups that are allowing these anonymous folks to get around both the letter and the intent of the law.

So again, please give this serious review and serious study that I think are in order. What we have had in the meantime has been a completely false narrative, blown up by your own Inspector General, that this was all a wicked effort to target conservatives. That narrative got legs because an enormous propaganda effort was done to push it.

It was debunked by the Inspector General, who has been living with the aftermath of that, and nobody is telling the truth from the Treasury Department about what really happened, about how the system is being gamed by indistinguishable 501(c)3s and 501(c)4s, and by these coordinated efforts to spend the money through affiliated groups so that you can end up spending it all on politics instead of the nominal 50 percent.

So, if you could please, please look at that, I would be grateful.

The CHAIRMAN. I thank my colleague.

Senator WHITEHOUSE. Could she just quickly answer that?

The CHAIRMAN. Oh, of course. Please.

Senator WHITEHOUSE. I know my time is up.

The CHAIRMAN. Madam Secretary, please?

Secretary YELLEN. I understand the importance of this issue and agree with you that we absolutely need to get that money out of politics. We will work with you to try to do that.

Senator WHITEHOUSE. Great. If you can look at those specific things, that would be helpful.

The CHAIRMAN. I thank my colleague.

Members have a week to submit written questions. And, Madam Secretary, we are going to have you out the door actually early. And just one thought in closing.

It seems to me we are closing where we began, which is that the Congress has a big role to play in cutting costs, which helps to cut inflation. We talked about prescription drugs for example, and that is key. Medical expenses are gobbling up everything in sight. And most of the areas that we are talking about mean that you also have to tackle some very entrenched interests.

But it seems to me that nobody in America that I meet is saying, "Gee, Medicare should not negotiate to hold down the cost of medicine." The Biden administration, colleagues on this side of the aisle, have said, of course you ought to negotiate for these expensive drugs, the cancer drugs for example. The same is true about clean energy for America.

What we have said on this committee, Madam Secretary, to hold down energy costs is, we are going to take those 45 provisions in the tax code on energy and basically throw them in the trash can and say that, for the future, it will be about clean energy, clean transportation, energy efficiency. And then we will have a technology-neutral market-oriented system where the more that you reduce carbon emissions, the bigger your savings.

But in both health care and energy, you are going to have to take on some big, powerful interests to bring costs down. And that is why I am so glad that you kept putting it right back at us, because I think that is what we have to focus on, and everything needs to be on the table.

We have already talked, you and I, about some administrative overhead that can be cut. I saw, over the break, people in the housing business say that would be beneficial. And I want to thank you for just being out there day after day after day saying, "Look, everybody has got to be part of this effort."

The executive branch, the Biden administration will be. You told Congress, "You can show up every day and help cut costs." I want to say, as you leave, I am all in and look forward to working with you. And we will excuse you at this time.

Secretary YELLEN. Thank you, Chairman Wyden. I look forward to working with you.

The CHAIRMAN. Thank you, Madam Secretary.

[Whereupon, at 12:32 p.m., the hearing was concluded.]

APPENDIX

Additional Material Submitted for the Record

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

Secretary Yellen, welcome to today's hearing.

Inflation is hurting American families and eroding wages. People are adjusting spending, even on basic necessities, to make ends meet. They are being hammered at the gas pump and in the grocery aisles and across the economy. As wages rise to keep up with inflation, odds of an inflationary wage-price spiral rise.

Inflation became broad-based and accelerated last year following the untargeted American Rescue Plan Act. That act poured $1.9 trillion of inflation fuel into an economy with growing supply-chain disruptions and households with elevated disposable incomes and liquid savings. Following that, Democrats pushed for trillions more in reckless spending. The result, which many predicted, has been inflation at highs not seen in 40 years.

As prospects of recession and stagflation rise, this is no time to consider raising taxes or resurrecting reckless spending proposals from the House-passed Build Back Better bill. The Congressional Budget Office's 10-year outlook is another warning sign that our national debt, currently at $30.5 trillion, is on an unsustainable track, headed to new record highs.

Inflation and accompanying higher interest rates mean higher net interest costs to service the national debt, crowding out other fiscal priorities. As the economy has been in recovery from COVID-related shutdowns, revenue has been up sharply under the tax system put in place before the pandemic. CBO expects revenue this year to rise to 20 percent of GDP, the highest in more than 2 decades, and then average well above the 50-year historical average.

Nonetheless, Democrats appear to want to raise taxes more in the face of rising odds of recession. One harmful policy is a minimum tax on financial statement, or "book," income, something so fundamentally flawed that both parties abandoned a previously enacted version more than 30 years ago. This harmful policy would overwhelmingly hit American manufacturers, as well as undercut investments in U.S. innovation and emerging technologies.

This is not the only proposal from Democrats that would harm the competitiveness of American companies. Another prominent example is the international tax agreement Treasury has negotiated at the OECD. Under both pillars of the agreement, Treasury has agreed to give foreign countries sweeping new rights to tax U.S. companies.

In an apparent attempt to bind Congress, Treasury agreed to terms without engaging in meaningful consultation with Congress. For more than a year, my Republican colleagues and I have repeatedly requested information on the agreement and its potential effects. Treasury has, however, repeatedly declined to provide any analysis of the effect of the agreement on U.S. businesses or U.S. revenue or the U.S. economy overall. From what we can see, that impact will be significant on U.S. companies, making them less competitive globally. We now know Treasury's failure to share substantive detail foreshadowed underlying flaws and a lack of coherent principles in the agreement.

It is increasingly clear that terms agreed to by Treasury will harm U.S. businesses and undermine tax provisions enacted by Congress to encourage certain activities. The flaw with this approach is that the agreement cannot be fully implemented without congressional action. In many cases, the terms can only be properly carried out with a multilateral treaty, requiring a two-thirds vote by the Senate. By agreeing to sweeping changes of this nature without bipartisan support, Treasury has put at risk tax certainty and the prospect of a durable or longlasting agreement.

Beyond lack of information about the international tax agreement, nothing more is known about a possible leak of private taxpayer data from the IRS to the left-leaning group ProPublica than we knew 1 year ago when it was first reported. More work is also necessary to establish independent oversight and financial controls over the $350-billion funding to States and localities in the American Rescue Plan, where no meaningful oversight was established.

Treasury must also be willing to consult Congress on debt management, which it has thus far only been comfortable doing with Wall Street and the Federal Reserve.

This committee, which is Treasury's authorizing committee, deserves more transparency and accountability from Treasury than we have been receiving.

Madame Secretary, I do appreciate your service, and look forward to hearing your testimony.

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

This morning the Finance Committee welcomes Treasury Secretary Yellen for a hearing on the budget. This is an important opportunity to discuss big economic challenges, so that's where I'll begin.

I'm coming off a string of town hall meetings across my home State of Oregon, and everywhere I went, the number one topic of discussion was inflation. People are feeling it at the grocery store and at the pump. In Oregon a gallon of gas is going for $5.42. People are paying more in rent, in shops, and at restaurants. Americans learned on Friday that unemployment is 3.6 percent, near its 50-year lows, and wages have been rising steadily. Overall, the job market is the strongest it's been in multiple generations. But in terms of what typical families are really feeling on the ground, inflation is causing real headaches.

The question is what to do about it. There's no cure-all to inflation, but the focus in Congress must be on finding real solutions to drive costs down, protecting everybody's ability to get ahead, and solidifying our economy in the long run.

A first example: Democrats on this committee are leading the effort to bring down the cost of prescription drugs. Americans are getting mugged with every visit to the pharmacy window, and it's long past time to get them some relief. Moreover, it's also past time to cut costs pushed off onto consumers by the middlemen known as pharmacy benefit managers.

A second example is energy and climate. People are spending huge amounts of money on gas and electricity. Putin's genocidal war in Ukraine is driving prices even higher. Oil and gas companies are raking in huge profits and handing out big checks to executives and announcing stock buybacks benefiting wealthy shareholders.

All the while, the climate crisis is growing around us. Bigger and hotter wildfires, stronger and wetter hurricanes, and longer and more punishing droughts. So, it's a one-two punch—Americans are paying more for gas, and they're paying more for the consequences of these unnatural disasters.

I bet a lot of Americans would be interested in a plan that would lower their energy costs, make Putin poorer, and prevent climate catastrophes all at the same time. That's another big priority for Senate Democrats, beginning with the Clean Energy for America Act, which passed this committee. That bill, using a technology-neutral approach to tax policies, would put the country on a path to cut emissions in half by 2030. One recent analysis found that would save the average household $500 per year. The bill, for the first time in the history of this committee, would stipulate that the more you reduce carbon emissions, the bigger your tax savings.

There's also interest in ensuring that oil and gas companies can't game the tax code to pay next to nothing in taxes, which is far too common today.

Third, Senate Democrats want to lower the cost of renting or owning a home. That means investing in new cost-effective housing, as well as cutting red tape, which is the approach Congress took years ago when it passed an electronic signature law I wrote that helped buyers and sellers making common transactions.

The bottom line is that Congress shouldn't address our economic challenges by making people worse off. That's precisely what Republicans want to do. The big economic plan coming from the Republican campaign chief, Senator Rick Scott, is to phase out Medicare and Social Security in a matter of a few years.

Senator McConnell has gone to great lengths to keep that Scott plan hush-hush. When he was asked earlier this year what the Republican agenda would be if they took back the Senate, he said, "That is a very good question, and I'll let you know when we take it back."

But Senator Scott coughed up the truth, and he's standing by his plan sunsetting those bedrock American programs for seniors. You can bet that Republicans will want to hand a fresh round of tax handouts to corporations as well. And there's a long history of Republican monetary hawks rooting for higher unemployment, flat wages, and cuts to basic programs that help millions of families pay for child care, groceries, rent, and other necessities.

There are clear contrasts in the approaches to solving this inflation challenge. That will give us a lot to discuss this morning. I want to thank Secretary Yellen for joining us, and I look forward to Q&A.

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

Chairman Wyden, Ranking Member Crapo, thank you for inviting me to discuss the administration's budget proposals. This budget prioritizes essential investments in education, medical care, and affordable housing, alongside tax reforms that enable deficit reduction and prioritize a fairer tax system.

Over the past year and a half, we have experienced a robust recovery characterized by strong economic growth, historically low unemployment, and high household savings rates. This rapid, broad-based recovery has been buttressed by the congressional response to the challenges of the pandemic—beginning with the CARES Act at the beginning of the pandemic, and continuing with the Consolidated Appropriations Act in late 2020, and the American Rescue Plan legislated at the beginning of 2021. As President Biden said last week, we now are entering a period of transition from one of historic recovery to one that can be marked by stable and steady growth. Making this shift is a central piece of the President's plan to get inflation under control without sacrificing the economic gains we've made.

We also managed to avert the far worse outcomes that were forecast at the beginning of the pandemic in 2020. After the onset of the pandemic, CBO forecast that unemployment would exceed 9 percent in 2021; now, we are experiencing historically low unemployment. We are also witnessing sharp reductions in the budget deficit, with CBO recently forecasting the largest nominal reduction to the Federal deficit in history. According to their projections, the deficit as a share of the economy this year will be a lower level than CBO projected before the American Rescue Plan passed.

Still, we currently face macroeconomic challenges, including unacceptable levels of inflation as well as the headwinds associated with the disruptions caused by the pandemic's effect on supply chains, and the effects of supply side disturbances to oil and food markets resulting from Russia's war in Ukraine. To dampen inflationary pressures without undermining the strength of the labor market, an appropriate budgetary stance is needed to complement monetary policy actions by the Federal Reserve. Moving forward, elements of the President's proposed legislation—including the clean energy initiatives and plans to reform the prescription drug market—can help lower the costs paid by American consumers.

Treasury has been actively working with Congress on many challenges. Most important is our joint response to Russia's illegal and unprovoked war against Ukraine. Treasury is committed to doing what we can to ensure that Putin's brutal war continues to be met with fierce resistance internationally. Alongside more than 30 other partners abroad accounting for more than half the world's economy, the U.S. Government has imposed unprecedented financial pressure measures on Russia and its leadership. Today, the Kremlin has been cut off from the global financial system, the Russian economy is experiencing severe contraction with most analysts projecting a double-digit decline in Russian GDP in 2022, and they are experiencing sharply elevated inflation.

We are grateful for the strong support of Congress in this endeavor, including its recent provision of $40 billion in security, economic, and humanitarian aid to the people of Ukraine. Our joint resolve is essential to supporting the people of Ukraine against this brutal invasion of their homeland.

Over the past year and a half, we have successfully collaborated with Congress on the bipartisan infrastructure bill, a bill designed to do the hard, generational work of building a more dynamic, structurally sound economy by smartly investing in the future. This law will rebuild America's roads, bridges, and rails; expand access to clean drinking water; ensure every American has access to high-speed Internet; and invest in communities that have too often been left behind. However, our work isn't done. Building a fair and stable tax system that promotes broadly shared growth is important to both adequately funding investments and to reducing deficits and debt. I look forward to working with Congress to ensure that we continue to make progress in this regard.

In the administration's FY 2023 budget, we suggest smart, fiscally responsible investments—cutting deficits and keeping the economic burden of debt low. The budget's investments are more than fully paid for through tax code reforms requiring corporations and the wealthiest Americans to pay their fair share, closing loopholes, and improving tax administration.

Finally, it is no secret that I am keenly focused on moving forward on the global agreement on international tax reform, including a global minimum tax that will level the playing field and raise crucial revenues to benefit people around the world. Last fall, 137 countries—representing nearly 95 percent of the world's GDP—agreed on a deal that will stabilize our tax systems, provide resources to invest in security and respond to crises like COVID–19, and ensure corporations fairly share the burden of financing government. I am hopeful that Congress will also implement this global minimum tax as part of its legislative agenda.

Thank you, and I look forward to taking your questions.

Questions Submitted for the Record to Hon. Janet L. Yellen

Questions Submitted by Hon. Ron Wyden

Question. The IRS still has a backlog of over 15 million unprocessed returns. Oregonians who filed paper returns this year are wondering if the IRS has lost them. Some desperately need their tax refund to pay their bills.

When these constituents call my office, we would normally work with the Taxpayer Advocate Service (TAS) to help. But the IRS hasn't agreed to let TAS help taxpayers with 2021 returns because checking on one person's return slows the whole process down. That makes sense, but we still need to help taxpayers who are experiencing significant hardships because of processing delays.

Can the Treasury Department work with the IRS to ensure that TAS can help those with the greatest need?

Answer. Taxpayers deserve to have their tax refunds returned on time, and the Taxpayer Advocate Service plays a critical role in the IRS and helping address the inventory backlog. In the 2021 year-end report, the Taxpayer Advocate Service made 88 recommendations for the IRS, of which the majority have begun to be implemented. Last filing season, the Taxpayer Advocate Service answered 46 million additional calls through new tools, support that ultimately ensures those who need help receive the service they deserve. TAS plays an important role helping American taxpayers and will continue to work with the IRS and Treasury to serve those in need.

Question. Because tax revenues increased in 2021, some of my Republican colleagues are claiming that their 2017 tax cuts for corporations and wealthy individuals paid for themselves. The numbers tell a different story. The actual amount of revenue collected in 2018 was significantly lower than the CBO projected—to the tune of $275 billion [1] or over 7 percent of the revenues that CBO expected before

[1] *https://www.brookings.edu/policy2020/votervital/did-the-2017-tax-cut-the-tax-cuts-and-jobs-act-pay-for-itself/.*

the tax cuts were enacted. Given that the economy grew, and in the absence of another policy that could have caused a large revenue loss, the data show that the cuts reduced revenues.

Some economists think the 2021 tax revenue increases are due to a booming stock market, a booming housing market, and pandemic relief. Others think that wealthy investors accelerated gains last year to beat proposed tax rate increases in BBBA they thought might apply for 2022.

Do you think the 2017 tax cuts for corporations and wealthy individuals paid for themselves?

Why do you think tax revenue increased in 2021?

Answer. The Tax Cuts and Jobs Act (TCJA) is not the explanation for the recent increase in corporate tax receipts. In fact, CBO's February 2021 forecast of corporate tax receipts showed corporate tax receipts were projected to be *less* than the pre-TCJA projections.

The effect of TCJA on corporate receipts is better measured by examining the cumulative change in revenues since its passage in December 2017, rather than just 1 year. By this measure, the TCJA produced a large decline in corporate tax revenues.

A better explanation is that the strong economy and pandemic relief legislation increased wages, corporate profits, and taxes. In particular, the economy grew at its fastest pace in 3 decades in 2021.

The U.S. economy entered 2022 in a strong position. U.S. economic growth was the fastest in 40 years. Since the start of the administration, the United States has added 7.4 million jobs and the unemployment rate has fallen from 6.7 percent to 3.6 percent—the fastest calendar year decline in the unemployment rate. GDP growth was 5.7 percent in 2021. This growth is contributing to higher receipts.

Question. The IRS's return processing backlog is due to the fact that IRS employees have to transcribe paper returns manually. The IRS does not use automated scanning technology like many States. If you fill out your Oregon State tax return on your computer and then mail it, the return will print with a barcode that the Department of Revenue can scan like a box of cereal at the grocery store. Nobody has to transcribe anything. Oregon has been doing this since 2006.

Another technology called optical character recognition (OCR) transcribes returns, even if they don't have a barcode. This technology makes some mistakes, but humans make even more. The IRS Commissioner testified that he was still evaluating these upgrades. I agree with my Republican colleagues that the IRS can't go through another filing season with the same backlogs and delays that we have seen over the last 2 years. It needs this technology now.

Can the Treasury Department make sure that the IRS starts using both of these technologies to transcribe individual income tax returns without delay?

Answer. In 2021, the IRS announced the start of its IRS Pilot program, an effort to use technology like optical character recognition and scanning-as-a-service to securely and efficiently process taxpayer documents. The IRS is currently in the final phase for several solutions in the Pilot program. The IRS has already begun implementing some of the new technology. For example, the IRS began using OCR software to better serve taxpayers, As of January 1, 2022, the system has already been fully integrated with OCR. In the future, the IRS will continue to work to find ways to use technology to improve tax return processing.

Questions Submitted by Hon. Mike Crapo

INFLATION

Question. Three days after your Senate Finance Committee hearing, the Bureau of Labor Statistics (BLS), on June 10th, identified that inflation in the consumer price index (CPI–U) was 8.6 percent on a year-over-year basis in May, a high not seen since 1981.

BLS data on consumer price inflation across a broad range of consumer expenditure categories showed broad-based inflation that is not limited merely to energy and related goods.

Broad-based consumer price inflation became evident following passage of the partisan American Rescue Plan Act, and was well established before Russia's invasion of Ukraine.

Do you believe that the Biden administration is out of tools to address inflation, and it is now primarily the Federal Reserve's job to clean up the inflation damage that has been partly fueled by the American Rescue Plan?

If not, please explain in detail what the administration, including Treasury, intends to do.

Answer. The primary responsibility for maintaining price stability lies with the Federal Reserve, which is taking actions to address unacceptably high levels of inflation. The administration is also taking actions to reduce price pressures. The administration released a historic volume from the Strategic Petroleum Reserve to counteract the disruption to oil markets from Russia's invasion of Ukraine. The administration is also working with the private sector to ease supply bottlenecks—for example, reducing congestion at our ports and increasing the supply of chips to automakers. Congress has an important role here: the administration has made proposals to lower the price of prescription drugs, increase affordable housing, reduce the deficit, and bolstering energy security by transitioning away from fossil fuels in the long term, the price of which is too often subject to geopolitical shocks.

Question. Gas prices at the pump have been at record highs for a large number of consecutive days and the national average price per gallon of regular gas has risen above $5.00 according to AAA; the national average price per gallon of diesel is above $5.76, a direct blow to truckers, distributors, and ultimately consumers and businesses.

The President, in early May, has been quoted as stating that: "Here's the situation. And when it comes to the gas prices, we're going through an incredible transition that is taking place that, God willing, when it's over, we'll be stronger and the world will be stronger and less reliant on fossil fuels when this is over."

In the Senate Finance Committee hearing with you on June 7th, you similarly suggested that while inflation and high gas prices need to somehow be addressed, in the "medium term" more incentives for renewables are needed to address climate change and U.S. reliance on global oil markets.

Your testimony identified that you believe that U.S. energy producers are partly responsible for current elevated gas prices because they are sitting on leases in which they could produce more energy in the face of high prices. Do you believe that producers are foregoing opportunities to profitably produce, or are there regulatory impediments in place?

Answer. Consumption of gasoline and fuels is currently at lower than pre-pandemic levels. Domestic refinery capacity and oil production have declined. Oil and natural gas producers did not anticipate the strength of the recovery in the economy and did not increase supply to match increased demand. Higher prices should induce producers to increase supplies over time.

The administration is taking ongoing action to bring down energy prices. The President announced the release of a record 1 million barrels per day from the Strategic Petroleum Reserve and has rallied international partners to join the United States, releasing a combined 210 million barrels of oil on the market. The administration has expanded access to biofuels like E15 to increase supply and lower prices at thousands of gas stations.

The administration understands that our efforts to increase energy production in the near term must be coupled with medium- and long-term efforts to transition our economy away from fossil fuels produced by autocrats and toward clean energy.

Question. Do you agree with the President that, when it comes to high gas prices, we are going through a transition to become less reliant on fossil fuels, and do you believe that such a transition will require that Americans simply work through the pain of high gas and diesel prices until the medium term arrives where renewables can come on line to replace fossil fuel usage? If so, how long will it take to get to such replacement, which would be a period during which Americans potentially continue to suffer through a painfully costly transition?

Answer. The administration is taking ongoing action to bring down current energy prices. The President announced the release of a record 1 million barrels per day from the Strategic Petroleum Reserve and has rallied international partners to join the United States, releasing a combined 210 million barrels of oil on the market.

The administration has expanded access to biofuels like E15 to increase supply and lower prices at thousands of gas stations.

Long-term, incentives for clean energy proposed by the administration are critical ways by which we can help lower- and middle-income families cut their costs, offset price pressures that they face, address climate change, and—over the medium term—reduce our dependence on fossil fuels and on global oil markets where geopolitical risks are often causing spikes in oil prices.

TAXES AND SPENDING

Question. During the hearing, you seem to have argued for increased taxes, more stimulus spending, and deficit reduction through increased taxes, in the interest of taxpayers paying their "fair share," which no one in the administration will clearly define.

What theory and evidence do you rely upon to recommend raising taxes, the incidence of which will fall partly on workers and those earning less than $400,000, and raising Federal spending in the face of rising odds of recession and stagflation?

Answer. The tax policy reforms included in the administration's budget proposal would strengthen the taxation of high-income taxpayers and close several loopholes used by high-income taxpayers to avoid income, estate, and gift taxation. Reformed taxation of capital income would even the tax treatment of labor and capital income and eliminate a loophole that allows some capital gains income to escape taxation forever. For extremely wealthy taxpayers, a minimum income tax would require prepayment of taxes on unrealized capital gains, such that liquid taxpayers would be taxed at a rate of at least 20 percent on their income including unrealized gains. These reforms are targeted to raise revenue from those with income above $400,000.

The budget proposals build on recent reductions in the budget deficit to further improve fiscal stability and to provide a solid foundation for stable economic growth. Over the past year and a half, we have experienced a robust recovery characterized by strong economic growth, historically low unemployment, and high household savings rates. This rapid, broad-based recovery has been buttressed by the congressional response to the challenges of the pandemic. Now, we are experiencing historically low unemployment, alongside sharp reductions in the budget deficit. Still, we currently face difficult macroeconomic challenges, including unacceptable levels of inflation as well as the headwinds associated with the disruptions caused by the pandemic's effect on supply chains, and the effects of supply side disturbances to oil and food markets resulting from Russia's invasion of Ukraine. This situation calls for prudent macroeconomic actions by the Federal Reserve and for an appropriate budgetary stance in order to dampen inflationary pressures without undermining economic growth or the labor market. Legislation has a key role to play in reducing deficits and debts in the time ahead.

INTERNATIONAL TRADE NEGOTIATIONS

Question. After repeated requests, Treasury still has not provided detailed information on the potential effects of the OECD agreement on U.S. businesses and revenue. The way Treasury has negotiated this agreement raises fundamental questions about how the administration views the role of Congress on issues of taxation, over which Congress has sole constitutional authority.

If the administration negotiates an international tax agreement requiring changes in our tax laws, or cedes to other countries our right to tax American businesses if our laws are not changed, do you believe Congress should have the opportunity to weigh in on the terms of the agreement?

Answer. Yes. We have briefed members of Congress and their staff numerous times on the OECD agreement. It has always been the position of the administration that implementing the two pillars of the agreement will require congressional action.

Question. For Congress to weigh in on the terms of the agreement, do you believe Congress should be able to fully understand the potential impacts on American businesses and revenue—including by having timely access to the analysis and evidence that's before Treasury?

Answer. Yes. Details and estimates of our proposals implementing Pillar Two can be found in the Greenbook. Once Treasury has sufficient information regarding the parameters of Pillar One and the Office of Tax Analysis model captures the novel questions presented by the parameters, we will be in a position to share such information.

Question. Given the amount of work that remains to be done on both pillars, the terms of this agreement clearly are not final. Can you commit to a consultation process on *both pillars,* and not merely staff-level briefings that have yet to be substantive, that would allow Congress to instruct the Treasury on what can and cannot be enacted into law?

Answer. Treasury has provided briefings more frequently to congressional staff on the OECD/G20 international tax deal than on any other international tax question in recent memory.

Pillar Two was negotiated in light of the administration's commitments to reform GILTI to eliminate the profit-shifting and offshore incentives in current law, and the technical building blocks of Pillar Two have been in the public discourse since the 2020 blueprint was released. Implementing Pillar Two is of course a matter of congressional prerogative. We have repeatedly done deep dives on specific components of Pillar One and Pillar Two with a large bipartisan, bicameral staff group, and have repeatedly asked for input.

We continue to undertake a consultation process on the substantive building blocks of Pillar One.

Question. The United States enacted the first global minimum tax in 2017 when Congress enacted the Global Intangible Low-Taxed Income or "GILTI" tax. Five years later, we remain the only country with a global minimum tax. Instead of defending the United States as a first-mover on a global minimum tax and arguing for our current law to be treated as compliant with the OECD agreement, this administration agreed to rules that would make GILTI even harsher for U.S. companies even though no other country has a global minimum tax.

Why did Treasury agree to terms that would require Congress to make changes to domestic law? You stated during the hearing that the undertaxed profits rule (UTPR) is a tough enforcement mechanism that will allow countries that have implemented Pillar Two to impose tax on companies located in countries that have not complied with Pillar Two. Does that not mean Treasury has similarly agreed to allow foreign countries to tax U.S. companies if the U.S. does not make changes to domestic law?

Answer. Under the global tax deal, the United States may enact legislation as it wishes. Pillar Two is a common approach, and no country is required to enact it. Moreover, the United States negotiated a special carve-out allowing Congress to take its own path, not enact the Pillar Two income inclusion rule, remain with a foreign tax credit-based system modeled after our GILTI, and still be considered to have a deemed-compliant Pillar Two regime.

At the same time, we have worked collaboratively and multilaterally to develop multilateral guidance documents that would, for the first time, end profit shifting, create a more level playing field for U.S. business, and end the 4-decade long race to the bottom on corporate tax rates. Although our multilateral tax agenda has been more ambitious than any prior administration, the basic approach—working on multilateral guidance documents via the OECD—has been pursued by every U.S. administration since the Kennedy administration. In that sense, the basic process we have pursued is neither new nor novel, and respects the traditional prerogatives of the administration and Congress, respectively.

With respect to the relevant multilateral guidance documents, Treasury negotiated Pillar Two in line with the President's campaign commitments to reform GILTI to a per-country system at a robust rate. Moreover, if Congress does not reform GILTI to align with Pillar Two, it would be treated as a CFC regime and would still be taken into account in determining the effective tax rate of the CFC jurisdiction for purposes of the UTPR rule.

Question. It seems some foreign countries also have concerns with the substance and timing of this agreement. The timing in the EU has already slipped by at least a year, and, even with that proposed delayed implementation, the EU was again unsuccessful in reaching an agreement at the end of May.

If the EU cannot reach unanimity, do you propose that the United States move forward with making the U.S. global minimum tax even harsher, even though other countries are clearly hitting roadblocks in taking the first steps to enact a global minimum tax?

Answer. Other countries are already taking the steps required to implement the global tax deal, and we should too. We cannot lose this opportunity to stabilize the international tax system and make it fairer.

Moreover, once other countries act, the Chamber of Commerce has said that it would be "nonsensical" for the United States not to change its law in accordance with Pillar Two since doing so "might not increase taxes companies owe but would instead ensure the United States gets the tax revenue rather than other nations." For the same reason, if the United States were to act first, we would create pressure on others to conform their laws to Pillar Two.

Question. The EU Directive, which still does not have unanimous support by EU countries, confirms an implementation date of December 31, 2023, effectively 2024, for implementation of the global minimum tax. Are you similarly proposing that the United States make the GILTI changes effective beginning in 2024? And if not, why not?

Answer. We agree that 2024 would be an appropriate effective date for reforming GILTI into a country-by-country system. Even without the global deal, it makes good policy sense to reform GILTI, because doing so decreases incentives to shift profits and jobs offshore. It also makes sense to reform GILTI to apply on a country-by-country basis because current GILTI allows companies to blend high and low tax streams of income together, thereby escaping tax liability. Current law often creates incentives to earn income anywhere but the United States.

Question. Press reports have highlighted your recent trip to Poland and your objective to exert additional pressure in the EU to implement Pillar Two of the OECD deal. Yet, even after repeated requests, you haven't provided the substantive information this committee has requested regarding the agreement, including the legislative and treaty actions that would need to be taken to implement it. You have also only briefed us once on the agreement, even though you have said the agreement is one of the administration's biggest accomplishments. And, while certain staff have been provided after-the-fact, non-substantive briefings, periodic briefings for staff are not the same as engaging the members of this committee.

Given Congress would have to enact legislation and approve treaty changes to implement this deal in the United States, why are you not providing Congress with regular, substantive briefings on the agreement and being consulted on the many issues that need to be resolved on both pillars? Do you believe the single briefing you provided to this committee was sufficient consultation given the scope of this agreement?

Answer. We strongly dispute the premise that we have not provided Congress and congressional staff with regular, substantive briefings on the OECD/G20 negotiations and deal. We have strived to be open and transparent, including with respect to the international tax negotiations. The first bipartisan briefing of congressional staff on our positions on the global minimum tax negotiations came 2 days after I gave a speech in April of 2021 where I expressed my support for a global minimum tax deal. Since then, Treasury has provided briefings more frequently to congressional staff on the OECD/G20 international tax deal than on any other international tax question in recent memory. The international tax negotiations have been a regular subject of discussion in hearings before the committee in addition to these discussions. Beyond that, we have not only sought out the counsel of members and staff, we have made Treasury staff available for individual briefings as well and several bipartisan bicameral briefings. Additionally, we have shared OECD documents in short order after receipt and have appreciated the constructive conversations we have had throughout the course of these negotiations, with both majority and minority members and staff.

Question. The Green Book includes a proposal for an under-taxed profits rule (UTPR) consistent with Pillar Two of the OECD agreement. This proposal has changed significantly since it was first proposed. The UTPR was originally inspired by the U.S. Base-Erosion Anti-abuse Tax (or BEAT) by effectively disallowing deductions for certain payments from companies to their foreign affiliates. The UTPR negotiated by this Treasury department is far broader. Now, it would allow foreign countries to tax U.S. companies' worldwide profits, even their U.S. profits—and, if U.S. companies have taken advantage of nonrefundable tax credits specifically enacted by Congress for a certain purpose, like the R&D tax credit, they are even more likely to be subject to tax by foreign countries.

Whether to enact tax provisions that encourage certain behavior is squarely within Congress's authority under the U.S. Constitution. Why has Treasury agreed to rules that would limit the benefit of nonrefundable tax credits enacted by Congress, while agreeing to give preferential treatment to refundable tax credits and subsidies that are generally favored by foreign countries? Why didn't you or your staff consult with members on this issue before agreeing to curtail Congress's taxing authority?

Answer. The distinction between refundable and non-refundable credits in Pillar Two of the OECD/G20 international tax agreement was initially negotiated in the prior administration and has been a matter of public record since October 2020, when it appeared in the Pillar Two blueprint. As negotiated by the prior administration, refundable tax credits are treated as income rather than a direct reduction in the taxpayer's effective tax rate. This general rule carries over into the recently released model rules and its commentary.

Under the Pillar Two model rules and commentary, tax credits generally reduce a taxpayer's tax expense and thus their effective tax rate. That general rule was necessary, given the goal of Pillar Two to level the playing field for American businesses and end the race to the bottom for corporate effective tax rates. Failure to account for credits and other incentives would render the minimum tax meaningless. The Pillar Two model rules thus follow financial accounting treatment, meaning that non-refundable credits reduce tax expense, while refundable credits are treated as income.

Treasury has worked with the OECD to clarify the treatment of general business credits under the Pillar Two minimum tax. We are confident that the value of many of our general business credits is preserved under the OECD rules, and we have established a process with the OECD for working towards additional clarifications. Moreover, because of the way investments that give rise to credits, such the low-income housing tax credit, are structured and treated for financial accounting purposes (*i.e.,* under the equity method), the income or loss and the income tax consequences of those investment typically will be excluded from the effective tax rate calculation for Pillar Two purposes. For those credits that are impacted by the Pillar Two model rules, as noted in the FY 2023 Greenbook, the Biden administration remains committed to working with Congress to ensure that taxpayers continue to benefit from important tax incentives that provide U.S. jobs and investment, in a manner consistent with the framework outlined by the Pillar Two model rules and commentary.

IRS OVERSIGHT

Question. The IRS faces an unprecedented backlog of paper tax returns and correspondence. Many of the backlogged tax returns are taxpayers' owed refunds that are significantly delayed. The refunds would help offset the effects of inflation and provide American businesses with the capital needed to recover from the pandemic. Taxpayers' lives are being upended by the IRS not processing returns in a timely manner. We must put an end to the backlog and get the IRS back to timely processing tax returns.

During hearings, government executives stated the backlog would be "eliminated" or "cleared" by December 31, 2022; other times the testimony was the backlog will be at a "healthy level" entering into the 2023 tax filing season. Shifting from an objective standard of no backlog to a vague standard of a "healthy" backlog is concerning.

Will the paper return and document backlog be cleared or at a healthy level by December 31, 2022?

Answer. As of June 10, 2022, the agency has worked to process over 143 million returns. Although there has been substantial progress, the backlog is still causing delays.

Question. If a healthy level, what specifically does that mean and what can taxpayers expect when the backlog reaches a "healthy level"?

Answer. As of June, 2022, millions of taxpayers are awaiting their returns, and the hardworking staff at the IRS are dedicated to ensuring taxpayers receive the service they deserve. Because the IRS receives tax returns and taxpayer correspondence throughout the year, there is always some inventory that is being processed. For example, the IRS typically enters filing season with under 1 million pieces of inventory. A healthy level of inventory can be processed in a timely fashion without negatively impacting other IRS processes.

Question. Does "healthy level" mean taxpayers will receive their refunds for the 2022 tax year in the timely, pre-pandemic, time frame of less than 3 weeks for e-filed returns and 6–8 weeks for paper returns?

Answer. The IRS continues to work to address the unprecedented backlog of returns. For example, it plans to hire thousands of new employees, create surge teams dedicated to processing returns, and provide additional help for taxpayers by improving automation. These investments will improve how fast the IRS processes returns, both this year and for years to come. As an example of how important these investments are, during the last filing season, any error on a tax return needed to be manually reviewed. Now, the new automated tools the IRS integrated processes electronically filed returns at an approximate rate of 1,000 returns per hour. The IRS is committed to serving taxpayers and is working to ensure that the average timeframe it takes to process returns can be shortened even more.

Question. The 2022 tax filing season introduced Schedules K–2 and K–3. Many in the tax professional community voiced strong opinions the compliance obligations brought on by Schedules K–2 and K–3 were overly broad, created a massive new compliance burden, and many times did not provide any pertinent information to the IRS.

Is the Treasury taking action to assess the tax professional community's criticisms? If yes, will the results of this assessment be made public?

Answer. As always, Treasury and the IRS are engaged with taxpayers and practitioners on their concerns. The IRS provided guidance for taxpayers who make a good faith effort to comply with the new schedules for this tax year and said they would not be assessed penalties.

The new Schedules K–2 and K–3 accommodate the complex international tax provisions enacted by the TCJA. TCJA required a significant increase in the amount and types of information needed to calculate the U.S. tax liability with respect to items of international tax relevance. Having worked through changes to other forms, the IRS made similar changes to flow-through returns to ensure that investors, the ultimate taxpayers in the case of flow-through entities, have the information to accurately complete their returns. The IRS observed in the years following TCJA that items of international tax relevance were not always reported in a clear and standard format on Schedules K and K–1 attachments. Having clear and consistent forms and instructions will ultimately help partnerships and S corporations report in an efficient manner.

The greater certainty also enables the IRS to verify that partnership and S corporation items are properly reported on partners' and shareholders' returns. This should reduce the burden on both taxpayers and the IRS by reducing unnecessary inquiries and examinations that may arise due to inconsistent reporting of partnership and S corporation items.

Question. Is the Treasury considering reducing the number of taxpayers who must file Schedules K–2 and K–3 for the 2023 tax filing season? If no, why not?

Answer. The IRS is still engaged in the current tax filing season and processing returns. Treasury and the IRS are open to hearing from taxpayers, and we consider comments on the Schedule K–2 and K–3 forms and instructions on a regular basis. Any modifications the IRS might make would be reflected in draft instructions published later this year.

QUESTIONS SUBMITTED BY HON. JOHN BARRASSO

Question. The bipartisan objective that justified entering the Organisation for Economic Co-operation and Development (OECD) tax negotiations was the elimination of unilateral measures by foreign governments unfairly targeting U.S. companies, such as digital service taxes (DSTs).

But this administration made the OECD agreement a partisan issue when it began pushing the administration's objectives on the global stage. Press reports highlighted your recent trip to Poland in an attempt to put additional pressure on Poland to implement Pillar Two of the OECD deal—the global minimum tax.

Even after repeated requests, you have not provided the substantive information this committee has requested regarding the agreement, including the legislative and treaty actions needed to implement it. You have also only briefed the members of this committee *once* on the agreement, even though you have said the agreement is one of the administration's biggest accomplishments.

The lack of consultation with Congress is especially concerning because this deal you have agreed to cedes some of Congress's constitutional power to tax to unelected foreign bureaucrats.

Given Congress would have to enact legislation and approve treaty changes to implement any deal in the United States, why are you spending time pressuring foreign governments when you have not received buy-in from Congress? Will you commit to providing regular, substantive briefings on the agreement and consult with members of this committee on the many issues that need to be resolved on both pillars?

Answer. Treasury has received strong support from many members of Congress, in both chambers, for our approach to these historic negotiations. We also provided Congress and congressional staff with regular, substantive briefings on the OECD/G20 negotiations and deal. In that regard we have strived to be one of the most open and transparent Treasury administrations. The first bipartisan briefing of congressional staff on our positions on the global minimum tax negotiations came 2 days after a speech I gave stating support for a global minimum tax, in April of 2021. Since then, Treasury has provided briefings more frequently to congressional staff on the OECD/G20 international tax deal than on any other international tax question in recent memory, by any administration of either party. And the international tax negotiations have been a regular subject of discussion in hearings before the committee in addition to these discussions. Beyond that, we have not only sought out the counsel of members and staff, we have made the Treasury team available for individual briefings as well and several bipartisan bicameral briefings. Additionally, we have shared OECD documents in short order after receipt and have appreciated the constructive conversations we have had throughout the course of these negotiations, with both majority and minority members and staff.

We continue to ask for input from Congress on these negotiations, and look forward to ongoing discussions.

Question. The Infrastructure Investment and Jobs Act, signed into law last November, included new reporting requirements for cryptocurrency transactions. The Treasury Department specifically requested these reporting requirements.

While these requirements do not go into effect until January 2024, the information supplied will be for the 2023 tax year. Brokers will be required to track transactions starting on January 1, 2023, less than 6 months away.

I understand that the Treasury Department is currently drafting proposed regulations to implement these requirements. The release of the regulations has been expected for a while now.

Can you provide an update on the timing of the release of these regulations to help businesses comply with the reporting requirements?

Answer. The Treasury Department views the development of proposed regulations implementing information reporting by brokers of digital assets to be a priority. Treasury is currently developing a notice of proposed rulemaking to solicit public comments. We expect the proposal to be published in the near future.

QUESTIONS SUBMITTED BY HON. MARIA CANTWELL

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. The housing credit is responsible for building 90 percent of all affordable housing nationwide, so it's vital we expand the credit to address this crisis.

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. It also includes 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 in December 2020 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 along the lines of what I pushed to be included in the Build Back Better package, which would build an estimated 812,000 units nationwide. I look forward to working with you to get that enacted in to law this Congress.

As you know, the 12.5-percent State allocation increase of the Low-Income Housing Tax Credit expired at the end of 2021. This means we're actually now seeing a *cut* to the production of affordable housing during a nationwide housing shortage—55,000 fewer units will be built over the next 10 years. Will you commit to supporting the restoration of the 12.5-percent increase, and support an expansion of LIHTC as myself and Senator Young have advocated for?

Answer. We enthusiastically support strengthening the LIHTC tax incentive, and we share your concern about the decline in allocated LIHTCs as a result of the expiration of the temporary 12.5-percent increase in State allocations. The administration's revenue proposals for FY 2022 would have increased State allocations for 5 years by many times the effective reduction from that expiration.

Question. I've been hearing concerns from a number of housing organizations about the potential impact that the Pillar Two OECD reforms will have on the Low-Income Housing Tax Credit, potentially disincentivizing much of the equity financing that underpins affordable housing projects. I know you and the Department are working to address these concerns. Will you commit to making sure we preserve the full effectiveness of LIHTC as the administration works to implement the Pillar Two reforms?

Answer. Treasury has worked with the OECD to clarify the treatment of general business credits under the Pillar Two minimum tax. We are confident that the value of many of our general business credits is preserved under the OECD rules, and we have established a process with the OECD for working towards additional clarifications. Moreover, because of the way investments that give rise to credits such the low-income housing tax credit are structured and treated for financial accounting purposes (*i.e.,* under the equity method), the income or loss and the income tax consequences of those investment typically will be excluded from the effective tax rate calculation for Pillar Two purposes.

Question. As you are aware, financial institutions that provide banking services to legitimate marijuana businesses are vulnerable to criminal prosecution. As a result, few banks and credit unions are willing to risk providing services to marijuana-related businesses. This leaves many businesses cut off by financial institutions and unable to accept credit cards, deposit revenues, or write checks to meet payroll or pay taxes.

With only access to limited financial services, cannabis businesses must operate using large amounts of cash which creates a serious safety risk for these businesses and the neighboring community. I have heard from many of my constituents about the need for reforms so marijuana businesses can bank with financial institutions. So far this year, there have been over 80 armed robberies at dispensaries in Washington State, one of which resulted in an employee being fatally shot. This is a major public safety crisis in my State, and we must ensure that these businesses are not targets of violence.

I appreciate your support for the House-passed SAFE Banking Act. In your view, how would this legislation benefit the cannabis industry and their contributions to the economy?

Answer. We believe that these issues are best resolved through legislation, which should provide clarity to marijuana businesses, their service providers, and financial institutions. We are broadly supportive of the SAFE Banking Act and would be happy to work with you and your staff to provide technical assistance.

Question. How would providing access to the banking system for marijuana businesses improve the ability of the IRS to collect taxes from these businesses?

Answer. Without speaking to the large questions surrounding cannabis businesses, allowing access to the banking system and providing the ability to make electronic payments may reduce burdens on the IRS and improve collections.

Question. Trade is an essential element for economic growth for my State and for the Nation. At this point in time, our trade policy ties into the cost of goods, businesses ability to grow—and inflation. The Biden administration has been slow to roll back tariffs, particularly section 301 tariffs on Chinese goods, that are ineffective in changing the behaviors of the targeted countries, and at the same time are contributing to inflation.

I have businesses in my State, many are small businesses, which are being squeezed because of the cost of tariffs to their business and on their products. The payment of tariffs is reducing available cash on hand to grow their business, and in at least one case, making it impossible for the company to invest in the onshoring of manufacturing. At the same time, tariffs increase the cost of manufacturing, making these products more expensive for the consumer, adding to inflation.

Can you offer your thoughts on the impact of the 301 tariffs on the cost of goods for American consumers and how important it is to the economy to align our tariff policy with our economic policy, and the need to reduce costs to get control of inflation?

Answer. Tariff policy is not the primary tool to deal with high inflation, although reductions in some tariffs could help bring down prices that are burdensome for consumers. The administration is currently reviewing the China section 301 tariffs and, subject to applicable legal requirements, is looking to reconfigure them in a way that would effectively advance U.S. interests.

QUESTIONS SUBMITTED BY HON. BENJAMIN L. CARDIN

Question. One of the challenges facing our tax system currently is the phenomenon of "ghost preparers," meaning individuals who are paid to prepare tax returns but do not identify themselves on the return by including a PTIN. I am pleased that Treasury's proposals this year in the Greenbook include a new penalty on filers who fail to disclose the use of a paid tax return preparer, which the proposal asserts will discourage reliance on incompetent and dishonest tax return preparers and promote compliance.

Given the importance of closing the tax gap by ensuring that taxpayers have access to competent tax return preparers, has Treasury developed data on how prevalent ghost preparation is and how much it is contributing to the tax gap? If not, is this an area that Treasury intends to examine in more detail as you rightly focus on how unscrupulous tax return preparers may be harming both taxpayers and the overall tax system?

Answer. Taxpayers often use unregulated "ghost preparers" who do not have the credentials to provide accurate tax assistance. Treasury is concerned that these ghost preparers submit more tax returns than all other preparers combined, and defrauding taxpayers hurts both regular Americans and compliance standards. The President's plan calls for the IRS to be granted legal authority to implement safeguards on the tax preparation industry and includes penalties on ghost preparers. Treasury will continue to support efforts to curtail unregulated tax preparation.

Question. I appreciate Treasury's inclusion in the Greenbook this year of enhanced penalties for unethical tax return preparation practices, such as appropriation of PTINs, EFINs and the failure of taxpayers to disclose that they are using ghost preparers. I agree that better enforcement in these areas can improve the taxpayer experience as well as help to close the tax gap.

Has Treasury examined how much of the tax gap could be attributable to these practices? If not, do you expect to do so?

Answer. Better enforcement both improves the taxpayer experience in America and helps close the tax gap. Treasury routinely studies and examines the tax gap and will continue to do so in the future.

Question. As I have stated before at different hearings and in letters to the Department of Treasury, entities cannot seek, accept, or solicit payments from designers in exchange for providing section 179D allocation letters. The Treasury Department has already confirmed the Finance committee's intent.

The issuance of a section 179D allocation letter shall not be used as leverage to request a payment from a designer; allocation letters should be duly issued once the applicable design services have been performed.

The Senate Finance Committee appreciates the comments regarding this issue that Senator Crapo and I received last Congress on our Tax Task Forces, making clear that industry is concerned by the behavior of some State and local government entities, asking for return cash benefits in order for them to issue the allocation letter.

These actions run counter to the intent of § 179D(d)(4)'s express direction to allow the allocation of the section 179D deduction ". . . to the person primarily responsible for designing the property in lieu of the owner of such property."

Consistent with congressional intent, the section 179D allocation letters are administrative in nature and serve to formalize the allocation of the tax deduction to the eligible designer. It's an issue that doesn't seem to go away and I want to get your help to stand behind the intent of Congress and work with us to address this problem.

Answer. We welcome the opportunity to work with you on this and to help ensure that business practices are in line with congressional intent. I know your office has highlighted this issue and talked to Treasury staff about it. I understand from the staff that a project was added to the IRS priority guidance list last year that is intended to address issues in this area.

QUESTION SUBMITTED BY HON. THOMAS R. CARPER

Question. An issue I've worked on for years is strengthening our tax system by reforming the estate and gift taxes. Today, many assets of wealthy families are passed down from generation to generation largely tax-free. This reality makes our tax system less fair and less fiscally responsible. For example, the first $11.7 million an estate passed down in 2021 would be untouched by the estate tax. And assets above that exemption level are often inherited tax-free thanks to significant loopholes in the gift tax. We can find a more reasonable approach here, one that protects family farms and small businesses while ensuring that the wealthiest Americans pay their fair share.

What sort of common-sense reforms to estate and gift taxes can make our tax code fairer and more fiscally responsible?

Answer. I agree that reform of estate and gift taxes should be a priority. This year's Treasury Greenbook included a number of proposals that we believe would shut down some common abuses in this space and make the overall tax system more equitable. The proposals included rules to better regulate grantor trusts; rules requiring consistent valuation of promissory notes, which are often used to manipulate estate tax liability; and rules that would limit the duration of generation-skipping transfer tax exemptions. We would welcome a conversation between Treasury's Office of Tax Policy and your staff to discuss these and other ideas.

QUESTIONS SUBMITTED BY HON. CATHERINE CORTEZ MASTO

Question. The State and Local Fiscal Relief Funds provided in the American Rescue Plan provided States the ability to make an historic investment in desperately needed affordable housing in communities across our country. It's very important that these American Rescue Plan funds leverage the Nation's most reliable and impactful affordable housing production investment, the Low Income Housing Tax Credit.

Will the Treasury Department provide updated guidance to grantees providing flexibility for developments to use the American Rescue Plan's State and Local Fiscal Relief Funds and leverage the Low-Income Housing Tax Credit?

Answer. Treasury shares your deep concern about the severity and consequences of the shortage of affordable housing in the United States, which is why, as you note, we continue to urge State, local, and Tribal governments to dedicate more of their State and Local Fiscal Recovery Funds (SLFRF) provided through the American Rescue Plan (ARP) to build and preserve affordable housing to decrease costs for families and individuals. The pandemic exacerbated housing affordability challenges, as millions of households fell behind on their rent and surging home prices put homeownership out of reach for many. Treasury is heartened to see that addressing housing needs has emerged as one of the most common priorities, and largest uses of funds, for States, localities, and Tribes in the SLFRF. Treasury recently provided updated SLFRF final rule FAQs on loans to fund investments in affordable housing projects and eligible affordable housing uses.

We understand that the Low-Income Housing Tax Credit (LIHTC) is the primary Federal resource available to finance affordable housing production. We have carefully considered the numerous important questions from recipients and affordable housing stakeholders about the application of the SLFRF final rule and the eligibility of specific uses of SLFRF funds to develop affordable housing, and in response have updated the SLFRF final rule FAQs relevant to affordable housing and loans to promote clarity and administrability in the use of these funds in several significant ways.

Treasury has determined that features of loans to finance affordable housing investments significantly mitigate concerns about funds being deployed for purposes of recycling funds, potentially for ineligible uses, following the SLFRF program's expenditure deadline. Treasury has heard from members of Congress, State, local, and Tribal Governments, and affordable housing advocates that limiting recipients' ability to use SLFRF for long-term loans creates a significant obstacle to using SLFRF for affordable housing investments. In response to these concerns, Treasury has analyzed the issue and has adjusted SLFRF guidance to allow recipients to use SLFRF funds to make loans to finance affordable housing projects, funding the full principal amount of the loan, if the loan term and affordability period is at least 20 years, among other conditions. In addition, Treasury has expanded its category of presumptively eligible affordable housing uses to include alignment to requirements in a number of Federal programs, including LIHTC, to increase administrability and clarity in the use of SLFRF for affordable housing purposes. These updates are also expected to decrease the transaction costs associated with layering SLFRF funds with LIHTC projects.

Moreover, to protect affordability, the owners of any properties receiving SLFRF loans which also receive financing from LIHTC must agree to waive their right to request a qualified contract as defined in section 42(h)(6)(F) of the Internal Revenue Code and repay any loaned funds if the property becomes noncompliant.

For additional details, please see Treasury's updated SLFRF final rule FAQs on loans to fund investments in affordable housing projects and eligible affordable housing uses.

Question. It is our understanding that the HOME program requires developers and owners to follow 2 CFR part 200 (this code replaced 24 CFR 85.) The code is cited in HOME agreements with the different participating jurisdictions (example: States, counties, municipalities) that partner with Nevada's nonprofits.

The HOME regulations require following 2 CFR part 200 in several sections but the most applicable in 24 CFR part 92.505 Applicability of uniform administrative requirements.

> The requirements of 2 CFR part 200 apply to participating jurisdictions, State recipients, and subrecipients receiving HOME funds except for the following provisions: 200.306 (cost sharing or matching); 200.307 (program income); 200.308 (not applicable to participating jurisdictions) (revision of budget and program plans); 200.311 (except as provided in 92.257) (real property); 200.312 (federally owned and exempt property); 200.329 (monitoring and reporting program performance); 200.333 (fixed amount subawards); and 200.334 (retention requirements for records).
>
> The provisions of 2 CFR part 200.305 apply as modified by 92.502.c (disbursement of HOME funds).
>
> If there is a conflict between the definitions in 2 CFR part 200 and 24 CFR part 92 (HOME regulations), the definitions in 24 CFR part 92 govern.

However, the definition of Subrecipient found in 24 CFR part 92.2 (HOME regulations) states:

> Subrecipient means a public agency or nonprofit organization selected by the participating jurisdiction to administer all or some of the participating jurisdiction's HOME program to produce affordable housing, provide down payment assistance, or provide tenant-based rental assistance. **A public agency or nonprofit organization that receives HOME funds solely as a developer or owners of a housing project is not a subrecipient.** The participating jurisdiction's selection of a subrecipient is not subject to the procurement procedures and requirements.

Therefore, it seems a public agency and nonprofit organizations that receive HOME funds solely as a developer or owners of a housing project is *not* a subrecipient and is therefore not required to comply with most parts of 2 CFR part 200.

Can we clarify that the uniform administrative requirements (including procurement and conflict of interest) in 2 CFR part 200 that works for the HOME program will work the same with the SLFRF?

This would mean that nonprofit developer and public agencies would be exempted from the rules regarding subrecipients, correct?

Will the Treasury Department publish guidance to clarify that the HOME rules that exempts nonprofit developers and public agencies from the rules regarding subrecipients also applies to SLFRF used for housing?

Answer. Treasury strongly encourages the use of SLFRF funds for affordable housing uses. Unless stated otherwise, SLFRF is subject to the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards set forth in 2 CFR part 200. The requirements of other Federal programs generally are distinct from Treasury's administration of SLFRF funds unless stated otherwise.

Recipients have flexibility to fund a project with both SLFRF funds and other sources of funding (*e.g.,* blending, braiding, or other pairing funding sources), as discussed in SLFRF final rule FAQ 4.8. In that case, costs must be eligible costs under each source program and must be compliant with all other related statutory and regulatory requirements and policies.

Recipients also have flexibility in how they administer their programs within SLFRF's application of 2 CFR part 200, the SLFRF final rule, and other program requirements. For instance, it is at a recipient's discretion to deploy SLFRF funding in the form of subawards to subrecipients, contracts to contractors, or directly to benefit an individual or entity as a beneficiary. Treasury staff are happy to provide more details on these requirements.

Question. Our affordable housing developers estimate that aligning the SLFRF with LIHTC is the difference in our State between 3,000 affordable homes and 8,000 affordable homes. The LIHTC provides the leverage to build more homes.

Can grantees such as State housing finance agencies make non-forgivable loans with SLFRF directly to LIHTC partnerships per the Treatment of Loans as described in 31 CFR part 35, Final Rule, section IV.F, pgs. 366–368?

Answer. Treasury strongly encourages recipients to use SLFRF to expand affordable housing. SLFRF funds may be used to make loans, provided that the loan supports an activity that is an eligible use of funds and complies with other program requirements. Recipients also may transfer funds to an entity to carry out, as a subrecipient, an eligible activity on behalf of the SLFRF recipient, as long as they comply with the SLFRF Award Terms and Conditions and other applicable requirements. For more information on how recipients may utilize loans, please see SLFRF final rule FAQ 4.9, available here: *https://home.treasury.gov/system/files/136/SLFRF-Final-Rule-FAQ.pdf.*

Question. If a loan is made, per the above Treatment of Loans, would the conflict of interest rules and procurement rules per 2 CFR 200 apply?

Answer. Unless stated otherwise, the provisions of the Uniform Guidance (2 CFR part 200) generally apply to the SLFRF program, including its conflict of interest and procurement provisions. Recipients can refer to the section 13 of the SLFRF final rule FAQs discussing the Uniform Guidance for more information about procurement requirements, available here: *https://home.treasury.gov/system/files/136/SLFRF-Final-Rule-FAQ.pdf* (see section 13).

Question. Can grantees such as State housing finance agencies, make a grant to a nonprofit who, in turn, makes a non-forgivable loan with SLFRF directly to LIHTC partnerships per the Treatment of Loans as described in 31 CFR part 35, Final Rule, section IV.F, pgs. 366–368?

Answer. Non-profits may receive SLFRF funds from a recipient as a subrecipient, beneficiary, or through a contract with a recipient or subrecipient.

Recipients may transfer funds to any entity to carry out, as a subrecipient, an eligible activity on behalf of the SLFRF recipient, as long as they comply with the SLFRF Award Terms and Conditions and other applicable requirements. SLFRF funds may be used to make loans, provided that the loan supports an activity that is an eligible use of funds and complies with other program requirements. For more information on how recipients may utilize loans, please see SLFRF final rule FAQ 4.9, available here: *https://home.treasury.gov/system/files/136/SLFRF-Final-Rule-FAQ.pdf.*

Additionally, a recipient can provide funds to an entity, including a nonprofit organization, for the purpose of directly benefitting the entity as a result of the entity experiencing a public health impact or negative economic impact of the pandemic. In this instance, these entities will be considered beneficiaries, not subrecipients, and will not be expected to comply with subrecipient reporting requirements. Beneficiary reporting requirements will apply. For more information on subrecipients and beneficiaries, please see SLFRF final rule FAQ 1.8.

Recipients may also execute agreements with entities as contractors. For more information on contracts and subawards, please see SLFRF final rule FAQ 13.9.

Question. If a loan is made by the nonprofit, per the above Treatment of Loans, would the conflict of interest rules and procurement rules per 2 CFR 200 apply to the partnership/borrower of the loan funds?

Answer. SLFRF funds may be used to make loans, provided that the loan supports an activity that is an eligible use of funds and complies with other program requirements, as discussed further in SLFRF final rule FAQ 4.9. Unless stated otherwise, the provisions of the Uniform Guidance (2 CFR part 200) generally apply to the SLFRF program, including its conflict of interest and procurement provisions. Recipients can refer to the section 13 of the SLFRF final rule FAQs discussing the Uniform Guidance for more information about procurement requirements, available here: *https://home.treasury.gov/system/files/136/SLFRF-Final-Rule-FAQ.pdf* (see section 13).

QUESTIONS SUBMITTED BY HON. STEVE DAINES

Question. I want to thank you for including my bill with Senator Stabenow in Treasury's 2023 budget. According to the IRS, 990 pass-through entities, mainly partnerships, took $28.2 billion in deductions for tax years 2016 through 2019. That means the average deduction size for each entity was $28.4 million, and many were significantly larger.

We know that shutting down these tax shelters will require an act of Congress. Will you commit to helping Senator Stabenow, Senator Grassley, Chairman Wyden, and myself get this legislation enacted into law this year?

Answer. Treasury appreciates the bipartisan support for a legislative solution to this issue. Treasury, along with our IRS colleagues, has been working with Congress for years to arrive at a fix that would shut down the abusive practices in this space and leave in place the important incentives for real conservation. We are standing by to provide any additional help that we can.

Question. I was pleased to support the Taxpayer First Act, which became law in July 2019. As you know, section 2201 of the act requires the IRS to update the system it currently operates that allows financial institutions to request tax transcript data when underwriting a loan. The law requires the IRS to implement an online process that provides transcripts in as near to real time as possible, making the loan process faster and more efficient for consumers and lenders. The process today (called the Income Verification Express Service, "IVES") relies successfully on lenders to verify the identity of the borrower—something they are already required to do by law. I am concerned by the IRS's plan to abandon that process and assume the role of customer identity authenticator, which will add friction to the underwriting process and is counter to the intent of section 2201.

During the process of implementing the IVES, the IRS collected $72 million from the lending industry to assist in funding the development of the IVES functionally. It is my understanding the user base of this system has communicated to the IRS that the proposed identity verification process will prevent them from using the system due to the increased friction for their customers. I am concerned the IRS has been resistant to partnering with the IVES user community to find a workable solution.

Are you aware of the IRS's plans to spend $72 million collected from the IVES user community on a system that has been called into question for workability?

Answer. Section 2201 helps ensure we have a more efficient credit system that works for both taxpayers and lenders. Under 6103(c) of the Internal Revenue Code of 1986, borrowers can approve the IRS to release their income and creditworthiness to lenders. Before 2021, the process was conducted manually, often delaying the income verification necessary for taxpayers and lenders to provide mortgage loans. With the new IVES system under section 2201 of the Taxpayer First Act, a faster, more efficient system ensures that borrowers and lenders can facilitate necessary loans more efficiently. Since borrowers must provide their express approval to the IRS before any income information is released, this allows the IRS to facilitate and secure system that works best for taxpayers in America.

Question. Will you commit to encouraging the IRS to work with the IVES user community on a workable solution before the change in identification verification is made?

Answer. The change in identification verification was made on January 1, 2022. Prior to the change, the IRS worked with the IVES user community to ensure that forms were processed by rerouting forms with mistakes to a manual processing team.

Question. Has Treasury or the IRS conducted any impact analysis on the use of the IVES system if the new identify verification changes are instituted?

Answer. IVES is a secure and time-tested system within the IRS. The previous system was a fully manual process, which caused additional delays during the loan approval process. IVES began implementing processing modernization in 2021, bringing a much needed automated component that complements existing manual processing. The IRS alerted taxpayers and organizations of the new IVES modernizing changes in advance of the expected live date in October, 2021. The primary change is the inclusion of optical character recognition software, which more quickly processes tax forms. Before January 1, 2022, when the OCR was unable to read an approval form, forms were routed to the manual processing team. Effective January 1, 2022, the system has been fully integrated with OCR, ensuring a faster and more efficient process for American taxpayers.

QUESTIONS SUBMITTED BY HON. CHUCK GRASSLEY

Question. There has been a great deal of talk about canceling student loan debt. During the last election, this policy was pitched by progressives as a way to stimulate the economy and cause borrowers to go out and spend money. Now, in the face of an overheated economy and rampant inflation, the administration is talking about forgiving $10,000 of student debt per borrower, and many Democrats in Congress are urging the administration to forgive $50,000 or more.

Larry Summers has said that student debt cancellation would be "regressive, uncertainty creating, untargeted, and inappropriate at a time when the economy is overheated." With inflation near a 40-year high, why is the administration considering unilaterally forgiving student loan debt at the risk further fueling inflation?

Answer. The administration considered several options with respect to student debt relief. The economic impacts, including on inflation, must be fully considered; we must also recognize the burden of high student debt on households and its impact on the ability of these households to own a house, start a family, or choose the right job. Finally, it is worth reiterating that the primary responsibility for price stability lies with the Federal Reserve.

Question. It has been reported that in a forthcoming biography of you written by Owen Ullman, that you asked the Biden administration to decrease the size of the $1.9-trillion American Rescue Plan due to concerns the full package would contribute to the out-of-control inflation we are seeing now. I understand you have denied this claim saying that you "never urged the adoption of a smaller American Rescue Plan package." While you claim you did not urge the adoption of a smaller package, this does not necessarily mean you did not express concerns that the package may be inflationary. Leading up to its enactment into law, did you express any concerns to the administration about the potential inflationary effects of the American Rescue Plan?

Answer. When President Biden assumed office, the Nation was facing acute economic challenges. It was a time of great economic uncertainty, with legitimate risks of a downturn that could match the Great Depression. I believe that ARP played a central role in driving strong growth throughout 2021 and afterwards, with the United States' real GDP growth outpacing other advanced economies and our labor market recovering faster relative to historical experience. The rapid recovery and support provided by the ARP has meant diminished economic scarring, less human suffering, and better ability to weather shocks to our economy like Russia's war in Ukraine and successive waves of COVID–19. We are committed to addressing elevated inflation, which is the administration's number one economic priority. First, we've committed to respect the independence of the Federal Reserve and give them the space to act. Additionally, we are also using policy tools we have to address supply-side bottlenecks and urging Congress to act to lower some of the high costs facing Americans, in areas such as prescription drugs. We also support reducing the deficit to ease inflationary pressures.

Question. Nearly a year ago, the news organization ProPublica began publishing stories that it claims are based on "a vast trove of Internal Revenue Service data on the tax returns of thousands of the Nation's wealthiest people, covering more than 15 years." I've repeatedly asked you, the IRS, and Federal law enforcement agencies for information on the apparent hack or leak of taxpayer information. However, we haven't received a substantive response from any agency.

According to the IRS, as of May 20, 2022, it had received more than 145 million tax returns in the current filing season. How can these taxpayers be certain that their tax returns are secure in the hands of the IRS when the government can't answer basic questions as to how apparent confidential IRS tax data ended up in the hands of a news organization?

Answer. An unauthorized disclosure of taxpayer information in violation of the law would be illegal and would need to be taken very seriously. I am deeply concerned about this matter and, in an effort to get to the bottom of what happened, ensured that it was immediately referred to the appropriate authorities, including the Office of Inspector General, the Treasury Inspector General for Tax Administration, and the Department of Justice.

Question. What is the status of current investigations into the source of the information obtained by ProPublica and when can taxpayers expect a conclusion?

Answer. I continue to be deeply concerned about this matter, as I have stated publicly. I ensured that this matter was immediately referred to the appropriate authorities, including the Office of Inspector General, the Treasury Inspector General for Tax Administration, and the Department of Justice. These authorities conduct their investigations independently.

Question. You've argued a global minimum tax is necessary to end a "global race to the bottom" for lower corporate tax rates. However, I'm concerned the international agreement Treasury negotiated could spur a global race to provide larger corporate handouts. Under the agreement's model rules, a foreign country may subject U.S. businesses to additional tax if their tax rate falls below 15 percent. This applies whether their low tax rate results from a low statutory tax rate or a tax credit. However, cash subsidies and refundable credits receive special treatment that make them less likely trigger the tax.

Nearly all U.S. business tax credits are nonrefundable. This means U.S. companies may be subject to a tax a foreign competitor is not. In particular, U.S. companies would be disadvantaged compared to companies located in countries, such as China, that heavily subsidize certain industries.

Why did Treasury negotiate an agreement that denies U.S. companies tax benefits while providing preferential treatment for direct cash subsidies and refundable credits offered to companies by foreign countries?

Answer. The distinction between refundable and non-refundable credits in Pillar Two of the OECD/G20 international tax agreement was initially negotiated in the prior administration and has been a matter of public record since October 2020, when it appeared in the Pillar Two blueprint. As negotiated by the prior administration, refundable tax credits are treated as income rather than a direct reduction in the taxpayer's effective tax rate. This general rule carries over into the recently released model rules and its commentary.

Under the Pillar Two model rules and commentary, tax credits generally reduce a taxpayer's tax expense and thus effective tax rate. That general rule was necessary, given the goal of Pillar Two to level the playing field for American businesses and end the race to the bottom for corporate effective tax rates. Failure to account for credits and other incentives would render the minimum tax meaningless. The Pillar Two model rules thus follow financial accounting treatment, meaning that non-refundable credits reduce tax expense, while refundable credits are treated as income.

The Office of Tax Policy has worked with the OECD to clarify the treatment of general business credits under the Pillar Two minimum tax. We are confident that the value of many of our general business credits is preserved under the OECD rules, and we have established a process with the OECD for working towards additional clarifications. Moreover, because of the way investments that give rise to credits such the low-income housing tax credit are structured and treated for financial accounting purposes (*i.e.,* under the equity method), the income or loss and the income tax consequences of those investment typically will be excluded from the effective tax rate calculation for Pillar Two purposes. For those credits that are impacted by the Pillar Two model rules, as noted in the FY 2023 Greenbook, the Biden administration remains committed to working with Congress to ensure that taxpayers continue to benefit from important tax incentives that provide U.S. jobs and investment, in a manner consistent with the framework outlined by the Pillar Two model rules and commentary.

Question. In your opinion, are direct cash subsidies or refundable credits more desirable than overall lower tax rates or non-refundable tax credits? If so, do you support Congress making all business tax credits refundable?

Answer. As noted in the prior answer, the Pillar Two model rules follow financial accounting treatment for credits. Nonrefundable credits reduce tax expense, while refundable tax credits are treated as income, because they are more like a grant or subsidy from the perspective of both the taxpayer and the government. Pillar Two is a minimum tax and is not and has never been intended to prevent governments from incentivizing behavior through grants or subsidies.

Question. The President has often voiced concerns about corporations paying zero tax. Are you concerned that moving to refundable business credits could result in profitable corporations paying no tax or receiving a tax refund in excess of any taxes paid?

Answer. There are several policy considerations that are relevant to the design of incentives like the research and experimentation credit. Similarly, there are different design elements that affect how a credit is treated for Pillar Two purposes. We are committed to working with Congress to ensure that taxpayers continue to benefit from important incentives like the research and experimentation credit while also protecting revenue and other important policy considerations.

Question. Recently, President Biden has taken to portraying himself as a deficit hawk by touting a projected $1.5-trillion drop in the deficit over last year. While it's true the Congressional Budget Office (CBO) projects declining deficits this year and next as COVID spending ends, the 10-year debt and deficit numbers are actually increasing. According to CBO, cumulative deficits over the next 10 years will total $2.4 trillion *more* than it projected last July.

If the President's policies are responsible for reducing near-term deficits, are they also to blame for worsening the long-term budget outlook?

Answer. The latest CBO projections show marked decline in the debt-to-GDP ratio in the near-term due to faster than expected recovery from the pandemic. The United States had the fastest decline in the unemployment rate in a calendar year in 2021 and the fastest real GDP growth in 4 decades. As a result, the publicly held debt-to-GDP ratio is projected by the CBO to be 4.1 percentage points lower in 2022 and 6.0 percentage points lower in 2023. Over the longer-term, the debt-to-GDP ratio remains on an upward trajectory due to the aging of population and long-term imbalances from tax cuts. However, the differences between the 2021 and 2022 CBO projection for the debt-to-GDP ratio in 2031 are small (just 0.3 percentage points). Moreover, the CBO projections do not include the impact from the administration's proposals to bolster tax compliance, lower prescription drug prices, and reform corporate taxes. The CBO baseline projections that you cite also do not include the cost of extending the Trump administration's tax cuts that would reduce revenue by over $2 trillion during the 10-year window.

Question. In an October 26, 2021, letter to Senate Finance Committee members, including myself, Health and Human Services Secretary Xavier Becerra stated, "CMS has taken a number of other steps to reduce the [advanced premium tax credit (APTC)] to potential improper payments," and also confirmed that applicants to the Affordable Care Act (ACA) marketplace have household income "verified against trusted data sources like the IRS, Social Security Administration, and the Department of Homeland Security."

A 2021 Treasury Inspector General for Tax Administration report found 27.4 percent of total net premium tax credit payments, also known as Obamacare subsidies, were improper. Recently, a May 2022 Treasury Inspector General for Tax Administration report found that the IRS is "not requiring documentation to support a taxpayer's claim that they received or, more importantly, were approved to receive unemployment compensation when it is the sole basis for their PTC claim." Also, a separate May 2022 Treasury Inspector General for Tax Administration report found that the latest net premium tax credits payment amounts and rates are still not included in the most recent Treasury Department's Agency Financial Report.

I remained concerned about the verification of the APTC data, the lack of recent transparency, and how taxpayer dollars continued to be improperly spent. Given the Biden administration supports for extending APTCs to high-income earners that is estimated to cost the taxpayers $220 billion over the next decade if Congress takes action, it is critical Congress have the latest data and information about APTCs.

Will the Treasury Department publish the net premium tax credits payment amounts and rates in 2022? If so, when? If not, why?

Answer. The Treasury Department is committed to program integrity among all of its programs, including the premium tax credit. We will publish the net premium tax credit improper payment amount and rate in Treasury's Annual Financial Report for FY 2022.

Question. Given that the latest data suggests that more than one in four total net premium tax credit payments are improper, what additional steps has the administration taken since January 2021 to reduce this improper rate to zero? Please document the specific work HHS and IRS have taken collaboratively based on Secretary Becerra's October 2021 letter to me stating the ACA marketplace verifies household income "against trusted data sources like the IRS."

Answer. The IRS reports risk assessments and improper payment estimates for refundable tax credits, which can be found in the Treasury Annual Financial Report (AFR), consistent with requirements of the Payment Integrity Information Act of 2019 (PIIA).

The IRS has a robust compliance program for its refundable tax credits which consist of examinations and audits, math error notices, and document matching. The IRS's risk assessments on refundable tax credits have consistently concluded that overclaims are not rooted in internal control deficiencies, but instead are due to the complexities of verifying eligibility, including unavailability of relevant third-party data, for refundable tax credits within the time periods prescribed by the tax system. Consequently, errors are not the result of internal control weaknesses that can be remediated internally but are, in fact, the result of factors beyond IRS's control under current law and existing authority.

It is important to note HHS's and IRS's different roles in administering the advance payment of the premium tax credit (APTC). Eligibility determinations for APTC are not within the purview of the IRS. Under the ACA, the marketplace is responsible for determining the amount of APTC for which individuals are eligible based on their projected family sizes and household incomes for the year reported to the marketplace. Later this year, HHS plans to report in its annual Agency Financial Report, for the first time, measurements of improper payment rates of APTC for the federally facilitated exchange; an improper payment measurement program for State-based exchanges remains under development.

The IRS supports the household income and family size verification process by disclosing certain available items of Federal tax information after an individual submits an application for financial assistance in obtaining health coverage to a marketplace. The items disclosed are described under Internal Revenue Code section 6103(l)(21)(A) and the regulations issued under that section. This data exchange has been in place since 2013. The IRS also processes tax returns to determine the final amount of the PTC that taxpayers are entitled to receive based on actual household incomes and family sizes reported on their tax return and recovering APTC overpayments.

QUESTION SUBMITTED BY HON. MAGGIE HASSAN

Question. Treasury recently released regulations changing rules around foreign tax credits, which prevent double taxation of U.S. businesses that operate abroad. One change removed the ability of U.S. businesses to claim foreign tax credits in certain cases when foreign countries impose withholding taxes on the services provided by U.S.-based employees. It's essential that tax law changes protect U.S. jobs and avoid any unintended incentives to move U.S.-based jobs abroad.

What analysis has Treasury undertaken to ensure that recent changes to foreign tax credit rules protect jobs based in the U.S., and will Treasury commit to making any changes necessary to ensure that these rules do not create unintended consequences to move U.S. jobs abroad?

Answer. The final foreign tax credit regulations protect the interests of the United States by allowing a credit for foreign taxes only when the foreign jurisdiction has the primary right to tax the income. In the case of income from services, the Internal Revenue Code retains for the United States the primary right to tax income from services rendered in the United States by treating that income as derived from U.S. sources. As a result of this U.S. sourcing rule, a foreign tax credit cannot be claimed against that income. Treasury, however, is evaluating whether clarifications and possible changes to the final regulations may be appropriate.

QUESTIONS SUBMITTED BY HON. JAMES LANKFORD

INFLATION

Question. Inflation has risen to highs not seen in more than 40 years. Year-over-year inflation in the Consumer Price Index for All Urban Consumers (CPI–U) rose 8.6 percent in the month of May. These increases are broad-based and persistent, as families continue to contend with increasing prices for homes, gasoline, and food.

The administration has continuously contributed this rapid and broad inflation to Putin; however, year-over-year inflation measures in the Consumer Price Index have drastically accelerated from 1.4 percent in January of last year to 7.5 percent in January of 2022—before the invasion of Ukraine even occurred. It is clear that this broad-based, record-high inflation began before Russia's invasion of Ukraine.

Do you agree that it is incorrect to attribute this preexisting inflation on the war in Ukraine?

Answer. As the President and I have said, inflation is unacceptably high and has been compounded in recent months by Russia's invasion of Ukraine. The inflation seen in 2021 was a result of multiple factors: continued waves of COVID that depressed labor force participation, shut down manufacturing, and disrupted supply chains; decisions by businesses to scale back capacity during the pandemic, including among energy producers to reduce both crude oil production and refining capacity; strong demand for goods due to changes in consumer behavior over the pandemic; and household finances strengthened through bipartisan fiscal relief.

Question. Obama administration officials Steven Rattner and Larry Summers warned that, in the words of Rattner, "shoveling an unprecedented amount of spending into an economy already on the road to recovery would mean too much money chasing too few goods." As such, they have characterized the $1.9-trillion American Rescue Plan as "the original sin" (Rattner) and the "least responsible" economic policy in 40 years (Summers).

Do you agree that over-stimulating the economy with an influx of $1.9 trillion unnecessary, untargeted dollars has contributed to the economy's overheating and thus, the sky-rocketing inflation that we now face?

Answer. The attribution of the inflation we are experiencing to the American Rescue Plan is misplaced in my view. First, approximately one-third of the inflation we have experienced in the last 18 months is energy. There is no evidence that spending on gasoline or home heating has surged because households received stimulus checks or unemployment insurance. American households are consuming *less* gasoline in 2021 and 2022 than projected pre-pandemic. The reality is that oil producers and refiners responded to a sharp fall in demand in 2020 by curtailing production and taking refining capacity off line. These business decisions—exacerbated by Russia's invasion of Ukraine—led to tight market conditions and rapidly rising prices for energy. Second, food accounts directly for another 10 percent of inflation over this period. Embedded energy is a large fraction of the cost of producing and distributing food; high energy prices therefore also explain a substantial fraction of food inflation. Third, business decisions to cut capacity have impacted prices outside of energy. Take airlines, for example, which received substantial assistance during the pandemic to pay their workers. Airlines nevertheless encouraged pilots and other staff to take early retirement and are now scrambling to meet demand that is at 2019 levels. These reductions in capacity account for a substantial share of inflation. As other advanced economies reopen more fully from the pandemic this spring and summer, we are seeing core inflation rise quickly in those economies as well.

Question. Do you agree with the Federal Reserve Bank of San Francisco's recent paper, which noted that "income transfers may have contributed to an increase in inflation of about 3 percentage points by the fourth quarter of 2021"?

Answer. Their analysis does not separate the impacts of the American Rescue Plan from previous rounds of fiscal relief and, by design, cannot disentangle other differences across countries in monetary policy response or COVID–19 response that may account for differences in the speed of recovery or the rise in inflation. For the reasons articulated in my previous answer, I think the attribution of inflation to the American Rescue Plan is misplaced.

Question. Many administration officials claim that to get a handle on inflation, Congress should pass the multitrillion-dollar "Build Back Better" bill and raise taxes.

Do you believe it is prudent fiscal policy to increase taxes or engage in additional deficit spending at this time?

Answer. The Federal Reserve has primary responsibility for price stability, but Congress can take actions that lower price pressures by reducing the deficit and making supply-side investments in affordable housing and clean energy. Raising tax by closing loopholes, equalizing tax treatment for multinational companies, and improving tax compliance do not raise marginal tax rates, which, in any case, have only modest impacts on business investment decisions. A far more direct way of reducing prices is by directly lowering the cost of prescription drugs. For instance, the relatively low rate of inflation pre-pandemic was due to a slowdown in price increases in health-care driven, in part, by cost containment measures in the Affordable Care Act. Targeted savings in health care along with investments in housing, clean energy, and the labor force can ease price pressures in the long term.

Question. With runaway inflation, a first-quarter decline in GDP, and increasing odds of a recession, are you concerned that tax increases could risk killing jobs?

Answer. A modest tax increase that only impacts high earners and large corporations that reduces the deficit would have little impact on economic growth or the labor market. The expiration of the Bush tax cuts for upper-income households in 2012 and tax increases in 1993 did not result in job losses or a weakening of the labor market.

Question. You recently stated that your comments last year suggesting that inflation would be transitory were incorrect. You've also stated that "inflation is really our top economic problem at this point" and that "it's critical that we address it."

How long do you expect our period of record-high inflation to last?

Answer. Like other private forecasters, I expect core inflation to gradually ease through 2022 and into 2023. The Federal Reserve has primary responsibility for price stability, and its actions will largely determine the pace at which core inflation eases. Food and energy prices—and hence overall inflation—are less predictable given the possibility of additional geopolitical shocks that could raise prices. We are taking steps to try to avoid a further supply shock to energy markets by pursing a price exemption to the sanctions adopted by the European Union.

Question. What has changed regarding your estimation methodology since last year?

Answer. As discussed in previous answers, a set of unanticipated supply disruptions accounts for a substantial share of inflation experienced in the United States and around the world. Shocks, by definition, are unanticipated and their duration is uncertain. We continue to revise our projections based on our best assessment of incoming data and benchmark those assessments against those of external forecasters and the projections of the Federal Reserve.

Question. The average weekly national average for regular gasoline was $2.38 per gallon the week of January 18, 2021, just as President Biden took office. Last week, average gas prices reached $5 per gallon. Yet, this administration's budget proposal for FY 2023 proposes a litany of tax hikes, specifically targeting U.S. energy production.

Do you believe that making it more expensive to produce American energy would lead to even higher gas prices?

Answer. As you correctly noted, oil producers and refiners are making record profits due to strong demand, exacerbated by increased prices due to Russia's invasion of Ukraine. The market is providing plenty of financial incentives to increase crude oil production and to maintain or expand domestic refining capacity.

Question. How would targeting traditional domestic energy producers with tax increases provide relief to Americans feeling pain at the pump?

Answer. The objective of the administration's proposed adjustments is to bring the tax treatment of oil, gas, and coal producers back in line with other firms. These fossil fuel subsidies are inconsistent with the administration's policy of supporting a clean energy economy and reducing carbon emissions in the next decade. Moreover, the subsidies must ultimately be financed with taxes that result in other distortions, like reductions in investment in other, potentially more productive, areas of the economy.

Oil prices are set in a global market and subject to global forces. The same is largely true for gasoline prices. This is the reason why U.S. gasoline prices have risen due to Russia's invasion despite the U.S. being a net exporter of oil and petroleum products. Reducing these subsidies for U.S. energy producers would not materially impact their strong market incentive to increase production and would not significantly impact a price that is largely determined by global factors.

Question. What impact would you expect these tax hikes to have on the Biden administration's commitment to supply an additional 15 billion cubic meters of liquefied natural gas (LNG) to Europe through the remainder of 2022?

Answer. As you note, Russia's invasion of Ukraine will ensure strong export demand for U.S. LNG. There is no need to subsidize natural gas producers at a time of record profits and strong demand.

Question. Do you estimate these tax hikes would affect the price of natural gas for home heating, which has already seen abnormal price increases over the past 2 years?

Answer. The rise in natural gas prices reflects the fast recovery from the pandemic and strong demand for U.S. LNG exports due to Europe's need to shift away from Russian natural gas. Again, current prices and demand for LNG will provide ample incentive for domestic gas production without the need for taxpayer subsidies.

Question. Our national debt is over $30.5 trillion. Inflation and the higher interest rates that accompany it mean higher net interest costs to service that national debt. According to CBO's most recent economic projections, rising interest rates and increasing debt will cause net interest outlays to double as a percentage of GDP over the coming decade. CBO estimates that Federal debt held by the public will increase by $1.9 trillion in FY 2022 and will grow to 185 percent of GDP in 2052.

In the Ways and Means Committee hearing on June 8th, you stated that "I think the most important measure of the burden of the debt on the U.S. is the real net interest that we have to pay."

Given that statement, what is your reaction to CBO's most recent projections that net interest outlays will double as a percentage of GDP in the coming decade, reaching 3.3 percent in 2032?

Answer. Under the CBO's projection, real net interest remains under 2 percent of GDP—one threshold that we use to judge fiscal sustainability. More broadly, the speed of the recovery has reduced projected debt-to-GDP ratios in the near term. Over the medium term, more actions will need to be taken to reduce deficits and stabilize the debt-to-GDP ratio.

Question. Do you agree that the burden of our skyrocketing debt is significant?

Answer. I disagree with your characterization of the debt as skyrocketing. The debt-to-GDP ratio has fallen over the last year as the U.S. economy has recovered quickly. The administration and CBO projections for the debt-to-GDP ratio and interest burden suggest that our debt levels continue to be manageable. Over the long term, further actions are likely needed to lower deficits and place our entitlement programs on a stronger footing.

Question. Are you concerned about the impact of inflation on our net interest payments?

Answer. Our budget projections recognize that interest rates are likely to rise as the Federal Reserve has indicated. Longer-term Treasury yields suggest that inflation is expected to return to target, and longer-term real interest rates remain low. Of course, in the short term, high inflation actually reduces our debt burden by lowering real interest payments.

Question. At what point will you be concerned about the Federal Government's ability to simultaneously service existing debt, fund entitlement programs, and finance discretionary programs?

Answer. I think it is prudent to keep the debt-to-GDP ratio on a stable or downward trajectory and real interest payments at or below 2 percent of GDP. The administration's revenue proposals would meaningfully improve the fiscal outlook for the U.S., particularly over the medium and long term. Further rounds of tax cuts for corporations and wealthy Americans would weaken our fiscal outlook.

ABORTION AND THE ECONOMY

Question. Last month, during a Senate Banking Committee hearing, you said that abortion was good for the economy.

Can you explain why you believe babies being born are damaging to the U.S. economy?

Answer. That is a mischaracterization of my comments and views. The overturning of *Roe v. Wade* takes away from women the personal choice of when to start a family. The progress made since the 1970s in increasing women's educational attainment and boosting women's labor force participation has had immense benefits for the U.S. economy and the welfare and opportunity of women. The United States was once a leader among advanced economies in these dimensions. I would note that the administration also recognizes the importance of supporting children and working families. That's why we proposed an increased access to health care, expanded Child Tax Credit, paid family leave, universal pre-K, and grants for child care.

PROPUBLICA

Question. On June 8, 2021, the media outlet ProPublica published an article titled "The Secret IRS Files: Trove of Never-Before-Seen Records Reveal how the Wealthiest Avoid Income Tax." It has been over a year since that first politically motivated article, which stated that ProPublica had obtained a "vast trove" of IRS data on the returns of thousands of Americans covering more than 15 years, was published.

To date, the Treasury Department has been unable to provide the members of this committee or the American public with any update regarding how this breach occurred and what steps have been taken to ensure that taxpayer information is protected.

In a June 8th, 2022 hearing before the House Ways and Means Committee, you stated that "[w]e don't know how that information got into the public domain." You also stated that you have received no update regarding the investigations.

Can you confirm that after an entire year of investigations, you are still without any idea how this confidential, legally protected, taxpayer data was made public?

Have you asked investigators for an update on their investigations?

What tangible steps has the Department taken to determine how this occurred?

What tangible steps has the Department and the IRS taken to ensure that taxpayer information in its possession is safe?

Answer. The Treasury Department is committed to protecting taxpayer privacy and cares deeply about safeguarding taxpayer information. I continue to be deeply concerned about this matter, as I have stated publicly. I ensured that this matter was immediately referred to the appropriate authorities, including the Office of Inspector General, the Treasury Inspector General for Tax Administration, and the Department of Justice. These authorities conduct their investigations independently.

Question. The unauthorized disclosure of returns or return information is a felony under 26 U.S.C. § 7213(a)(1), and (2). It is also a felony under Federal law to publish returns or return information that were disclosed to the publisher by someone else under 26 U.S.C. § 7213(a)(3).

How has the Department sought to enforce Federal law on those publishing this protected, taxpayer information?

Answer. The Treasury Department is committed to protecting taxpayer privacy and cares deeply about safeguarding taxpayer information. An unauthorized disclosure of taxpayer information in violation of the law would be illegal and must be taken extremely seriously. I continue to be deeply concerned about this matter, as I have stated publicly. I ensured that this matter was immediately referred to the appropriate authorities, including the Office of Inspector General, the Treasury Inspector General for Tax Administration, and the Department of Justice. These authorities conduct their investigations independently.

Question. On June 7, 2022, I sent you a letter requesting that you brief the members of this committee on how the IRS is protecting taxpayer information, the security and safety protocols that are being implemented, and where shortfalls exist. When asking for a briefing in our FY 2023 budget hearing later that day, you said that we would try to arrange something.

Can you commit to briefing our members on security protocols underway at the IRS to keep taxpayer data safe?

Answer. The Treasury Department is committed to protecting taxpayer privacy and cares deeply about safeguarding taxpayer information. My staff is available to discuss this issue with you at any time.

Question. On May 19, 2022, the Government Accountability Office (GAO) released a report providing an overview of cases of willful unauthorized access, attempted access, inspection, and disclosure of Federal tax information by IRS employees. That report indicates that the IRS investigated and closed 1,694 cases from FY 2012 to FY 2021, and that 27 percent of those cases were found to be violations and 22 percent were unresolved.

What are the Treasury Department and the IRS doing to ensure that employees and contractors who inappropriately and illegally access taxpayer information are held responsible?

Answer. The Treasury Department is committed to protecting taxpayer privacy and cares deeply about safeguarding taxpayer information. An unauthorized disclosure of taxpayer information in violation of the law would be illegal and must be taken extremely seriously. I continue to be deeply concerned about this matter, as I have stated publicly. I ensured that this matter was immediately referred to the appropriate authorities, including the Office of Inspector General, the Treasury Inspector General for Tax Administration, and the Department of Justice. These authorities conduct their investigations independently.

OECD

Question. Under the OECD agreement that you brokered, U.S.-headquartered companies participating in activities that Congress incentivized, such as R&D, could actively face higher rates of tax in other jurisdictions where they operate. The under-taxed profits rule (UTPR) as agreed to by your Department at the OECD would effectively give other countries power over U.S. taxing authority and the U.S. fisc—allowing these jurisdictions to look at U.S. headquartered companies—partaking in the activity that Congress allowed—and if there's a determination that that U.S. operation isn't paying enough tax in the U.S. on their U.S. income, based on a standard determined not by Congress, this deal permits that foreign country to tax that company's U.S. profits.

This company is doing what Congress wanted to encourage companies to do domestically, but yet, they could face higher tax rates, threatening jobs and discouraging operations in the U.S.

Do you have a concern that this agreement relinquishes Congress's taxing authority to foreign governments, OECD bureaucrats, and unelected financial regulators?

Answer. Pillar Two recognizes that each jurisdiction sets its own tax policy, and that multiple jurisdictions may assert taxing claims over multinational businesses. Pillar Two levels the playing field for U.S. multinationals, because it ensures that other countries' multinationals are also subject to at least a minimum rate of tax on their foreign earnings. It also includes a strong backstop rule to ensure that other countries' multinationals do not have a competitive advantage if their headquarters jurisdiction does not implement the deal.

Under the global tax deal, Congress may enact legislation as it wishes. Pillar Two is a common approach, and no country is required to enact it. At the same time, we have worked collaboratively and multilaterally to develop multilateral guidance documents that would, for the first time, end profit shifting, create a more level playing field for U.S. business, and end the 4-decade long race to the bottom on corporate tax rates. Although our multilateral tax agenda has been more ambitious than that of prior administrations, the basic approach—working on multilateral guidance documents via the OECD—has been pursued by every U.S. administration since the Kennedy administration.

Question. Do you believe that this agreement could undermine Congress's exclusive taxing authority?

Answer. No. Congress will continue to have exclusive taxing authority in the United States.

Question. Are you concerned that this agreement will make the U.S. a less competitive place to do business?

Answer. No. In fact, Pillar Two levels the playing field for U.S. multinationals by ensuring that other countries' multinationals are also subject to at least a minimum rate of tax on their foreign earnings.

Question. Under the Pillar Two model rules, U.S. companies relying on congressionally enacted incentives in the tax code, such as nonrefundable tax credits, will be put at competitive disadvantage compared to their international counterparts because this agreement treats subsidies more favorably than nonrefundable tax credits, which permeate our tax code. Under this agreement, international companies receiving a check from their government will be better off than our U.S. companies.

Did the Treasury Department, on behalf of the United States, negotiate to protect the U.S.'s current law tax incentives?

Answer. The distinction between refundable and non-refundable credits in Pillar Two of the OECD/G20 international tax agreement was initially negotiated in the prior administration and has been a matter of public record since October 2020, when it appeared in the Pillar Two blueprint. As negotiated by the prior administration, refundable tax credits are treated as income rather than a direct reduction in the taxpayer's effective tax rate. This general rule follows financial accounting and carries over into the recently released model rules and its commentary.

Under the Pillar Two model rules and commentary, tax credits generally reduce a taxpayer's tax expense and thus effective tax rate. That general rule was necessary, given the goal of Pillar Two to level the playing field for American businesses and end the race to the bottom for corporate effective tax rates. Failure to account for credits and other incentives would render the minimum tax meaningless. The Pillar Two model rules thus follow financial accounting treatment, meaning that non-refundable credits reduce tax expense, while refundable credits are treated as income.

The Office of Tax Policy has worked with the OECD to clarify the treatment of general business credits under the Pillar Two minimum tax. We are confident that the value of many of our general business credits is preserved under the OECD rules, and we have established a process with the OECD for working towards additional clarifications. Moreover, because of the way investments that give rise to credits such the low-income housing tax credit are structured and treated for financial accounting purposes (*i.e.,* under the equity method), the income or loss and the income tax consequences of those investment typically will be excluded from the effective tax rate calculation for Pillar Two purposes. For those credits that are impacted by the Pillar Two model rules, as noted in the FY 2023 Greenbook, the Biden administration remains committed to working with Congress to ensure that taxpayers continue to benefit from important tax incentives that provide U.S. jobs and investment, in a manner consistent with the framework outlined by the Pillar Two model rules and commentary.

Question. Are you concerned that the Pillar Two model rules create an advantage for countries that provide direct taxpayer subsidies?

Answer. Pillar Two is a minimum tax. It is not and never has been about preventing jurisdictions from incentivizing behavior through other means, including grants and subsidies.

Question. How is this consistent with your stated effort to ensure that countries, as you say, "pay their fair share"?

Answer. Pillar Two is about leveling the playing field and ending the race to the bottom on corporate tax rates. It therefore ensures that multinational businesses pay their fair share, reduces incentives to shift profits out of the United States, and protects the corporate income tax base.

Question. Can you commit to protecting all congressionally enacted provisions at OECD negotiations in a manner that does not hold Congress hostage to make required legislative changes?

Answer. Treasury has worked with the OECD to clarify the treatment of general business credits under the Pillar Two minimum tax. We are confident that the value of many of our general business credits is preserved under the OECD rules, and we have established a process with the OECD for working towards additional clarifications. Moreover, because of the way investments that give rise to credits such the low-income housing tax credit are structured and treated for financial accounting purposes (*i.e.,* under the equity method), the income or loss and the income tax consequences of those investment typically will be excluded from the effective tax rate calculation for Pillar Two purposes. For those credits that are impacted by the Pillar Two model rules, as noted in the FY 2023 Greenbook, the Biden administration remains committed to working with Congress to ensure that taxpayers continue to benefit from important tax incentives that provide U.S. jobs and investment, in a manner consistent with the framework outlined by the Pillar Two model rules and commentary.

Question. You recognized this result during our hearing on June 7th, stating that the OECD agreement is "structured so that direct subsidies aren't counted whether we give them or they give them." You continued on to say that "we certainly would work with Congress to make sure that the benefits Congress intended, the business credits, are structured so that they will be available."

Are you suggesting that we modify congressionally enacted tax incentives into refundable credits or grants directly from the government?

Answer. There are several policy considerations that are relevant to the design of incentives like the research and experimentation credit. Similarly, there are different design elements that affect how a credit is treated for Pillar Two purposes. We are committed to working with Congress to ensure that taxpayers continue to benefit from important incentives like the research and experimentation credit while also protecting revenue and other important policy considerations.

Question. Do you believe this would create a "race to the bottom" on government subsidies?

Answer. Pillar Two is a minimum tax. It is not and never has been about preventing jurisdictions from incentivizing behavior through other means, including grants and subsidies.

Question. Do you believe that companies not paying tax to the government should receive additional payments from the government?

Answer. It is up to Congress to decide both the tax laws and what grants and subsidies it should provide to incentivize particular behavior.

Question. It is my understanding that the Department has recently turned to the manner in which credits are treated for financial accounting purposes to try to determine their outcome under the Pillar Two model rules. This does not fully address the negative results of Pillar Two, nor does it rely on distinguishable tax policy principles as determined by the U.S. Congress.

Do you believe that unelected financial accounting regulators should have the authority to determine the fate of domestic tax incentives under the OECD agreement?

Answer. Pillar Two recognizes that each jurisdiction sets its own tax policy, and that multiple jurisdictions may assert taxing claims over multinational businesses. Pillar Two levels the playing field for U.S. multinationals, because it ensures that other countries' multinationals are also subject to at least a minimum rate of tax on their foreign earnings. It also includes a strong backstop rule to ensure that other countries' multinationals do not have a competitive advantage if their headquarters jurisdiction does not implement the deal.

Question. What assurances have you received from foreign governments that they will accept accounting methods such as the "equity method" of accounting?

Answer. The treatment of investments accounted for under the equity method of accounting is a fundamental design feature of Pillar Two. The Pillar Two model rules only treat as part of the group those ownership interests that are consolidated for financial accounting purposes. The income or loss from investments that are accounted for under the equity method, as well as the tax consequences of the investment, typically are excluded in determining the effective tax rate.

Question. You have stated that the OECD agreement should have bipartisan support; however, to date, you have briefed the members of this committee on a bipartisan basis one time. Meanwhile, the administration continues to push changes to our international system in partisan, one-sided reconciliation proposals.

There is a difference between after-the-fact briefings and good-faith consultation, which this department has continuously failed to do.

Given that implementation of any deal would require both tax legislation and treaty ratification, when can you commit to having your chief negotiators appear before the members of the committee to present key open issues and ask for congressional input before those open issues are actually decided?

Answer. To be open and transparent, we have not only sought out the counsel of members and staff, we have made the Treasury team available for individual briefings as well and several bipartisan, bicameral briefings. Additionally, we have shared OECD documents in short order after receipt and have appreciated the constructive conversations we have had throughout the course of these negotiations, with both majority and minority members and staff. The OECD Secretariat recently released a progress report that provides a comprehensive overview of where the negotiations stand.

We would be happy to work with committee staff on any invitation they might extend to Treasury officials to present to committee members.

Question. Please provide a date for that briefing.

Answer. See above.

Question. In response to my questions during our June 7th hearing, you said, "I mean, we are the only country that imposes any minimum tax on the foreign earnings of our multinational corporations." That is true.

Given that we already have a global minimum tax and are the only country with one, and the EU's recent recognition that they aren't planning to fully implement Pillar Two until 2024 at the earliest, do you still hold the view that the U.S. needs to move first on this agreement?

Answer. Yes.

Question. If so, for what reason?

Answer. Even without the global deal, it makes good policy sense to reform GILTI, and preferably sooner rather than later, because doing so decreases incentives to shift profits and jobs offshore. It makes sense to raise the GILTI rate on foreign income so that it is closer to the headline corporate rate on domestic income. Otherwise, firms get a deep discount on what they earn abroad, incentivizing them to move profits and jobs overseas. It also makes sense to reform GILTI to apply on a country-by-country basis because current GILTI allows companies to blend high and low tax streams of income together, thereby escaping minimum tax liability. This creates incentives to earn income anywhere but the United States.

Question. In response to questions from Senator Toomey at our June 7th hearing, you stated that the fiscal impact of Pillar One "could go either way depending on the details, which have not been decided in the Pillar One negotiations." You continued to say "[n]et, it could be positive or negative, depending on the details that have not yet been worked out, and that's why we've not provided data."

Will you keep Congress, including the members of the Senate Finance and House Ways and Means Committees, apprised of those negotiations and assure they have an active role in the decision making and outstanding details that you've referenced?

Answer. We have strived to be open and transparent. We have not only sought out the counsel of congressional members and staff, we have made the Treasury team available for individual briefings as well and several bipartisan, bicameral briefings. Additionally, we have shared OECD documents in short order after receipt and have appreciated the constructive conversations we have had throughout the course of these negotiations, with both majority and minority members and staff.

Question. With respect to the economic impact of Pillar Two, you stated that "of course the data relating to Pillar Two is available, and that was included in the House-passed bill and scored by JCT." My understanding is that JCT does not anticipate or assume future action on behalf of foreign governments in their scoring calculations. Given that, it seems that there are two circumstances that could play out: (1) no other country implements Pillar Two and all of JCT's revenue projections are correct, or (2) countries enact Pillar Two and the JCT projections are much too high due to declining amounts of GILTI tax that will be owed.

Do you believe no other country will enact Pillar Two?

Answer. No; the revenue estimates follow a scoring convention that assumes no changes in the behavior of other governments.

Question. What is the revenue effect of Pillar Two for the United States if other countries enact Pillar Two, including qualified domestic minimum top-up taxes (QDMTT's), and begin taxing U.S. companies' foreign subsidiaries?

Answer. As noted, revenue estimating conventions require that the JCT assume no changes in the behavior of other governments. If other countries implement Pillar Two, the JCT estimate for GILTI in the House passed bill would likely be reduced, since some of the revenue that would have been collected by the United States under the no Pillar Two adoption assumption, could now be collected by foreign governments that adopt Pillar Two. However, the estimate would not be reduced to zero. If every jurisdiction implements Pillar Two, that would significantly reduce the incentives to shift profits out of the United States, because profits in every jurisdiction would be subject to at least a 15-percent effective tax rate. As a result, more corporate income should be booked in the United States. In addition, the deal would level the playing field for U.S. businesses, and we believe on that level playing field, U.S. businesses can compete and win. Indeed, a level playing field has been the single most commonly articulated policy request of the U.S. MNC community for a generation—and that is what the global agreement delivers.

Question. As mentioned above, the Pillar Two model rules released last December drastically changed the scope of the UTPR from an "under-taxed payments rule" to an "under-taxed profits rule." In light of these changes:

Has Treasury modeled the revenue impact of other countries' ability to tax U.S. companies' U.S. profits under the UTPR, including where U.S. companies have utilized U.S. tax incentives that may reduce their effective tax rate under Pillar Two?

Answer. The UTPR rules released in December 2021 are in most respects consistent with the Blueprint released in October 2020 and negotiated by the prior administration. Specific changes were made in response to congressional and U.S. business input that the Pillar Two rules must not allow our most significant competitors to provide their multinationals with a competitive advantage by reducing the effective tax rate in the parent jurisdiction. The UTPR now prevents that.

The administration's recent Greenbook proposal precludes foreign governments from collecting tax on U.S. companies through the UTPR mechanism, because the United States would enact the qualified domestic minimum top-up tax (QDMTT), which would make all U.S. companies face at least a 15-percent minimum tax rate (as defined by Pillar Two rules) on their U.S. income. The administration has also committed to upholding the important tax incentives provided by key general business credits by providing for refundability (as defined for UTPR purposes), thus ensuring that taxpayers can continue to benefit from these important incentives under the UTPR framework.

Question. What is the revenue impact from Treasury's model?

Answer. Under standard revenue scoring assumptions, no foreign legislative action is assumed. Since the assumption is that no other countries would adopt Pillar Two, the Greenbook revenue estimate does not reflect foreign countries' ability to tax U.S. companies' U.S. profits under the UTPR.

FOREIGN TAX CREDIT REGULATIONS

Question. In late December, days before the end of the year, your department released final regulations pertaining to foreign tax credits. These regulations were published in the Federal Register on January 4, 2022, and in a number of instances, are effective immediately, meaning these regulations are already impacting business decisions and financial statements.

We've heard a number of concerns from taxpayers regarding these regulations, including their significant departure from precedent without any congressional direction, and the broad impact they will have on the creditability of certain taxes that have been creditable for decades under established case law.

U.S. businesses have reached out to us concerned about the regulations' impact on their ability to compete and grow internationally, which would result in fewer jobs here in the U.S. Your own department officials have acknowledged that there are significant issues with these regulations and that guidance is needed, stating that taxpayers "want certainty" and that "they want to be able to rely" on guidance. At the same time, your officials recognize that guidance will take months, will be in proposed form, and will not address all issues that taxpayers are facing.

If your tax policy officials know that guidance is needed, how can you reasonably expect taxpayers to comply with these rules as they currently stand, which are already effective?

Answer. The final regulations released in December 2021 took the same basic approach as the proposed rules, while incorporating changes made after careful consideration of the numerous comments submitted through a public process. Since the final regulations were released, my staff has engaged with numerous stakeholders and is considering whether any further changes or clarifications would be warranted.

Question. Should investors rely on corporate financial statements detailing the impact of the regulations when your department has signaled changes to those regulations?

Answer. Treasury has the ability to clarify concerns that some taxpayers have raised and confirm the appropriate reading of the text of the rules. If Treasury issues a notice of proposed rulemaking to consider making changes made to the final regulations, interested parties will be able to submit comments or otherwise participate in the rulemaking process.

Question. At our June 7th hearing, when asked whether the regulations' effective date may be delayed to accommodate the need for guidance and the clear host of issues surrounding the regulations, you said you "don't think it will be delayed."

What is the rationale behind this decision?

Answer. The final regulations released in December 2021 took the same basic approach as the proposed rules, while incorporating changes made after careful consideration of the numerous comments submitted through a public process. Since the final regulations were released, my staff has engaged with numerous stakeholders and is considering whether any further changes or clarifications would be warranted.

Question. Please explain why the effective date for the rules in Puerto Rico was delayed for a year, while in other jurisdictions that will require legislative changes to bring their tax systems into compliance with the new rules (*e.g.,* Brazil), the rules are effective immediately?

Answer. Puerto Rico's unique status as a U.S. territory and an outstanding IRS notice stating that taxpayers will not be challenged on the creditability of an excise tax imposed by Puerto Rico under its Act 154 distinguish Puerto Rico from foreign jurisdictions that are not similarly situated. Further, Treasury's Office of Tax Policy has been providing technical assistance to the Puerto Rico Treasury Department in developing tax legislation that would generally replace Act 154 and that would satisfy the requirements under the final tax regulations.

Question. In response to Senator Portman, you noted that guidance may be "retroactive," however, these regulations are already impacting business decisions and financial statements.

How do you expect U.S. companies to make decisions today—decisions that impact U.S. operations and U.S. jobs—under the pretense that guidance is forthcoming, but the contents of which are uncertain?

Answer. The final regulations released in December 2021 took the same basic approach as the proposed rules, while incorporating changes made after careful consideration of the numerous comments submitted through a public process. Since the final regulations were released, my staff has engaged with numerous stakeholders and is considering whether any further changes or clarifications would be warranted.

SOCIAL SECURITY AND MEDICARE TRUST FUNDS

Question. On June 2, 2022, the 2022 OASDI trustees report, officially titled "The 2022 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and the Federal Disability Insurance Trust Funds," was released. This report comes well after the statutory deadline of April 1st.

Both members of the Senate Finance Committee and the Government Accountability Office (GAO) have requested explanations for the lack of timeliness with respect to the reports, as well as adequate notice to Congress in advance of a late report. Unfortunately, such explanations have not been provided.

As managing trustee of the reports, can you please explain the cause of the over 2-month delay in the last report's publication?

Answer. The delay in the publication of the Social Security and Medicare trustees reports was due to both late delivery of the first drafts by the actuaries' offices (about 1 month) and challenges with scheduling the trustees meeting (about 1 month).

ENERGY

Question. At the FY 2023 Treasury Department budget hearing, you stated that releases from the Strategic Petroleum Reserve have provided a meaningful downward pressure on gas prices. However, energy analysts have pointed out that the releases amount to only about 5 percent of daily oil consumption in the U.S., and argue these releases are unlikely to have much impact. In fact, one analyst was quoted as saying, "it might give you a little bit of short-term relief the same way that taking some Advil will give you temporary relief from a headache. But the root cause of the headache is probably still going to be there, and that's going to be sticking around long after the medicine's worn off."

What data do you have to support your statement that SPR releases have aided in keeping gas prices down, or preventing them from rising higher?

Answer. President Biden announced the largest-ever release of oil from the Strategic Petroleum Reserve, which committed to put 1 million additional barrels on the market per day on average—every day—for 6 months. The release will provide a record amount of supply to the market until the end of the year, when domestic production is expected to increase by 1 million barrels per day. Research by the staff at the Dallas Federal Reserve has shown that historically, these Strategic Petroleum Reserve policy interventions have stabilized prices during times of supply disruptions. This historic Strategic Petroleum Reserve release will also aid families facing high gasoline prices. Current market circumstances are unique, however, so the administration will continue to examine the effect of the Strategic Petroleum Reserve release going forward.

Question. SPR releases are, at best, a temporary measure. What is the Treasury Department, and the administration more broadly, doing to address the "root cause" of high prices, which is demand outpacing supply?

Answer. In addition to the release of oil form the Strategic Petroleum Reserve, the administration announced that the Environmental Protection Agency issued an emergency waiver allowing E15 gasoline, gasoline that uses a 15-percent ethanol blend, to be sold this summer. The emergency waiver can help increase fuel supplies and provide energy savings to families.

Consumption of gasoline and fuel are currently at lower than pre-pandemic levels. Domestic refinery capacity and oil production have declined. Oil and natural gas producers did not anticipate the strength of the recovery in the economy and did not increase supply to match increased demand. Higher prices should induce producers to increase supplies over time.

The administration understands that its efforts to increase energy production in the near term must be coupled with medium- and long-term efforts to transition our economy away from fossil fuels produced by autocrats and toward clean energy.

Question. At the hearing, you stated that with regards to energy prices, "over the medium term the critical thing is that we become more dependent on the wind and the sun that are not subject to geopolitical influences. . . ." The U.S. is dependent on China for 80 percent of our rare earth elements, and is dependent on that Nation for a variety of other critical minerals. These materials are necessary to support wind and solar projects, in addition to many other renewable energy technologies. In 2010, China cut off rare earth exports to Japan over a territory dispute, demonstrating that the Nation is willing to use export of these materials as a political weapon.

Do you believe that increasing wind and solar deployment reduces our geopolitical risks, as you stated in the hearing?

Answer. The global economy has become too vulnerable to countries using their market positions in raw materials, technologies, or products to exercise geopolitical leverage or disrupt markets for their own gain. For example, the development of dependence on Russian oil and gas favored cost and convenience over concentration risk and considerations of security. Due to the nature of global energy markets, the global economy is held hostage to the hostile actions of those who produce fossil fuels. This will happen again if we don't redouble our efforts on clean and renewable energy, which rely on plentiful, secure sources like solar and wind to operate. Over the medium term, we need to dramatically ramp up renewables, invest in new technologies, and increase support for energy efficiency measures to reduce energy demand and increase energy security.

Question. Has the Treasury Department performed any risk assessments or analyses of dependence on China for critical minerals, which are essential components in renewable energy technologies you have supported?

Answer. On February 24, 2021, the President signed Executive Order 14017, directing a whole-of-government approach to assessing vulnerabilities in, and strengthening the resilience of, critical supply chains, including critical minerals. Building off of the 100-day supply chain reviews released in June 2021, the February 2022 reports by the Departments of Energy and Defense identified vulnerabilities and multiyear strategies for critical mineral supply chains. Numerous actions are being taken across the administration in response to the reports produced as a result of the executive order.

Question. You talked a lot about implementing energy policies that reduce geopolitical risk at the recent budget hearing. The Biden administration has agreed to allow some Venezuelan oil resources to be shipped to Europe in contravention of U.S. sanctions. Iran is already exporting 1 million barrels of oil per day, 70 percent of which goes to China, and the administration has taken no action to crack down or enforce existing sanctions. There are also reports that the administration may allow even more Iranian oil onto the world market absent a nuclear deal in an effort to relieve pressure on prices.

Do you believe these actions reduce geopolitical risks and enhance our national security?

Are you concerned about the liquidity boost that these oil exports will provide to Maduro in Venezuela and Raisi in Iran, and their support for terrorism or drug trafficking in their respective regions?

Answer. Treasury remains very concerned about both Iran's and the Maduro regime's destabilizing activities. We will continue to use our sanctions authorities and target those who provide support to these regimes.

With regard to Iran, the U.S. government took recent actions to target Iran's exports of oil as well as petrochemicals, another source of revenue for the Iranian regime. On June 16th, Treasury sanctioned a network of Iranian petrochemical producers, as well as front companies in the China and the United Arab Emirates (UAE) that support Iranian entities instrumental in brokering the sale of Iranian petrochemicals abroad.

With regard to Venezuela, Treasury continues to enforce sanctions on multiple sectors of the Venezuelan economy, the Venezuelan Central Bank, and many high-ranking Maduro regime officials. These sanctions are intended to prevent the Maduro regime from using the Venezuelan economy to enrich corrupt insiders while holding accountable those responsible for Venezuela's tragic decline.

Question. Conversation continues around greatly extending and expanding tax incentives for renewable energy technologies. Sustained high government spending over the past 2 years has fueled out-of-control inflation that registered at a staggering 8.6 percent in the year through May 2022.

Has the Treasury Department performed any studies about the impact a significant expansion in energy tax credits would have on inflation?

Answer. The administration's FY 2023 budget proposed to fully pay for incentives for clean energy. The incentives are paid for by asking more from large corporations and the wealthiest Americans. The 2017 tax cut delivered a windfall to them, and this would help reverse that. Combined with these proposals, the energy incentives would lower inflation.

Incentives for clean energy proposed by the administration are critical ways in which we can help lower and middle-income families cut their costs, offset price pressures that they face, and address climate change, and over the medium-term, reduce our dependence on fossil fuels and on global oil markets where geopolitical risks are often causing spikes in oil prices.

Question. The administration recently announced it would use emergency powers under the 1930 Tariff Act to allow solar projects to source solar modules and cells from the four countries that are the target of a Commerce Department anti-circumvention investigation. The administration also announced the designation of five types of clean energy infrastructure that are critical to national security; this list includes solar panels.

Please explain how these conflicting proposals enhance our national security.

Answer. In recent years, the vast majority of solar modules installed in the United States were imported, with those from Southeast Asia making up approximately three-quarters of imported modules in 2020. Recently, however, the United States has been unable to import solar modules in sufficient quantities to meet market demand. This acute shortage of solar modules and module components has abruptly put at risk near-term solar capacity additions that could otherwise have the potential to help ensure the sufficiency of electricity generation to meet customer electricity demand. Roughly half of the domestic deployment of solar modules that had been anticipated over the next year is currently in jeopardy as a result of insufficient supply. Across the country, solar projects are being postponed or canceled.

The Federal Government is working with the private sector to promote the expansion of domestic solar manufacturing capacity, including our capacity to manufacture modules and other inputs in the solar supply chain, but building that capacity will take time. Immediate action is needed so that in the interim the United States has access to a sufficient supply of solar modules to assist in meeting our electricity generation needs.

BANKING

Question. A couple of weeks ago, you testified at the House Financial Services Committee, giving an update on FSOC. You were asked about the SEC's Staff Accounting Bulletin (SAB) No. 121, which requires companies that "safeguard" digital assets to record the amount of these investor-owned assets on the entity's balance sheet, even though no such amounts are typically recorded on balance sheets for other assets held in custody. The SAB's potential scope is broad and could make traditional bank custody of digital assets and other arrangements with third-party providers infeasible, due to capital and other prudential requirements from holding the assets on the bank balance sheet.

Your response at the time indicated you needed to learn more about SAB 121.

Following the hearing in the House, do you have any updated response on SAB 121? Specifically, how the various agencies are working together on this and how you think banks should proceed, now that it seems such activities are discouraged through the capital requirement?

Answer. Treasury understands that the SECs Staff Accounting Bulletin No. 121 (SAB 121) could impact the ability of banks to provide crypto-asset custody. Treasury is in conversations with the SEC, Federal banking regulators, and potentially affected financial institutions to gain a better understanding of the expected scope and impact of the guidance on different types of financial institutions.

Question. In its discussion paper, the Federal Reserve committed to moving forward with a Central Bank Digital Currency (CBDC) only with clear congressional support "ideally in the form of a specific authorizing law." Since then, the White House's executive order on crypto has identified CBDC as a top priority, tasked Treasury with writing an additional report, and asked the Attorney General to assess whether Congress has a role.

What role do you think Congress should play, and how do you view Treasury's role in charting a path forward?

Answer. As noted, the Digital Assets Executive Order directs the Department of Justice to assess whether legislative changes would be necessary to issue a United States CBDC, should it be deemed appropriate and in the national interest. The Digital Assets Executive Order also directs Treasury, in consultation with other executive branch agencies, to assess the potential implications of a United States CBDC for economic growth and financial stability, the U.S. payment system, national security, and democratic values. Congress and Treasury have important roles to play in charting any path forward for a CBDC. We believe that the two reports, which are due in September, will inform consideration of a U.S. CBDC.

QUESTIONS SUBMITTED BY HON. ROB PORTMAN

Question. I appreciate your willingness to work with me on the foreign tax credit regulations to ensure that withholding taxes on service payments that have been creditable for decades will remain creditable under the regulations finalized earlier this year. As I mentioned at the hearing, the services provided by U.S.-headquartered companies and their employees to foreign affiliates throughout the world are a major benefit to the U.S. economy and the employees that provide those services. While I appreciate concerns over the creditability of digital service taxes and primary taxing rights, I believe that the regulations in their current form incentivize the outsourcing of service jobs that are so beneficial to our States.

Please detail your next steps and timeline to better target digital service taxes under the regulations and ensure that withholding taxes on these service payments remain creditable.

Answer. The final regulations protect the interests of the United States by allowing a credit for foreign taxes only when the foreign jurisdiction has the primary right to tax the income. Treasury is considering an NPRM to start a process for any further changes and will engage with Congress and stakeholders as part of that process. My staff is available at any time to discuss this with you.

Question. In addition to the new "attribution requirement" for foreign tax credits, I am also concerned with the rules in the final foreign tax credit regulations that allocate foreign withholding taxes on dividends paid by a disregarded entity (*i.e.,* "remittances"). The final regulations provide that taxes are assigned based on the earnings out of which the remittance was made, but they require taxpayers to allocate taxes based on the tax book value of the assets of the distributing entity as a proxy for those earnings. In many cases, the required use of asset tax book value as a proxy for earnings produces a material distortion that will result in double taxation through a non-economic loss of foreign tax credits and thus increases the cost of redeploying capital to the United States. It is also inconsistent with the statutory language providing that a credit be allowed for taxes that are "properly attributable" to foreign earnings taxed under subpart F and GILTI.

From the time the tax book value of assets rule first appeared in the 2019 proposed regulations, Treasury has acknowledged its potential distortionary effect. Indeed, the 2019 proposed regulations included an exception in the case of abuse or material distortion. When proposed again in 2020, the material distortion exception was removed, but Treasury asked for comments to address the distortion, including tracing to accumulated earnings. Despite receiving comments recommending the use of tracing to current and accumulated earnings, the final regulations not only failed to address the potential for material distortion but also applied the rule retrospectively, notwithstanding comments seeking prospective applicability.

Given the material distortion that may result from the use of the tax book value of assets, would you consider making changes to the regulations that would allow taxpayers to demonstrate the accumulated earnings out of which a remittance is made and to allocate withholding taxes accordingly?

Answer. Treasury is considering an NPRM to start a process for any further changes and will engage with Congress and stakeholders as part of that process. My staff is available at any time to discuss this with you.

Question. As part of the Taxpayer First Act, there were requirements for the IRS to use electronic signature options for Forms 2848 and 8821.

What steps can the IRS take to fully implement these provisions and ensure that it results in a faster process overall for users, similar to private sector electronic signature options?

Answer. Earlier this year, the IRS explained how Forms 2848 and 8821 can be safely uploaded and signed online. Taxpayers can create Secure Access accounts and follow authentication procedures to safely and efficiently submit these forms with electronic signatures.

Question. While the IRS has made great strides in transitioning to the electronic filing of individual tax returns, the majority of businesses still file their quarterly and annual payroll tax filings on paper. In fact, if a business needs to file an amended 941 (941–X), there is not even an electronic option. These paper returns contributed to the massive paper backlogs at the IRS over the last few years as businesses amended their returns to claim COVID–19-related tax credits.

What steps, if any, is the IRS taking so that it will be able to provide the option of electronic filing on forms like the 941–X, as well as to incentivize more businesses to file electronically?

Answer. The IRS plans to continue expanding access to electronic filing in the future. While there is not yet an electronic option for businesses to amend their 941, businesses can electronically file their 940, 941, 943, 944, and 945 employment tax forms. The IRS is dedicated to improving investments in technology and automation, as well as expanding access to electronic filing.

Question. As the IRS deals with a variety of workforce issues in the coming years, including bringing in younger workers and more staff focused on information technology, workforce training will be an important component.

What steps is the IRS taking to ensure that it is training its workforce in state-of-the-art tax administration techniques that reflects changing technology and promotes the early and fair resolution of tax disputes? Is there additional legislative authority that could help achieve the workforce goals of the agency?

Answer. As the IRS works on bringing in more staff, it is aware of and cognizant of the importance of a good training program. It is dedicated to training its employees, improving technology, and promoting fair resolutions of tax disputes.

Question. It was brought to my attention that the IRS recently proposed increasing the renewal fees it charges to tax professionals from $67 to $140. When compared to the EA user fee in 2019, which was $30, there would be over a 466-percent increase in the user fee cost.

In addition to representing taxpayers before the IRS, EAs often perform invaluable tax preparation services. The skill and experience EAs bring to our tax system contribute to a more effective and efficient system. Creating a barrier of any sort for enrolled agents could serve to disincentivize people from either becoming, or continuing to work as, EAs. We are all aware that small businesses and individuals have experienced economic pressure in the last 2 years and are still feeling the impact of cost increases across our economy.

In light of these concerns, could you please provide more information on the proposed EA user fee increase, including an explanation of the proposed steep increase and whether alternatives were considered, such as a more modest increase?

Answer. The IRS sets the EA user fee to recover any costs associated with enrolling or renewing enrollment. The fee is updated to reflect any changes in the amount it costs to provide an underlying service.

Question. Lastly, I'd like to follow up on what we should and should not do in this economic environment. Let us start with what we should do.

With the prospect of a recession or stagflation becoming a reality, are there additional tools in the Treasury toolbox to bring inflation down and when do you think it will go down to pre-pandemic levels?

Answer. The primary responsibility for price stability lies with the Federal Reserve. The administration is using the tools at its disposal to ease price pressures, like its robust release from the Strategic Petroleum Reserve.

Question. On what we should not do, should we not heed the words of former President Obama? In 2009, he stated "the last thing you want to do is raise taxes in the middle of a recession."

Do you agree that tax increases should be avoided with the current economic uncertainty?

Answer. The U.S. economy has recovered quickly from the pandemic, and the labor market continues to expand at a healthy rate. The modest revenue measures under consideration that would only impact those families earning more than $400,000/year and large corporations—some of which would only phase in over time—would have little effect on the path of the economy. Tax increases in 1993 and 2012 had little impact on the economy.

QUESTIONS SUBMITTED BY HON. JOHN THUNE

Question. In last year's budget hearing, I asked you about the leak or hack of private taxpayer information which ended up in the hands of a left-leaning media outlet, ProPublica. You acknowledged that the breach was a serious issue and promised to keep this committee informed about Treasury's investigation and findings into the matter. Despite your assurances, Treasury has provided no meaningful follow-up to the Senate Finance Committee—much less accountability to taxpayers. Finance Republicans have repeatedly asked for updates about the breach of private taxpayer information, and the administration continues to delay and deflect on providing substantive answers.

How has the administration held those accountable who broke Federal law by sharing confidential tax information?

Answer. I ensured that this matter was immediately referred to the appropriate authorities, including the Office of Inspector General, the Treasury Inspector General for Tax Administration, and the Department of Justice. These authorities conduct their investigations independently.

Question. When will you provide the Finance Committee an update about Treasury's investigation into the breach of private taxpayer information?

Answer. I continue to be deeply concerned about this matter, as I have stated publicly. I ensured that it was immediately referred to the Office of Inspector General, the Treasury Inspector General for Tax Administration, and the Department of Justice. Those authorities conduct their investigations independently.

Question. When taxpayers' private information is leaked or hacked from the IRS, a Treasury bureau, and then shared by a partisan media outlet, how do you think that impacts taxpayer trust in the government?

Answer. The Treasury Department is committed to protecting taxpayer privacy and cares deeply about safeguarding taxpayer information. An unauthorized disclosure of taxpayer information in violation of the law would be illegal and would need to be taken very seriously. I am deeply concerned about this matter and, in an effort to get to the bottom of what happened, ensured that it was immediately referred to the appropriate authorities, including the Office of Inspector General, the Treasury Inspector General for Tax Administration, and the Department of Justice.

Question. It has been stated before, and it bears repeating—the OECD agreement would require changes to every one of our existing bilateral tax treaties. Changes of this nature warrant formal treaty changes or a multilateral convention, which would require the approval of two-thirds of the Senate.

Do you think Pillar One is consistent with our existing bilateral tax treaties?

Answer. It is widely understood that Pillar One requires modification to existing bilateral tax treaties.

Question. If our bilateral tax treaties would need to be modified to provide countries new taxing rights over U.S. companies, won't implementation require a Senate-approved tax treaty (multilateral convention)?

Answer. The administration has consistently said that the Pillar One multilateral convention must be approved by Congress. There are two possible paths for implementing international agreements in the United States—congressional executive agreements and Article II treaties. We look forward to consulting with Congress as to the appropriate process to obtain such approval once the multilateral convention is ready for signature.

QUESTIONS SUBMITTED BY HON. PATRICK J. TOOMEY

Question. During the Senate Finance Committee on June 6, 2022, I asked when Treasury would share data on the impact of the current OECD agreement on U.S. companies and U.S. revenue. You responded with, "The impact on fiscal revenues will be small. Pillar Two has a big impact and Pillar one will have a small impact. We're a very large market economy. We will gain revenue from our ability to tax foreign corporations that are doing business in the United States, where we consume those services. We will lose some from revenue that's—taxing authority that's reallocated to foreign countries. Net it could be positive or negative depending on details that have not yet been worked out and that is why we have not yet provided data."

I understand that there are details regarding Pillar One that have not been finalized. However, based on your response, that "the impact on fiscal revenues will be small," Treasury clearly has enough data to draw this type of conclusion—perhaps through analyzing different scenarios for Pillar One's final details.

Congress has **sole tax-writing authority.** Yet, Treasury has not provided the necessary data to develop independent estimates of the impact of the current OECD agreement on U.S. companies and U.S. tax revenue to Congress.

As a follow-up to my question during the hearing, will you commit to immediately turning over the data Treasury currently has to Congress's tax-writing committees and the nonpartisan Joint Committee on Taxation?

Answer. Our Office of Tax Analysis staff is working to estimate the range of potential revenue impacts based on the progress report released by the OECD Secretariat. There are numerous open issues in that progress report that interact in complex ways.

Question. In response to my question regarding the impact of the current OECD agreement on U.S. companies and U.S. revenue, you suggested that the Build Back Better Act (H.R. 5376) (BBB) GILTI tax changes reflected the effect of implementing Pillar Two. However, the JCT estimate of the BBB international tax changes assumes that no other country enacts Pillar Two. The BBB GILTI revenue estimate clearly is not an estimate of Pillar Two unless you think the United States is going to act alone.

Do you believe no other country will enact Pillar Two?

Answer. No; the revenue estimates follow a scoring convention that assumes no changes in the behavior of other governments.

Question. What is the revenue effect if other countries enact these rules and begin taxing U.S. companies' foreign subsidiaries?

Answer. As noted, revenue estimating conventions require that the JCT assume no changes in the behavior of other governments when estimating BBBA GILTI. If other countries implement Pillar Two, the JCT estimate for BBBA GILTI would likely be reduced, since some of the revenue that would have been collected by the United States under BBBA GILTI without Pillar Two could now be collected by foreign governments that adopt Pillar Two. However, the BBBA GILTI estimate would not be reduced to zero, because the global equalization of the tax rates of U.S. MNE's caused by BBBA GILTI should decrease profit shifting and cause a realignment of the location of profits with the location of productive activities; therefore, we would anticipate that intellectual property of some U.S. MNE's would be relocated to and taxed in the United States and other "shifted" profits would also be relocated to and taxed in the United States. The degree to which the JCT BBBA GILTI revenue estimate would be reduced therefore depends on the magnitude of profit reallocation, the jurisdiction to which profits are relocated, and the number of countries that adopt Pillar Two.

Question. In addition to losing GILTI revenue under Pillar Two, Pillar Two would also give countries expanded taxing rights over U.S. companies' U.S. profits under the UTPR. Has Treasury estimated the revenue effect of foreign countries' ability to tax U.S. companies' U.S. profits, including where U.S. companies have utilized credits, such as the R&D tax credit, which directly reduce a companies' effective tax rate under Pillar Two?

Answer. The administration's recent Greenbook proposal precludes foreign governments from collecting tax on U.S. companies through the UTPR mechanism, because the United States would enact the qualified domestic minimum top-up tax (QDMTT), which would make all U.S. companies face at least a 15-percent minimum tax rate (as defined by Pillar Two rules) on their U.S. income. The administration has also committed to upholding the important tax incentives provided by key General Business Credits by providing for refundability (as defined for UTPR purposes) thus ensuring that taxpayers can continue to benefit from these important incentives under the UTPR framework.

Question. Regulations promulgated by Treasury to clarify compliance with cryptocurrency reporting requirements passed in the Infrastructure Investment and Jobs Act (Public Law No: 117–58) have been expected imminently since late last year. Yet, to date, Treasury has not released those regulations.

The statutory effective date for the cryptocurrency tax reporting requirements that passed as part of the Infrastructure Investment and Jobs Act is January 1, 2023. This means that, if Treasury released regulations today, businesses would only have 6 full months to design and put in place effective processes to fully comply.

What is behind the delay?

Answer. The Treasury Department has been working on regulations and expects to publish them in the near future. The process of promulgating regulations, especially on novel issues like some of those associated with digital assets, takes time.

As you know, the Treasury Department and the IRS usually announce in a notice of proposed rulemaking when they intend to issue rules on matters not addressed in existing regulations. The notice sets forth the proposed regulatory text and contains a preamble that explains the proposed rules and solicits public comments on them. This process allows the Treasury Department and the IRS to engage with affected taxpayers, industries, and other interested parties and enables the public to meaningfully participate in the regulatory process. Final regulations are issued after careful consideration of all public comments on the proposed regulations, including those on such questions as applicability dates. The Treasury Department intends to use this process to govern the development of the regulations implementing information reporting by brokers of digital assets

Question. Has Treasury expanded the scope of its regulatory focus to other areas relevant to digital assets beyond those provisions passed in the Infrastructure Investment and Jobs Act last year?

Answer. The Treasury Department is considering recommendations from the public identifying potential tax issues that should be addressed through regulations, revenue rulings, revenue procedures, notices, and other published administrative guidance to be included in the 2022–2023 Priority Guidance Plan. The Treasury Department formulates a Priority Guidance Plan that focuses resources on guidance items that are most important to taxpayers and tax administration. The 2022–2023 Priority Guidance Plan will identify guidance projects that the Treasury Department and the IRS intend to actively work on as priorities during the period from July 1, 2022, through June 30, 2023.

When do you expect these regulations to be released?

Answer. The Treasury Department views the development of proposed regulations implementing information reporting by brokers of digital assets to be a priority. We are currently working on a notice of proposed rulemaking that will solicit public comments. We expect the proposal to be published in the near future.

Question. What relief are you considering providing to the industry to ensure effective compliance?

Answer. As noted above, the Treasury Department and IRS are still in the process of drafting proposed regulations implementing information reporting by brokers of digital assets. The Infrastructure Investment in Jobs Act (IIJA) provides welcome clarity on the regulation of information reporting by brokers on digital asset transactions. The IIJA provides more certainty for Americans looking to invest in digital assets by ensuring that they receive the same tax documents from brokers as those trading financial assets. This information ensures that taxpayers receive the information on sales of digital assets they need to file their tax return and pay their tax liabilities. We share the goal of achieving greater certainty for Americans looking to invest in digital assets. This is especially important given the novel nature of these assets and that this is one of the first efforts to address incorporate digital assets into our Nation's tax code.

QUESTIONS SUBMITTED BY HON. SHELDON WHITEHOUSE

Question. Rule-of-law nations find it difficult to track down and seize Putin and his oligarchs' dirty assets, which are carefully hidden using shell companies, tax havens, and other tricks. Unfortunately, some of these assets may be concealed in the United States: while foreign banks report on the offshore accounts of U.S. taxpayers under the Foreign Account Tax Compliance Act (FATCA), U.S. banks do not share information about foreign taxpayers. In the words of one expert on financial crime, this double standard helped lead the U.S. to become "a truly world-class tax haven."[2]

The President's Budget proposes to share information with foreign partners about foreign accounts held at U.S. financial institutions—known as reciprocal FATCA.

How could this proposal help to track down the dirty assets of Russian oligarchs?

Answer. This proposal would provide the IRS with information on accounts held by foreign persons at U.S. financial institutions that are currently not visible to the IRS. The proposal would also provide the IRS with visibility on accounts held indirectly by foreign persons through U.S. or non-U.S. passive entities. The information collected under the proposal could also be used by the IRS to understand how foreign persons access the U.S. financial system and use layers of entities to conceal ownership. If this proposal were paired with changes to other sections of the Internal Revenue Code, this information collected could potentially be shared with other Federal partner agencies, including the Office of Foreign Assets Control, to be used to enforce sanctions against oligarchs.

Question. How would this proposal help the IRS crack down on offshore tax evasion?

Answer. The information obtained through the United States' information exchange relationships with other jurisdictions has been central to recent successful IRS enforcement efforts against offshore tax evasion. The strength of those information exchange relationships depends, however, on cooperation and reciprocity. Further, as the IRS has gained more experience with exchange of tax information on an automatic basis with appropriate partner jurisdictions, it has become clear that a jurisdiction's willingness to share information on an automatic basis with the United States often depends on the United States' willingness and ability to reciprocate by exchanging comparable information. The intergovernmental agreements include commitments by the U.S. government to advocate and support relevant legislation to achieve equivalent levels of reciprocal information exchange. Requiring financial institutions in the United States to report to the IRS the comprehensive information required under FATCA would enable the IRS to provide equivalent levels of information to cooperative foreign governments in appropriate circumstances, which will strengthen the United States' relationships with those governments and demonstrate that the United States is a reliable exchange partner that follows through on its international commitments.

The proposal also would require brokers, such as U.S. digital asset exchanges, to report information relating to the substantial foreign owners of the passive entities. Tax evasion using digital assets is a rapidly growing problem. Since the industry is entirely digital, taxpayers can transact with offshore digital asset exchanges and wallet providers without leaving the United States. The global nature of the digital asset market offers opportunities for U.S. taxpayers to conceal assets and taxable income by using offshore digital asset exchanges and wallet providers. U.S. taxpayers also attempt to avoid U.S. tax reporting by creating entities through which they can act. The collection of information on foreign beneficial owners of certain entities transacting in digital assets with U.S. brokers would ensure that the United States is able to benefit from a global automatic exchange of information framework with respect to digital assets and receive information about U.S. taxpayers transacting with offshore digital asset exchanges and wallet providers.

Question. Does the IRS have the resources it needs to be able to effectively use information collected under FATCA to enforce the law?

Answer. The IRS's ability to utilize FATCA information, including conducting data analysis of, as well as comparisons between, Forms 8938 filed by U.S. account holders and Forms 8966 (or FATCA Reports) filed by or on behalf of foreign finan-

[2] Oliver Bullough, "The Great American Tax Haven: Why the Super-Rich Love South Dakota," *The Guardian,* November 14, 2019, *https://www.theguardian.com/world/2019/nov/14/the-great-american-tax-haven-why-the-super-rich-love-south-dakota-trust-laws.*

cial institutions has been adversely impacted by resource constraints. IRS information technology limitations have made it difficult to conduct queries and analysis of data relevant to FATCA enforcement. By way of example, development of new capabilities for the primary database intended to house data from Forms 8938 and 8966 was halted in 2018 due to budget and resource constraints prior to deployment of functionality that would have made it easier to query, extract, and analyze FATCA data. An interim reporting solution has produced more limited and less usable output requiring highly specialized and trained IRS employees who must develop complex code. Both information technology and human resource limitations have caused delays in the time it takes to make FATCA data available for analysis and use. Moreover, taken together, the constraints set forth above have precluded the development of fully automated data matching capabilities. Further, after the data is available for use, resource constraints in the IRS's compliance functions have impacted the magnitude of compliance activities the IRS is able to conduct regarding both the individual and financial institution populations.

Question. While broker-dealers and mutual funds have long had anti-money laundering and countering the financing of terrorism (AML/CFT) responsibilities, neither the investment advisers that manage private funds (*e.g.,* private equity, venture capital, and hedge funds) nor the funds themselves have any such requirements. Exempting the $11-trillion private investment industry from AML/CFT safeguards emboldens our adversaries and undermines our national security. In December, President Biden released the U.S. Strategy on Countering Corruption, which rightfully called for "prescribing minimum reporting standards for investment advisers and other types of equity funds." The Treasury Department reiterated this commitment in its April 29, 2022 response to a March 30, 2022 letter that Senator Warren and I sent encouraging Treasury to move forward on this rule.

However, the Treasury Under Secretary overseeing AML policy recently appeared to backtrack on the President's commitment. In his May 25, 2022 remarks to the Securities Industry and Financial Markets Association, the Under Secretary stated multiple times that his team was still determining whether action should even be taken.

Does the Treasury Department still plan to follow through on President Biden's commitment to extend AML/CFT safeguards to investment advisers and other equity funds?

Answer. The U.S. Department of the Treasury is assessing regulatory deficiencies in the U.S. AML regime in accordance with Pillar Two of the U.S. Strategy on Countering Corruption ("the Strategy"). According to Strategic Objective 2.1 of Pillar Two, "Treasury will reexamine the 2015 Notice of Proposed Rule Making (NPRM) that would prescribe minimum standards for anti-money laundering programs and suspicious activity reporting requirements for certain investment advisors." To that end, Treasury is engaging with Federal and private sector stakeholders to better understand the AML/CFT risks due to the limited transparency within the investment adviser and private fund space. These efforts will help Treasury better understand the risks, identify whether gaps exist, and assess whether additional rulemaking is required to address any existing gaps in regulatory coverage for investment advisers and, if so, how to appropriately tailor the rule to extend AML/CFT safeguards to the investment adviser and private fund industry.

Question. If Treasury does not plan to follow through, how does it plan to prevent such entities from being an "end-around" for criminals and kleptocrats of our existing AML/CFT provisions?

Answer. Treasury is conducting a review of the current investment adviser landscape since the NPRM was issued in 2015, factoring in stakeholder feedback from the comment period. This includes further assessing the level of illicit finance risk posed by investment advisers and their clients, as well as evaluating and studying current AML/CFT controls in place within the broader investment adviser and private fund space. As part of these efforts, Treasury is working to analyze the best way to enhance transparency for investment advisers.

Even as Treasury is assessing systemic deficiencies, it is working tirelessly alongside its domestic and foreign counterparts to find kleptocrat and other criminal assets and enablers, including through the Russian Elites, Proxies, and Oligarchs (REPO) Task Force. We will bring to bear our suite of enforcement tools against investment advisers and other parties that help sanctioned Russians conceal assets.

Question. Community Development Financial Institutions (CDFIs) play a critical role in our financial system. For example, the Providence, Rhode Island-based Capital Good Fund offers small loans and personalized financial coaching to families in Rhode Island and other States. *The Wall Street Journal* notes that, "For those on the fringes of the financial system, lenders like . . . [the] Capital Good Fund are a safety net—a place to get an affordable loan to buy a home or a car or to cover an unexpected expense."

The President's FY 2023 budget requests $331.42 million—an increase of $61.42 million (or 22.7 percent) over FY 2022 levels—for the Community Development Financial Institutions Fund (CDFI Fund) to administer the fund's programs and oversee the existing portfolio of awards.

How will the increased appropriations for the CDFI Fund help CDFIs expand their investments in low- and moderate-income communities and communities of color?

Answer. The Community Development Financial Institutions Fund (CDFI Fund) has worked for nearly 3 decades to provide open and equitable access to capital in communities across the United States, including low- and moderate-income communities and communities of color.

For example, the CDFI Fund's Community Development Financial Institutions Program (CDFI Program) actively works to address problems of access to capital and affordable financial services by providing Federal resources to CDFIs. During Fiscal Years 2017–2020, CDFI Program Financial Assistance award recipients reported that roughly 74% of their lending portfolio was targeted in distressed areas and to underserved populations, exceeding the CDFI Certification threshold requirement of 60 percent.

Increased funding for the CDFI Fund—including for core CDFI Program Financial Assistance resources—will increase the volume of resources available to CDFIs to lend and invest in low- and moderate-income communities and communities of color; their capacity to lend and invest in areas of higher distress and disinvestment; and the overall level of impact in marginalized communities of all types across the Nation.

Questions Submitted by Hon. Todd Young

Question. I understand that the Biden administration has agreed to rules at the OECD that would substantially diminish the value of our research and development (R&D) tax credit. As a result, U.S. companies which heavily invest in domestic research would be subject to additional tax by foreign countries because they qualify for the R&D credit, while foreign-based companies receiving direct subsidies from their own countries would *not.* In other words, Chinese companies receiving direct subsidies from the Chinese government would pay less tax, but our companies could be subject to *more* tax by foreign countries like China.

Why did the U.S. Treasury Department agree to rules that diminish the value of the R&D tax credit?

Answer. Under the Pillar Two model rules and commentary, tax credits generally reduce a taxpayer's tax expense and thus effective tax rate. That general rule was necessary, given the goal of Pillar Two to level the playing field for American businesses and end the race to the bottom for corporate effective tax rates. Failure to account for credits and other incentives would render the minimum tax meaningless. The Pillar Two model rules thus follow financial accounting treatment, meaning that non-refundable credits reduce tax expense, while refundable credits are treated as income.

Treasury is committed to working with Congress to ensure that taxpayers continue to benefit from important tax incentives like the R&D tax credit. One potential means to do so would be to modify the R&D tax credit so that it is treated as refundable for Pillar Two purposes.

Offering refundability for the R&D credit has desirable policy features, outside of the global tax deal considerations, as it offers substantial support to innovative start-up firms. Such firms produce some of the country's most important R&D, and some studies suggest that such firms are the most responsive to R&D incentives when they are able to take advantage of them. This policy goal needs to be weighed against revenue considerations.

Question. I understand that the current rules that the Biden administration has agreed to at the OECD provide favorable treatment to tax equity-financed tax credits.

Do you believe it makes sense to incentivize the monetization of tax credits? Why or why not?

Answer. Under the Pillar Two model rules and commentary, tax credits generally reduce a taxpayer's tax expense and thus effective tax rate. That general rule was necessary, given the goal of Pillar Two to level the playing field for American businesses and end the race to the bottom for corporate effective tax rates. Failure to account for credits and other incentives would render the minimum tax meaningless. The Pillar Two model rules thus follow financial accounting treatment, meaning that non-refundable credits reduce tax expense, while refundable credits are treated as income.

Treasury has worked with the OECD to clarify the treatment of general business credits under the Pillar Two minimum tax. We are confident that the value of many of our general business credits is preserved under the OECD rules, and we have established a process with the OECD for working towards additional clarifications. For those credits that are impacted by the Pillar Two model rules, as noted in the FY 2023 Greenbook, the Biden administration remains committed to working with Congress to ensure that taxpayers continue to benefit from important tax incentives that provide U.S. jobs and investment, in a manner consistent with the framework outlined by the Pillar Two model rules and commentary.

Question. According to the National Center for Science and Engineering Statistics, small and medium-sized businesses performed 10 percent of the total R&D in the United States in 2019. This accounts for about $52 billion spent on R&D by smaller enterprises.

As we look to stimulate the U.S. economy and create jobs, especially coming out of the COVID pandemic, it is especially important to develop tax incentives to increase R&D domestically—as opposed to companies taking their R&D offshore. That is why I am championing S. 749, the American Innovation and Jobs Act, with Senator Hassan. This bill enjoys considerable bipartisan and bicameral support and counts over one-third of the entire U.S. Senate, on a strictly bipartisan basis, as cosponsors. The American Innovation and Jobs Act would ensure that companies can fully deduct their R&D expenses each year. The legislation also doubles the refundable R&D tax credit and extends it to more startups and small businesses. Small businesses are the backbone of this country, and we need to do everything possible to support and ensure their growth as they become the next American success story.

Do you believe S. 749 and the R&D tax credit can help support small businesses?

Answer. Academic studies have generally found that businesses increase R&D investment when given tax incentives for R&D, such as research tax credit, though there is some disagreement over how big this increase is and to what extent businesses relabel other expenditures as qualifying research. Some studies suggest that small businesses may be more responsive to these tax incentives than larger businesses. The incentive effect of the incentives must also be weighed against the loss in tax revenue

Question. Is the U.S. Treasury Department considering new ways the R&D tax credit can be improved to better help and incentivize small businesses?

Answer. The Treasury Department is always considering options to improve the effectiveness of the tax code. We welcome input from you and your staff as we work with Congress to develop the most cost-effective ways to encourage more R&D by small businesses

Question. On May 4, 2022, the Senate voted 90 to 5 to instruct the U.S. Innovation and Competition Act (USICA) conference committee "to insist that the final conference report include provisions that expand the research and development tax credit for small businesses and preserve full and immediate expensing for research and development investments."[3]

Do you believe that the USICA/America COMPETES conference committee should include R&D tax relief in its final conference report? Why or why not?

[3] *https://www.young.senate.gov/newsroom/press-releases/senate-votes-to-support-young-and-hassans-bipartisan-provision-to-strengthen-research-and-development-as-part-of-us-innovation-and-competition-act.*

Answer. The administration supports the timely completion of the USICA/American COMPETES conference, as this legislation is an important step to strengthen our supply chains, revitalize domestic manufacturing, and reinvigorate the innovation engine of our economy.

Question. Is your answer above consistent with the Treasury Department's FY 2023 budget position that assumes a 4-year delay of the expiration of immediate expensing for qualifying R&D expenditures? Why or why not?

Answer. The administration strongly supported passage of the Build Back Better Act. BBB included a 4-year delay to the requirement that qualifying R&D expenditures be capitalized and amortized, rather than expensed in the current year. The passage of BBB was assumed as part of the administration's budget baseline. Treasury believes legislation is an appropriate place to address changes to R&D tax incentives.

Question. For the first time ever, a gallon of regular gas costs $5.00 on average nationwide, according to AAA's reading from June 11, 2022. Although the price is incredibly high, it should hardly come as a surprise. The Biden administration has forced our country to rely on foreign oil from OPEC, driving up gas prices for everyday Americans, whereas we could be energy-*independent* if the administration would simply allow for greater domestic production.

Would increasing our domestic production of oil result in reduced gas prices for Americans?

Answer. The administration is taking ongoing action to bring down the current high energy prices. The President announced the release of a record 1 million barrels per day from the Strategic Petroleum Reserve and has rallied international partners to join the United States, releasing a combined 210 million barrels of oil on the market. The administration has expanded access to biofuels like E15 to increase supply and lower prices at thousands of gas stations.

The administration understands that our efforts to increase energy production in the near-term must be coupled with medium- and long-term efforts to transition our economy away from fossil fuels produced by autocrats and towards clean energy.

Question. When you testified before the Senate Finance Committee on the President's FY 2022 budget, you stated: "My view on the inflation outlook has been, and remains, that inflation is transitory."[4] You repeated that assertion for nearly a year, and only recently admitted that your forecast was incorrect. Despite President Biden's claims that record-breaking inflation can be attributed to everything from Putin's invasion of Ukraine to recent Chinese lockdowns, Americans know that sky-high inflation was occurring well before these events took place.

On a similar note, in recent comments to reporters, you stated: "The economic outlook globally is challenging and uncertain, and higher food and energy prices are having stagflationary effects. . . ."[5]

Given your recent comments that inflation is not going away, how concerned should Americans be about the prospect of stagflation?

Answer. The U.S. economy continues to add jobs at a rapid pace, and most indicators show continued expansion of the U.S. economy. The U.S. economy will certainly expand more slowly than in 2021 given that we are close to full employment. Inflation is unacceptably high, and there may be a period where inflation is declining but still elevated as we transition to slow and steady growth.

Question. In prepared testimony, you noted that, "we are witnessing sharp reductions in the budget deficit, with the Congressional Budget Office recently forecasting the largest nominal reduction to the Federal deficit in history." However, the Congressional Budget Office also found that the true cost of Build Back Better as passed by the House last year is almost $5 trillion, is not paid for, and adds $3 trillion to the deficit.[6]

In the event the House-passed Build Back Better bill came across the President's desk, do you believe he should sign it? Why or why not?

Answer. I believe that the House-passed legislation represents an important step forward in addressing climate change, lowering the cost of prescription drugs, build-

[4] Secretary Yellen's response to Senator Young's Question for the Record #11.
[5] *https://apnews.com/article/russia-ukraine-covid-health-63a9d0ec0ee778dcdd8355b3ffebb99e.*
[6] *https://www.cbo.gov/system/files/2021-12/57706-BBBA-Palmer-Letter.pdf.*

ing more affordable housing, making child care more affordable, and reforming our tax code to ensure greater fairness. The House-passed bill did not include everything the administration initially proposed, but on balance, the legislation makes our economy stronger and fairer. I would recommend that the President sign the legislation.

Question. According to recent reporting by *The Washington Post,* the Biden administration has plans to cancel up to $10,000 in student debt per borrower for those who earned less than $150,000. In total, it is estimated this would cost about $230 billion.[7]

As the debate around loan forgiveness continues, we should not forget that the median personal income in the United States in 2020 was $35,805.[8] In other words, the Biden administration will cancel student loan debt for anyone making more than *four times* the median personal U.S. income. As you know, many of those who hold debt are early career professionals who will go on to make lots and lots of money, perhaps millions, over their lifetime.

In your opinion, is it fair to ask the American public, and more specifically, hard-working Americans who chose not to attend college or who have already worked hard to pay off their debt, to front the cost of college and graduate school for well-off professionals?

Answer. There are many American households who have incurred high levels of student debt with modest incomes. Their student debt constitutes a substantial burden on their ability to own a home, start a family, find the right job, or open a business.

Question. Does the administration plan to extend the student loan repayment pause beyond the current August 31, 2022, expiration?

Answer. The administration is considering several options with respect to student debt relief.

Question. I remain frustrated that neither Congress nor the public has been provided any information on the cause of the apparent leak of confidential taxpayer information to ProPublica. It is outrageous that our systems do not have the ability to detect unauthorized access, and if they do, evidently not in a timely manner. In response to my question during last year's Treasury budget hearing on this subject, you stated, "all is being done to get to the bottom of this potentially criminal activity."[9]

In more recent comments to the House Ways and Means Committee on June 8, 2022, you acknowledged that, "[The leak] is a huge deal . . . and it would not be appropriate to push them to hurry [the relevant agencies'] investigation or try to interfere with the timing of it." You continued on to state: "I am as anxious as you are to find out what happened."

I understand the need to avoid interference in an ongoing investigation, however, if indeed "all is being done to get to the bottom of this potentially criminal activity," how do we still not have any information on the source of the leak more than a year after the apparent criminal disclosure?

Do you believe the considerable duration of time this investigation has taken, without any intermediate updates to Congress or the public on the status or initial findings, is the level of service and transparency that American citizens deserve? Why or why not?

Answer. The Treasury Department is committed to protecting taxpayer privacy and cares deeply about safeguarding taxpayer information. As I have said publicly, I remain deeply concerned about this matter. In an effort to get to the bottom of what happened, I ensured that it was immediately referred to the Office of Inspector General, the Treasury Inspector General for Tax Administration, and the Department of Justice. These authorities conduct their investigations independently.

Question. In 2021, the Department of Treasury completed its review of sanctions authorities and actions. The report included recommendations to modernize sanctions administration. I was encouraged by the findings of the report, including the acknowledgement that "sanctions are only as effective as their implementation."

[7] *https://www.washingtonpost.com/us-policy/2022/05/27/biden-student-debt-borrower/.*
[8] *https://fred.stlouisfed.org/series/MEPAINUSA672N.*
[9] QFR responses from "Hearing on the President's Fiscal Year 20223 Budget," June 16, 2021.

This issue is of greater importance and urgency now in the wake of the Russian invasion of Ukraine and the administration's related new sanctions.

What steps has the Department of Treasury taken to implement the recommendations outlined in its 2021 sanctions review report?

Answer. Treasury's modernized approach to sanctions implementation is evident in our multilateral and well-coordinated campaign to deploy sanctions against Russia for its brutal further invasion of Ukraine. The multilateral sanctions we have imposed were developed using the lessons learned from the sanctions review. We are working on a number of new initiatives, including standing up a new sanctions analytical center of excellence that will bring together economics, finance, supply chain, analytics, and sanctions professionals to enhance our ability to conduct integrated analysis in support of the design and implementation of sanctions. We are also working on initiatives to improve the employee experience, enhance existing capabilities, expand our coordination and collaboration with partners and allies around the world, and improve how we communicate and share information with the public.

Question. How do you view the effectiveness of our current sanctions programs? Does Treasury have the resources necessary to appropriately administer existing sanctions programs?

Answer. The 2021 Sanctions Review was not a review of individual sanctions programs. Treasury, however, routinely analyzes the effects of particular sanctions actions and programs, including in consultation with interagency counterparts. Sanctions effectiveness can be scoped and defined in various ways, including by changing behavior—our primary goal—as well as freezing significant assets of U.S. adversaries and prompting coordinated action by and with our foreign partners. Assessing the overall effectiveness of a given action or program is something that must be done on a case-by-case basis, and we are carefully thinking about ways to enhance these efforts as we look ahead, particularly as we continue to implement the recommendations noted in the Sanctions Review. Treasury remains deeply appreciative of the increase in funding TFI received in the FY 2022 appropriations. We support the President's FY 2023 budget, which identifies additional needs for sanctions efforts, including additional employees to manage complicated enforcement cases; handle greater private-sector engagement; bolster capabilities to develop complex targeting actions; and manage additional policy, regulatory affairs, and licensing actions.

Question. The 2021 report suggests that changing global financial architecture "has a profound impact on the efficacy of U.S. financial sanctions." Has Treasury conducted any analysis on the effectiveness of existing sanctions programs in supporting U.S. foreign policy?

Answer. See above

Question. Is there evidence that U.S. sanctions are undermining the use of the U.S. dollar in international transactions more broadly?

Answer. The U.S. dollar is the leading currency in the international monetary system. The longstanding and continued prominence of the dollar is underpinned by a confluence of factors including the United States' strong economic performance, sound macroeconomic policies and institutions, open, deep, and liquid financial markets, institutional transparency, commitment to a free-floating currency, and strong and predictable legal systems.

Treasury seeks to deploy sanctions in a way to mitigate risks to the prominence of the dollar, including in support of a clear policy objective and with strong multilateral coordination. Actors that are the target of, or are otherwise affected by, U.S. sanctions may more frequently seek to enter contracts and settle transactions denominated in currencies other than the U.S. dollar.

As stated in our 2021 Sanctions Review, we must guard against any "overuse" of sanctions that would imperil the competitiveness of the dollar in a systemic manner, including over time.

Question. Do U.S. sanctions reduce the incentive for U.S. financial institutions to establish correspondent banking relationships in other jurisdictions? How does Treasury view the decline in U.S.-linked CBRs, the role of the U.S. dollar, and U.S. sanctions programs?

Answer. U.S. financial institutions make business decisions regarding their correspondent banking relationships based on a number of factors, which include the risk profile of the jurisdiction. Their risk assessment includes sanctions risk amongst a variety of other risk areas, such as money laundering, terrorist financing, and political and broader macroeconomic risks.

We continue to monitor and evaluate concerns related to the decline in U.S. correspondent-banking relationships. And, as part of sanctions review implementation, we are looking at developing new capabilities and partnerships for improving sanctions compliance.

The U.S. dollar is the leading currency in the international monetary system. The longstanding and continued prominence of the dollar is underpinned by a confluence of factors including the United States' strong economic performance, sound macroeconomic policies and institutions, open, deep, and liquid financial markets, institutional transparency, commitment to a free-floating currency, and strong and predictable legal systems.

Treasury seeks to deploy sanctions in a way to mitigate risks to the prominence of the dollar, including in support of a clear policy objective and with strong multilateral coordination.

Question. While Treasury maintains a Specially Designated Nationals and Blocked Persons List, does it also maintain a searchable database of all existing sanctions programs and authorities?

Answer. Yes.[10]

Question. Within every sanctions program, the Department of Treasury issues numerous licenses to authorize certain transactions with blocked parties. While many licenses are needed in mitigating unintended harm to U.S. businesses or support humanitarian relief efforts, I am concerned that licenses are increasingly broad and undermine the efficacy of our sanctions. For instance, in the recent Russian sanctions, General License 6 exempts all transactions related to medicine, medical devices, and agricultural commodities while General License 8 authorizes all transactions related to energy, which is very broadly defined. Together, it appears these two licenses effectively exempt almost two-thirds of all Russian exports from any sanctions.

How does Treasury review and determine the appropriate scope for general licenses within sanctions programs? What public sector data or input from industry is used in scoping general licenses?

Answer. OFAC reviews the need for general licenses for each program on a case-by-case basis. Ultimately, the decision to issue a general license, its terms, and the scoping of such license, is made in consultation with the State Department and other interagency partners and is based on furthering the foreign policy and national security interests of the United States.

Question. How often does Treasury review existing general licenses and determine if their scoping remains appropriate? Does Treasury evaluate whether general licenses are abused or undermine the foreign policy objectives of sanctions programs?

Answer. OFAC reviews existing general licenses as necessary, and in consultation with the State Department and other interagency partners, to determine if such licenses continue to further the national security and foreign policy interests of the United States. OFAC regularly responds to questions and feedback from the regulated public regarding the scope of general licenses. Treasury can also revoke a general license or take enforcement action in the event that there is evidence of abuse.

Question. Do wind-down authorization general licenses allow designated entities an opportunity to sell or dispose of assets in U.S. jurisdictions in such a way that they are able to maintain the value of their blocked assets?

Answer. No. Wind-down authorizations are time-limited licenses which authorize transactions that are ordinarily incident and necessary to wind down transactions involving a designated person or prohibited activity. Wind-down authorizations do not typically authorize the unblocking of any blocked property nor allow dealings in the blocked property.

Question. Enforcement of sanctions matter as much as implementation, but it seems rare for the Department of Treasury to refer for criminal prosecution of those that thwart our sanctions. Instead, we see frequent use of settlements that allow

[10] *https://home.treasury.gov/policy-issues/financial-sanctions/sanctions-programs-and-country-information.*

Treasury to collect fines while the entity acknowledges no wrongdoing. While this may encourage voluntary self-disclosure by financial institutions, I am concerned it creates a sense that sanctions violations are only a minor offense, undermining broader compliance efforts.

Since 2020, how many apparent violations of sanctions programs have been referred to law enforcement agencies for criminal investigation and prosecution?

Answer. In enforcing U.S. sanctions using its civil authorities, OFAC's Office of Compliance and Enforcement (OCE) works actively to identify sanctions violations and, where appropriate, provide information to U.S. law enforcement or agencies for criminal investigation. OFAC's OCE maintains close working relationships with the Department of Justice (DOJ), including the Federal Bureau of Investigation, as well as the Departments of Homeland Security and Commerce, which enforce other relevant authorities, and routinely coordinates with these agencies. OFAC would respectfully refer you to DOJ for further discussion on its active criminal sanctions enforcement efforts.

Question. What percentage of OFAC investigations end in civil monetary penalties? What percentage of OFAC investigations end in a finding of violation? What percentage of OFAC investigations end in a settlement?

Answer. OFAC's OCE has closed 2,852 investigations since July 1, 2019. Forty-nine (approximately 1.2 percent) of these cases were resolved via settlement involving the payment of civil penalties. Five (0.17 percent) of these investigations resulted in a Finding of Violation.

OCE's overriding objective is to promote sanctions compliance, with enforcement actions playing a major role alongside active industry engagement and public guidance. The Enforcement Sanctions Guidelines, which OFAC published on November 9, 2009, provide a general framework for the enforcement of all economic sanctions programs administered by OFAC. These guidelines state that if OFAC determines there is insufficient evidence to conclude that a violation has occurred or that a Finding of Violation or a civil monetary penalty is not warranted under the circumstances, but believes the underlying conduct could lead to a violation in other circumstances and/or the apparent violator does not appear to be exercising due diligence in assuring compliance with the statutes, Executive orders, and regulations that OFAC enforces, OFAC may issue a cautionary letter, which can convey OFAC's concerns about the underlying conduct and/or the apparent violator's OFAC compliance policies, practices, and/or procedures. Such letters, which are nonpublic, also play an important role in promoting compliance, as they put companies on notice that their conduct could result in violations and provide an opportunity for remediation.

Information on OCE's actions, to include settlements, Findings of Violation and civil monetary penalties in addition to the Enforcement Sanctions Guidelines and the Framework for OFAC Compliance Commitments can be found at *https://home.treasury.gov/policy-issues/financial-sanctions/civil-penalties-and-enforcement-information.*

Question. Does Treasury have the resources necessary to appropriately enforce existing sanctions programs?

Answer. Treasury remains deeply appreciative of the increase in funding received in the FY 2022 appropriations. We support the President's FY 2023 budget, which identifies additional needs for sanctions efforts, including additional employees to manage complicated enforcement cases; handle greater private sector engagement; bolster investigations into complex targeting actions; and manage additional policy, regulatory affairs, and licensing actions.

Question. In August 2021, the IMF allocated $650 billion in Special Drawing Rights, with the approval of the U.S. Department of Treasury. This is the largest allocation of SDRs in history by far. Since this funding is distributed to all members of the IMF, I remain concerned this could represent a bonanza and a lifeline for dictators and regimes around the world.

What is the administration's perspective on the current use and effectiveness of newly allocated SDRs in supporting financial stability and liquidity around the world?

Answer. Treasury supported the August 2021 allocation to SDRs to meet the long-term global demand for reserves. In accordance with the IMF's Articles of Agreement, the SDR allocation was distributed to all IMF members in proportion to their respective IMF quota shares. As of end June 2022, emerging market and developing countries, which received about $232 billion worth of SDRs, have used about 12 percent of their SDRs to service IMF obligations or acquire usable currency. The poorest countries received $21 billion. The allocation is helping these hard-hit countries respond to the economic impacts of the COVID crisis and spillovers from Russia's war of aggression against Ukraine.

For example, the August allocation provided Ukraine with $2.8 billion worth of SDRs which Ukraine has used to repay IMF obligations and acquire usable currency. Jordan sold the $469 million worth of SDRs it received from the SDR allocation for budget financing in lieu of a higher cost debt issuance. Tanzania used its $543 million worth of SDRs to acquire usable currency and is holding these proceeds in its reserves.

Question. What steps is Treasury taking to ensure that SDRs do not provide a lifeline to dictators?

Answer. SDRs are not currency; rather they are a reserve asset that can only be exchanged by a holder for useable currency in transactions recorded by the IMF's SDR department.

Treasury is leading U.S. efforts to prevent governments whose policies we oppose, like Iran, Russia, and Belarus, from receiving any benefit from their SDRs. We and like-minded partners, who comprise a significant portion of the voluntary purchasers of SDRs under the IMF's Voluntary Transactions Arrangements, would not agree to transact with these countries, making it difficult for them to exchange their SDRs for usable currency.

Additionally, as part of the SDR allocation, Treasury successfully pressed IMF staff to enhance the details it reports on members' SDR holdings and transactions by breaking out transactions into the aggregate categories of IMF operations and SDR trading. IMF staff also agreed to publish a note on best practices for SDR use to guide their country teams and authorities—this note was published in August 2021 on the IMF's website.[11] The IMF publishes members' SDR holdings on a monthly [12] and quarterly [13] basis. In addition, at Treasury's request, the IMF started publishing an annual summary update on SDR transactions [14] and has committed to undertaking an ex-post report on members' use of SDRs, which it will publish 2 years after the allocation.

Since August 2021, Russia, Iran, and Belarus have not exchanged any of their SDRs for usable currency. For countries where there is currently a lack of clarity within the IMF membership regarding the purported government, like Afghanistan, Burma, and Venezuela, Treasury is engaging robustly with IMF management and staff to help safeguard the SDR resources for its people.

Question. Iran holds almost $7 billion in Special Drawing Rights at the IMF. If the Biden administration were to lift sanctions on the Central Bank, would there be any constraints on Iran using those funds for any purpose?

Answer. U.S. sanctions on Iran remain in place, and we would not purchase SDRs from Iran. Our designation of the Central Bank of Iran presents one hurdle to the regime's ability to benefit from its SDR holdings but not the sole hurdle. We will continue to work with like-minded countries and employ diplomatic pressure to reduce the likelihood that Iran will benefit from an SDR exchange. The United States is committed to retaining all the necessary tools and authorities to target Iran's support for terrorism, as well as its other malign activities.

Question. As you know, Article II, section 2 of the United States Constitution states: "[The President] shall have Power, by and with the Advice and Consent of the Senate, to make Treaties, provided two-thirds of the Senators present concur."

On September 28, 2021, you said the following before the Senate Banking Committee: "I believe there are a number of ways in which Congress could implement

[11] *https://www.imf.org/en/Publications/Policy-Papers/Issues/2021/08/19/Guidance-Note-for-Fund-Staff-on-the-Treatment-and-Use-of-SDR-Allocations-464319.*

[12] Guidance Note for Fund Staff on the Treatment and Use of SDR Allocations *(https://www.imf.org/en/Publications/Policy-Papers/Issues/2021/08/19/Guidance-Note-for-Fund-Staff-on-the-Treatment-and-Use-of-SDR-Allocations-464319).*

[13] International Monetary Fund's Financial Statements and the Quarterly Reports on IMF Finances, *https://www.imf.org/en/Data/IMF-Finances/Quarterly-Financial-Statements.*

[14] First year of publication: *https://www.imf.org/en/Publications/Policy-Papers/Issues/2021/10/26/Annual-Update-on-SDR-Trading-Operations-498096.*

[Pillar One], but certainly ratification of a treaty would be one way in which Congress could authorize. And certainly Congress has to authorize the transfer of taxing rights that's contemplated in Pillar One."

You have since made seemingly conflicting statements to the above. I would appreciate you providing clarity on whether you believe the Biden administration can circumvent the Constitution's explicit requirement for Senate treaty ratification.

Do you believe there is a way other than approval of a resolution of ratification by two-thirds of the Senate for Congress to approve the Organisation for Economic Co-operation and Development's "Pillar One" plan? Please answer "yes" or "no." Note that an answer other than "yes" or "no" will be deemed unresponsive to this question.

Answer. Yes.

Question. If your answer is "yes," please explain the other way(s) Congress could authorize Pillar One. If your answer is "no," please explain your reasoning.

Answer. The administration has consistently said that the Pillar One multilateral convention must be approved by Congress. There are three possible paths for entering into international agreements in the United States—sole executive agreements, congressional executive agreements and Article II treaties. We look forward to consulting with Congress as to the appropriate process to obtain congressional approval once the multilateral convention is ready for signature.

Question. Despite your commitment to provide the Senate Committee on Small Business and Entrepreneurship the necessary tools and resources to conduct oversight over COVID-related programs, you still have not offered—or remained available—to testify before the committee as required by 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).

While I understand that the Treasury Department has offered the Deputy Secretary to testify, the law's provision states that the "Secretary of the Treasury shall testify before the Committee on Small Business and Entrepreneurship of the Senate." Therefore, I hope, and expect, you to agree to come before the committee in short order.

Given that you are months behind on your obligation, will you withdraw your unauthorized delegation of authority to the Deputy Secretary and commit to testifying personally before the Senate Committee on Small Business and Entrepreneurship as required by law?

Answer. Treasury is committed to providing Congress and all of our oversight bodies with the information they need to conduct their important work on behalf of the American people. Since taking office, I have testified before Congress over a dozen times, and I look forward to continuing this robust engagement in the weeks and months ahead.

As referenced in the question, section 321 of the Economic Aid and Hard-Hit Small Businesses, Nonprofits, and Venues Act provides that "the Secretary of the Treasury shall testify before the Committee on Small Business and Entrepreneurship of the Senate." The delegation of duties by heads of Federal agencies has been a routine practice for many years, in light of the fact that executive branch agencies are too large and complex for all their duties to be handled by the head of the agency personally. Examples are widespread in legislation; for example, the same statute you cited also requires the Secretary to send notices by mail to taxpayers regarding payments (section 272); receive individuals' tax payment information (section 273); and provide financial assistance to aviation businesses (section 404), among other duties. Given the breadth of the duties assigned to the Secretary by legislation, whoever holds the position is permitted to delegate the authority to other agency officials to lawfully take these actions. In contrast, in other instances Congress has specified that a particular responsibility may not be delegated. For example, the same statute provides in another section that "[A]ny official that is required by this Act to report or to certify to the Committees on Appropriations of the Senate and the House of Representatives may not delegate such authority to perform that act unless specifically authorized herein.").

Congress has expressly authorized the Secretary of the Treasury to "delegate duties and powers of the Secretary to another officer or employee of the Department of the Treasury," including the Deputy Secretary. Treasury Order 101–05(2)(a) provides that the Deputy Secretary "has authority, in [his] own capacity and [his] own title, to perform any functions the Secretary is authorized to perform." Pursuant to these authorities, the Secretary has delegated the responsibility for the testimony described in your letter to Deputy Secretary of the Treasury Wally Adeyemo. Deputy Secretary Adeyemo has repeatedly offered to testify before the committee, and I hope that he will be permitted to testify regarding these important programs.

COMMUNICATION

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Statement of Michael Bindner

Chairman Wyden and Ranking Member Crapo, thank you for the opportunity to address this issue. on the Department of the Treasury Budget. Many but not all of these were already submitted this year to the Ways and Means Oversight Subcommittee and the Finance Committee previously regarding the IRS budget alone and on tax fairness, as well in comments to both revenue committees last year regarding the Department's budget. However, there is enough new material to justify reading forward, especially regarding the current economy.

We are quite sure that there will be questions from the Minority about the National Debt. I have a question for the Secretary and Minority members and Senators. Who benefits from the National Debt (both public and private)? Who is on the hook for paying it back? Does the question of Debt as a percentage of GDP have any relevance?

Anyone familiar with our work at the Center for Fiscal Equity knows that we have a few possible answers to these questions. In reverse order, debt as a percentage of GDP is meaningless. The more salient measure is debt as a multiple of income taxes paid. Using this standard shows exactly how unsustainable our current fiscal course is.

We have attached a 1-page summary regarding *Debt Ownership as Class Warfare* that addresses the other two. The key findings of our research is that the top 10% own the majority of public debt assets and owe the majority of debt obligations. The top 1% owe over a third and own more than 40%. In short, those who pay and those who owe are the same people: capitalists. Without the national debt, leveraging private banking, debt and investment—especially the intrinsically worthless assets in secondary markets—is impossible.

We are all for ending the National Debt, along with capitalism as we know it today. Capitalism is about to drive the nation into ruin again. The Pandemic provided a temporary reprieve as the Federal Reserve propped up bondholders who have invested (again) in bad housing and commercial property debt. Subsidies to families and loan purchases by the Fed delayed the pain, however the pain is inevitable.

Please see the second attachment about Depression 2022, refer it to the Secretary and ask her to respond to it in your post-hearing questions. I would hope that these scenarios are already on the radar of the Assistant Secretary for Economic Affairs.

The most important question for the Secretary to face is whether there was a reaction via correspondence or phone calls from families who had finally received an adequate Advance Child Tax Credit under the *American Rescue Plan Act* and had it taken away at the end of last year because of bipartisan obstruction against continuing to do so.

Some of the bipartisan opposition in the Senate came from those who consider direct subsidies from the IRS to have the "stink of welfare." I advise such Senators in both parties to raise the minimum wage so that no one is having to work just to receive this credit and that the best way to distribute the credit is with wages.

For middle-income taxpayers whose increased credits are less than their annual tax obligation, a simple change in withholding tables is adequate. Procedures are already in place to deliver refundable credits to larger families.

Employers can work with their bankers to increase funds for payroll throughout the year while requiring less money for their quarterly tax payments (or estimated taxes) to the IRS. The main issue is working out those situations where employers owe less than they pay out. This is especially true for labor-intensive industries and even more so for low-wage employers. A higher minimum wage would make negative quarterly tax bills less likely. Again, no one should have to subsist mainly on their child tax payments.

While we can hope that, in the short term, obstruction on increasing the CTC can be dealt with. Going forward, now that the *American Rescue Plan Act* has expired, any permanent increase to and refundability of the Child Tax Credit (and ideally an even more generous credit) will require permanent tax reform. We include our prescription for such reforms at our third attachment.

One of the central proposals in this plan is the creation of a Subtraction Value-Added Tax (Net Business Receipts Tax), which would replace the corporate income tax and filing of business taxes as part of the personal income tax. The difference between changing quarterly withholding and enacting a subtraction VAT is six of one and a half dozen of the other.

The reason for this is that the proposed subtraction VAT is based on the notion that employers would be responsible for paying and reconciling the taxes now filed by employees. This would add little additional burden to employers (especially the self-employed) but end the burden of filing taxes for all but the highest salaried employees.

Debates on the Child Tax Credit have used $75,000 as a benchmark. This debate has gone on so long that the numbers have changed. What used to be proposed at $75,000 per year should now be delivered at $85,000. Likewise, economic reports, particularly by the IRS Statistics on Income, should be shifted to reflect this reality. Between $50,000 and $100,000, there should be five groups. Between $100,000 and $200,000, there should at least be four so that the border between the fourth and fifth quintiles can be more adequately expressed. Every tax wonk in the nation will appreciate this.

Our second major proposal is the creation of an asset value-added tax. There are two debates in tax policy: how we tax salaries and how we tax assets (returns, gains and inheritances). Shoving too much into the Personal Income Tax mainly benefits the wealthy because it subsidizes losses by allowing investors to not pay tax on higher salaries with malice aforethought.

With tax subsidies for families shifted to an employer-based subtraction VAT, and creation of an asset VAT, taxes on salaries could be filed by employers without most employees having to file an individual return. It is time to **tax transactions, not people!**

The tax rate on capital gains is seen as unfair because it is lower than the rate for labor. This is technically true, however it is only the richest taxpayers who face a marginal rate problem. For most households, the marginal rate for wages is less than that for capital gains. Higher income workers are, as the saying goes, crying all the way to the bank.

In late 2017, tax rates for corporations and pass-through income were reduced, generally, to capital gains and capital income levels. This is only fair and may or may not be just. The field of battle has narrowed between the parties. The current marginal and capital rates are seeking a center point. *It is almost as if the recent tax law was based on negotiations, even as arguments flared publicly. Of course, that would never happen in Washington. Never, ever.*

Compromise on rates makes compromise on form possible. If the *Affordable Care Act* non-wage tax provisions are repealed, a rate of 26% is a good stopping point for pass-through, corporate, capital gains and capital income.

A single rate also makes conversion from self-reporting to automatic collection through an asset value-added tax levied at point of sale or distribution possible. This would be both just and fair, although absolute fairness is absolute unfairness to tax lawyers because there would be little room to argue about what is due and when.

Ending the machinery of self-reporting also puts an end to the Quixotic campaign to enact a wealth tax. To replace revenue loss due to the ending of the personal income tax (for all but the wealthiest workers and celebrities), enact a Goods and Services Tax. A GST is inescapable. Those escapees who are of most concern are not waiters or those who receive refundable tax subsidies. It is those who use tax loopholes and borrowing against their paper wealth to avoid paying taxes.

For example, if an unnamed billionaire or billionaires borrow against their wealth to go into space, creating such assets would be taxable under a GST or an asset VAT. When the Masters of the Universe on Wall Street borrow against their assets to avoid taxation, having to pay a consumption tax on their spending ends the tax advantage of gaming the system.

This also applies to inheritors. No "Death Tax" is necessary beyond marking the sale of inherited assets to market value (with sales to qualified ESOPs tax free). Those who inherit large cash fortunes will pay the GST when they spend the money or Asset VAT when they invest it. No special estate tax is required and no life insurance policy or retirement account inheritance rules will be of any use in tax avoidance.

Tax avoidance is a myth sold by insurance and investment brokers. In reality, explicit and implicit value-added taxes are already in force. Individuals and firms that collect retail sales taxes receive a rebate for taxes paid in their federal income taxes. This is an intergovernmental VAT. Tax withheld by employers for the income and payroll taxes of their labor force is an implicit VAT. A goods and services tax simply makes these taxes visible.

Should the tax reform proposed here pass, there is no need for an IRS to exist, save to do data matching integrity. States and the Customs Service would collect credit invoice taxes, states would collect subtraction VAT, the SEC would collect the asset VAT and the Bureau of the Public Debt would collect income taxes or sell tax-prepayment bonds. See the last attachment for details on this.

Before this happens, the question for the Secretary is if her analytical budget is big enough to consider such options as these.

Thank you, again, for the opportunity to add our comments to the debate. Please contact us if we can be of any assistance or contribute direct testimony.

Attachment One—Debt Ownership as Class Warfare, February 16, 2022

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 debt, are a concern of so many sponsored advocacy institutions across the political spectrum.

Direct household attribution can be made by calculating direct bond holdings, income provided by Social Security payments and secondary financial instruments backed with debt assets for each income quintile.

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. Using 2019 tax data and the national debt as of COB February 15th, the ratio is $19 of debt owed for every dollar of income tax paid.

The top 4% take home 33% of AGI (not shown in table), with the next 20% and the bottom 75% each taking a third. This is how we classify class distribution in America. To allow estimates of asset ownership, we have distributed income using rounder numbers.

Percentiles	Millions of Returns with Tax Paid	AGI	Income Tax	Debt	Federal Reserve and Bank Debt Assets	Long Term Investment Debt Assets	Mutual Fund and Bond Debt Assets	Social Security and Medicare Assets	Total Domestic Debt Assets	Assets Minus Debt
Total	**104.01**	**11,210.1**	**1,581.4**	**30,040.3**	**6,274.0**	**3,152.2**	**5,930.9**	**2,479.7**	**17,836.9**	**-8,255.6**
Top .01%	0.02	659.0	163.2	3,100.2	756.4	364.3	2,328.2	0.0	3,448.9	348.7
.01% to 1%	1.69	1,856.5	475.2	9,027.0	1,601.0	812.0	1,526.8	1.4	3,941.3	-5,085.7
1% to 10%	7.28	2,086.9	348.8	6,626.8	1,804.3	943.6	1,105.5	63.7	3,917.2	-2,709.6
Top 10%	**9.00**	**4,602.44**	**987.2**	**18,754.0**	**4,161.7**	**2,120.0**	**4,960.5**	**65.2**	**11,307.3**	**-7,446.7**
10% to 20%	21.81	1,788.3	200.3	3,805.1	849.4	616.7	538.8	399.3	2,404.2	-1,400.9
Bottom 80%	73.19	3,637.0	260.0	4,939.9	1,262.9	415.6	431.7	2,015.2	4,125.4	-814.5

The bottom 80% of tax-paying units hold few, if any, public debt assets in the form of Treasury Bonds or Securities or in accounts holding such assets and only take home one-third of adjusted gross income. 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 10% (the middle class), hold more in terms of long term investments and mutual fund and bond assets. They hold a bit under a fifth of social insurance assets.

The top 10% pay more than half of income taxes (the dividing line is about 97.5%—and has been for a while). Asset shares within the top 10% are estimated using the same breakdown as the entire population, that is, the top 1% hold 54% of Federal Reserve and Long Term Investment Assets and 77% of mutual funds and bonds as held by the top 10%. A similar fraction is used to estimate holdings by the top 0.01%—which is consistent to how much income they receive (note that I did not say earn.

This illustration shows who benefits the most from having a national debt, therefore who has the most to lose through default.

Attachment Two—Depression 2022

A depression is inevitable because tax cuts and monetary policy have fueled asset speculation. The current speculative bubble that no one talks about is oil futures in NYMEX. Under Obama, regulations were added to stop balloons. Under Trump, Mick Mulvaney gutted those regs. We now have a big balloon on our hands that is about to pop. There is plenty of oil. Because of the Trump Administration, there is also plenty of price manipulation.

Last year's toy was cryptocurrency, especially Bitcoin. Bitcoin is attracting poor people (and some of the stimulus money). Coin collection machines now allow being paid in Bitcoin rather than in store credit or cash. Criminals love it too. It is being sold as a way to invest and grow rich. There is even a fancy name for it: quantum finance.

Dealer claims that Bitcoin has big rises and smaller crashes simply proves the point that we are dealing with a legal Ponzi scheme. When the top of the food chain cashes out, everyone else realizes that they own a worthless product.

In the current bond market, properties that have been seized in foreclosure have been purchased with private equity and are so heavily leveraged that they cannot be sold until the holding company files for bankruptcy in the next Great Recession. See *Homewreckers: How a Gang of Wall Street Kingpins, Hedge Fund Magnates, Crooked Banks, and Vulture Capitalists Suckered Millions Out of Their Homes and Demolished the American Dream* by Aaron Glantz. The C–SPAN Book TV discussion with Mr. Glantz will give the committee a heads-up on what such testimony would include. See *https://www.c-span.org/video/?465567-1/homewreckers.*

The long and short of it is that many now have to rent or own leveraged properties. Our absentee landlords have cashed out and left servicing companies to bleed us dry. They essentially own us because we have to work harder and longer to have a place to live while those who have cashed out live in gated and high-end assisted living communities. In the last year, Exchange Traded Funds have been all the rage. Who wants to bet on where the latest pool of junk is hiding?

Tax credit support for families is a better recession circuit breaker than waiting for the Congress and state legislatures to act, although increasing the child tax credit (which should be inflation adjusted) is the best way to provide immediate stimulus, as do higher Food Stamps (which would be mostly repealed by a higher Child Tax Credit).

The other circuit breaker in a recession is increased income taxation on the wealthy. Recessions do not happen, as Marx and Schumpeter posited, from overproduction or a business cycle. They come about because the wealthy have received tax breaks which encourage asset inflation and questionable investment (often with an assist from the Federal Reserve so that such investments may be migrated to Main Street). Higher income tax rates take money from the savings sector so that the consumption sector can recover (even without government subsidies).

Higher taxes on the wealthy are beneficial to the economy, now and in the next recession, because they take money out of asset inflation in the savings sector and can then be used to increase spending on the elements of GDP: government purchases, household consumption, net exports and plant and equipment investment (which is not part of asset speculation, as supply side economists falsely assert).

Attachment Three—Tax Reform, Center for Fiscal Equity, December 7, 2021

Individual payroll taxes. Employee payroll tax of 7.2% for Old-Age and Survivors Insurance. Funds now collected as a matching premium to a consumption tax based contribution credited at an equal dollar rate for all workers qualified within a quarter. An employer-paid subtraction value-added tax would be used if offsets to private accounts are included. Without such accounts, the invoice value-added tax would collect these funds. No payroll tax would be collected from employees if all contributions are credited on an equal dollar basis. If employee taxes are retained, the ceiling would be lowered to $100,000 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. If a $10 minimum wage is passed, the employee contribution floor would increase to $20,000.

Wage Surtaxes. Individual income taxes on salaries, which exclude business taxes, above an individual standard deduction of $100,000 per year, will range from 7.2% to 57.6%. 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.

Our proposed brackets have been increased from $85,000 to $100,000 because this is the income level at the top of the 80% of tax paying households who earn the bottom third of adjusted gross income. Earners above this level are considered middle class. Likewise, the top 1% of income earners are at the $500,000 level, which will be used as the start of the highest rate.

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, IPOs, inherited, gifted and donated assets will be marked to market, 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 23.8% rate (including ACA–SM surtax) and the Democratic 28.8% rate as proposed in the Build Back Better Act. 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. For now, however, a 28.8% rate is assumed if reform is enacted by a Democratic majority in both Houses.

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 Added Tax (C–AT). 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–AT 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 unless it is in other nations, however in this case the imposition of this tax at the border will be noted, with the U.S. tax applied to the overseas base.

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 include 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 Four—Tax Administration, Treasury Budget, February 12, 2020

Shifting to a single system for all business taxation, particularly enacting invoice value-added taxes to collect revenue and employer-based subtraction value-added taxes to distribute benefits to workers will end the need for filing for most, if not all, households. Any remaining high salary surtax would be free of any deductions and credits and could as easily be collected by enacting higher tiers to a subtraction VAT.

Subtraction VAT collection will closely duplicate the collection of payroll and income taxes—as well as employment taxes—but without households having to file an annual reconciliation except to verify the number of dependents receiving benefits.

Tax reform will simplify tax administration on all levels. Firms will submit electronic receipts for I–VAT and C–VAT credit, leaving a compliance trail. S–VAT payments to providers, wages and child credits to verify that what is paid and what is claimed match and that children are not double credited from separate employers.

A–VAT transactions are recorded by brokers, employers for option exercise and closing agents for real property. With ADP, reporting burdens are equal to those in any VAT system for I–VAT and A–VAT and current payroll and income tax reporting by employers.

Employees with children will annually verify information provided by employers and IRS, responding by a postcard if reports do not match, triggering collection actions. The cliché will thus be made real.

High-salary employees who use corporations to reduce salary surtax and pay I–VAT and S–VAT for personal staff. Distributions from such corporations to owners are considered salary, not dividends.

Transaction-based A–VAT payments end the complexity and tax avoidance experienced with income tax collection. Tax units with income under $84,000 or only one employer need not file high-salary surtax returns. Separate gift and inheritance tax returns will no longer be required.

State governments will collect federal and state I–VAT, C–VAT, S–VAT payments, audit collection systems, real property A–VAT and conduct enforcement actions. IRS collects individual payroll and salary surtax payments, performs electronic data matching and receive payments and ADP data from states. SEC collects A–VAT receipts.

I–VAT gives all citizens the responsibility to fund the government. C–VAT invoices encourage lower carbon consumption, mass transit, research and infrastructure development. A–VAT taxation will slow market volatility and encourage employee ownership, while preserving family businesses and farms. Very little IRS Administration will be required once reform is fully implemented. All IRS employees could fit in a bathtub with room for Grover Norquist.

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